

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

HEARINGS BEFORE THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES EIGHTIETH CONGRESS FIRST AND SECOND SESSIONS

ON
UNITED STATES FOREIGN POLICY FOR A
POST-WAR RECOVERY PROGRAM, THE FIRST
STEP BEING CONSIDERATION OF PROPOSALS
FOR A EUROPEAN RECOVERY PROGRAM,
INCLUDING H. R. 4840, H. R. 4579, AND
SIMILAR MEASURES

PART 1.

DECEMBER 17, 1947; JANUARY 12, 13, 14, 15, 20,
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UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

WEDNESDAY, DECEMBER 17, 1947

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10 a. m., Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The meeting will come to order.

We have as our first witness this morning Mr. Herter, who is the author of H. R. 4579. We will ask Mr. Herter to make a statement. (H. R. 4579 is as follows:)

[H. R. 4579, 80th Cong., 1st sess.]

A BILL To provide means for financing United States programs of foreign aid and to create agencies to carry out such programs

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Emergency Foreign Reconstruction Act, 1948".

PART I—GENERAL PROGRAM

OBJECTIVES

SEC. 10. (a) It is essential to the future security and well-being of the United States that foreign countries which are themselves striving to rehabilitate and reconstruct their war-devastated economies but need assistance to achieve success in their efforts; be extended such assistance. It is the policy of the United States to act effectively in this regard under programs designed to achieve the following objectives without causing undue strain to the economy of the United States:

(1) Continuous application on the part of recipient countries, individually and jointly, of vigorous efforts directed to increasing the production of food and materials needed to meet not only their own essential internal needs but the needs of other countries as well, so that their deficits in essential commodities, articles, and materials will progressively decrease and their requirements from abroad be limited to a minimum consistent with sound economic balance.

(2) Continuous mutual help and cooperation among recipient countries directed to facilitating the economic interchange of goods and services among themselves, providing effective distribution and use of their own resources as well as of the resources received from abroad, and working toward the elimination of exchange controls, quota restrictions, and other obstacles to trade.

(3) The recognition by countries, other than the United States, which are in a position to supplement a program of aid, have the same incentive as the United States to do so, and enjoy access to United States supplies, of the desirability of cooperating in such program, each in relation to its ability to do so.

(4) Encouragement of private initiative to assume, as conditions permit, the emergency activities which have devolved on governments as a result of the economic devastation caused by the war.

(5) The adoption by recipient countries of fiscal, financial, and monetary programs designed to arrest inflation, to correct existing monetary weaknesses, to accomplish stabilization of exchanges, and generally to restore confidence in their currencies.

(6) The dissemination by recipient countries of full and continuous publicity regarding the purpose, source, character, and amounts of aid furnished by the United States, where such aid is not on the basis of commercial loans or normal commercial transactions.

(b) All agencies of the United States participating in the United States program of foreign aid (including United States representatives on international organizations) shall, in the exercise of their respective functions in this regard, be guided by the objectives set forth in this section.

FOREIGN AID COUNCIL

SEC. 11. (a) In order that facilities may exist to promote the maximum coordination possible in formulating, within the limits of available funds and subject to this Act, and in carrying out the foreign-aid programs of the United States by the various agencies of the United States participating in such programs, there is hereby created an interagency council to be known as the Foreign Aid Council (hereinafter called the "Council"), which shall consist of the Secretary of State (who shall be chairman), the Secretary of the Treasury, the Secretary of National Defense, the Secretary of Agriculture, the Secretary of Commerce, the directors of the Emergency Foreign Reconstruction Authority (hereinafter provided for), and the Chairman of the Board of Directors of the Export-Import Bank of Washington.

(b) The Council shall from time to time (1) advise and consult with the President with respect to the establishment by him, within the limits of available funds and subject to this Act, of the programs of United States aid to foreign countries, and policies in connection therewith, and (2) advise and consult with its executive director (hereinafter provided for) regarding the execution of such programs and policies. The Council shall meet at least once in every calendar month.

(c) The chairman of the board of directors of the Emergency Foreign Reconstruction Authority (hereinafter provided for) shall be ex officio the executive director of the Council. As such he shall have the responsibility of (1) examining all of the various needs of foreign countries in connection with the rehabilitation and reconstruction of their war-devastated economies, (2) formulating for the consideration of the Council proposed programs of United States aid to such countries and proposed policies in connection therewith, and (3) providing for the efficient execution of any programs of foreign aid and policies in connection therewith by issuing, with the approval of the President and after advising and consulting with the Council, directives to the various departments and agencies participating in such programs. Every department or agency to which any such directive is issued shall, within the limits of the powers granted it by law, forthwith comply therewith.

(d) The Emergency Foreign Reconstruction Authority shall furnish the Council with a staff to assist the Council in the performance of its functions.

PART II—EMERGENCY BASIC REQUIREMENTS ASSISTANCE

EMERGENCY FOREIGN RECONSTRUCTION AUTHORITY

SEC. 20. (a) There is hereby created, as an independent agency of the United States, a corporation to be known as the Emergency Foreign Reconstruction Authority (hereinafter called the "Authority").

(b) The purposes and objects of the Authority shall be to assist the Foreign Aid Council and its executive director in the performance of their respective functions under selection 10; to meet the emergency needs of foreign countries for food, fuel, and fertilizer required to enable them to achieve success in their efforts to rehabilitate and reconstruct their war-devastated economies; and to make available to such countries limited categories of consumer goods (other than food, fuel, and fertilizer) that will provide incentives to production and distribution therein, and limited quantities of agricultural, mining, and other productive machinery and equipment that is urgently required therein, where, in either case, such countries are unable to finance immediately the purchase of such goods, machinery, or equipment. In connection with and in furtherance of such purposes and objects, the Authority shall have the power—

(1) to determine, prescribe, and conclude the arrangements under which such commodities, articles, machinery, and equipment will be made available to any foreign country;

(2) subject to section 23, to determine in what form payment shall be made by any foreign country on account of such commodities, articles, machinery, or equipment made available by the Authority to such country;

(3) to purchase such commodities, articles, machinery, and equipment without regard to section 3709 of the Revised Statutes or other provisions of law relating to purchases by the United States;

(4) to make contracts and acquire and dispose of property in its own name;

(5) to engage in foreign exchange transactions;

(6) to adopt, alter, and use a corporate seal, which shall be judicially noticed;

(7) to sue and be sued, and to complain and defend, in its own name in any court of competent jurisdiction in the United States or in any Territory or possession thereof;

(8) to employ and fix the compensation of such personnel as it deems necessary to further such purposes and objects and to dismiss any of such personnel at pleasure, without regard to laws relating to the employment and compensation of officers and employees of the United States, except that so far as practicable clerical and stenographic personnel shall be employed from lists of eligibles furnished by the Civil Service Commission and the compensation of such personnel fixed in accordance with the applicable compensation schedules in the Classification Act of 1923, as amended; and to contract for services;

(9) to create subsidiary corporations under the laws of foreign countries, where it is necessary or appropriate for the Authority to exercise its powers in foreign countries through subsidiary corporations created under the laws thereof; and

(10) generally to do all things necessary to the achievement of such purposes and objects, and the specification of particular powers in the foregoing paragraphs shall not in any manner limit the generality of the powers granted in this paragraph.

(c) The Authority shall not have any power to make loans payable in United States currency.

(d) The Authority shall have succession until January 1, 1954, whereupon all of its assets and liabilities shall vest in the Export-Import Bank of Washington, as liquidating agent, whose duty it shall be to wind up the affairs of the Authority as rapidly as possible consistently with orderly liquidation.

(e) The Authority shall be entitled to the free use of the United States mails in the same manner as the executive departments of the Government.

(f) Neither the Authority nor any of its functions, powers, or duties shall be transferred to or consolidated with any other department, agency, or corporation of the Government unless Congress shall hereafter otherwise by law provide.

(g) The Authority shall be subject to the Government Corporation Control Act to the same extent as wholly owned Government corporations listed in section 101 of that Act.

(h) The Authority is authorized to utilize the services, facilities, and personnel of any department or agency of the Government, with the consent of the head of such department or agency, and to reimburse the appropriations of such department or agency therefor.

(i) The Authority shall make a report of all its activities to the President once every three months (which shall include reports of the administration of local reconstruction funds provided for in section 24), and all such reports shall be submitted by the President to Congress.

MANAGEMENT OF AUTHORITY

Sec. 21. (a) The powers of the Authority shall be exercised by the Chairman of the board of directors of the Authority (who shall be a full-time officer of the Authority) under the direction of a board of directors (hereinafter called the "Board") consisting of the Chairman and seven other members, appointed by the President by and with the advice and consent of the Senate. All of the members shall be members of one or the other of the two major political parties, and not more than four shall be members of the same political party. Each member of the Board who is not also an officer of the Authority shall receive from the Authority a per diem of \$100 for each day during which he is in attendance at meetings of the Board. Vacancies in the Board shall be filled according to the manner in which the member causing such vacancy was appointed. Five members of the Board shall constitute a quorum for the transaction of business of the Board.

(b) The Chairman of the Board shall be the executive head of the Authority and executive director of the Foreign Aid Council.

(c) The Board shall have power to prescribe, amend, and repeal bylaws, rules, and regulations (1) governing the manner in which the business of the Authority shall be conducted and its powers exercised, (2) defining the functions and duties and prescribing the compensation of the officers of the Authority, and (3) determining and prescribing the manner in which obligations of the Authority shall be incurred and its expenditures allowed and paid. The Board may require bonds of any officer of the Authority (other than the Chairman) and fix the penalties thereof, and may dismiss any officer or employee of the Authority (other than the Chairman) at pleasure.

(d) The officers of the Authority shall consist of the Chairman of the Board, not more than two vice presidents, a treasurer, a secretary, and such special officers and representatives as the Board may prescribe. The officers (other than the Chairman) shall be appointed by the Board.

CAPITAL OF AUTHORITY

SEC. 22. (a) The Authority shall have a capital stock of \$500,000,000 subscribed by the United States. Payment for such capital stock shall be made by the Secretary of the Treasury at the call of the Board, and for this purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purposes. Certificates evidencing stock ownership of the United States shall be issued by the Authority to the Secretary of the Treasury.

(b) The Authority is authorized to issue from time to time for purchase by the Secretary of the Treasury non-interest-bearing notes maturing not later than the date on which the Authority ceases to have succession; but the aggregate amount of such notes outstanding at any one time shall not exceed — times the authorized capital stock of the Authority. The Secretary of the Treasury is authorized and directed to purchase any notes of the Authority issued hereunder and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. There are authorized to be appropriated to the Authority from time to time sums to enable the Authority to retire notes issued by it hereunder.

(c) As of the 31st of December in each year and as soon as possible thereafter, an appraisal of all the assets and liabilities of the Authority shall be made by the Secretary of the Treasury for the purpose of determining its net worth. The value of assets shall, insofar as possible, be determined on the basis of market value at the time of appraisal, except that foreign currencies received in payment for commodities shall be assigned only a nominal value. A report of any such appraisal shall be submitted to the President as soon as possible after it has been made, and by him submitted to Congress.

PAYMENT FOR COMMODITIES FURNISHED TO FOREIGN COUNTRIES

SEC. 23. (a) The arrangements between the Authority and any foreign country for furnishing commodities, articles, machinery, and equipment described in section 20 (b) to such country shall provide for payment of full consideration therefor. The character of the consideration shall be that which the Authority deems to be the best obtainable in the light of the economic situation of the foreign country concerned, the relationship of the goods being furnished to the over-all plan of reconstruction and rehabilitation, and the objectives set forth in section 10 of this Act.

(b) To the extent that the Authority determines that securing consideration in United States currency, or in obligations payable in United States currency, is not feasible in the light of the factors set forth in subsection (a), the Authority may accept (1) local currency of the foreign country, (2) currencies of foreign countries other than the recipient country, (3) other consideration that has or will have a readily determinable market value, or (4) any combination of the foregoing, but consideration in the form of currencies of foreign countries other than the recipient country may not exceed 25 per centum of the value of the total consideration received. The exchange value of any foreign currency received shall be fixed in the arrangements concluded, but if agreement cannot be reached in this

respect then the exchange value shall be that currently fixed by the International Monetary Fund. So far as practicable, the consideration to be received shall include the furnishing to the United States, or agreeing to produce for the United States, for stockpiling purposes, strategic minerals that are produced, or whose production can be developed, in the recipient country (including its colonies and possessions).

USE OF FOREIGN CURRENCIES RECEIVED

SEC. 24. (a) The foreign currencies of the respective countries receiving aid from the Authority shall be used as local reconstruction funds in those countries as hereinafter provided.

(b) Each local reconstruction fund (which shall include the initial principal sum, and any income therefrom and increment therein) shall, subject to the provisions of this section, be administered in such manner as may be prescribed in the arrangements concluded by the Authority with the recipient country in question. The expense of administering the fund may be paid from the fund. In concluding arrangements with the various recipient countries, the Authority shall endeavor to secure the inclusion of provisions to the effect that all disputes in respect of the use or administration of local reconstruction funds shall be submitted forthwith for final determination to a designated international agency or arbitral tribunal.

(c) Each local reconstruction fund shall be administered and utilized for the purpose of contributing to the rapid recovery of economic stability in the foreign country concerned and of developing new sources of wealth therein. To the extent necessary to achieve this purpose each such fund may be used—

(1) to purchase and sell securities, and otherwise to invest in enterprises and projects which will contribute to such recovery or develop new sources of wealth;

(2) to purchase in such country, at the request of the Secretary of National Defense, strategic and critical materials for stockpiling in the United States, and to develop natural resources for future stockpiling;

(3) to promote enterprises of mutual interest to the United States and such foreign country; and

(4) To aid in furnishing technical assistance to such foreign country to further its reconstruction efforts.

(d) The powers in respect of the administration and use of any local reconstruction fund in any foreign country shall be subject to the following limitations:

(1) Such powers shall be exercised so far as practicable to avoid exercising control over the management or operation of any enterprise or project in which sums in such fund may be invested.

(2) Such powers shall not be exercised so as to permit, without the approval of the International Monetary Fund, the exchange, directly or indirectly, of sums in the fund for United States currency or the currency of any other country that can be freely exchanged in world markets.

(3) Such powers shall not be exercised in a manner that will impair the monetary or fiscal policy of the recipient country.

(e) The Authority may authorize the sale for United States currency, at the original value or at a discount, in the discretion of the Authority, of all or any part of any local reconstruction fund either to the government of the foreign country in which it is being administered or to any person approved by the government of such country; and any foreign country in which such a fund is being administered shall at all times have the right to purchase all or any part of such fund in United States currency at such original value.

PART III—AMENDMENTS TO EXISTING LAWS

AMENDMENT OF EXPORT-IMPORT BANK ACT OF 1945

SEC. 30. (a) Section 4 of the Export-Import Bank Act of 1945 is amended—

(1) by striking out "\$1,000,000,000" and inserting in lieu thereof "\$", and

(2) by striking out "\$825,000,000".

(b) The second sentence of section 2 (a) of the Export-Import Bank Act of 1945 is amended to read as follows: "The objects and purposes of the bank shall be

(1) to aid in the financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof, and

(2) to facilitate United States programs of aid to foreign countries in connection with the rehabilitation and reconstruction of their war-devastated economies by

aiding in financing purchases by such countries of needed articles and commodities of a character normally financed by short term or intermediate credit."

EXTENSION OF POWER OF ALLOCATION UNDER SECOND WAR POWERS ACT, 1942

SEC. 31. Subsections (b) and (c) of section 1501 of the Second War Powers Act, 1942, as amended, are amended by striking out "February 29, 1948," in each of such subsections and inserting in lieu thereof "June 30, 1949".

EXPORT CONTROLS AND ALLOCATIONS

SEC. 32. (a) Section 6 (d) of the Act of July 2, 1940, entitled "An Act to expedite the strengthening of the national defense", as amended, is amended by striking out "February 29, 1948" and inserting in lieu thereof "June 30, 1949".

(b) The powers, functions, and duties of the Secretary of Commerce under section 6 of the Second Decontrol Act of 1947 are hereby transferred to the Executive Director of the Foreign Aid Council. Such transfer shall take effect sixty days after the date on which the Chairman of the Board of Directors of the Emergency Foreign Reconstruction Authority first appointed under this Act qualifies and takes office.

Mr. JARMAN. Mr. Chairman, this is an all-important matter, a matter pertaining to which, as I understand it, the President will send a message to the Congress today or tomorrow.

I do not believe, in the first place, as I indicated by my vote, that such a matter should be taken up at the shank of the session when everybody is in a hurry to go home; further, I do not believe that such an important matter should be taken up without a quorum, and, therefore, I make the point of order that a quorum is not present.

Mr. VOYTS. Mr. Chairman, there are two actions that the committee can take. One is to adjourn and the other is to send the sergeant at arms for the absent members.

I ask the chairman to send the sergeant at arms for the absent members.

Mr. MUNDT. I second the motion, Mr. Chairman. This is a very important matter. We have dilly-dallied long enough.

Mr. JARMAN. I would suggest that is too important to dilly-dally on at this stage of the game, after you have tweedledeed and tweedledummed for 2 or 3 weeks on another matter.

Chairman EATON. If Mr. Crawford will act as the sergeant at arms we will ask him to go for the absent members.

I may say to our distinguished witness this morning that this committee has been under terrific and continuous strain for 36 days without a let-up. We are tired. I imagine that is why some of the members are not here this morning.

Mr. JARMAN. I thoroughly agree with the chairman and I want the witness to understand that the absence of the members and my point of order is not the least bit personal to him.

We will adjourn tomorrow or the next day and I don't think this is the time to take up such an important matter.

Chairman EATON. Off the record.

(Discussion off the record.)

Chairman EATON. The committee will be in order. A quorum is present.

Our first witness is the distinguished member of the House, Mr. Herter, who will address us on the subject of H. R. 4579.

STATEMENT OF HON. C. A. HERTER, MEMBER OF CONGRESS

Mr. HERTER. Mr. Chairman, I have a very brief statement here which, with your permission, I would like to read.

Chairman EATON. Yes.

Mr. HERTER. The bill which you are presently considering, H. R. 4579, was introduced by me on November 25 in order to carry out the recommendations of the Select Committee on Foreign Aid. These recommendations appear in House Report No. 1141. As you may recall, the select committee was directed to make a study of (1) actual and prospective needs of foreign nations and peoples, including those within United States military zones, both for relief in terms of food, clothing, and so forth, and of economic rehabilitation, and (2) existing or contemplated agencies, whether private, public, domestic, or international, qualified to deal with such needs.

In other words, the bill that is now before you represents the mandate which was given to this select committee to report on agencies either existing or contemplated, domestic or international, qualified to deal with any program of foreign aid.

The committee, in accordance with these directions, studied carefully existing organizations, and in its report recommended that two existing organizations, namely, the World Bank and the Export-Import Bank, should be called upon to play an important role in any program of foreign aid which the Congress might adopt; but that, in addition, a domestic agency should be created which would have the primary responsibility for (a) coordinating to the maximum degree the formulation of reconstruction policy; (b) the administration of so much of any program as involves the providing of food, fuel, and fertilizer; (c) screening the needs of foreign countries; (d) administering export controls; and (e) correlating any program of foreign aid with available commodities to meet such a program in order that the impact on our domestic economy might be held to a minimum.

This is essentially what the legislation now before you purports to do. I am hoping that the hearings which you are now beginning will be confined to the form of organization proposed in this bill and will not extend to an immediate consideration of the amount of money which should be made available for the carrying out of any specific program. It seems to me that it would be wiser not to confuse the two problems at this time, but to concentrate on the wisdom of setting up a new agency such as is proposed.

In the interim-aid bill which we have just passed, provision was made to transfer the functions, applicable records, and funds provided for in that act to such new organization as the Congress might approve. This clause obviously anticipated that some new organization would be set up, and I naturally hope that it will be of the type of organization which the select committee has recommended that will meet with your approval. I think I should make it clear that the approval of this type of organization would not in itself constitute an approval of any specific additional program.

The need for the creation of a new agency to carry out any program of foreign aid has been fully recognized, not alone in the report of

the select committee, but likewise in the report of the Harriman committee and in resolutions adopted by such bodies as the United States Chamber of Commerce, the Foreign Trade Council, and so forth.

In due time I would be glad to file those various resolutions and I think before you get through with the hearings on this those bodies themselves would like to be heard.

I shall, therefore, not argue that point further, but will confine myself to the major provisions of the bill itself.

The bill, after setting up the criteria upon which any foreign-aid program should be based, sets up two new agencies of Government. The first, called the Emergency Foreign Reconstruction Authority, is in corporate form with eight directors to be appointed by the President and confirmed by the Senate, not more than four of whom shall be of one political party. One of the eight directors is to be named chairman of the board of directors by the President. He would devote his entire time to the position and would be the administrative head of the Authority. The Authority would, in effect, be the administrative agency for any foreign-aid program. The second organization which the bill sets up is the Foreign Aid Council, which is in effect a consultative body with the Secretary of State as Chairman and comprising in addition to the eight directors of the Authority, the Secretary of Defense, the Secretary of the Treasury, the Secretary of Commerce, the Secretary of Agriculture, the Chairman of the Board of the Export-Import Bank, and the United States representative on the World Bank and Monetary Fund.

It would be the primary responsibility of the Chairman of the Board of the Authority, who would likewise act as the Executive Director for the Foreign Aid Council, to formulate the details of any program of foreign aid and before issuing directives requiring various agencies of Government to carry out the action necessary to implement such a program, to consult with the Foreign Aid Council and to receive the approval of the President. The personnel of the Authority would be selected and have salaries fixed by its directors, and the right to terminate any program because of failure of any given nation to meet the criteria set up in the bill would rest with the Authority. The personnel of the Authority would not be subject to civil service restrictions, but in the clerical grades, the position and pay would correspond to similar positions in other Government departments and agencies.

The Authority would have no power to loan money to anyone. It would have power to purchase or direct the purchase of food, fuel, and fertilizer, as well as some incentive goods, and the power to allocate these commodities to recipient nations. It presumably would coordinate its program with such loans as the Export-Import Bank and World Bank would make to these same nations for raw materials and capital goods in order that any given program of aid would effectively include such commodities and machinery as would constitute a program leading to the speediest possible recovery of the recipient nations. The Authority would have to take payment for such commodities as it allocated either in the form of dollars or, where dollars were not available, in the form of local currencies. It would be responsible for making separate arrangements with each recipient country for the most effective use of those domestic currencies in

order to effect the speediest recovery of the country itself, and in this connection, should lay particular emphasis upon the development of new wealth, particularly in the field of strategic minerals which are important for us to stock-pile.

While the above are merely the high lights of the more detailed provisions contained in the bill, they give its essential substance.

The reason why this type of organization was recommended by the select committee can be quite simply stated. In the first place, it centralizes the responsibility for a very difficult administrative job under a single individual. In the second place, it gives that individual a board of directors to consult with who presumably represent as good brains, experience and judgment as the two political parties can muster. In the third place, it provides for the coordination of all of our Governmental activities which bear on any given operation in their field without detracting from the final authority of the President of the United States, who, by the Constitution, is charged with the conduct of our foreign relations.

Not alone is responsibility centered in one individual. With the approval of the Board of Directors, he is in a position to select the small but competent staff required in this country and abroad to carry out an effective and efficient operation without too much red tape. He is in a position to secure, by contract or otherwise, technical services of the highest order, not alone for the planning, screening, administration, and supervision of any foreign-aid program, but likewise for assistance in a proper determination of the use to which local currencies should be put. It is my belief that the type of organization proposed would attract the highest grade of American citizen, since the personnel would be given a scope in the administrative field which could never be secured under any straight-line department.

Administering any foreign aid program is essentially a job for technically skilled personnel. The same is true of any evaluation of the impact of foreign aid on our domestic economy. We cannot afford to undertake any program without making the effort to have it administered in a really effective way.

The United States has made serious blunders in its humanitarian efforts to be of help to war-stricken nations. Those blunders should not be repeated. The right organization with the right personnel can be the very best assurance to the American people that such dollars or commodities as they are willing to provide to assist in recovery would not be wasted.

That, Mr. Chairman, is a very brief statement of a bill that comprises some 14 pages. I do not know, as a result of the colloquy which took place before I began my testimony, how far you want me to go, whether you want me to go through the bill paragraph by paragraph and describe the purpose of each of the provisions contained in the bill.

MR. MUNDT. I suggest we do that, Mr. Chairman.

Chairman EATON. I think that our distinguished colleague ought to complete his statement.

MR. HERTER. Mr. Chairman, the very first part of this bill, which is the general program, lays down certain objectives which, in the opinion of the committee, are the objectives that any foreign-aid program ought to attempt to achieve. The wording of those objectives as they appear in the bill are almost identical or follow very closely the wording of the objectives that were set out by the 16 nations in Paris as objectives that they themselves ought to meet.

In other words, these objectives as stated in here are not something taken out of the air as being invented by us as desirable objectives purely from our own point of view. They are objectives to which 16 nations in effect affixed their signatures as being the objectives of any program which would assist them in their recovery.

There is one paragraph that was inadvertently left out and which I would like to offer as an amendment at the proper time, which would come at the bottom of page 3, after section B. It reads:

Programs of foreign aid shall be instituted only in countries subscribing to the objectives enunciated in this section and continued in any country only so long as the Authority is satisfied that such objectives are being pursued in good faith in that country.

With respect to the objectives that are enunciated there I think I ought to say a word about the general form that this bill takes. It mentions no specific country. At the time that it was drafted the London conference had not yet convened and no one knew what the outcome of our discussions with Russia would be with respect to the German situation. We also, apparently, have no information as to when any peace treaty can be made with Japan. But we have under the American flag those two nations as well as Korea and it seemed to me in the drafting of this bill that if we were setting up an administrative body in which we had faith it should certainly include the operation of the economic recovery program in Japan and Germany as well as in Korea together with the 16 nations.

Mr. JONKMAN. May I ask a question?

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. By that do you mean that you contemplate setting up an agency in each country which shall handle the funds to be used there as we did, for instance, in 1926 and 1927 or are you going to deal with nations and governments?

Mr. HERTER. Well, to a certain extent you have to deal with governments. I think I ought to take a minute with respect to this situation. There is a very widely held misconception as to what can be done as a purely relief operation.

The relief organizations that were set up after the last war operated with governments insofar as bulk commodities were concerned and they set up their own operation only where they wanted to give a supplementary meal to a limited section of the population, such as the children in certain institutions, and so on. That was the only part of the operation that they themselves operated.

You cannot conduct an outside operation of relief in foodstuffs in bulk in very large quantities. For instance, what happens there is, with wheat, for instance, in every European country it is mixed with the local wheat. It is milled entirely differently than it is here. There is no such thing as white bread, for instance, in any country in Europe today. It is all pretty dark and is what we would consider a fairly inferior quality of bread.

That means that your supplies that come from overseas, whether from this country or the Argentine or Canada, are mixed in with the indigenous supply and you cannot segregate the two things. Then the actual process is that the wheat goes to the miller, the miller in turn mills it to the degree of fineness that the government provides for, then it is allocated to the different bakeries, the bakers in turn make the bread, and either distribute it themselves or the people receive it on a ration card.

That is the process through which the bulk operation goes.

Mr. JONKMAN. I understand that, but after all we must remember that this envisages economic recovery to a large extent. Now, after the First World War, when we went through the same experience that we are going through now, we pumped \$7,000,000,000 into those countries without getting anywhere. Then we found out that in order to do anything we had to send men in to see that the individual needs were met. As, for instance, in Poland. We saw to it that every penny went toward the production of consumer goods. That clicked and in 3 years we had Poland, for instance, changed from an importing country to an exporting country.

The criticism is that we don't reach the people we want to reach. All you are doing at the present time is increasing the general supply to the country that you were giving money to and it seeps down in the same way with little more seeping on to those that haven't anything at all. I fully agree that this type of administration that we hope to set up ought to take care of the objectives you have enumerated.

Mr. HERTER. In the first place, you would have three agencies operating in the field. One is the Export-Import Bank, second the World Bank, and third the new corporation that is set up. This new corporation is set up first to coordinate the entire operation and secondly to secure and distribute only the very limited category of goods which are what you might call the relief goods. The Export-Import Bank would handle the entire question of loans, and we believe they should be loans made with respect to raw materials, raw materials and certain types of intermediate machineries that would normally be financed privately by intermediate loans.

Mr. JONKMAN. Those loans to be made by the governments and then by the governments to the individual?

Mr. HERTER. Under the law the Export-Import Bank has to have a governmental guarantee of a loan. They have to have the governmental guarantee. What they are doing is specifying when they make a loan for a piece of machinery or any commodity that it shall go to a given industry.

Mr. JONKMAN. I see.

Mr. HERTER. In other words, if you will look at the last release of the Export-Import Bank on the most recent loan to Italy, you will see they have detailed to the smallest concern, for instance, how much coal that particular concern should get. They have their experts in the field studying the requirements of big and large industries and have made it a condition of the loan that there be delivered to each industry the quantity specified so there will be no juggling of the material for which that loan is made.

It is my belief that that is the only sound way in which to make any loan—to be sure that the material that is to be purchased with those loans gets to the right individuals.

Mr. JONKMAN. Is it your understanding that this reconstruction authority shall handle only human relief?

Mr. HERTER. And coordinate the other.

Mr. JONKMAN. Yes.

Mr. HERTER. The Export-Import Bank is an excellently managed concern, to my mind. They make a very thorough technical inspection of the industries to be helped and the quantity of raw material that may be required. That concern, as you know, has been oper-

ating for a number of years and has made many loans. It has not, as yet, had to write off any loans as bad loans and has been earning money. It is developing better and better technical skills as it goes along. The World Bank, I think, is operating in very much the same way.

But for all three organizations you need only one technical staff. You do not need three competing staffs. To my mind the success of any program is dependent on how good technicians you have in the field. You must have technicians who know what they are talking about before you make a grant or a loan. The purpose of this is to give you an elastic organization.

For instance, in many cases, if you want the services of an engineering firm, it is much better to get them by contract, rather than by hiring an individual here and an individual there.

Let me be specific from the point of view of an example in the recovery program. There have been a great many things suggested—a complete reconditioning of their machineries, the development of certain new industries, and so forth. I don't see how any prudent person trying to help in that situation could possibly tell what was the right thing to do and concentrate on it unless he had an awfully good engineering study made of the over-all picture. I think a very good one has been made by the World Bank. It has been kept up to date. So far as I know it hasn't been duplicated by any other agency.

I can see no point in having a skilled study made of the situation unless it is made use of by a coordinated agency of this kind that is going to bring to any program the very best brains we can find. I think it is the kindest thing we can do for foreign nations because I think the know-how and the skills we have are the greatest contributions we can make. We certainly ought to apply the very best brains we can to any program.

Mr. FULTON. Mr. Herter, would you comment on your amendment?

Mr. HERTER. This amendment [indicating]?

Mr. FULTON. Yes. I would like to hear you further on the amendment.

Mr. HERTER. The amendment should, obviously, be taken in conjunction with the objectives as stated in this bill. The objectives are in pretty general terms that from the point of view of what nations will do in the way of self-help and by way of cooperation. I cannot conceive of any nation with which we will be cooperating in a relief program not being willing to subscribe to these objectives.

Mr. FULTON. Germany has a mixed government and Korea has a mixed government.

Mr. HERTER. Germany, I am hoping, will, within a very short period of time, have some one type of government.

Chairman EATON. All of it?

Mr. HERTER. The three western zones. I can't see anything else coming out of this situation but that. After all you have a form of government in each one of the zones today. If those zones can be combined with some degree of centralization, certainly economic centralization, you have a group that can operate under the objectives perfectly well.

As a matter of fact, in the requirements that were put together at the Paris conference western Germany was represented by the British and American military authority and the figures for western

Germany were included in the so-called 16 Marshall plan countries at that time.

Mr. FULTON. How about China?

Mr. HERTER. China, it seems to me, could subscribe to every one of these objectives. I can't think of one to which they couldn't subscribe. If they refused to do so, I think it would be a useless thing to try to continue any program of aid.

Mr. FULTON. The Chinese Government would be able to get within the terms of your amendment on the objectives? You think they are in position to so come within your amendment?

Mr. HERTER. I think they certainly would. I can't imagine why they couldn't. If they would try in good faith certainly we ought to encourage them as much as we can to carry them out.

Mrs. BOLTON. Mr. Chairman, might we have the witness continue without questioning until he finishes his statement?

Chairman EATON. Some of us would like to ask a question now and then.

Mrs. BOLTON. Very well.

Chairman EATON. I would like to ask two questions.

Is this legislation proposed as a substitute for the Marshall plan, which is still in somewhat of an innocuous condition?

Mr. HERTER. Mr. Chairman, I have got to go back into past history to answer that question.

The original resolution that created the committee to study agencies of Government best suited to handle any foreign-aid program was filed last April, which was 2 months before Mr. Marshall made his speech at Harvard University. At that time it seemed to some of us obvious that the economies of European countries were in such shape that we would have them call very soon for help and ought to be prepared to know what those calls implied.

Chairman EATON. Just one more question.

I have read this bill with great interest and care and as a humble layman, it seems to me that it abolishes the Foreign Affairs Committee of the House of Representatives and the executive department and establishes a super-duper organization of Government such as has never existed before in this country.

Am I, as usual, wrong in that?

Mr. HERTER. Yes. I would——

Chairman EATON. As usual.

Mr. HERTER. I wouldn't say "as usual." I disagree with your appraisal of this bill.

Chairman EATON. What functions would the Government, or this committee, have in this super-duper organization if it takes over?

Mr. HERTER. I don't know just what function you contemplate any committee of the Congress having except that the committee of the Congress which creates any agency or body under the reorganization plan has full responsibility for the supervision of its operation.

Chairman EATON. So that when Congress and this committee relinquishes its responsibilities and turns them over to your organization, then we have nothing more to worry about?

Mr. HERTER. No. Under the reorganization plan you are the ones who are the watchdogs to see that the organization functions properly.

Chairman EATON. You are not going to establish something else that we have to watch, are you?

Mr. HERTER. That was adopted last year by the House in the reorganization plan of the House, that each committee under whose jurisdiction any agency or department of Government fell, that committee was responsible for the supervision of its administrative functions.

Chairman EATON. I hope to be enlightened as we go along. The impression it makes on me is this, that this is a new organization of government which supersedes the House of Representatives, and, most important, the Foreign Affairs Committee and the Executive downtown. This new organization, what constitutional powers are still left to control it or govern it?

Mr. HERTER. Mr. Chairman, I disagree with you very radically.

Chairman EATON. That is not unusual.

Mr. HERTER. The Export-Import Bank, in order to perform certain functions, is set up as a separate corporation, and cannot be reorganized under ordinary powers. The Reconstruction Finance Corporation was set up in very much the same manner. We have had a succession of agencies to deal with such matters. We are now getting into, presumably, the consideration of certain very difficult programs that, I assume, are going to be recommended. The proper administration of those programs, to my mind, is a *sine qua non* of any successful operation. If you are going to have an administrative set-up in which neither the Congress nor the people of this country have confidence—I can think of nothing more tragic.

Reading the press this morning, the New York Times had a front-page story to the effect that shortly the President would be sending us a program setting up a new agency. Today you have got things scattered all over our Government. If you have some coordination, so that you have an integrated, intelligent program, intelligently supervised, the hope of making effective use of the American dollar or the American commodity would be greatly enhanced.

I think you will agree, Mr. Chairman, that anything we do is a gamble, but it is a gamble that I, personally, think is worth taking. There is no assurance that any program that we might undertake is going to succeed. On the other hand, the best chance of success lies in able administration and, to my mind, this is a highly technical field in which to operate. It requires the best technicians and the purpose of the organization is to allow an elasticity and freedom in setting up such an organization.

In addition, we have heard a great deal said about a bipartisan foreign policy. If you are going to undertake any program, even the interim-aid program, from the point of view of giving Congress, which I think it is entitled to, and the people of this country, the feeling that the administration of it is entirely nonpolitical, and one concurred in by representatives of both political parties you have made a very real contribution to the so-called bipartisan effort.

Mr. MUNDT. Mr. Chairman, I would like to say that I certainly feel that the administration of any long-term comprehensive European recovery program should be in the hands of an independent agency of a bipartisan nature and I do not believe, Mr. Chairman, that this is, in any way, going to impinge upon the authority or the prerogatives of either the House or our committee, nor is it going to take away

from the fundamental functions of the Executive insofar as the shaping of foreign policies are concerned.

But it does set up, as I understand it, Mr. Herter, in the field of our foreign-aid program, a centralized and efficient administrative function similar to what the RFC has, largely, proved to be in our domestic reconstruction problem as it was set up originally in the depression movement; is that correct?

Mr. HERTER. That is correct.

I might, perhaps, go into some of the details as to the type of things that an organization of this type has to do.

Mr. MUNDT. I would like to ask one question, first. If I understand these six, and now seven, because you said one was omitted, sort of guide lines for administering the program, I believe in your prepared statement you said that this Authority should have the right to accept local currencies and accept payments in terms of strategic minerals, and so forth. Shouldn't there be in the statement of objectives an eighth paragraph indicating that we expect the foreign recipient of this aid, insofar as it is possible, to repay in terms of strategic materials?

Mr. HERTER. That appears further on in the bill.

Mr. MUNDT. It is in there?

Mr. HERTER. Yes, sir. There is a special section dealing with that situation.

Mr. MANSFIELD. Mr. Herter, I find that in section 2 you left out any reference to the Secretary of the Interior as a member of this coordinated Council. Don't you think that is unwise because wouldn't you say that it would be necessary for the Secretary of the Interior to keep constant check on the drain on our own natural resources?

Mr. HERTER. I think it would be probably desirable to include him. I don't think that was an intentional omission. There was some worry about the size of this Foreign Aid Council. In the discussions that we had in our own committee I think many members felt that it was unwieldy because there were too many members. On the other hand, to adopt at all the bipartisan theory of including among the directors of this organization representatives of both political parties, the only way in which you could have them represented in the Council was by making them members of this Council.

Mr. MANSFIELD. Now, Mr. Herter, another question. Under subsection (c) on page 4 it is stated that the chairman of the board of directors of the Emergency Foreign Reconstruction Authority shall be ex officio the executive director of the Council. Does that mean to imply that he shall be the executive director of the Council and also those other members mentioned above who comprise the membership of the Foreign Aid Council?

Mr. HERTER. That he shall prepare the material for their consideration.

Mr. MANSFIELD. I think that man is getting entirely too much power. I think that, next to the President of the United States, he would be the most powerful man in the Government, because, reading further, as such, he—not they—as such he shall have the responsibility of determining all the various needs of foreign countries in connection with the rehabilitation, construction, and so forth, formulating for the consideration of the Council proposed programs providing for efficient

execution, and down here, at the end of that particular subsection, every department or agency to which any such directive is issued shall, within the limits of the powers granted by law, forthwith comply therewith.

Now, it seems to me that that individual who will be the chairman or the executive director, chairman of the board of directors of the Emergency Foreign Reconstruction Authority, made up of a membership from both parties, will, in effect, be the real man in the administration of this program and will, in effect, have the real authority.

Mr. HERTER. He will. There is no question about it. On the other hand, he is appointed by the President and confirmed by the Senate. He cannot issue any directive to any Government department without consultation with the Foreign Aid Council and the countersignature of the President.

Mr. KEE. Will the gentleman yield?

Mr. MANSFIELD. Yes.

Mr. KEE. On page 9 it shows that the Authority is authorized—of course, the Authority is under the head of its chairman—is authorized to utilize the services, facilities, and personnel of any department or agency of the Government. Of course, with the consent of the head of such department or agency. That practically gives him power to utilize every organization that we have in the United States Government.

Mr. HERTER. I think he certainly should. In other words, somewhere responsibility has got to be centralized. Somebody has got to be responsible for these programs.

If I might answer that by illustrating the type of thing that has to be done if you are going to do any programming intelligently: You have a great many nations asking us for help. If you examine at any length the requirements as set forth at the Paris Conference by the 16 different nations you begin to understand the terrific complexities of screening intelligently the requests made on us by different governments. When a matter dealing with agriculture comes up, on food, obviously, you want to be able to utilize the best food experts that you have in your Government. If it is a question of steel requirements you want the best experts you have got in your Government. I don't think there is any need for building up a colossal new organization. I think you want intelligent direction and you want to make use of the facilities you have available. Somebody has got to be able to coordinate those things. At the staff level you have got to have people sitting together from the various agencies of government who are screening these things so they can come up with an intelligent answer.

Mr. MANSFIELD. This man is the only one of the 15 members who is on the job full time?

Mr. HERTER. He is the only one of the eight directors.

Mr. MANSFIELD. These other people who are in the Cabinet and the Government have other duties?

Mr. HERTER. Somebody has got to be responsible for preparing the program. Who are you going to make responsible?

Mr. MANSFIELD. Do you think it should be given to that one man?

Mr. HERTER. He is the individual who presents it for their consideration. Nothing can be done without the President's counter signature. There is a complete check there. Somebody has got to

be responsible for the actual programming. I don't care what organization you set up you have got to give somebody that responsibility.

Chairman EATON. In other words, you are creating a vice president and giving him functions that will really function?

Mr. HERTER. Mr. Chairman, if there is any conviction I hold strongly it is that you cannot do the type of job that has been contemplated in some of the proposals made unless you get the best brains applied to it and a centralized responsibility.

Chairman EATON. I agree with that.

Mr. JAVITS. Mr. Herter, isn't it a fact that the amendment states specifically that the Authority shall determine when aid shall be cut off?

Mr. HERTER. Yes.

Mr. JAVITS. That is a determination of high political policy generally exercised by the President or the Congress, is it not?

Mr. HERTER. Well, the Congress can always exercise that power. That, obviously, they can always do. They can do it by withholding funds. On the other hand, you give an administrator a responsibility to do a given job, if he is getting no cooperation whatever from the country that he is trying to help, and things are going from bad to worse in that country, somebody has to have the authority to stop that. If you want to say "with the approval of the President," that is something else again, but somebody has to take the responsibility.

Mr. JAVITS. But am I right in my deduction that the Authority would have that power under the gentleman's plan?

Mr. HERTER. That is correct.

Mr. JAVITS. Thank you very much.

Chairman EATON. Mr. Herter, it must be self-evident that the hour has come when the United States of America must assume its responsibilities in world leadership to the nth degree. This legislation refers simply to matters of financial and social relief, largely; doesn't it?

Mr. HERTER. Not entirely.

Chairman EATON. But it ought to fit in with a policy, a world policy, that we must evolve soon, that will have the support of both parties and the Executive and the Congress and the people and can be understood. Now, how would you integrate that program with that world policy, if it ever arrives?

Mr. HERTER. Well, under the Constitution, the President of the United States is responsible for the conduct of our foreign relations, and no one can take that away from him. On the other hand, the Congress has assumed an entirely new position in the determination of foreign policy because so much foreign policy today has to do with economic matters where the Congress has to appropriate money. So that the Congress, in spite of constitutional provisions, is, to a given extent, writing our foreign policy today.

I cannot see that in here you have taken away anything from the President. After all, it is his own man, he appoints him, and that man is confirmed by the Senate, and that is the individual who is formulating the program. The President has to countersign any directives. It seems to me that there is about as complete a protection as you can give unless you want to do the thing by some entirely different method.

This method follows very closely the recommendations of the Harriman committee. I say it follows it. I think this was drafted

before the Harriman committee report was drafted. As I say, these other bodies that have been studying the situation, like the Chamber of Commerce and the Foreign Trade Council, have recommended a similar centralization of authority for administrative purposes within the hands of a new agency.

Mr. FULTON. Will the powers conflict with the policies of the Secretary of State? Let us hear about the policy on that level. Tell us whether there is a conflict there or a correlation?

Mr. HERTER. There is a correlation. He cannot issue any directives to carry out this policy without the countersignature of the President.

Mr. FULTON. How does the Secretary of State take that?

Chairman EATON. He has got to take it.

Mr. HERTER. Well, what would you want the Secretary of State to do?

Mr. FULTON. He now has that policy decision and is the guiding hand on that end of it. You are setting up somebody else.

Mr. HERTER. The Secretary of State does not have that policy decision. Probably the greater power you have got today in the Government, from the point of view of adjusting foreign-aid programs, export controls, and so forth, is in the hands of the Secretary of Commerce; the allocation of food is in the Secretary of Agriculture. In other words, you have got them scattered all through the Government departments today. The Export-Import Bank can make loans without permission from the Secretary of State today. The World Bank is an international organization in which the Secretary of State cannot intercede to tell it to make any loans or to carry out any given program.

This is an effort to try to get a correlation of these various things through some agency and some individual that can force a correlation.

Mr. FULTON. Suppose the Secretary of State says we will keep on with aid to China, and this man, as Mr. Javits suggests, says cut it off, then what?

Mr. HERTER. I would say that if this man can show that China is contravening the objectives as set forth in this bill he should be able to cut it out.

Mr. FULTON. Then he overrules the Secretary of State?

Mr. MUNDT. If he can get the countersignature of the President.

Mr. FULTON. But he doesn't need that. Under the amendment the Authority could cut off relief to China without consulting anybody.

Mr. MUNDT. Only when they violate the principles which Congress establishes.

Mr. HERTER. Who today can cut off aid to China if they want to?

Mr. FULTON. I think what the chairman stated is true, that you are vesting a considerable part of the Executive function of policy-making in foreign affairs in the Chairman of the Authority. Now, once we understand it, then Congress can do it, if it chooses to; the committee can recommend it, if it chooses to, but we should recognize clearly what we are doing.

Mr. HERTER. The Congress on many occasions said to the President, "You shall, if certain conditions exist, or do not exist, stop aid." That has been done over and over again.

Mr. VORYS. The day before yesterday.

Mr. FULTON. All I am pointing out is that you are transferring a function formerly with the Chief Executive of the Government charged by the Constitution on foreign affairs to the Chairman of this Authority.

Mr. HERTER. I will be perfectly frank with you in regard to that: if China, or Greece, or any other country, is contravening the requirements put in here which qualify them to get help from the United States, I think aid ought to be stopped, and I think the individual responsible for the administration of the program, together with his bipartisan board which we have set up, are probably in a much better position to make that determination than the President of the United States is, and, frankly, I would not want to be a party to continuing a relief program that had purely political objectives, a reconstruction program, when it looked as though there was no hope of succeeding.

Mr. FULTON. How do you overcome that provision with regard to the Secretary of State?

Mr. HERTER. The conduct of our foreign relations does not necessarily imply that you have got to keep control over the operation of a reconstruction program on money furnished by the Congress. The Congress can put in whatever conditions it sees fit. Obviously the power to grant money carries with it the power to put conditions on the grant of that money. If the President signs such bill he has obviously accepted that.

Chairman EATON. Would this work just as well if the President was a Republican?

Mr. HERTER. I think exactly so. I think your determination as to whether you are throwing money away or not is a very serious determination and one that the Congress ought to be able to place where it sees fit.

Do you think it is most desirable to have the tap turned on and off at the sole whim of the Secretary of State?

Mr. FULTON. I think that is a very good question. Do you want the Secretary of State, the President's right-hand man, to have the power to determine these over-all international policies. That is an excellent question.

Mr. HERTER. Yes.

Mr. JAVITS. I think the question is as between the President and the Chairman of the Authority, not between the Chairman of the Authority and the Secretary of State. I think the question is, do we vest the authority in the President or in someone else? The gentleman, whom we know to be not only wise, but frank in his statements, the gentleman is frank enough to say he thinks the Chairman of the Authority is better qualified, with his Board, and I think that is the issue. You come back to the fundamental premise, are we going to try to carry out a bipartisan foreign policy or are we going to work on an entirely different basis of a straight grant of power without representation in its exercise, from the party that controls the Congress of the United States today?

Chairman EATON. It makes no difference, Mr. Herter, who can shut off the tap provided the Congress has the responsibility for furnishing the water for the pipes.

Mr. HERTER. That is right. The Congress always has that power.

Chairman EATON. That, of course, involves the long-suffering taxpayer.

Mr. LODGE. I don't quite understand the meaning of this figure of \$500,000,000.

Mr. HERTER. I was going to suggest that that not be included in a bill that was brought out, that you give enough money for the setting up of an organization before you determine what the final fiscal arrangement will be.

Mr. LODGE. I see.

Mr. HERTER. I was hoping to separate a discussion of any fiscal appropriation with the question of the organization itself. It would take a little while for an organization to be set up, for the President to nominate the individual, and have him confirmed by the Senate.

Mr. LODGE. But the agency would have no function until some program was passed by the Congress.

Mr. HERTER. It couldn't function until it had money with which to operate. It would have the function of taking over the interim aid at once.

Mr. LODGE. There wouldn't be quite time for that, I imagine.

Mr. HERTER. That is a question of how fast the committee works.

Mr. LODGE. You have a date of 1954 in here. What effect would that date have on any action by the Congress with respect to the so-called Marshal plan? Will that mean, necessarily, that any action that we take will look to the year 1954?

Mr. HERTER. No. 1954 was put in as an arbitrary date. The committee studied that at some length and did not agree on any termination date. I am responsible for that particular figure but I had a feeling that insofar as Germany was concerned I doubted very much whether our responsibility there would terminate in less than 5 years. But the determining factor as to how long any agency operates is the appropriation made by the Congress, the size of the appropriation, and the length of time for which it is supposed to operate.

Mr. LODGE. In other words, although that date is in there, if the Congress chose to appropriate solely for 1 year, then the agency would go out of existence at the end of that time?

Mr. HERTER. Congress can liquidate it any time or can extend it.

Mr. VORYS. Mr. Chairman, the committee has important other business to transact before 12 o'clock, and I move that we defer further hearing on this matter and go into executive session.

Chairman EATON. You have heard the motion. All in favor say "Aye."

Mr. JARMAN. Mr. Chairman, is the motion open to discussion?

Chairman EATON. Of course. All motions are open for discussion.

Mr. JARMAN. I want to ask the witness a question by way of discussion.

Chairman EATON. On the motion?

Mr. JARMAN. Yes.

How long have you been in the House, Mr. Herter?

Mr. HERTER. Five years.

Mr. JARMAN. Have you ever before heard any motion made, either in the House or in committee, to insult Members not present at a committee hearing in the House by sending the Sergeant at Arms after them?

Mr. JONKMAN. Mr. Chairman, I object to that. That is not germane to the motion.

Mr. JARMAN. I have been here for 11 years and I never have.

Chairman EATON. We can't take that question up now.

The motion before the committee that we now go into executive session.

All in favor say "Aye"; contrary, "No." Motion carried.

Mr. Herter, we are very grateful to you for your very illuminating discussion.

(Thereupon, the committee proceeded to the consideration of business in executive session.)

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

MONDAY, JANUARY 12, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10 a. m., in room 1301, House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. In accordance with a motion previously adopted by the committee, we will begin hearings at this time on United States foreign policy for a postwar recovery program. The first step will be consideration of proposals for a European recovery program, including H. R. 4840 and H. R. 4579. The motion, which was made by Mr. Fulton and Mr. Javits, is as follows:

That the committee proceed with hearings on United States foreign policy for a postwar recovery program, and that the first step be consideration of proposals for a European recovery program, including H. R. 4840 and H. R. 4579 and similar measures.

The text of H. R. 4579 appears in the record of the first day's hearing. The text of H. R. 4840 will appear in the record at this point. (H. R. 4840 is as follows:)

[H. R. 4840, 80th Cong., 2d sess.]

A BILL To promote the general welfare, national interest, and foreign policy of the United States through necessary economic and financial assistance to foreign countries which undertake to cooperate with each other in the establishment and maintenance of economic conditions essential to a peaceful and prosperous world

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Economic Cooperation Act of 1948".

SEC. 2. (a) FINDINGS AND DECLARATION OF POLICY.—Recognizing the interdependence of the United States and of Europe, and recognizing that economic disruption remaining in the wake of war is not contained by national frontiers, the Congress finds that the existing economic situation in Europe endangers the general welfare and national interest of the United States and the attainment of the objectives of the United Nations. Unless normal economic conditions and stable international economic relationships are restored in Europe, it will not be possible for the countries of Europe to achieve a working economy independent of abnormal outside assistance, or to maintain free institutions and national independence. Accordingly, it is declared to be the policy of the United States that assistance be given to those countries of Europe participating in a joint European recovery program based on self-help and mutual cooperation.

(b) PURPOSES OF ACT.—It is the purpose of this Act to effectuate the policy set forth in subsection (a) of this section by furnishing material and financial assistance to the participating countries in such a manner as to aid them, through their own individual and concerted efforts, to become independent of abnormal outside economic assistance within the period of operations under this Act, by—

(1) promoting industrial and agricultural production in the participating countries;

(2) furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances;—

(3) facilitating and stimulating the growth of international trade of participating countries with one another and with other countries by appropriate measures, including reduction of barriers which may hamper such trade.

SEC. 3. Any country (including the United Kingdom of Great Britain and Northern Ireland, Eire, Iceland, and any of the zones of occupation of Germany) wholly or partly in Europe, including its colonies and dependencies, is a participating country within the meaning of this Act while it remains an adherent to a joint program for European recovery designed to accomplish the purposes of this Act.

SEC. 4 (a) There is hereby established, with its principal office in the District of Columbia, an agency of the Government which shall be known as the Economic Cooperation Administration, hereinafter referred to as the Administration. The Administration shall be headed by an Administrator for Economic Cooperation, hereinafter referred to as the Administrator, who shall be appointed by the President by and with the advice and consent of the Senate, and who shall receive compensation at the rate of \$20,000 per annum. Except as otherwise provided in this Act, the administration of the provisions of this Act is hereby vested in the Administrator. All those functions of the Administrator which affect the conduct of the foreign policy of the United States shall be performed subject to the direction and control of the Secretary of State.

(b) There shall be in the Administration a Deputy Administrator for Economic Cooperation who shall be appointed by the President, by and with the advice and consent of the Senate, and shall receive compensation at the rate of \$17,500 per annum. The Deputy Administrator for Economic Cooperation shall perform such functions as the Administrator shall designate, and shall be Acting Administrator for Economic Cooperation during the absence or disability of the Administrator or in the event of a vacancy in the office of Administrator.

(c) The President is authorized, pending the appointment and qualification of the first Administrator or Deputy Administrator for Economic Cooperation appointed hereunder, to provide for the performance of the functions of the Administrator under this Act through such departments, agencies, or establishments of the United States Government as he may direct.

(d) Any department, agency, or establishment of the Government (including, whenever used in this Act, any corporation which is an instrumentality of the United States) performing functions under this Act is authorized to employ, for duty within the continental limits of the United States, such personnel as may be necessary to carry out the provisions and purposes of this Act; and funds available pursuant to section 9 of this Act shall be available for personal services in the District of Columbia and elsewhere without regard to section 14 (a) of the Federal Employees Pay Act of 1946 (60 Stat. 219). Personnel, not to exceed sixty, of the Administration may be compensated without regard to the provisions of the Classification Act of 1923, as amended, of whom not more than ten may be compensated at a rate in excess of \$10,000 per annum, but not in excess of \$15,000 per annum. Experts and consultants, as authorized by section 15 of the Act of August 2, 1946 (5 U. S. C. 55a) may be employed by the Administration, and may be compensated at rates for individuals not in excess of \$50 per diem.

(e) The head of any department, agency, or establishment of the Government performing functions under this Act may, from time to time, promulgate such rules and regulations as may be necessary and proper to carry out his functions under this Act, and he may delegate to such officers of his department, agency, or establishment as he may designate the authority to perform any of his functions under this Act.

SEC. 5. There shall be a United States Special Representative in Europe who shall (a) be appointed by the President by and with the advice and consent of the Senate, (b) be entitled to receive the same compensation and allowances as a chief of mission, class 1, within the meaning of the Act of August 13, 1946 (60 Stat. 999), and (c) have the rank of ambassador extraordinary and plenipotentiary. He shall be the chief United States representative to any European organization of participating countries which may be established by the participating countries to further a joint program for European recovery, and shall discharge in Europe such additional responsibilities as may be assigned to him with the approval of the President in furtherance of the purposes of this Act. He may also be designated as the United States representative on the Economic Commission for Europe.

SEC. 6. (a) For the purpose of performing functions under this Act outside the continental limits of the United States, the Secretary of State may (1) appoint or

assign persons to any class in the Foreign Service Reserve for the duration of operations under this Act without regard to that provision of the Act of August 13, 1946 (60 Stat. 1009), which limits appointments to periods of not more than four years: *Provided*, That, with respect to the appointment or assignment of persons to perform functions within the responsibility of the Administrator, the Secretary of State shall make such appointments or assignments in consultation with the Administrator; and (2) by regulations prescribed by him, provide for the appointment, for the duration of operations under this Act, of Foreign Service staff officers and employees, and alien clerks and employees. A person, whether or not such person is a war service or temporary employee, thus appointed as staff officer or employee from any Government agency without break in service and with the consent of the head of the agency concerned shall, upon the termination of the appointment as staff officer or employee, be entitled to the same rights as those provided for Foreign Service Reserve officers in section 528 of the Act of August 13, 1946 (60 Stat. 1010).

(b) The provisions of the Act of August 13, 1946 (60 Stat. 999), shall, except as provided in this section, apply fully to all persons appointed or assigned pursuant to the authority contained in this section.

(c) A representative of the Administration, designated by the Administrator, shall be a member of the Board of the Foreign Service, and section 211 (a) of the Foreign Service Act of 1946 (60 Stat. 1001), is hereby amended accordingly.

(d) Civilian personnel who are citizens of the United States appointed pursuant to this section to perform functions under this Act shall be appointed subject to investigation by the Federal Bureau of Investigation, provided, however, that they may assume their posts and perform their functions after preliminary investigation and clearance by the Department of State.

SEC. 7. (a) The Administrator may, from time to time, furnish assistance to any participating country by providing for the performance of any of the functions set forth in paragraphs (1) through (5) of this subsection when he deems it to be in furtherance of the purposes of this Act, and upon the terms and conditions set forth in this Act and such additional terms and conditions consistent with the provisions of this Act as he may determine to be necessary and proper—

(1) procurement from any source, including Government stocks, of any commodity which he determines to be required for the furtherance of the purposes of this Act, and the term "commodity" as used in this Act shall mean any material, article, merchant vessel, supply or goods necessary for the purposes of this Act;

(2) processing, storing, transporting, and repairing any commodities, or performing any other services with respect to a participating country which he determines to be required for accomplishing the purposes of this Act;

(3) procurement of and furnishing technical information and assistance;

(4) chartering any merchant vessel owned by the United States which the United States Maritime Commission certifies as excess to its current requirements;

(5) transfer of any commodity or service, which transfer shall be signified by delivery of the custody and right of possession and use of such commodity, or otherwise making available any such commodity, or by rendering a service, to a participating country or to any agency or organization representing a participating country; provided that merchant vessels, except as provided in subsection (d) of section 8, may not be transferred under authority of this Act otherwise than by charter; and provided further that if a vessel of the United States is chartered under the provisions of this Act its documents as a vessel of the United States shall be surrendered and it shall, during the charter period, be considered as a foreign vessel for the purposes of the navigation and vessel-inspection laws of the United States.

(b) The Administrator may provide for the performance of any of the functions described in subsection (a) of this section—

(1) by making funds available in the form of advances or reimbursements to any participating country, or to any agency or organization representing a participating country. Expenditures of advances made, or for which reimbursements are made, under authority of this paragraph for commodities or services procured outside the continental limits of the United States may be accounted for exclusively on such certification as the Administrator may prescribe to assure expenditure in furtherance of the purposes of this Act and such certification shall be binding on the accounting officers of the Government;

(2) by utilizing the services and facilities of any department, agency, or establishment of the Government as he shall direct, with the consent of the head of such department, agency, or establishment, or, in his discretion, by acting in cooperation with the United Nations or with other international organizations or with agencies of the participating countries, and funds allocated pursuant to this section to any department, agency, or establishment of the Government shall be established in separate appropriation accounts on the books of the Treasury;

(3) by making, under rules and regulations to be prescribed by the Administrator, guaranties to any person of investments in connection with projects approved by the Administrator and the participating country concerned as furthering the purposes of this Act, which guaranties shall terminate not later than fourteen years from the date of enactment of this Act, provided that—

(i) the guaranty to any person shall not exceed the amount of dollars invested by such person in the project with the approval thereof by the Administrator and shall be limited to the transfer into United States dollars of other currencies or credits in such currencies received by such person as income from the approved investment, as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof;

(ii) the total liabilities assumed under such guaranties shall not exceed 5 per centum of the total funds appropriated for the purposes of this Act;

(iii) as used in this paragraph, the term "person" means a citizen of the United States or any corporation, partnership, or other association created under the law of the United States or of any State or Territory and substantially beneficially owned by citizens of the United States.

(c) (1) The Administrator may provide assistance for any participating country, in the form and under the procedures authorized in subsections (a) and (b), respectively, of this section, through grants or upon payment in cash or on credit terms or on such other terms of payment as he may find appropriate. In determining whether such assistance shall be through grants or upon terms of payment, and in determining the terms of payment, he shall act in consultation with the National Advisory Council on International Advisory Council on International Monetary and Financial Problems, and the determination whether or not a participating country should be required to make payment for any assistance furnished to such country in furtherance of the purposes of this Act, and the terms of such payment, if required, shall depend upon the capacity of such country to make such payment without jeopardizing the accomplishment of the purposes of this Act.

(2) When it is determined that assistance should be extended under the provisions of this Act on credit terms, the Administrator shall allocate funds for the purpose to the Export-Import Bank of Washington, which shall, notwithstanding the provisions of the Export-Import Bank Act of 1945 (59 Stat. 526), as amended, make and administer the credit as directed, and on terms specified, by the Administrator in consultation with the said National Advisory Council. The Administrator shall make advances to or reimburse the Export-Import Bank of Washington for necessary administrative expenses in connection with such credits. The bank shall deposit into the Treasury of the United States as miscellaneous receipts amounts received by the bank in repayment of principal and interest of any such credits. Credits made by Export-Import Bank of Washington with funds so allocated to it by the Administrator shall not be considered in determining whether the bank has outstanding at any one time loans and guaranties to the extent of the limitation imposed by section 7 of the Export-Import Bank Act of 1945 (59 Stat. 529), as amended.

Sec. 8. (a) The Administrator, in the exercise of any authority conferred under section 7 of this Act, may procure (i) commodities owned by any department, agency, or establishment of the Government if the owning agency determines that such commodities are available for such procurement, and (ii) services from any department, agency, or establishment of the Government which the owning agency determines to be available for such procurement. The Administrator shall reimburse or pay, at replacement cost or, if required by law, at actual cost, or at such other price authorized by law agreed by the Administrator and the owning agency, out of funds available for the purposes of this Act, the owning or disposal agency, as the case may be, for such commodities or services. The amount of any reimbursement or payment to an owning agency for commodities or services so employed shall be credited to current applicable appropriations,

funds, or accounts from which there may be procured replacements of similar commodities or such services and facilities; provided that where such appropriations, funds, or accounts are not reimbursable except by reason of the foregoing provision and when the head of the owning agency determines that replacement of any commodity employed under authority of this section is not necessary, any funds received in payment therefor shall be covered into the Treasury as miscellaneous receipts.

(b) Any commodity procured out of funds made available for the purposes of this Act may, in lieu of being transferred to a participating country, be disposed of for any other purpose authorized by law, whenever in the judgment of the Administrator the interests of the United States will best be served thereby. Funds realized from such disposal shall, upon approval of the Bureau of the Budget, revert to the respective appropriation or appropriations out of which funds were expended for the procurement of such commodity.

(c) The Administrator, in furtherance of the purposes of paragraph (5) of subsection (b) of section 10, and in agreement with a participating country, may promote, by means of funds made available for the purposes of this Act, an increase in the production in such participating country of materials which are required by the United States as a result of deficiencies or potential deficiencies in the natural resources of the United States.

(d) Whenever the Administrator shall determine that sale to a participating country, or to a citizen thereof, of any merchant vessel would be in furtherance of the purposes of this Act, and whenever the President shall so direct, the United States Maritime Commission shall effect such sale at the purchase price and under the terms specified in the Merchant Ship Sales Act of 1946 (60 Stat. 41), as amended, or other applicable law, and upon such additional terms and conditions as the Administrator may specify.

SEC. 9. (a) Notwithstanding the provisions of any other law the Reconstruction Finance Corporation is authorized and directed, until such time as an appropriation shall be made pursuant to subsection (c) of this section, to make advances not to exceed in the aggregate \$500,000,000 to carry out the provisions of this Act, in such manner, at such time and in such amounts as the President shall determine, and no interest shall be charged on advances made by the Treasury to the Reconstruction Finance Corporation for this purpose. The Reconstruction Finance Corporation shall be repaid without interest from appropriations authorized under this Act for advances made by it hereunder.

(b) Such part as the President may determine of the unobligated and unexpended balances of appropriations or other funds available for the purposes of the Foreign Aid Act of 1947 shall be available for the purpose of carrying out the purposes of this Act.

(c) There are hereby authorized to be appropriated to the President from time to time, out of any money in the Treasury not otherwise appropriated, such amounts as may be necessary to carry out the provisions and accomplish the purposes of this Act: *Provided, however*, That for carrying out the provisions and accomplishing the purposes of this Act from the date of enactment of this Act through June 30, 1949, there are hereby authorized to be so appropriated not to exceed \$6,800,000,000.

(d) Funds made available for the purposes of this Act shall be available for incurring and defraying all necessary expenses incident to carrying out the provisions of this Act, including accessorial and administrative expenses and expenses for compensation, allowances and travel of personnel, including Foreign Service personnel whose services are utilized primarily for the purposes of this Act, and, without regard to the provisions of any other law, for motor vehicles, typewriters, and printing and binding.

(e) The unexpended portions of any deposits which may have been made by any participating country pursuant to section 6 of the joint resolution providing for relief assistance to the people of countries devastated by war (Public Law 84, Eightieth Congress) and section 5 (b) of the Foreign Aid Act of 1947 (Public Law 389, Eightieth Congress) may be merged with the deposits to be made by such participating country in accordance with section 10 (b) (6) of this Act, and shall be held or used under the same terms and conditions as are provided in section 10 (b) (6) of this Act.

SEC. 10. (a) The Secretary of State, after consultation with the Administrator, is authorized to conclude, with individual participating countries or any number of such countries or with an organization representing any such countries, agreements in furtherance of the purposes of this Act.

(b) As a condition precedent to the performance for any participating country of any of the functions authorized under this Act, such participating country shall conclude an agreement with the United States, which shall signify the adherence of such country to the purposes of this Act and, where applicable, shall make appropriate provision for—

(1) promoting industrial and agricultural production in order to enable the participating country to become independent of abnormal outside economic assistance;

(2) taking financial and monetary measures necessary to stabilize its currency, establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system;

(3) cooperating with other participating countries in facilitating and stimulating an increasing interchange of goods and services among the participating countries with other countries and cooperating to reduce barriers to trade among themselves and with other countries;

(4) making efficient use, within the framework of a joint program for European recovery, of the resources of such participating country, including any commodities, facilities, or services furnished under this Act;

(5) facilitating the sale to the United States for stock-piling purposes, for such period of time as may be agreed to and upon reasonable terms and in reasonable quantities, of materials which are required by the United States as a result of deficiencies or potential deficiencies in its own natural resources, and which may be available in such participating country after due regard for reasonable requirements for domestic use and commercial export of such country;

(6) placing in a special account a deposit in the currency of such country, in commensurate amounts and under such terms and conditions as may be agreed to between such country and the Government of the United States, when any commodity or service is made available through any means authorized under this Act, and is not furnished to the participating country on terms of payment. Such special account, together with the unexpended portions of any deposits which may have been made by such country pursuant to section 6 of the joint resolution providing for relief assistance to the people of countries devastated by war (Public Law 84, Eightieth Congress) and section 5 (b) of the Foreign Aid Act of 1947, shall be held or used only for such purposes as may be agreed to between such country and the Government of the United States;

(7) publishing in such country and transmitting to the United States, not less frequently than every calendar quarter after the date of the agreement, of full statements of operations under the agreement, including a report of the use of funds, commodities and services received under this Act;

(8) furnishing promptly, upon request of the United States, any relevant information which would be of assistance to the United States in determining the nature and scope of future operations under this Act.

(c) Notwithstanding the provision of subsection (b) of this section, the Administrator, during the three months after the date of enactment of this Act, may perform with respect to any participating country any of the functions authorized under this Act which he may determine to be essential in furtherance of the purposes of this Act, provided that such country (i) has signified its adherence to the purposes of this Act and its intention to conclude an agreement pursuant to subsection (b) of this section, and (ii) he finds that such country is complying with the applicable provisions of subsection (b) of this section.

SEC. 11. When the President determines it to be in furtherance of the purposes of this Act, the functions authorized under this Act may be performed without regard to such provisions of law regulating the making, performance, amendment, or modification of contracts and the expenditure of Government funds as the President may specify.

SEC. 12. (a) The President is authorized to request the cooperation of or the use of the services and facilities of the United Nations, its organs and specialized agencies or other international organizations, in carrying out the purposes of this Act, and may make payments, by advancements or reimbursements, for such purpose, out of funds made available for the purposes of this Act, as may be necessary therefor to the extent that special compensation is usually required for such services and facilities.

(b) The President shall transmit to the Secretary General of the United Nations copies of reports to Congress on the operations conducted under this Act.

(c) Any agreements concluded between the United States and participating countries or groups of such countries in implementation of the purposes of this Act shall be registered with the United Nations if such registration is required by the Charter of the United Nations.

SEC. 13. After June 30, 1952, or after the passage of a concurrent resolution by the two Houses before June 30, 1952, which declares that the powers conferred by or pursuant to section 7 of this Act are no longer necessary for the purposes of this Act, the Administrator shall not exercise any of the powers conferred by or pursuant to such section 7, except that through June 30, 1955, any of such powers may be exercised to the extent necessary to carry out an agreement with a participating country concluded before July 1, 1952, or before the passage of such concurrent resolution, whichever is the earlier, and funds made available for the purpose of this Act required to carry out any such agreement shall be deemed obligated as of the date of such agreement, and shall be available for expenditure to carry out such obligations through June 30, 1957, and funds made available for the purpose of this Act shall be available for the expenses of liquidating operations under this Act for such time as the Congress from time to time, in the Acts appropriating such funds, may authorize.

SEC. 14. The President from time to time, but not less frequently than once every calendar quarter through June 30, 1952, and once every year thereafter until all funds made available for the purposes of this Act have been expended, shall transmit to the Congress a report of operations under this Act. Reports provided for under this section shall be transmitted to the Secretary of the Senate or the Clerk of the House of Representatives, as the case may be, if the Senate or the House of Representatives, as the case may be, is not in session.

SEC. 15. If any provision of this Act or the application of such provision to any circumstances or persons shall be held invalid, the validity of the remainder of the Act and the applicability of such provision to other circumstances or persons shall not be affected thereby.

Chairman EATON. Our first witness today is the Secretary of State, Mr. Marshall.

Mr. Marshall, would you take the stand, please?

STATEMENT OF HON. GEORGE C. MARSHALL, SECRETARY OF STATE

Secretary MARSHALL. The President on December 19 presented to the Congress a proposal for a European recovery program. Subsequent documents submitted to the committee from the executive branch provide amplification and detail. Further explanation will follow:

For my part, this morning I wish to place this proposal for economic assistance to the free countries of Europe in what I believe is its broad perspective.

The European recovery program necessarily must be considered in relation to the foreign policy of the United States, which in its simplest form is concerned with those conditions abroad which affect or could later affect the future security and the well being of our Nation. What we desire, I think, is a stable, cooperative, and confident world. But such a world does not exist today. x

We must deal with the existing situation in our effort to promote peace and security. The situation in Europe has not yet developed to the point where the grim progression from economic uncertainty to tyranny is probable. But without United States support of European self-help, this progression may well become inevitable. Therefore, it is proposed that our Nation take vigorous action now to assist in setting in motion the processes of recovery in the second most productive area in the world.

The aid suggested is designed to prevent the economic strangulation which now threatens western Europe and through that vital area

We want peace. We want security. We want to see the world return to normal as quickly as possible. We are in a position of leadership by force of circumstance. A great crisis has to be met. Do we meet the situation with action or do we step aside and allow other forces to settle the pattern of future European civilization?

That is the conclusion of my prepared statement, Mr. Chairman, and, if permissible, I would like to request that the previous statement that I made before the Senate Foreign Relations Committee be included in the record.

Chairman EATON. We will be very happy to do that, Mr. Secretary. (The information referred to is as follows:)

DEPARTMENT OF STATE,
January 7, 1948.

STATEMENT BY THE HONORABLE GEORGE C. MARSHALL, SECRETARY OF STATE,
BEFORE THE SENATE COMMITTEE ON FOREIGN RELATIONS, THURSDAY, JANUARY 8, 1948

On December 19, the President placed before you the recommendations of the executive branch of the Government for a program of United States assistance to European economic recovery.

This program will cost our country billions of dollars. It will impose a burden on the American taxpayer. It will require sacrifices today in order that we may enjoy security and peace tomorrow. Should the Congress approve the program for European recovery, as I urgently recommend, we Americans will have made an historic decision of our peacetime history.

A nation in which the voice of its people directs the conduct of its affairs cannot embark on an undertaking of such magnitude and significance for light or purely sentimental reasons. Decisions of this importance are dictated by the highest considerations of national interest. There is none higher, I am sure, than the establishment of enduring peace and the maintenance of true freedom for the individual. In the deliberations of the coming weeks I ask that the European recovery program be judged in these terms and on this basis.

As the Secretary of State and as the initial representative of the executive branch of the Government in the presentation of the program to your committee, I will first outline my convictions as to the extent and manner in which American interests are involved in European recovery.

Without the reestablishment of economic health and vigor in the free countries of Europe, without the restoration of their social and political strength necessarily associated with economic recuperation, the prospect for the American people, and for free people everywhere to find peace with justice, and well-being and security for themselves and their children will be gravely prejudiced.

So long as hunger, poverty, desperation and resulting chaos threaten the great concentrations of people in western Europe—some 270 millions—there will steadily develop social unease and political confusion on every side. Left to their own resources there will be, I believe, no escape from economic distress so intense, social discontents so violent, political confusion so widespread, and hopes of the future so shattered that the historic base of western civilization, of which we are by belief and inheritance an integral part, will take on a new form in the image of the tyranny that we fought to destroy in Germany. The vacuum which the war created in western Europe will be filled by the forces of which wars are made. Our national security will be seriously threatened. We shall in effect live in an armed camp, regulated and controlled. But if we furnish effective aid to support the now visibly reviving hope of Europe, the prospect should speedily change. The foundation of political vitality is economic recovery. Durable peace requires the restoration of western European vitality.

We have engaged in a great war. We poured out our resources to win that war. We fought it to make real peace possible. Though the war has ended the peace has not commenced. We must not fail to complete that which we commenced.

The peoples of western Europe have demonstrated their will to achieve a genuine recovery by entering into a great cooperative effort. Within the limits of their resources they formally undertake to establish the basis for the peace which we all seek, but they cannot succeed without American assistance. Dollars will not save the world—but the world today cannot be saved without dollars.

The Paris report of the Committee of European Economic Cooperation was a notable achievement. For the first time in modern history representatives of 16 nations collectively disclosed their internal economic conditions and frailties and undertook, subject to stated conditions, to do certain things for the mutual benefit of all. The commitments each made to the other, if faithfully observed, will produce in western Europe a far more integrated economic system than any in previous history.

The report revealed the measure of outside assistance which in their judgment would be necessary to effect a lasting recovery of the participating nations. The executive branch, with help and advice from a great many sources, has developed from this report a program of American aid to Europe which gives substantial promise of achieving the goal of genuine recovery. The program is not one of a series of piecemeal relief measures. I ask that you note this difference, and keep it in mind throughout our explanations. The difference is absolutely vital.

I believe that this measure has received as concentrated study as has ever gone into the preparation of any proposal made to the Congress. The best minds in numerous related fields have worked for months on this vast and complicated subject. In addition, the best economic and political brains of 16 European nations have given us in an amazingly short time their analyses and conclusions.

The problem we face is enormously complex. It affects not only our country and Europe, but almost every other part of the globe.

We wish to present to you in the simplest possible way a full explanation of the executive branch recommendations for aid to Europe. Our presentation will entail the appearance of high officials from the agencies of the Government intimately concerned. Others will give you more detailed information on the many factors to be considered.

I will confine my remarks to the three basic questions involved, first, Why does Europe need help?; second, How much help is needed?; and, third, How should help be given?

I. WHY?

The "why."—Europe is still emerging from the devastation and dislocation of the most destructive war in history. Within its own resources Europe cannot achieve within a reasonable time economic stability. The war more or less destroyed the mechanism whereby Europe supported itself in the past and the initial rebuilding of that mechanism requires outside assistance under existing circumstances.

The western European participating countries, with a present population almost twice our own, constitute an interdependent area containing some of the most highly industrialized nations of the world. As a group, they are one of the two major workshops of the world. Production has become more and more specialized, and depends in large part on the processing of raw materials, largely imported from abroad, into finished goods and the furnishing of services to other areas. These goods and services have been sold throughout the world and the proceeds therefrom paid for the necessary imports.

The war smashed the vast and delicate mechanism by which European countries made their living. It was the war which destroyed coal mines and deprived the workshop of sufficient mechanical energy. It was the war which destroyed steel mills and thus cut down the workshop's material for fabrication. It was the war which destroyed transportation lines and equipment and thus made the ability to move goods and people inadequate. It was the war which destroyed livestock herds, made fertilizers unobtainable, and thus reduced soil fertility. It was the war which destroyed merchant fleets and thus cut off accustomed income from carrying the world's goods. It was the war which destroyed or caused the loss of so much of foreign investments and the income which it has produced. It was the war which bled inventories and working capital out of existence. It was the war which shattered business relationships and markets and the sources of raw materials. The war disrupted the flow of vital raw materials from southeast Asia, thereby breaking the pattern of multilateral trade which formerly provided, directly or indirectly, large dollar earnings for western Europe. In the postwar period artificial and forcible reorientation to the Soviet Union of eastern European trade has deprived western Europe of sources of foodstuff and raw material from that area. Here and there the present European situation has been aggravated by unsound or destructive policies pursued in one or another country, but the basic dislocations find their source directly in the war.

The inability of the European workshop to get food and raw materials required to produce the exports necessary to get the purchasing power for food and raw

materials is the worst of the many vicious circles that beset the European peoples. Notwithstanding the fact that industrial output, except in western Germany, has almost regained its prewar volume, under the changed conditions this is not nearly enough. The loss of European investments abroad, the destruction of merchant fleets, and the disappearance of other sources of income, together with increases in populations to be sustained, make necessary an increase in production far above prewar levels, even sufficient for a living standard considerably below prewar standards.

This is the essence of the economic problem of Europe. This problem would exist even though it were not complicated by the ideological struggles in Europe between those who want to live as free men and those small groups who aspire to dominate by the method of police states. The solution would be much easier, of course, if all the nations of Europe were cooperating. But they are not. Far from cooperating the Soviet Union and the Communist Parties have proclaimed their determined opposition to a plan for European economic recovery. Economic distress is to be employed to further political ends.

There are many who accept the picture that I have just drawn but who raise a further question. "Why must the United States carry so great a load in helping Europe?" The answer is simple. The United States is the only country in the world today which has the economic power and productivity to furnish the needed assistance.

I wish now to turn to the other questions which we must answer. These are "how much" aid is required and "how" should that aid be given.

II. HOW MUCH?

Three principles should determine the amount and timing of our aid. It must be adequate. It must be prompt. It must be effectively applied.

Objective: Recovery

The objective of the European recovery program submitted for your consideration is to achieve lasting economic recovery for western Europe; recovery in the sense that after our aid has terminated, the European countries will be able to maintain themselves by their own efforts on a sound economic basis.

Our assistance, if we determine to embark on this program to aid western Europe, must be adequate to do the job. The initial increment of our aid should be fully sufficient to get the program under way on a broad, sound basis and not in a piecemeal manner. An inadequate program would involve a wastage of our resources with an ineffective result. Either undertake to meet the requirements of the problem or don't undertake it at all.

Time is vital

I think it must be plain to all that the circumstances which have given birth to this program call for promptness in decision and vigor in putting the project into operation. The sooner this program can get under way the greater its chances of success. Careful consideration and early action are not incompatible.

The interim aid law which the Congress enacted last December was designed as a stopgap measure to cover the period until April 1 of this year. In the meantime it would be possible to consider the long-term recovery measure which we are now discussing. Unless the program can be placed in operation on or soon after April 1, there will, undoubtedly, be a serious deterioration in some of the basic conditions upon which the whole project is predicated.

It is proposed that the Congress now authorize the program for its full four and one-quarter year duration, although appropriations are being requested only for the first 15 months. Annual decisions on appropriations will afford full opportunity for review and control. But a general authorization now for the longer term will provide a necessary foundation for the continuing effort and cooperation of the European countries in a progressive program of recovery.

Amounts of required assistance

The amounts, form, and conditions of the recommended program of American aid to European recovery have been presented in President Truman's message to the Congress on December 19, 1947. They were further explained in the proposed draft legislation and background material furnished to this committee at that time by the Department of State. Taking as the basis genuine European cooperation—the maximum of self-help and mutual help on the part of the participating European countries—the program aims to provide these countries, until the end of June 1952, with those portions of their essential imports from the

Western Hemisphere which they themselves cannot pay for. These essential imports include not only the food, fuel and other supplies, but also equipment and materials to enable them to increase their productive capacity. They must produce and export considerably more goods than they did in prewar times if they are to become self-supporting, even at a lower standard of living.

During the first 15 months, exports from the European countries will provide current revenue sufficient to cover almost their entire import needs from sources outside the Western Hemisphere and also about one-third of their requirements from the Western Hemisphere.

It is not proposed that the United States provide aid to the full extent of western Europe's remaining trade deficit with the Western Hemisphere. Funds from sources other than the United States Treasury, are expected to carry part of the load. These will be, principally, credits and other forms of assistance from other countries in our hemisphere, loans from the International Bank and private sources, and a further slight reduction in European reserves. It is the final deficit, after all those other means of financing essential imports have been utilized, that it is proposed be covered by American aid.

In each succeeding year of the program, increased production and increased trade from Europe is expected to reduce the amount of assistance needed, until after mid-1952, when it is calculated that the participating countries will have recovered ability to support themselves.

The recommended program of 6.8 billion dollars for the first 15 months reflects a searching and comprehensive investigation by the executive branch of European needs and of availabilities in the United States and other supplying countries, taking full account of the findings of the Harriman, Krug, and Nourse committees.

The program of 6.8 billion dollars for the first 15 months has been computed with precision. I wish to emphasize that this amount does not represent a generous estimate of requirements. It is not an "asking figure" based on anticipated reductions prior to approval. It reflects a rigorous screening of the proposals developed by the CEEC and a realistic appraisal of availabilities. In our judgment, American assistance in this magnitude is required to initiate a program of genuine recovery and to take both Europe and this Nation out of the blind alley of mere continuing relief.

The estimated cost of the program is now put at somewhere between 15.1 to 17.8 billions. But this will depend on developments each year, the progress made and unforeseeable variations in the weather as it affects crops. The over-all cost is not capable of precise determination so far in advance.

Can we afford it?

In developing the program of American assistance, no question has been more closely examined than the ability of the United States to provide assistance in the magnitudes proposed. Both in terms of physical resources and in terms of financial capacity, our ability to support such a program seems clear. Representatives of the executive branch more closely familiar than I with the domestic economy will provide further testimony on this issue, but I should like to remind you of the conclusions of the three special committees which explored this matter in detail during the summer and fall.

The proposed program does involve some sacrifice on the part of the American people, but it should be kept in mind that the burden of the program diminishes rapidly after the first 15 months. Considerations of the cost must be related to the momentous objectives on the one hand and to the probable price of the alternatives. The 6.8 billion dollars proposed for the first 15 months is less than a single month's charge of the war. A world of continuing uneasy half-peace will create demands for constantly mounting expenditures for defense. This program should be viewed as an investment in peace. In those terms, the cost is low.

III. HOW?

The third main consideration which, I feel, should be borne in mind in connection with this measure is that relating to conditions or terms upon which American assistance will be extended. It is the obvious duty of this Government to insure insofar as possible that the aid extended should be effectively used to promote recovery and not diverted to other purposes whatever their nature. This aspect of the program is perhaps the most delicate and difficult and one which will require the exercise of a mature judgment and intelligent understanding of the nature of the problem faced by the European governments and of our particular position of leadership in this matter. We must always have in mind that we are dealing with democratic governments of sovereign nations.

X We will be working with a group of nations each with a long and proud history. The peoples of these countries are highly skilled, able, and energetic, and justly proud of their cultures. They have ancient traditions of self-reliance and are eager to take the lead in working out their own salvation.

X We have stated in many ways that American aid will not be used to interfere with the sovereign rights of these nations and their own responsibility to work out their own salvation. I cannot emphasize too much my profound conviction that the aid we furnish must not be tied to conditions which would, in effect, destroy the whole moral justification for our cooperative assistance toward European partnership.

We are dealing with democratic governments. One of the major justifications of asking the American people to make the sacrifice necessary under this program is the vital stake that the United States has in helping to preserve democracy in Europe. As democratic governments they are responsive, like our own, to the peoples of their countries—and we would not have it otherwise. We cannot expect any democratic government to take upon itself obligations or accept conditions which run counter to the basic national sentiment of its people. This program calls for free cooperation among nations mutually respecting one another's sincerity of purpose in the common endeavor—a cooperation which we hope will long outlive the period of American assistance.

The initial suggestion of June 5 last, the concept of American assistance to Europe, has been based on the premise that European initiative and cooperation are prerequisite to European recovery. Only the Europeans themselves can finally solve their problem.

The participating nations have signified their intention to retain the initiative in promoting their own joint recovery. They have pledged themselves to take effective cooperative measures. They have established ambitious production targets for themselves. They have recognized the need for financial and monetary stability and have agreed to take necessary steps in this direction. They have agreed to establish a continuing organization to make most effective their co-operative work and the application of American assistance. When our program is initiated we may expect that the participating European countries will reaffirm as an organic part of that program their multilateral agreements.

The fulfillment of the mutual pledges of these nations would have profound effects in altering for the better the future economic condition of the European Continent. The Paris Conference itself was one major step, and the participating nations have not waited on American action before taking further steps, many of which required a high order of political courage. They have moved forward toward a practical working arrangement for the multilateral clearing of trade. France and Italy, whose financial affairs suffered greatly by war and occupation, are taking energetic measures to establish monetary stability—an essential prerequisite to economic recovery. British coal production is being increased more quickly than even the more hopeful forecasts, and there is a prospect of the early resumption of exports to the Continent. The customs union among Belgium, the Netherlands, and Luxembourg is now in operation. Negotiations for a Franco-Italian customs union are proceeding.

Application of American aid

Our aid will not be given merely by turning money over to the European governments. The European countries will prepare periodic statements of their needs, taking into account the developing programs of mutual aid worked out through the CEEC continuing organization. After review by the specialist economic co-operation officers in each country and by the special United States Ambassador to the continuing CEEC organization, they will be transmitted to the Administrator of the American agency carrying out our program of assistance.

The Administrator, in collaboration with other appropriate agencies of the Government, will determine to what extent the European requirements are justified and to what extent they can safely be met. The Administrator will also decide which specific requirements from among the over-all requirements will be financed by the United States, taking into account the ability of the country concerned to pay for some portion or all of its total needs. For those needs which cannot be paid for in cash, the Administrator will further decide, in consultation with the National Advisory Council, whether aid will be provided in loans—where a sound capacity to repay in the future exists—or in outright grants. When the program has been determined in detail, the Administrator will either advance requisite funds to the participating country concerned to enable the purchase of the approved imports or, more generally, he will reimburse the countries when they have procured and received these import items.

A substantial amount of the essential needs of Europe must come from countries of the Western Hemisphere other than the United States. In some cases the quantities required will not exist in the United States, in others the impact on the American economy will be greatly relieved if commodities can be procured elsewhere. A sizeable proportion of the funds appropriated for the European recovery program should therefore be available for the financing of purchases made outside the United States.

The application of American assistance will be in accord with bilateral agreements to be negotiated with each of the participating countries. The terms of these proposed agreements are outlined fully in the documents submitted to your committee on December 19.

Organization for the program

The administration of the program will demand the best talent and the greatest efficiency that our country can muster. The organization bearing the central responsibility should be small and select. It must hold the full and complete confidence of the American people and of the Europeans. It should combine efficient, business-like administration and operation with the qualities of judgment and discrimination necessary to achieve quick and lasting recovery in Europe at the least long-term cost to the American people and with the least impact on our economy.

The organization must fit into the complex mechanics of our world export picture. American food, steel, and other products are being exported to many areas other than Europe. In many categories American output represents the major source of shortage goods in the world. There is at present workable machinery in the Government for determining total export availabilities in the light of domestic needs and for allocating these items among the many bidders. We propose that this machinery be continued.

The organization must be granted flexibility in its operations. In my judgment this is the most vital single factor in effective administration. Without flexibility the organization will be unable to take advantage of favorable developments, to meet adverse emergencies, or to cushion the impact of the program on the domestic economy.

It has been suggested in some quarters that the administering agency should be established in the form of a Government corporation. It is claimed that a corporation can be vested with broader powers and flexibility than an independent executive agency. I do not believe that this is necessarily so. The legislation establishing an agency can clothe it with any or all of the beneficial attributes of a Government corporation. On the other hand, an executive agency under the responsible direction of one man, and fitted into the existing machinery of Government, will be better able to meet the requirements of the situation than a corporation directed by a board. This task of administration clearly calls for administration by a single responsible individual.

Finally, the operation of the program must be related to the foreign policy of the Nation. The importance of the recovery program in our foreign affairs needs no argument. To carry out this relationship effectively will require cooperation and teamwork, but I know of no other way by which the complexities of modern world affairs can be met. It should, I think, be constantly kept in mind that this great project, which would be difficult enough in a normal international political climate, must be carried to success against the avowed determination of the Soviet Union and the Communist Party to oppose and sabotage it at every turn. There has been comment that the proposed organization, the Economic Cooperation Administration, would be completely under the thumb of the Department of State. This is not so, should not be so, and need not be so. I have personally interested myself to see that it will not be so. The activities of the ECA will touch on many aspects of our internal American affairs and on our economy. In the multitude of activities of this nature the Department of State should have no direction.

But the activities of the ECA will be directly related to the affairs of the European nations, political as well as economic, and will also affect the affairs of other nations throughout the world. In this field, the constitutional responsibility of the President is paramount. Whether or not he chooses to ignore or eliminate the Secretary of State in the conduct of foreign relations is a Presidential decision. I think that in our effort to restore the stability of the governments of western Europe it would be unfortunate to create an entirely new agency of foreign policy for this Government. There cannot be two Secretaries of State. I do not wish to interfere in the proper operations of the ECA. The organizational structure we have proposed provides a means for giving appropriate direc-

tion and control in matters of foreign policy to the Administrator of the ECA with least interference in the businesslike conduct of his task. In this connection he must coordinate his affairs with the legal responsibilities charged to the Secretaries of Commerce and Agriculture.

The man who accepts the challenge of the great task of administering the European recovery program must be a man of great breadth, ability, and stature. I have no qualms but that with such a man, and the able aides he will choose, I and my staff can form a smoothly working team for handling the complicated problems in foreign relationships which will arise in the course of the program. In my judgment, the organizational proposals which have been put forward represent a sound and practical arrangement of functions and a framework for successful administration.

CONCLUSION

What are the prospects of success of such a program for the economic recovery of a continent? It would be absurd to deny the existence of obstacles and risks. Weather and the extent of world crops are unpredictable. The possible extent of political sabotage and the effectiveness with which its true intentions are unmasked and thus made susceptible to control cannot be fully foreseen. All we can say is this program does provide the means for success and if we maintain the will for success I believe that success will be achieved.

To be quite clear, this unprecedented endeavor of the new world to help the old is neither sure nor easy. It is a calculated risk. But there can be no doubts as to the alternatives. The way of life that we have known is literally in balance.

Our country is now faced with a momentous decision. If we decide that the United States is unable or unwilling effectively to assist in the reconstruction of western Europe, we must accept the consequences of its collapse into the dictatorship of police states.

Chairman EATON. Are you now ready for questions?

Secretary MARSHALL. We may put it that way, sir.

Chairman EATON. We will demonstrate as we go along how far wrong you are.

We have had a practice, in order to save time, of a 5-minute rule on the first round, but I think possibly that this is so important a question that we better give each member an opportunity to take whatever time he desires, so, speaking for myself as a member of this committee only, I am profoundly discouraged over various questions that you have raised.

The situation goes to the very root of our constitutional set-up, as I see it. We have 16 sovereign states. This is a sovereign State. We have 16 Ambassadors over there representing this Nation officially. They have their ambassadors here representing those nations or those governments officially. We propose to interview each of those sovereign states with an economic program under our own supervision and direction, supplying the funds and determining how they are to be expended and applied.

Are we going to do that by a special organization and, if not, by a special organization are we going to revamp the State Department so that it will be competent to deal with economic matters which, in days gone by, had not been its final concern? Its concern was policy.

You mentioned our foreign policy. I presume you would be able to give us what is the foreign policy of this Nation in a sentence or two, and, in my judgment, it would be one of the most inspired prophecies of all age.

Now, will you explain to us, Mr. Secretary, how we are going to go into these sovereign states and administer our funds for their interest without encroaching on the age-long method of intercourse between the governments of those sovereign states and this sovereign State?

Secretary MARSHALL. In answering that question, Mr. Chairman, I will leave, for a moment, the characteristics of the administrative

set-up in the United States, and initially discuss the procedure to be followed in carrying out the plan's impact on the situation in Europe.

It is proposed under the draft of the legislation submitted, that we have, first, an ambassador, to be formally confirmed by the Congress, to represent directly the Administrator or the administrative agency in this country, in contact with the representative group of the 16 nations.

There exists already such a representative group or a committee. You might call it, I presume, an executive committee. They have some special term for it, but that is what it is.

The Ambassador at Large would be in direct, constant contact with that group.

From there, the procedure would, so far as he is concerned, depend very largely on the changing situation and on the personalities involved.

It is conceivable that he would go directly to countries concerned in connection with purely businesslike matters, pertaining to the application of these funds, and the procedures involved, or to inform himself as to the procedure then in process in the nation concerned, in respect to the agreed pledges of that nation in its agreement with the other 15 nations, achieved in Paris.

If, in his conduct of his responsibilities, it becomes necessary for him to step from the business contacts into the national contacts of that nation's government, then, I would assume that he should make his contact in company with our Ambassador in that particular nation. In other words, they would go together and make the call on whomever it was they desired to see. So we would have no complete change or elimination of our age-old procedure in dealing with another nation. At the same time he would have a direct personal contact with the official of the government concerned with the particular matter under consideration.

Now, his reports pertaining to the ordinary business procedure involved in this matter would go directly to the Administrator here in Washington.

Where a question of foreign policy becomes involved, he would certainly report both to the Administrator and to the Secretary of State and they, together, would have to find the solution, or go to the President to get a solution.

At the same time we would have established in each embassy abroad a strengthened economic set-up. There is already an economic counselor with assistants in each embassy. That group would have to be greatly strengthened and the appointments to it would either come out of the Foreign Service or direct from the outside world, in the United States, that is, as determined by the Administrator.

There we have a situation which is indicated in the rather technical wording of the proposed bill. Its purpose is to make the maximum use of the reserve system recently established for the Foreign Service, which, I am told, was developed to take advantage of the talent that was brought in during the war years and other able persons available outside of the Government.

By the terms of the proposed bill, those men would be called into the Foreign Service where their recompense would be higher than otherwise would be the case, and their positions, therefore, would be improved to that extent.

There is no barrier at all in the proposed legislation to the Administrator going around the country, we will say, to obtain other talent that might become available or that he might find available and desirable for this work.

Now, as to the operation involved, considering the fact that this economic set-up is in the Embassy, or in the Legation, it is necessary in dealing directly with the other country involved, that we should not break down the whole procedure of our Government in such international relations. At the same time it is necessary that this economic set-up in the Embassy follow, as clearly as possible, the general policies laid down by the Administrator in Washington. That is perfectly practical, I think, under this procedure, but, of course, it would be a much more clearly defined affair if we set up in each country entirely independent agencies.

However, you cannot fight the problem. We have an existing set-up which has historic significance, just as we have here in Washington an existing set-up of many, many years of experience and tradition.

Therefore, instead of reorganizing our Government and reorganizing all our bases of foreign relations, in some way or other we have to find, I consider, a practical basis for operating to the maximum of efficiency.

I do not foresee conditions developing which would be unduly limiting in their effect on the businesslike administration of the agency. I feel, on the one hand, that the Administrator should be an individual, his powers only limited by the legislative statements which would constitute his directive, and the existing methods of our Government unless Congress sees fit to alter them by law.

For example, the Congress has charged the Secretary of Commerce and the Secretary of Agriculture with certain responsibilities regarding the allocation of materials as relates to this country, primarily, and as relates to any exports abroad. The Administrator here would have to maintain contact with those officials in order to keep the matter in balance, because, in the first place, that is the law, and, in the second place, the whole world is involved, not only western Europe, in all of these matters. The Administrator is not dealing directly of his own initiative presumably with the entire world, though his actions will be reflected entirely around the world as to what we do in this matter.

We have a set of conditions which have to be met.

In my statements I have referred to the relation of this administration to the foreign policy of the United States. I think everyone will accept what we consider to be the fact, that it will be a major consideration and will be a major influence on foreign policy. Now, I hazard the statement that in the process the program, probably 80 percent of the activities will be purely business and not require any reference to the pros and cons of foreign policy. Possibly 20 percent, maybe less, will have a direct relationship to foreign policy, and there I feel it would be absolutely necessary that there be no misunderstanding as to how that issue was to be met.

This whole matter is one of tremendous importance. On the one hand, we want to be businesslike and have efficiency and, on the other we have a situation of government and relationship to the world at large which you cannot change in a minute, and which I do not

believe it would be desirable to change. As a matter of fact, it would be rather unusual, where we are trying to strengthen the free governments of 16 nations or assist them in their rehabilitation, if we were to very materially alter our own processes of government.

I think we have to handle the difficulties and arrange our own procedure in accordance therewith in the most efficient manner we can devise under the well-established traditions and arrangements of government.

There is nothing unique in this situation. It is comparable with almost all operations of our Government. You cannot proceed in the direct manner that is customary in dealing with business affairs. We have quite a different set of conditions to meet.

I have had considerable experience with that during 6 years of similar troubles. You have to accommodate yourself to the conditions in the best way you can devise to meet the requirements. You certainly cannot change the face of the Government. It cannot be done that way. The same applies in this situation. We want an efficient administration. Now, are we going to change the characteristics of our Government in order to get that, or are we going to not fight the problem but meet it by determining the most effective way to set up a procedure that will produce the desired results?

However good the organization is, its efficiency is going to depend, necessarily, on personalities. The best organization will give a poor performance unless there is a reasonably competent individual at the head of that organization. That applies here as well as anywhere else. Also, we have to assume that where we do not get the necessary efficient coordination, cooperation and good judgment, we will have to make changes to meet such conditions. That is inherent in any procedure, and you have to have the courage to make decisions.

Does that answer your question, Mr. Chairman?

Chairman EATON. Yes, sir.

Who would make the changes, if, in this financial organization, it turned out you had someone who was incompetent? Who would remove him and replace him?

Secretary MARSHALL. I was not thinking only of the business organization; I was taking an over-all view of the entire necessarily complex setup which we cannot well avoid.

Chairman EATON. I have but one more question, because I want the other members of the Committee to have full time. How do you meet the assertion of a certain ideology in government that if we follow out this program, we will interfere with the sovereignty and enslave these countries whom we are trying to set free? How would you meet that criticism?

Secretary MARSHALL. Well, Mr. Chairman, pure propaganda is very hard to meet as such. It takes a period of time to establish the fact that you are clean-minded in your proposals and decent in your desires and that you are dependable.

Certainly, if this involved a conspiracy for economic imperialism, it would have to have a basis of more Machiavellian approach than is exhibited here with public hearings and public discussions on every side with regard to every issue. Such a procedure is totally lacking. This is a matter of public concern to the people of the United States, and instead of its being evident that we are engaged in a conspiracy, as alleged, it is quite evident we are interested in having the general

public understand the situation, and we are trying to find a sound, reasonable, decent approach to the solution.

Chairman EATON. Our actions are carried on with the full knowledge, consent, and approval of the nations we are trying to help?

Secretary MARSHALL. I think that is the case, sir, and I think also we might well have in mind at the present time the tremendous psychological effect of what has already been done and what it is proposed to be done.

As you all well know, at least from the papers if you were not yourselves in Europe this last summer, and particularly during the period of the London Conference, there was a tremendous effort by the Communists to overthrow the Governments of Italy and France, and it was done in a very barefaced manner. It was remarkable. There was little effort to disguise the central, dominating fact of what that was all about.

The people in Europe and the people certainly in western Europe are struggling with a very grave difficulty in establishing themselves in a strong position, and, as the committee would understand better than I do, one of the difficulties is in resisting the demagogic appeals to the public who are suffering from lack of this and lack of that to a very marked degree. It is very easy to stir up dissension and it is very natural that those who lack greatly will turn to almost any leader who promises a better situation for them. It matters not whether the promise has any possibility of being carried out. They are, I think, mainly—certainly France and certainly Italy—in the situation of a man who is suffering illness, and the purpose of the program as proposed by the administration is to take action leading to the rehabilitation, you might say, of the patient until he is strong enough to take the necessary action for himself.

Chairman EATON. Mr. Secretary, for the sake of the record, you are a master of the English language, and I doubt the appropriateness of the adjective that you applied to "propaganda." I wouldn't call it "pure." Call it "poor" but not "pure."

Mr. BLOOM. You said, I believe, you would appoint an Ambassador or the President would appoint an Ambassador. Did you mean the chief of the organization would have the rank of Ambassador? He would not be an Ambassador to any specific country, would he? He would have the rank of Ambassador, but he would not be an Ambassador, would he?

Secretary MARSHALL. The man in Europe would be an Ambassador.

Mr. BLOOM. To where?

Secretary MARSHALL. He would be Ambassador at large with specific contact with this Committee representing the sixteen nations.

Mr. BLOOM. He would have the rank of ambassador, but not to any special country?

Secretary MARSHALL. That is correct.

Mr. BLOOM. Following the question of the Chairman with reference to the sovereignty of these different nations, would we not be disturbing the sovereignty if we were to place in this legislation certain provisions that they would have to take and accept the provisions of our law that we would enact over here, the same as we did in the interim-aid bill, and in doing that, would we not disturb their sovereignty if we made their legislators accept our law? Otherwise, we could do nothing, could we?

Secretary MARSHALL. Well, Mr. Bloom, I think that is generally correct, but it is a rather general statement; there are certain acceptable provisos and undoubtedly they will have to go into whatever legislation is proposed.

Mr. BLOOM. Could that not be a matter of agreement?

Secretary MARSHALL. It should not be of a nature directly affecting their sovereignty. When I say that, I mean both legally and psychologically.

We are to have some bilateral agreements, and the fact that they are arranged on that basis should enable us to avoid what you indicated in your question.

Mr. BLOOM. The acceptance of any other organization to administer this legislation would be contrary to the Constitution and the decisions of the Supreme Court, and that should be held invalid as taking away the authority of the President of the United States in international or foreign affairs.

What would happen to the entire act if that one section of the law should be declared invalid?

Secretary MARSHALL. Mr. Bloom, your experience in such matters is much more extensive than mine.

Mr. BLOOM. I would like your opinion.

Secretary MARSHALL. That is a legal opinion you are asking me, sir.

Mr. BLOOM. Well, I am not a lawyer.

Secretary MARSHALL. Well, I would say that, in a general way, it would be a most unfortunate development.

Mr. BLOOM. I am with you on your idea.

Secretary MARSHALL. You would have no machinery left with which to execute the law.

Mr. BLOOM. That is right. So the whole law would fall, would it not?

Secretary MARSHALL. Presumably so; yes, sir.

Mr. BLOOM. So the only way, according to our Constitution, and the decisions of the Supreme Court with reference to this matter, is to leave this complete authority with the President of the United States, and not to have a separate corporation?

Secretary MARSHALL. That would seem to be the situation, sir.

Mr. BLOOM. Do you know of any other idea or way of doing it rather than according to our law?

Secretary MARSHALL. No, sir.

Mr. BLOOM. Do you believe, Mr. Secretary, at this time we should consider the recovery of any other part of the world except European recovery with the 16 nations that are specifically mentioned here?

Secretary MARSHALL. I think what we are now engaged in is of the first order of importance and should not be complicated any more than is absolutely essential through introduction into the discussions of other problems in other parts of the world. At the same time I recognize the congressional desire to know to what extent financially it may be proposed that we become involved in other matters.

Take the issue of China, for example. I would say, at the present time, that that is not pertinent to our discussion. However, in the reasonably near future, while you are still in the process of this investigation by the committee, I think the administration will put forward a proposal in regard to China, so that it will be apparent to the Congress what amounts might become involved in addition to what we are talking about here.

To that extent, these other issues are pertinent, but there is the great and immediately vital requirement that we are involved with here, and I think we only complicate our problem by any discussion of the details of some other procedure, particularly if the administration has not yet been able to clear it through the necessary agencies.

Mr. BLOOM. Are you able at this time to give the committee any amount that would be necessary for China or any other part of the world?

Secretary MARSHALL. Not at this time, sir, but I think I will very shortly.

Mr. BLOOM. Would you have that before we consider this \$6,-800,000,000?

Secretary MARSHALL. Well, you are considering it right now, sir.

Mr. BLOOM. What: China?

Secretary MARSHALL. No; the \$6,800,000,000.

Mr. BLOOM. Yes, but will you have that information before we go ahead and consider this European relief?

Secretary MARSHALL. I would say so, before you reach a final conclusion on it. It should be possible to give you an indication of the amount we think should be appropriated in relation to China.

Chairman EATON. Mr. Chipfield.

Mr. CHIPERFIELD. Mr. Secretary, we have been presented with a perfect maze of material and data, and so forth, which we have not yet had the chance to analyze and study. However, in going over that material, I do not find any break-down so far as countries are concerned as to the requirements or availability of material for these countries.

Are you going to be able to furnish that to us?

Secretary MARSHALL. Yes, sir.

Mr. CHIPERFIELD. For instance, you ask for \$6,800,000,000 for this first 15-month period. I would like to have for the various countries a break-down, so we will know what amounts and the different types of material go to each country.

Secretary MARSHALL. We have a report on each country.

Mr. CHIPERFIELD. I have not been able to find it as yet.

Secretary MARSHALL. It will be filed, I believe, on Wednesday.

Mr. CHIPERFIELD. You did furnish that same kind of statement to us on the 350 million dollar relief bill and also on the 597 million dollar bill.

Secretary MARSHALL. We have a similar report on this bill.

Mr. CHIPERFIELD. In this bill introduced by Dr. Eaton the termination date, so far as deliveries are concerned, is June 30, 1957.

Secretary MARSHALL. Yes sir; but not 1957 for deliveries.

Chairman EATON. It seems to me, therefore, that this is not a 4½-year program but a 9½-year program.

Secretary MARSHALL. No, sir. That means that any commitment that is made during the period of the 4½ year can run through to the conclusion of deliveries. The plan is limited to the four-plus-a-fraction year program, by the funds appropriated for the purpose, but in the last 6 months, with those funds, as appropriated by Congress, agreement may be made to furnish some particular material, that is not on the counter for immediate wrapping up and delivery. As to that we have to have a legal basis not to have it cut off in the process of manufacture, but the congressional control, with relation to the 4-year period, is in the money.

Mr. CHIPERFIELD. I understand you have to enter a contract before July 1, 1952, but this allows an additional 5 years for delivery.

We have had the same thing in lend-lease. Right today we are still delivering lend-lease because they entered into contracts before the termination date.

In other words, what I am afraid of is that on June 29, 1957, we will still be dishing this stuff out.

Secretary MARSHALL. I will ask Mr. Thorp to give you a more technical answer.

STATEMENT OF WILLARD L. THORP, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS

Mr. THORP. At first there has to be a period of completion of deliveries and such things that were in the works as of the termination date.

As the act is now drawn, the period of time allowed is 3 years. I might say that I do not believe that 3 years is a date that has any special sanctity about it, and it is perfectly possible to consider what is an appropriate time for completing the deliveries. In the act as drawn there is 3 years for that. There is an additional 2 years for the winding up or termination of the operation which means primarily the checking through the vouchers and the closing out of the operation.

Mr. CHIPERFIELD. Will you point out in the bill where it limits it to 3 years?

Mr. THORP. It is in section 13, Mr. Chiperfield.

Mr. CHIPERFIELD. I have it before me.

Mr. THORP. The first date mentioned is June 30, 1955—

except that through June 30, 1955, any of such powers may be exercised to the extent necessary to carry out agreement with a participating country concluded before July 1, 1952.

That was intended to permit the deliveries of such things up until 1955, and the 1957 date was intended to provide 2 years for closing out the agency.

Mr. CHIPERFIELD. What does it say in line 21?—

Shall be available for expenditure to carry out such obligations through June 30, 1957?

Mr. THORP. That is for the purpose of paying bills.

Mr. CHIPERFIELD. It does not say so.

Mr. THORP. I should think one would interpret the first phrase as being a limitation.

That is, the 1955 date provides a limitation on powers to carry out agreements.

If the wording is not satisfactory, I have stated the intention and it can be reworded certainly to meet that intention.

Mr. CHIPERFIELD. Mr. Secretary, Mr. Bloom questioned you about the ambassador at large. Is this ambassador under the Administrator or is he coequal?

Secretary MARSHALL. He is under the Administrator.

Mr. CHIPERFIELD. I have a chart of an organization that is attached to the back of the outline of the "ERP," and it shows on this

chart the national defense establishment, the Labor Department, and the Interior Department.

How are they involved in this program?

Secretary MARSHALL. Would you repeat the last part of that?

Mr. CHIPERFIELD. It is indicated here the national defense establishment, the Labor Department and the Interior Department. How are they involved in this program?

Secretary MARSHALL. Taking the first one, the national defense; that is involved in the German aspect of the matter as well as the Austrian.

The relationship of the Interior Department is concerned primarily with the oil factor. The Department of Commerce is primarily concerned in relation to the allocation of materials other than food products. The Agriculture Department is involved in its responsibility for the allocation of food products at home and abroad.

The Treasury, I think, is self-evident, where it comes into the matter.

Mr. CHIPERFIELD. Thank you. That is all at the present time.

Chairman EATON. Mr. Kee.

Mr. KEE. Mr. Secretary, I was interested in your examination with reference to the appointment of the Ambassador. I believe that is provided for in section 5 of the bill. This Ambassador will be appointed, as I understand it, under the provisions of the Foreign Service Act.

Secretary MARSHALL. Yes.

Mr. KEE. He will become a foreign-service officer?

Secretary MARSHALL. Not exactly, sir.

Mr. KEE. The section provides that he will be the chief representative of the United States Government to any organization that may be created by the nations receiving aid and relief?

Secretary MARSHALL. Yes, sir.

Mr. KEE. He will be, as I understand, what we might call a roving ambassador to all of the 16 countries?

Secretary MARSHALL. Yes, sir.

Mr. KEE. He will have the rank of Ambassador?

Secretary MARSHALL. Yes.

Mr. KEE. I was also interested in the impact that this act will possibly have upon our foreign policy.

There is a provision in the act that it seems has caused considerable discussion. Section 4 (a) of the bill contains the provision that—

all those functions of the Administrator which affect the conduct of the foreign policy of the United States shall be performed subject to the direction and control of the Secretary of State.

There is a question that may be raised with reference to which of the functions of the Administrator do affect our foreign policy. Who is to determine and who will determine which of the functions of the Administrator do affect our foreign policy?

Secretary MARSHALL. I do not believe you can at this time define specifically what particular affairs in the operation of the administration will have a direct relation to our foreign policy. To start with, the whole procedure of this program certainly directly affects the foreign relations of the United States and its relations with 16 nations. Those are certainly foreign relations. The psychological effect is of a great, vast importance to our foreign policy and to its execution,

which, in turn, is quite decidedly dependent on the reactions of the peoples of Europe concerned.

Now, I might say in connection with this problem that when I studied the matter myself, the thought of a good many officials of the Government was that this agency should be put under the State Department. The reason given was that unless that was done, there would be such a difference as to responsibility; what was foreign policy and what was not foreign policy; that we would probably be in a state of continuous dispute as to whether a particular action did or did not affect foreign policy. The Administrator might feel he was so hampered that he could not proceed in a direct, businesslike way. On the other side, the Secretary of State might insist the particular action did have an effect on foreign policy and should be considered from that point of view and not purely from the businesslike point of view. The President would have imposed on him so many issues to decide that he would be quite overwhelmed with the requirements of making those decisions, regarding each one of which he would have to be very fully informed, and all of the situations are rather complex.

For that reason, then, it was strongly felt that the agency should be put within the State Department so there could be no debate about responsibility. My own reaction to that is that while the arguments from an academic point of view were excellent, from a practical, psychological point of view, the cure was worse than the bite, and what we should do is find another procedure to carry this out. Well, any other procedure is bound to be complicated, because we are not changing, I assume, our general governmental procedure. We are not changing traditions and actions of Congress that go back through generations. My own reaction was we had to find some way outside of the State Department to handle such a matter. I thought that, in the first place, that would insure our being able to get a more competent man, and more well-known man, than if he were submerged within the State Department.

I recognized clearly, I think, the difficulties involved when it came to the question of what was and what was not a foreign policy issue. However, I thought that could be handled, because if it comes to the worst, that is, a disagreement where the Administrator feels the matter so important that he just cannot accept the decision of the Secretary of State, it would have to go to the President, who has the constitutional responsibility for all foreign policy. But, I did not think that would occur with sufficient frequency to burden unduly the President, and I did not see any other way out.

With that view of the matter, I strongly supported putting this agency outside of the State Department, to the extent that when I found it apparently was going to be proposed that it should be within the State Department, I made a last appeal to the President when I was in London, not to put this in the State Department. He accepted my proposal in the matter. I found it, therefore, as it is written here. You also find the objections to it that it does not have a clear-cut definition of authority, except to the extent that when it comes to foreign policy, the Secretary of State has the say, unless the President overrules him.

Now, to go further into the matter, I assumed when I read the proposed provision that great issue would be taken with the "direction and control" language. I investigated at quite some length why it

was thought necessary to use that unmistakable language. I was given several historical examples of why it was put that way so there could be no doubt about it. The Executive order, in relation to the establishment of the Foreign Economic Administration, had this to say:

The powers and functions of the administration shall be exercised in conformity with the foreign policy of the United States as defined by the Secretary of State.

Well, I said, "Why not use that language? Why say 'direction and control'?"

They said:

The trouble is the decision was made in the Foreign Economic Administration that after the Secretary of State had submitted his brief, he had discharged his function and they would proceed as they thought best.

So there was not in the Executive order a sufficiently compelling statement to make it plain that in foreign policy the Secretary of State spoke for the President.

Again, in supplementing the Executive order establishing the Office of War Mobilization, this is used:

The functions of the Office of War Mobilization shall include the authority to arrange for the unification and coordination of the activities of the Federal Government relating to foreign supply, foreign procurement, and other foreign economic affairs in conformity with the foreign policy of the United States as defined by the Secretary of State. In providing for such unification, the Office of War Mobilization may utilize the facilities of other departments and agencies, including the machinery for the coordination of foreign economic affairs established in the Department of State.

That did not work. Now, if it didn't work with Mr. Hull, I was pretty certain it was not going to work with me and that is the reason "direction and control" was put in. The Executive orders I have read to you did not carry conviction, and the examples were, I think—I do not know how frequent—but I think are sufficient to make it quite clear that the control in the foreign-policy relationship was not in the hands of the Secretary of State.

Mr. KEE. Your answer, Mr. Secretary, is perfectly clear as to one phase of my inquiry. However, the particular phase toward which I was directly inquiring was a determination of just what function of the Administrator does affect foreign policy.

Now, the question might come up that the Administrator proposes certain action in connection with one of the countries we would be aiding, and the Secretary of State tells him that that action will affect our foreign policy.

Secretary MARSHALL. You would like an example?

Mr. KEE. Then, the Administrator denies the allegation and says, "I cannot see where in any manner the action proposed on my part affects foreign policy."

Now, who is to be the final court of determination?

Secretary MARSHALL. The Secretary of State would settle the matter, unless the Administrator thought the difference so serious that he desired to carry it to the President.

Now, I think perhaps I can clarify this somewhat by giving you some illustrations out of recent months, particularly in July, August, and September.

I was involved in a similar relationship with the Secretary of Agriculture. There was so much grain, there was so much demand; there

was so much requirement for the economy of the United States and at the same time there was a terrific pressure for grain, for example, for France; and at the same time there was an urgent necessity for grain for the American-occupied zone in Germany.

Now, the question was: "How urgent was this requirement in relation to France?" France was in a turmoil. There was a definite effort being made to throw out the government in power and institute a government which would be very plainly of a communistic character. The people were in urgent need of grain. The only place apparently it could be obtained was in the United States. We were laboring, the Secretary of Agriculture told me, with demands within the country and all over the world, which produced a shortage in grain, and there was also a great difficulty in the transportation of the allocated grain that was to go overseas.

At the same time the War Department was heavily involved in its requirements for feeding the population in the occupied zone in Germany. However, the main issue at the moment, for my consideration, was France. Something had to be done to help them in this dilemma, because the same procedure had been previously followed, we will say, by the Soviet Union, in shipping wheat and in advertising it tremendously and in trying to win an election for its people in France.

There was a question that had to be settled either by the President or between the Secretary of Agriculture and myself. Now, he, the Secretary, is charged by the Congress with allocations and we had to settle the matter on the basis of negotiations as to how we would meet the dilemma. He, finally straining this way and that, found how it was possible to do sufficient to avoid this dilemma with which we were confronted.

There was a problem of foreign policy involved in the allocation of grain within this country, and to the world at large.

When we come to this present proposal, we are, I think, in a very large measure secured against many issues which might arise in relation to foreign policies because of the character of the agreements of the 16 nations and because there are these various provisos and the like. Then, when we consider the Administrator, it makes those issues reasonably clear.

As I said a while ago, my educated guess this far in advance would be that 80 percent of the procedure would not involve foreign policy at all; it will be business. However, there will be the weather situation, crop situation, strikes, which we cannot foresee, and the control of which presents a very great difficulty, as we know, and particularly when they are being deliberately instituted in order to sabotage a program, and may create a situation where, from the business point view, the nation concerned is not able to meet its full obligation in the matter.

Now, then, the issue is: Do we take into consideration these things, this sabotage which might have been effective, which you cannot predict here in conclusive form, or do we just shut the gate?

The Administrator undoubtedly will have to come before the committees of Congress to justify his actions. In a measure, I think he is protected when he takes an action, as he might in the case I have depicted, where he goes ahead with a procedure, even though the nation concerned has not met its full commitment, because the Secre-

tary of State has indicated that, in the interests of foreign policy, the action taken is highly desirable.

But if he thought that was an exaggerated view because it was looking more to foreign policy than the businesslike administration of the affair admitted, the President is still there to decide the issue.

However, he really would be protected in his relationship with Congress, which, naturally, is going to be very intimate. If he is cleared from responsibility in a matter such as that, I would be the man held to account, presumably, by a committee of Congress, for the action taken.

In all of these matters you have the problem of what the individual himself is doing and how confined his thinking becomes to the particular issue with which he is laboring. We want a man who puts everything into the job. That produces a situation where it is conceivable that events in other parts of the world introduce factors which should have serious influence on the decision to be made and yet he himself is not aware of that. That is a very common reaction.

In the war, in relation to theater commanders, we called it localitis. It was not a very popular term, but it was the fact.

The question is, here, "Who is affected with 'localitis.'"

I think considering the agreement of the 16 nations and the directive proposed by the Congress, that the foreign-relations aspect would be very limited.

I might say, and I am thinking of this on the spur of the moment, that one of the things having a very intimate relation to foreign relations is public statements.

One branch of the Government says one thing and that puts another branch of the Government in a very bad position, and you gentlemen wish us to account for such lack of coordination and cooperation.

That, I think, possibly—and I am thinking aloud—would probably be more of an issue than any other one issue.

The character of the release could have a very definite relationship to our foreign relations, particularly in regard to the fact that anything said that can be given some other meaning by those who are trying to sabotage the program, will certainly be done.

That is a rather involved statement.

Mr. KEE. The issue, I think, that is going to cause us more trouble than anything else, is how to determine what actions of the Administrator do affect foreign policy.

Now, inasmuch as the President of the United States formulates our foreign policy under our system of government and has the last word on the subject, why would it not be well if we are going to make the President of the court of last resort in determining just what issues, if any, or what actions of the Administrator affects foreign policy to insert it in the act, here, and say "In the event any questions arise between the Administrator and the Secretary of State as to what functions of the Administrator affect foreign policy, all such questions, unless reconciled or resolved by the Secretary of State and the Administrator, shall be referred to the President and his decision shall be final?"

Secretary MARSHALL. Treating the last of that first, the President's decision would be rather final but I think in putting it that way, you would do exactly what the proponents of the plan for putting this agency under the State Department were trying to avoid. You

would greatly increase the number of references to the President, and there is a limit to what the President can undertake, if he is to be fully informed of the various factors involved in the issue.

As I said a little while ago, I think possibly we would have more complications over press releases and their effect generally in the world than in regard to any other one thing.

Now, if we had to go to the President every time we have a press release discussion, we would impose on him something that is just beyond the capacity of any individual, physically and mentally.

I hesitate to propose amendments offhand here, but if you said there could be a final appeal to the President perhaps that would meet your requirement.

However, I think that it should be on a definite basis where 9 times out of 10 the Secretary of State carries the decision but when it is felt that his is too biased a view, prejudicial to the best administration, it can be taken to the President.

Mr. KEE. The point I was getting at is that under the act as now written there is no court of last resort to determine any dispute that might arise between the Administrator and the Secretary of State as to what function does affect foreign policy.

Secretary MARSHALL. There is always the President.

Mr. KEE. I think we should have some court and not have it necessary to go to the President or anybody else.

Secretary MARSHALL. The court is there. The Constitution determines that.

Mr. KEE. Suppose the Secretary of State said to the Administrator, "This action of yours affects foreign policy. You cannot do it."

The Administrator says, "I don't agree Mr. Secretary. I do not think it affects foreign policy in any degree."

Well, you may say to him, "We will refer it to the President."

He would say, "I don't think it affects foreign policy. I object to going to the President."

Secretary MARSHALL. Under the draft of the proposed law the decision in that case would rest with the Secretary unless the administration insisted on carrying the issue to the President.

Mr. VOYTS. Mr. Secretary, I agree with everything you said in your opening statement concerning the broad purposes of this proposal, but I confess I am dreadfully disappointed by the draft legislation which Dr. Eaton has introduced for our consideration.

For instance, section 11, on page 20, says this:

When the President determines it to be in furtherance of the purposes of this act the functions authorized under this act may be performed without regard to such provisions of law regulating the making, performance, amendment, or modification of contracts and the expenditure of Government funds * * *.

Now, there are pages and pages of lawful requirements with reference to the contracts and expenditure of Government funds.

Secretary MARSHALL. What was the first part of the statement? There are what?

Mr. VOYTS. There are pages and pages of laws with reference to Government contracts and the expenditure of funds.

This would, for instance, permit an oral contract. It would provide no control outside this law on the expenditure of funds. What is the sense of this?

Mr. Secretary, I would be glad to know if you yourself are familiar with this.

Secretary MARSHALL. I am not familiar with the details of that particular matter and I was going to have Mr. Gross give you the details on that.

Mr. VORYS. Who is Mr. Gross?

Secretary MARSHALL. He is the legal adviser to the Secretary of State.

Do you wish to hear him right now, sir?

Mr. VORYS. If you have no views yourself, I thought possibly we might at a later date go into consultation with your legal adviser.

Your answer brings up this question: Who drafted this law?

Secretary MARSHALL. It is the composite result of quite a number of people.

I was in London during most of the drafting of this bill.

Can you give a fair answer to that, Mr. Gross?

Mr. GROSS. The bill was drafted, Mr. Congressman, as a result of an interdepartmental committee, representing some 14 Government departments and agencies.

It was then gone over in detail by the Budget Bureau's legislative drafting experts, so the bill represents the composite views of the principal officials and legal counsel of all Government departments and agencies concerned, finally screened by the experts of the Bureau of the Budget, which accounts for the present form of the bill.

Mr. VORYS. Could we say you are the chief counsel responsible for the draftsmanship?

Mr. GROSS. I am responsible for the Department of State.

Mr. VORYS. My next question is, whether you, Mr. Secretary, or your counsel, could point out any place in the bill that tells the Administrator what he is supposed to do.

I can find dozens of places which give him power to do anything he pleases without regard to law, if the President says so, and in many cases if he wants to.

However, is there any place in here that tells him to do something?

Secretary MARSHALL. There is no single place in the proposed legislation which does what you have just suggested.

The purposes of the act are defined, and later, under section 7, largely, are listed the authorities under which the Administrator acts in carrying out those purposes.

However, there is no single, combined statement which you might say was solely devoted to a directive for the Administrator.

Mr. VORYS. It is my point in these questions to bring out the following: I feel that the great concern of the Congress in the question of who is to be Administrator is the fact that there is nothing in the law telling the Administrator what to do.

On the other hand, there are many, many provisions that free him from any limitations whatever, and you have a situation where we are to embark on a long-term, world-wide policy, without any statement of what it is in the law and without any limitations.

Secretary MARSHALL. I don't think it is quite as bad as that, Mr. Vorys. We have the purposes of the act which certainly indicate the general premise. We make the point in the act, or at least I have made the point, that there should be flexibility because of the

impossibility of foreseeing all the trends, opportunities, and difficulties that will arise in the execution of the act.

There will be a Presidential directive drafted under the terms of this act for the Administrator, and then he will have his very definite instructions as to the extent that the President feels necessary he should be instructed.

This gives the basis for such a directive, but the directive is not in the act.

Mr. VORYS. Mr. Secretary, ordinarily when we start in on a long-term policy to spend billions of dollars, the directive is in the law.

We have tried it the other way under lend-lease and in some other bills, but our usual procedure in our Republic is to have the directive and the limitations in the law.

Now, you mention the purpose clauses and in glancing over those, I find them so general that Soviet Russia and all of her satellites would say, "Why, those are the purposes we have in mind."

"Self-help, mutual cooperation." When you come to section 3 on the subject of who participates, it could, under the provision of the law, include any of the satellites of, or Russia herself, by their merely saying, "We adhere to a joint program of European recovery."

Not "the" joint program, but any joint program.

You have included as a participant Newfoundland, Labrador, practically all of Africa, the Dutch East Indies, the Malay States, and all of the dependencies and colonies of all of the participating European countries, and there is no guide possible in here that I can find—I may have missed it—showing the Administrator whom he is to take in, or that shows any country on earth what they have to do to get in.

If I am wrong in this I want to be corrected or if it is a matter that should be taken up with the drafting counsel, I will be glad to do that.

Secretary MARSHALL. The details should be taken up with the drafting people because there are so many legal in's and out's here in connection with existing legislation and Government practices that are involved that I could not undertake to explain them satisfactorily.

You do, however, have certain basic conditions in relation to the comment you just made. In the first place you have the agreement of the 16 nations.

Mr. VORYS. Excuse me. There is no reference in the bill that would require any of the 16 nations to do anything with reference to that agreement, I would believe.

Secretary MARSHALL. I think there is reference of that sort. There it is in there, and I think you will find another reference under 10.

Mr. VORYS. I point out, the Comintern could say, "We have gotten up a program to carry out industrial and agricultural production, and all the other provisions of this act, and therefore we think we are participants here."

There is nothing I can find in the proposed bill that would authorize or direct the Administrator or the Secretary of State to say, "No; you are not in here," or "Yes; you are."

Mr. GROSS. The agreement would have to be coupled with the agreement with the other participating countries. It would have to be accompanied by an agreement with the United States, a bilateral agreement contemplated in section 10 of the act so the entire scheme of the legislation would require basically participation in a multi-

lateral arrangement, but all countries which subscribe to conditions which further the purposes of this act, plus a series of bilateral agreements between each participating country in the United States, which would conform to the more specific purposes set forth in section 10 of the act.

Mr. VORYS. That may have been the entire scheme of the legislation but it does not appear in there.

There is nothing in there about the agreement, which gave me such hope when the Secretary of State made his original proposal, that at last we were going to require joint action.

There is nothing in there about that, and furthermore, in section 10 there is a provision that they do not even have to sign a bilateral agreement for 3 months, if they say they intend to do it some day.

Mr. GROSS. The delay clause is in order to allow the program to get started, while the technicalities of the conclusion and ratification of the bilateral agreements are in process, according to the constitutional requirements of each of the participating countries.

That, however, is limited and safeguarded by the requirement that even during that limited 90-day period during which the President can move forward on the program, each participating country, to be eligible, must have indicated its intention to adhere to a bilateral agreement in accordance with the provisions set forth in section 10.

That is found in subsection (c) to section 10.

Mr. VORYS. I am familiar with that, and that says that if the Administrator finds that where applicable provisions of section 10 are being complied with and if a country says it is going to sign an agreement, that nation can proceed.

Can you tell me of any sovereign nation on earth that would refuse to sign an agreement, but say, "We are going to sign one some day," if the agreement were subject to control of somebody else?

I cannot see how an intention to sign an agreement would be worth anything if the country was then unwilling to sign an agreement.

Mr. GROSS. May I elaborate on that for just a moment, sir?

The intention of subsection (c) of section 10 is to permit moving forward with the program where the country has signified its adherence to the purpose of this act and its intention to pursue an agreement pursuant to subsection (b) which enumerates the conditions.

That was put in technically in order that during this limited period of 90 days, the program could be instituted where, for example—and this was the most likely example to arise—the executive agency of a foreign government would indicate to the fullest extent of its constitutional power and force within that territory that it was going to sign an agreement but would have to await approval by the parliament or congress of the country concerned.

It was simply for that purpose that this 90-day clause was put in.

The negotiation of the agreement would have taken place, its terms would have been known and would have to be acceptable to the Administrator, and it was simply to allow for a brief time on the assumption that in accordance with the constitutional requirements of the foreign country, some brief period of time might elapse between the signature by the executive and the ratification by the parliament of the countries concerned.

That was carefully safeguarded, if I may repeat, by requiring that agreement to conform to all the conditions specified in subsection (b) of section 10, considered applicable by the Administrator.

Mr. VORYS. That is, this is based upon the proposition that the American Administrator has no legislative guidance or limitation on him, but these other countries may have guidance or limitation required by their legislative bodies, or their constitutions. Is that right?

Secretary MARSHALL. I think there, Mr. Vorys, the issue to be considered is that the legislation must first be passed here, and only after it is passed here do European countries come into the picture as to their respective legislative requirements.

There is also another consideration which I think we must keep in mind; that we are fighting a time battle, which is very important, in view of the known, declared efforts to sabotage everything we are trying to do.

The longer we take getting started, the more possibility of our being confronted with a deterioration which would not only endanger the success of the whole program but would likely make it a more difficult operation, and a more costly operation.

Therefore, we are struggling against time, having in mind the normal, time-consuming processes involved in various governments, including our own, in formal and final confirmative action.

Mr. VORYS. Mr. Secretary, I appreciate keenly the time element and it is with the purpose of being helpful that I make these suggestions at the outset.

I think that if this bill has some limitations and directives in it, the time element in its enactment here will be cut down enormously.

If it is in such shape that it is the law in this country promptly, so that the Administrator, whoever he is, can say to other countries, "It is the law and has to be final over there before this thing starts," I think it might speed up rather than delay final action.

Secretary MARSHALL. That is a very interesting observation.

Chairman EATON. The Chair would like to be permitted to make a statement at this point:

This bill has been referred to as being introduced by Dr. Eaton. He wants it distinctly understood that he did not help draft this bill. He never saw it until it came to his desk, and he was not requested by anybody in the State Department or out of the State Department or anywhere else to introduce it, but he introduced it as a part of his duty in order to have it come before this committee and the Congress in due form.

His position on any of its provisions remains unknown as yet.

Mr. VORYS. Mr. Chairman, in view of the statement just made, I would like to ask one more question and that is this: Whether prior to the release of this bill for public consideration, there was consultation with Senators or Congressmen as to its provisions.

Secretary MARSHALL. I was not here during that period, so I will have to ask someone else to answer that question.

My advisers know of no such consultation.

Chairman EATON. The chairman wishes to announce that he was not guilty.

Mr. BLOOM. Of what?

Chairman EATON. Of being consulted, or insulted, either.

Mr. Richards?

Mr. RICHARDS. Mr. Secretary, to get away for the moment from the mechanics and details of the bill and the question of who wrote it, I want to get back to the background of the bill. x

Now, as I understand it, this bill is the result of your telling the countries of Europe that they should get together and help themselves and then come to us and we would try to do our part; is that correct?

Secretary MARSHALL. Yes, sir.

Mr. RICHARDS. Now, do you feel that these 16 countries have made honest effort and satisfactory progress in that direction.

Secretary MARSHALL. I think they have not only made an honest effort but a very remarkable effort, historically, judging by the past history of nations. They have made a tremendous effort since then to begin, of themselves, to proceed with the program.

Mr. RICHARDS. Mr. Secretary, as I understand it, since the Paris Conference, they have had only one meeting of the representatives of those 16 countries.

Secretary MARSHALL. Yes, sir; there have been a number of meetings of subgroups.

Mr. RICHARDS. Have they done anything about the matter of surpluses in certain countries of the group and shortages in others?

Secretary MARSHALL. Their principal activity has been to display considerable energy and good intentions, in trying to expedite their own production to meet the targets that were set in their agreements in connection with the others of the 16 nations.

Mr. RICHARDS. Have they made any satisfactory progress in the matter of the removal of customs barriers and the like?

Secretary MARSHALL. You already have the one customs union—Belgium, Luxembourg, and Holland. There is in process an agreement between France and Italy toward a customs union.

Mr. THORP. There has been one other significant development in the financial field, beginning as of the beginning of this year, an international clearing operation, in which certain countries are taking full membership and others are participating in part.

This is the first time since the war, where there has been any multilateral clearing of trade accounts between the different countries.

That is starting almost on an experimental basis and has a possibility of having a real effect on improving the currency situation in the different countries.

A customs union has been achieved in Luxemburg, Holland, and Belgium. They had gotten pretty well along with that before we came into this picture with the suggestion of a European recovery program.

Therefore, while that is exactly along the line that we thought highly desirable, the truth of the matter is they were under way with that and almost had reached the completion state before the suggestion was made.

Immediately Italy brought up the question of a similar arrangement with France and they have gotten together and presumably are about to reach an agreement there.

I think there is also a discussion going on among the Scandinavian countries, sir.

Secretary MARSHALL. I have a paragraph which was in the statement I made to the Senate the other day which is a better explanation than my offhand comments.

The fulfillment of the mutual pledges of these nations would have profound effects in bettering the future economic condition of the continent. The Paris conference itself is one major step and the participating nations have not waited

on America, before taking further steps, many of which required a high order of political courage.

I think I might say that the application of that latter phrase is not clearly understood here in an abstract view of the situation in Europe. We certainly understand in this country that many of our own problems require political courage.

They have moved forward toward a practical working arrangement, for the multilateral clearing of trade.

Mr. Thorp just referred to that.

France and Italy, whose financial affairs suffered greatly by war and occupation, are taking energetic measures to establish monetary stability, an essential prerequisite to economic recovery.

British coal production is being increased more quickly than even the more hopeful forecast and there is a prospect of the early resurgence of exports to the continent.

That of course has a very important bearing on the health of the European economy.

The customs union among Belgium, the Netherlands, and Luxemburg is now in operation. Negotiations for a Franco-Italian customs union are proceeding.

I have omitted from my statement to you the fact that France and Italy are taking energetic measures to establish monetary stabilization; also the Germans have shown very definite indications of moving for themselves to get under way so far as is within their capability for the rehabilitation of their economic situation.

I think I should also observe that during the period I was in London, Italy and France, in particular, were under terrific pressure of disturbances and organized strikes designed to affect very seriously their organized economy and to make it very difficult for them to get ahead in an orderly manner.

In spite of that, they have moved, I think, with great energy, in the way of their production particularly.

Of course, they have had imposed on them additional and unforeseen expenses to meet this turbulent situation which was a very definite effort directed against the European recovery program.

Mr. RICHARDS. I am glad to hear then, Mr. Secretary, that you do feel that very definite progress is being made by this group, toward the solution of their own problems, irrespective of what is proposed in this bill.

Secretary MARSHALL. That is my own reaction, sir, and it has been fortified by my contacts with the officials of those countries. They have inspired my confidence in what they are trying to do and the probability of their success in doing it.

I might say that quite an issue in this matter is the psychological factor. That is, the will to do. Lacking the will to do, no matter what exists in agreements, very little is ever accomplished.

Well, there is a great will to do and there is a great confidence that they can do it.

Mr. RICHARDS. Mr. Secretary, as I understand, it is your hope that the other nations over there, outside of the 16 nations in Europe, will also join this group.

Secretary MARSHALL. That is the hope. I do not know whether you can regard it as a probability or not, but I think it is a possibility, and I am inclined to think that if this program moves forward in a

successful manner, that it is going to work a great change in feelings and in European public reactions.

Again I am somewhat influenced in that expression by my contacts with the officials of satellite countries. They have expressed great concern in relation to trade possibilities, their fear that this proposed legislation involved a western curtain, which it did not at all, and their general concern over what happens to them if this general program moves forward successfully. All of which I think will have a decided influence on their general feeling, though there is no indication whatever of any weakening in their political stand at the present time.

Mr. RICHARDS. If any curtain is being let down by any nation, that nation is not the United States.

Secretary MARSHALL. That is correct, sir.

Mr. RICHARDS. Thank you, Mr. Secretary.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, did you envision a broad, comprehensive program such as we have before us in this or any recovery program legislation that we have before us when you made your speech at Harvard on June 5 last?

Secretary MARSHALL. When I made the suggestion at Harvard June 5, I had in mind several important considerations: First, that the situation in Europe was getting completely out of hand, that something had to be done or the results would be tragic.

I also had in mind that those nations who were threatened with a form of government which approximates that of a police state were in such a condition of economic distress, and in such dire circumstances that I hoped that they would be willing to make compromises among themselves and adjustments for the general good, to a degree that in normal times never would have been possible. In those circumstances, a proposal for combined action had some chance of success.

I also had in mind that any proposal from the United States would have to be on a very guarded basis, in order to avoid, first, commitments beyond our capacity, and second, and equally important, proposals which would interfere so directly in the affairs of sovereign nations that it would give rise to very vigorous reactions, certainly on the part of those sections of their people who were stirring up trouble at the time.

Therefore, I thought, if we were to do anything, it could only be done, with a reasonable prospect of constructive success, if the European nations in the first place got together among themselves on a mutual self-help basis.

I thought that the circumstances made it possible that they would get together, in a manner there would normally be no possibility of doing, except after a number of years of development of such affairs.

The reactions in my own mind at the time were divided between the possible reception in Europe and the possible reception in this country.

I felt that the reception in Europe—certainly among those western nations—would be very cordial. That is not a very good word, it would be more than cordial.

I thought I would probably have to wait to get the reactions of the people in this country who certainly at the time could not fully grasp what the situation was in Europe and why they should possibly undertake a heavy burden in connection with Europe beyond what they had already accepted during the past few years.

The final thought in my mind was that something had to be done. A "sit and wait" attitude would not suffice. Something had to be done, and done then.

Well, what was it to be? I felt our country stood in the forefront of the world situation, and that therefore, of necessity, it had a great responsibility that it could not evade.

There was no other procedure of which I could think that had any reasonable hope of success, other than the suggestion that was made on June 5, last.

I think this observation will more nearly answer your question: The rapidity of the European reaction was greater than I anticipated, because, to put it frankly, I expected the American reaction would be ahead of the European reaction.

What actually happened, I think—as recorded in the press—was, that interest was so completely focused on the rapidity of action in Europe, that there was very little reaction, in a sense, here in the United States, where the involvements were not even partially comprehended at the time.

The American reaction came much later than I anticipated, and the European reaction came more quickly than I anticipated.

Mr. JONKMAN. I gather from what you just said that your evaluation of the world situation prompted what was the initial step without any previous request from the European governments; is that right?

Secretary MARSHALL. That is absolutely correct, sir.

Mr. JONKMAN. Now, you mentioned a moment ago that the rapidity with which it was accepted in the European countries was somewhat of a surprise to you. The substance, I think you said.

Are we not undertaking a somewhat larger program in Europe than what you anticipated? For instance, what I mean by that, Mr. Secretary, is this: I have grouped these 10 nations into 4 groups; 5-5, 3-3 blocks.

The first five, for instance, are Ireland, Iceland, Portugal, Switzerland, and Turkey, which have never had any aid before to speak of, and of whom we always thought as not being in need of aid.

I distinguish between relief aid and economic aid.

Why should those five be included in this program?

Secretary MARSHALL. They are in this organization in order to cooperate with the other countries involved.

Mr. JONKMAN. I mean with reference to extending aid to them.

Secretary MARSHALL. As a matter of fact, I do not think the present program involves aid of that nature to those particular countries.

Mr. JONKMAN. Which of those five will receive aid according to the present program? Doesn't Portugal need aid?

Mr. THORP. That country would probably have sufficient dollar resources to pay for its imports from the Western Hemisphere.

Mr. JONKMAN. How about Switzerland?

Mr. THORP. Switzerland could probably pay for anything she received.

Mr. JONKMAN. How about Turkey?

Mr. THORP. Turkey would probably be a cash country.

Mr. JONKMAN. Ireland?

Mr. THORP. Ireland, in our calculations, might have some assistance, but it would probably be in the form of a loan and not in the form of a grant.

Mr. JONKMAN. There was some figure given, I think, of \$497,000,-000, before another body. Is that correct?

Mr. THORP. The CEEC report is, of course, quite different from the program being presented by the executive branch to this committee.

Individual country studies will be presented to the committee on Wednesday which will give the details on that; so with those reports, we can discuss the particular countries much more effectively than we can now.

However, I would say that in the cases of Iceland and Ireland, it is thought at this time that any assistance which they might receive, any commodities and supplies which they might obtain, would be on a loan basis and not on a grant basis.

Mr. JONKMAN. Those are all on the grant basis?

Mr. THORP. I think those five, from a financial point of view, have very little bearing on the program, but it does emphasize the fact that the program is a European program of countries which are joining together to do as much as they can for each other, and there will be substantial trade in these countries with each other, quite apart from the assistance received under this program.

Mr. JONKMAN. How about the United Kingdom, Norway, Sweden, France, and Denmark.

I understand from the CEEC report—that these countries have practically regained their prewar industrial production.

I realize that some of them have lost revenue from shipping, investment, insurance operations, and so forth, but if they have regained their 1938 production schedule, do you not think we will have more work to do in other parts of the world than to assist them; for instance, to make up what they have lost by this loss of unseen income?

Mr. THORP. In these particular cases, you have put your finger on one of the serious problems, and that is that while their domestic industrial production is close to prewar levels, they have lost substantially in their invisible sources of payment for imports that they are not in balance. In order to maintain the prewar levels of imports they will have to produce at substantially above the prewar levels, because that additional production has to be used to pay for the imports which used to be paid for through the items which you identified, income on foreign investments, and so forth.

Now, the other point I think is important, Mr. Jonkman, is that a substantial part of this high level of production has been going into rehabilitation, and a substantial part will still need to.

Therefore, from the point of view of their achieving progress on consumer levels, that is substantially less than the progress that has been made in total production.

Mr. JONKMAN. Take these five countries. Do you think you could eliminate Norway? Norway has been able to borrow in New York on private bond issues, some ten millions, I think.

If we read the statement in the CEEC report, it looks very favorable, and she does not appear to be in any need of financial aid from us at all.

What is your reaction to Norway as needing help, economically?

Mr. THORP. Actually, the situation is that the final determination will be made by the Administrator in consultation with the National Advisory Council.

If you are asking for our initial reaction in the State Department, from studying this, we feel that Norway probably is a loan country and probably does not need any grant of assistance at this time.

Mr. JONKMAN. Of those five?

Mr. THORP. Yes, Norway.

Mr. JONKMAN. Sweden is in a better position than Norway; is she not? The balance of payments are in favor of Sweden by \$100,000,000 are they not?

Mr. THORP. That question is difficult to analyze. Part of the Swedish problem is that they have been providing substantial assistance to other countries in Europe and are in the situation where they have an over-all balance of payments which is in balance, but in which they have been losing dollars or convertible currencies and piling up unconvertible currencies.

The Swedish have actually lost substantially during the last year of their available reserves.

I think the Swedish situation might be one in which no grant will be necessary. It will depend on the pattern, of their foreign trade and the convertibility of currencies into dollars.

Mr. THORP. I think that may be it, although one has to leave a substantial amount of flexibility, because the test, as provided in the proposed act, is the test of capacity to repay.

Mr. JONKMAN. Is it not true that Denmark is not only back to prewar conditions as far as industrial production is concerned but also as far as agricultural production is concerned?

Mr. THORP. I think there the problem is a problem of shifting markets, and non-convertible currencies and also a problem of a population change, which aggravates it.

That will be covered in substantial detail in a report on Denmark.

Mr. JONKMAN. How about Belgium, Luxemburg, and the Netherlands? They have been able to borrow from the International Bank; have they not?

Mr. THORP. There has been a loan for the Netherlands from the International Bank.

Mr. JONKMAN. Is it proposed to give them grants?

Mr. THORP. That is in the category which we would feel might necessarily be part loan and part grant, depending entirely on the future prospects for repayment.

Mr. JONKMAN. Do you mean all three of those countries?

Mr. THORP. Yes, sir; all of them.

Mr. JONKMAN. Why should they be grants-in-aid, Mr. Thorp, when they can borrow from the International Bank?

Mr. THORP. This program is based upon as much borrowing from the International Bank as one can anticipate, and borrowing from other sources.

The \$6,800,000,000 is a figure after there has been substantial assistance provided from other sources, such as the International Bank.

Mr. JONKMAN. Wait a minute. I have been figuring on the CEEC report which is five billion nine hundred and I confess sometimes I am not able to follow it. Is the change in figures due to the fact that you raised it from five billion nine hundred up to six billion eight because of extension in time.

Mr. THORP. That is the reason for the major change; and also because the figure you state is one which someone on your committee's staff has derived from data presented in the CEEC report. The figure of five billion nine hundred does not appear in the CEEC report.

Mr. JONKMAN. These CEEC figures remain the same as far as we are concerned?

Secretary MARSHALL. There have been alterations and revised estimates resulting from our screening of those figures.

For example, in relation to the French in West Africa, the amount, of goods, that French West Africa might export to South Africa was not considered in the CEEC report, and at the same time the probable imports from West Africa by the French was not considered in the CEEC report.

The result was that the summation of the two, one being a subtraction and one an addition, brought about a lowering of the estimate of the French deficit for 1948 given in the CEEC report. We did not accept the CEEC estimates. The Executive Branch made its own independent examination of the CEEC estimates.

However, I would like to say, Mr. Jonkman, as Mr. Thorp has previously said, we are presenting Wednesday the details regarding each particular country.

Mr. JONKMAN. What is your final answer with regard to Belgium, the Netherlands, and Luxembourg as to whether they will need grants, inasmuch as they could probably provide the loans and borrow from the International Bank?

Mr. THORP. I would say that any demonstration of ability to borrow did not necessarily indicate it could borrow still further.

It may well be that that loan has exhausted their ability to borrow, but in terms of those particular countries, I think, we feel that Belgium and Luxemburg, which have to be taken as a unit, is in a somewhat happier economic prospect than the Netherlands, that in both cases there may well be some grants and some loans, but the proportion which could be carried with loans might be higher with respect to Belgium and Luxemburg, than with respect to the Netherlands.

Mr. JONKMAN. Of course, that means practically seven countries we have eliminated from the program as far as grants are concerned, and perhaps Denmark, you say, and perhaps some of these three.

Now, I would like to have a break-down on Wednesday, of what you propose to give to these various countries.

For instance, in the CEEC program you have \$1,452,000,000 for food feeds and fertilizers. You have \$342,000,000 for coal and other solid fuels.

You have \$512,000,000 for petroleum supplies.

You have \$370,000,000 for iron and steel supplies; \$203,000,000 for inland waterways.

Then you have \$96,000,000 there, I think, for timber.

Would you give me a break-down on where this goes and to what countries and what countries participate in it?

Mr. THORP. We will give you a break-down on the program which we are prepared to defend but that is not the CEEC program.

That program has been reworked in terms of availabilities and will be somewhat different from that proposed by the 16 countries in Paris.

Mr. JONKMAN. I want to say I got that from the report by the staffs of the Senatorial Foreign Relations Committee, and the House Foreign Affairs Committee, and I have checked most of it and find that most of the figures were taken from the CEEC report, as requirements for the \$5,900,000,000.

Then you have under "Equipment," \$370,000,000 for agricultural machinery, \$80,000,000 for mining machinery.

You have \$150,000,000 for electrical equipment; \$168,000,000 for petroleum equipment.

Then you have some figures in there not analyzed: \$287,000,000 for machinery. What kind of machinery I haven't been able to find out.

Then there is \$1,787,000,000 for undefined purposes.

I think we should have a break-down on those things, as to what extent any participating country is going to participate in those considerations.

Secretary MARSHALL. That country break-down, as I have already said, sir, is to come to you on Wednesday.

Mr. JONKMAN. Thank you, Mr. Secretary. That is all.

Chairman EATON. Mr. Secretary, if you would like to get through today—

Secretary MARSHALL. I am at your disposal today, sir.

Chairman EATON. Could you return at 2 o'clock this afternoon?

Secretary MARSHALL. Yes, sir.

Chairman EATON. The committee will adjourn, then, until 2 o'clock and the hearing will proceed.

(Thereupon, at 12:20 p. m., the committee recessed until 2 p. m., same day).

AFTERNOON SESSION

The committee reconvened at 2 p. m., pursuant to the recess.

Chairman EATON. The committee will please come to order. Mr. Jarman.

Mr. JARMAN. Mr. Secretary, in your opinion, has the determined effort to communize the whole of Europe met with any success since the passage of the Greek-Turkey bill passed by our Congress last spring?

Secretary MARSHALL. I would say it has not, except within the satellite nations, where it was in progress all the time.

Mr. JARMAN. It had already progressed, as I recall?

Secretary MARSHALL. It was projected there.

Mr. JARMAN. It was behind the "iron curtain" which was in existence then.

Now Mr. Richards asked you if there was any other "iron curtain" being attempted on our part. Is there any other "iron curtain" being attempted by any other country? Is the creation of any other "iron curtain" being attempted by any country?

Mr. Richards asked you if there was any other "iron curtain" being created by the United States.

Now, I would like to know if there is any other "iron curtain" which is being created by any other country.

Secretary MARSHALL. I do not think of any new development along that line at the present time.

Mr. JARMAN. I have never heard of any. I am asking for information.

Secretary MARSHALL. I do not know of any new development along that line at the present time.

Mr. JARMAN. A certain amount of discussion was had this morning, Mr. Secretary, about the possibility of differences of opinion between the Secretary of State and the proposed Administrator of this legislation over foreign policy, and the fact that such differences would finally be decided by the President.

Now I imagine differences of opinion are not unusual among Cabinet members and heads of bureaus; are they?

Secretary MARSHALL. It is not uncommon among any group of Americans. That applies to Americans in government, as well as Americans generally, and members of Congress, for example.

Mr. JARMAN. There is no reason to expect any greater number of differences of opinion between the Secretary of State and the proposed Administrator, any more so than would normally occur among Cabinet members generally; is there?

Secretary MARSHALL. There will be a tremendously important agency operating, in a sense, in a new field. One complexity arises out of the fact that there are a number of nations involved in the plan, and there will be determined efforts to sabotage it. To be strictly accurate, I will say that there will be more opportunity for disagreement than would normally be the case between Cabinet members.

However, I think, as I endeavored to make clear this morning, that in view of the basic agreement we have from the 16 nations, and in view of the terms of the law which we have proposed, the main difficulties are wiped out in advance.

I think probably the most serious difficulties will arise over press releases, because of the many different motivating influences.

The more I think about it, the more I am confident that the problem of press releases will be an item for concern. There will always be press releases on what is being done and the manner in which a statement is drafted may have a very unfortunate effect in a certain country at a certain time. Yet the man drafting the statement can be totally unconscious of that, and be thinking only about reaction from the United States or from the Congress, or particularly reaction from a committee before which he or his chief has been appearing.

I have experienced considerable reaction of that character already, and I will say that that will probably become one of the trickiest procedures.

Yet in a sense it will have little to do with the actual administration of the plan.

In other words, a press release may cover a plain businesslike transaction. Its subject may be something that the Secretary of State was not concerned with at all in one sense. If the release was drawn in a businesslike manner, that might be so. However, the phrasing of a press release abroad will be used in attempts to pervert every thing we do into some evil purpose or some reflection on the sovereignty or the pride of the people concerned.

Mr. JARMAN. Even in those instances, is it not probable that you, the Secretary of State, and the proposed Administrator will be able to iron out those difficulties of opinion without referring them to the President?

Secretary MARSHALL. I think so, and that is the reason I think the drafting of the legislation makes it unmistakably clear how we

approach the issue so that, 9 times out of 10, we will settle it between us.

In other cases where the Administrator feels I have too much of a Foreign Relations point of view, he might say, "I think we ought to take this to the President."

Mr. JARMAN. Since it is automatic, it automatically goes to the President; does it not?

Secretary MARSHALL. Yes, but in most instances one or the other of us will have the lead in the matter, and endeavor to compose the problem before it gets that far.

Mr. JARMAN. I would imagine under your able leadership, there would be few of them that would have to go further.

Secretary MARSHALL. Thank you.

Mr. JARMAN. You were asked a question several times this morning to the effect, "Why should we not put that in the bill that goes to the President?" That is not entirely necessary, because it is just automatic. If you cannot agree, it becomes automatic.

I can understand very pleasantly this morning your reference to "localitis." I can understand it first, even though I was a very junior officer, I am an old Army man myself, and I can understand that viewpoint. However, we have a disease of which you have probably not heard, with which some of our Members of the House sometimes become afflicted over here called "Senatitis."

Now you were questioned this morning about the fact that the wording of this bill and one paragraph in particular of it was so general that it would permit Russia to benefit under the plan. Later on, you mentioned that other countries might come in. The door is open to Russia; is it not?

Secretary MARSHALL. Yes, sir.

Mr. JARMAN. Russia went to Paris, as I understand, and left in a few days. All countries were invited; were they not?

Secretary MARSHALL. It is wide open, and the more countries that come into this on a truly cooperative basis, the greater ease we would find in composing the economic situation in Europe.

Mr. JARMAN. Therefore, it is no criticism of the legislation that it is sufficiently general to open the door to any country that might want to come in?

Secretary MARSHALL. I would not think so. Of course, any country that comes in has to meet the conditions.

Mr. JARMAN. Naturally that is all, Mr. Chairman.

Chairman EATON. Mrs. Bolton.

Mrs. BOLTON. Mr. Secretary, I have been deeply interested in the discussion and the questions that have been asked you.

May I go into a somewhat more general aspect of it for a moment and ask you whether, in your consideration of the whole program, you would feel it very important that only so much absolute assistance be given as is imperatively necessary?

Secretary MARSHALL. That is correct.

Mrs. BOLTON. And that it be done in the most economical way possible?

Secretary MARSHALL. That is correct.

Mrs. BOLTON. For instance, some of the possibilities might include plans for shipping steel from this country to one of the countries abroad, having it finished, and sending back the finished product.

That might prove to be exceedingly expensive. It might well be that ore from the Scandinavian countries and mills somewhere else might not only give the same amount of material, but might furnish employment and raise the morale. After all, that is basic.

Are you anticipating a very close study of all these details of procedures, with a view to cutting down our expense as much as possible?

Secretary MARSHALL. The investigation so far has gone to great lengths into the question of what the European countries could do for themselves, in the first place, and secondly what in particular they could do more economically and with better returns than with our doing it over here.

Mrs. BOLTON. Who has made those investigations?

Secretary MARSHALL. They have been made by a variety of groups.

Mrs. BOLTON. Groups of ours or theirs?

Secretary MARSHALL. Ours and theirs. The Europeans came out with the original proposals, of course, in the CEEC report which was transmitted to this Government last September. Since then we have been examining into all their proposals and there has been more time to go into the general situation. Our people have had contact with the subcommittees of the CEEC and in some cases we have developed new propositions which seem more effective or which had not been thought of before.

That will be a continuing process, and that is one reason why emphasis was laid on the desire to have the matter as flexible as possible, so that we could take advantage of these various conditions. Because what might be desirable according to the prices and labor situation and other factors of that kind today, 3 months or 6 months or a year hence it might be much more desirable and much more effective to do it on another basis.

Mrs. BOLTON. You say our people have been working with them. Do you mean members of the State Department?

Secretary MARSHALL. Yes, and the members of executive agencies that have been assembled. This interdepartmental group worked and is continuing to work on the general program.

Mrs. BOLTON. Then in going into the whole problem of economic methods, it would be your idea that that is the part of the work which would be delegated to what you call the business end?

Secretary MARSHALL. Yes. In fact, that is the major part of the whole procedure.

Mrs. BOLTON. Then if that is so, when you speak of the political areas, do you mean those matters which would be brought up under normal conditions between our Ambassador and the government in question?

Secretary MARSHALL. In part, yes.

To express it in a little more detail we mean that if a discussion is required between the high officials of one government and the high officials of another government, as a government-to-government affair, the approach should be made in the light of the existing diplomatic relationship, but the individual who is conducting the business aspects of the thing might be the principal speaker and probably the negotiator. However, he would conduct himself in the light of our diplomatic representation.

As I tried to illustrate a little bit this morning, in connection with the Ambassador at Large, he might be requested to go to a country

by the local Ambassador. In other words, the local Ambassador must consider the effect on all his future relationships in that country. The Ambassador at Large might be the one doing most of the talking. Presumably, the two of them would have discussed this in advance and the local color would be given to the Ambassador at Large by the American Ambassador to that particular country. There you must trust to some good sense, some wise judgment and similar factors on the part of those gentlemen.

The Ambassador at Large in Paris will have a viewpoint there in relation to the CEEC committee which he himself might change to a certain degree when he gets to Holland or Italy and hears what is going on there. He gets a much better picture than he would from an ordinary written communication.

Mrs. BOLTON. That would appear to be good common sense.

Secretary MARSHALL. It has this other aspect. That is, the normal operating procedure of our Government. I do not think we should wipe out existing structural procedure and start on a new basis just because we might find ourselves doing one thing possibly more advantageously in this case and having a most unfortunate effect at the same time or later on in other parts of the world.

Mrs. BOLTON. Would you feel that a separation of the Ambassador and the Administrator might lead to very real misunderstanding on the part of the other countries, even to the point of their thinking governmentally we had disagreed here at home?

Secretary MARSHALL. If I understand your question correctly, that might be the case.

The Ambassador at Large in Europe will be in direct contact with the Administrator in Washington, and the reason in particular for having such a man is, the Administrator would otherwise be up against the complication of having 16 different groups to work with, whereas in this plan his Ambassador is right on the ground with the Central Committee of the CEEC.

I do not know whether I made it sufficiently clear this morning, in relation to the Economic Counsellor's set-up in the embassies, and the appointment of personnel from the reserve which has been created in the Foreign Service. The actual language in the bill is not that originally proposed by the State Department. In fact, it was changed governmentally and in consideration for what was felt to be better.

What we wanted was to have people brought in on the recommendation of the Administrator. The Secretary of State would nominate these people, because the law provides that the Secretary of State had to nominate them if they are going to be in the Foreign Service, and if they are to be included in that reserve. However, the intent is to have the Administrator name the man and then the Secretary of State carries out the legal requirements.

Mrs. BOLTON. You suggested that it come largely, I judge, from the Foreign Service reserve?

Secretary MARSHALL. It is merely an assumption. You will find more talent, definitely, that way.

The Administrator on one side and the Ambassador at Large, between them may have a number of men with whom they would want to work. It is their privilege to put forth those men.

Mrs. BOLTON. My all too slight knowledge of the personnel in the State Department and the Foreign Service leads me to ask that if the Service is so adequately staffed that it can spare these people?

Secretary MARSHALL. These are additional people.

Mrs. BOLTON. They are not being used at all now?

Secretary MARSHALL. They may be in any business in the United States. They may be lawyers, doctors, or something of that sort.

We will request them to come into this reserve position when the call comes for that particular talent.

Mrs. BOLTON. Most of them have seen service?

Secretary MARSHALL. I think some of them may have seen service but not necessarily in the State Department. The Foreign Service Reserve was established as a result of an act of Congress in 1946. However, I was told what will be endeavored is to collect the talent that had been demonstrated efficient, and I imagine, though someone else can tell you very specifically, that a great deal of that talent was not in the State Department at all.

Mrs. BOLTON. Now, if the Administrator and the Ambassador at Large agree on certain men and bring them in, how free will they be, and how free will the Administrator be, or does everything have to go through the usual channels which takes so everlastingly long?

Secretary MARSHALL. The main business transactions would be from the Ambassador at Large back to the Administrator and that would be just as quick as the radio, or the pouch or the ordinary mail. The Ambassador at Large would probably use the facilities of the State Department. That would mean if he were in Paris, he would probably turn to the teletype that we have, and in that way get quick communication with the Administrator here in Washington.

Mrs. BOLTON. It would not have to go through our Ambassador in France?

Secretary MARSHALL. No, not necessarily at all.

Mrs. BOLTON. It would go directly from the Ambassador at Large?

Secretary MARSHALL. From the Ambassador at Large back to the Administrator here.

I would think his report would go to both the Secretary of State and the Administrator, and if foreign relations complications were involved, we would endeavor to find the solution.

Mrs. BOLTON. It would be very necessary, would it not, to cut the usual red tape?

Secretary MARSHALL. In the ordinary business transactions, I see nothing to complicate that at all, because they would be using the quickest process, and could probably use the teletype of the State Department.

Mrs. BOLTON. You have spoken of the various reactions to public statements, Mr. Secretary.

I have had several reactions from one of the countries abroad already, in the matter of the discussions taking place here. It was amazing to many people that we should question any of it. They felt that they reached out to us and we were going to respond and they have been deeply disheartened by the fact that this was going through our usual processes of careful study. They have very definitely been disturbed by that.

Have you had any reactions of that kind at all?

Secretary MARSHALL. I do not know specifically of any. I know in general there is deep concern as to what is going to happen and how long it will be before it does happen. That is very normal and very natural.

Also, there is concern as to how much of our present proceedings will be picked up on a propaganda basis and used to our disadvantage. However, that is inevitable. It is the final result that determines, if it is not too long delayed.

Therefore, while we may find ourselves embarrassed by some of the accusations, in the end they turn out to be insignificant provided we come through; provided we come through in time.

Mrs. BOLTON. One of the problems is of course the matter of the amount. As I have studied it, it has come to me very strongly that the original CEEC proposition was, it boiled down in a comparatively short time.

That would make possible a special need on our part to study the figures exceedingly carefully, and it would be an unfortunate thing if the study we must make, as a responsible committee of Congress, should be interpreted as being detrimental to the ultimate results. Do you feel that there is an overamount of misunderstanding about that phase of our study?

Secretary MARSHALL. A misunderstanding where?

Mrs. BOLTON. A misunderstanding abroad.

Secretary MARSHALL. I do not know quite what to say in reply to that. It is to me very evident that we have a wealth of data such as we never apparently have accumulated before, and our problem is how to assimilate the information. From having very little technical information in the summer of 1947, we now have a mountain, and it requires considerable skill in getting at the basic heart of the problem in each particular case.

Now abroad, the reaction is from people who are in dire need of this and in dire need of that, and they are not particularly analytical about it. They just need it. All the different complications involved in their getting it are not understood by them. There may develop a feeling of misunderstanding, if not irritation, on their part, which will be provoked into hostility, if it is within the bounds of the propaganda effects.

I have no particular fears of these local individual reactions, if we come through. I think they will then be dissipated.

I say very frankly that I do not think we will ever be understood to the degree we would like to see our selves understood. When people are in the situation that you found them in your trip to Europe and they read about our life here and what we have, they are very human. I will put it that way.

Mrs. BOLTON. Mr. Secretary, just one more question on this general situation: It had seemed to us that one of the very real problems before us in setting up the administration of this whole plan, the relationship between the State Department and the Congress, it would seem imperative that some way be found whereby there may be the closest association between the two bodies.

Under the reorganization law, we have the Foreign Affairs Committee, committed to the responsibility of following everything in the foreign affairs field.

Would you be willing to give consideration to the possibility to some committee of the Congress, somewhat similar to the Atomic Energy Committee, that would sit perhaps weekly, or more often if it would seem necessary, to keep the closest contact and have a very detailed knowledge of how things are proceeding?

Secretary MARSHALL. I would like to think that over on the basis of workability, on the basis of frequency, and in relation to the powers of the committee.

However, I agree with you there is a necessity for very intimate relationship with the Congress.

Mrs. BOLTON. It would be in the top areas and not in the working areas, as envisage it.

It would not entail the committee of Congress going into the details of management, and so forth. That would be unworkable. However, they would be on the advisory plane, keeping in very close touch constantly. It would seem that that might solve some of the problems that face us in putting a bill through Congress, and so on.

I would be very happy if you would give it some thought.

In planning the recovery program for Europe, fuel is a very important factor, is it not?

Secretary MARSHALL. It is one of the most important factors.

Mrs. BOLTON. That would be of course coal over the various regions, and Polish coal would be of utmost importance, I assume.

Secretary MARSHALL. That is correct.

Mrs. BOLTON. In regard to oil, it was anticipated, was it not, getting oil from the Near East?

Secretary MARSHALL. It is hoped that the greater part of the oil required, particularly in the later years of the program, could come from the Middle East. If that does not prove true, we will have to have a restudy of the whole oil situation, because that will necessitate a revision of our present plans.

Mrs. BOLTON. A rather complete revision would be in line, would it not?

Secretary MARSHALL. Yes, a complete revision, but Mr. Krug can tell you more about that than I can.

Mrs. BOLTON. I am thinking of it rather more from the State Department's angle, Mr. Secretary, from the relations that are in such grave jeopardy between the countries of the Near East and ourselves at the moment, and that of course is a matter of State Department interest?

Secretary MARSHALL. Very much so.

Mrs. BOLTON. I think that is all, Mr. Chairman.

Chairman EATON. Mr. Gordon.

Mr. GORDON. Is the door shut for other nations to participate?

Secretary MARSHALL. What was your question?

Mr. GORDON. Is the door shut for other nations, such as Poland, for example, to participate in this program of European reconstruction, now or in the future?

Secretary MARSHALL. It is not.

Mr. GORDON. What would be the condition for it to participate?

Secretary MARSHALL. They would have to subscribe to the conditions which are laid down in the CEEC, and the later conditions that arise here by virtue of the laws which you gentlemen enact.

Mr. GORDON. Were Poland and Czechoslovakia asked to participate in this program?

Secretary MARSHALL. All countries in Europe were invited, except Spain. That was handled entirely by the nations in Europe.

Mr. GORDON. Can you tell us for what reason they refused?

Secretary MARSHALL. I will have to go into the records for that. I think I know the reasons they did not accept, but I have no official documents to indicate them. I am quite clear in my own mind, and I think all the rest of you are as to what actually happened, as for example, in the case of Czechoslovakia, which went through with acceptance, and then following the visitation in Moscow had to withdraw.

Poland did not get so far as to accept, but indicated the intention to accept and then went no further, I presume in view of what happened in connection with Czechoslovakia. They were invited and it was very much hoped they would accept.

Mr. GORDON. Mr. Secretary, in your opinion is there a determined Communist intent to kill off proposals in this legislation now before us?

Secretary MARSHALL. I could not hear the first part of your question.

Mr. GORDON. I repeat, in your opinion, is there a determined communist attempt to kill off the fulfillment of the proposals in this bill?

Secretary MARSHALL. Yes, sir; I think that is quite clearly stated in the pronouncements of a member of the Politburo, and by Mr. Molotov himself a leading member of the Politburo of the Cominform said:

The Marshall plan strikes at the industrialization of the democratic countries of Europe and hence at the foundation of their integrity and independence and in the planned for "Dawesization" of Europe was doomed to failure at the time when the forces of resistance to the Dawes plan were much weaker than they are now today, in postwar Europe, there are quite sufficient forces, even leaving aside the Soviet Union, and if they display the will and determination, they can spoil the plan of enslavement.

All that is needed is the determination and readiness of the peoples of Europe to resist. As to the U. S. S. R., it will bend every effort in order that this plan be doomed to failure.

That is a pretty direct answer, I believe, to your question.

Mr. GORDON. Thank you Mr. Secretary.

Mr. SMITH. Mr. Secretary, we are engaged in a gambling venture here, are we not?

Secretary MARSHALL. In the common acceptance of the term "gambling," I do not believe I quite agree on that. I would say we are not guaranteeing a result, but we think there is every prospect of success if we go into it wholeheartedly. It is in a sense like almost any business venture. You might call all of them gambles, as to whether the product is going to be worth while, whether the public will buy it, and whether other things happen that vitally affect the business.

I would not even say the program is speculative. I would say it is a very carefully considered action to meet a very critical situation along lines which we feel show a fair prospect of success, and I think a good prospect of success, if we carry through wholeheartedly.

Mr. SMITH. Do you feel at all it might possibly lead to war?

Secretary MARSHALL. I think it should avoid the issue of war rather than lead to war.

Mr. SMITH. Now then as I examine this bill, we are concerned here, are we not, with an economic problem, principally?

Secretary MARSHALL. We are concerned here directly with an economic problem which has a vital relationship to political matters.

Mr. SMITH. Do the political and humanitarian features tie in to the economic?

Secretary MARSHALL. They are tied inseparably to it. They are results that will flow from it.

Mr. SMITH. Now I notice on page 25 of the outline of the European recovery program which the committee has, it states on page 25:

Six years of war and enemy occupation has wrought heavy toll on the people and the economic structure of Europe.

Is there any other element present which has made for chaos in the European economic situation at the present time, or in the last 2 years?

Secretary MARSHALL. There is the constant demonstration of a consistent effort through all of the western European countries, but particularly Italy and France, to effect a complete change in the form of government to that of a police state or certainly a totalitarian state. A form of government destructive of those freedoms and liberties which have developed in western Europe and which we think are vital to world well-being and to our own security and future prosperity.

Mr. SMITH. Would you say that present Government policies from an economic angle have contributed to this situation?

Secretary MARSHALL. Present Government policies in Europe?

Mr. SMITH. I am thinking now, Mr. Secretary, about this matter of rationing and allocation. In other words, they have not permitted a free economy to operate since the war; have they?

Secretary MARSHALL. The governmental situations in some of those countries, notably Italy and France, have been such that they have had great difficulty in making normal efforts to restore their economic stability.

There have been actions taken by some members of the Government, as in France and later, after they left the Government, by some groups in France, to make it virtually impossible, at least for the time being, to engage in a well-ordered recovery program.

These actions have affected industry, and all of their normal relationships and have caused confusion and great concern among the population.

Mr. SMITH. We are concerned with production, are we not?

Secretary MARSHALL. Primarily; yes. The great cure in this immediate economic situation is production.

Mr. SMITH. How are we going to get it, by a continuation of the present policies of the governments, or are we going to make it possible for incentives to operate in the field of production?

Secretary MARSHALL. We are going to get it, I think, by the furtherance of agreements among themselves, which are already being started in their implementation, and by our providing a certain percentage of either funds or material that are in critical shortage over there, or in foodstuffs that the populations urgently require. Our assistance can begin to make the wheels turn.

Now the percentage of our part in the over-all plan is rather small. When you consider the bulk of the amount, it does not seem small over here, but compared to the total requirement in Europe it is a small percentage of the whole requirement.

I think perhaps it can be illustrated a little bit this way: We will say in June they were on a dead center, speaking mechanically and thinking of a locomotive. The wheels were hardly turning at all.

In addition to that there was great confusion among the crews, and great difficulty down the track.

Now more or less because of the psychological effect that arose, they got off dead center and began to make a little start. They got together and reached a very remarkable agreement, involving a great many commitments and concessions on the part of one nation and another. That again increased the momentum slightly. They are now struggling along on that basis.

However, with the forces working against such a recovery, and with the lapse of time, the oncoming winter and all of the attendant factors involved, a certain material support from us can have an effect far beyond the actual extent of that support. Therefore, our contributions should enable their effort to gain considerable momentum, until it begins to take care of itself.

Mr. SMITH. The thing that troubles me is this, Mr. Secretary: We know that coal is a vitally important commodity. We know that foodstuffs are very, very important. We know that steel is very, very important. Now there are no greater deposits of coal in the world than in England, Germany, and the Ruhr area. France can produce food if we can make the farmers work. We can do the same with steel, but in some way or other, the production has fallen down there because those who produce are not willing to do so.

My point is, should not this legislation anticipate some way or means whereby we can furnish an incentive to produce?

Now, to support the fact that incentives are important, I refer again to this report, page 71, subsection (a):

Observers of the present state of affairs in Europe are agreed that the lack of adequate incentive for individual effort is having a pervasive and serious effect upon mining and industrial production and upon the farmers' willingness to cooperate in governmental-goods programs, and to channel products into legal distribution.

One of the causes (though by no means the only one) of the weakness of incentives, is the shortage of consumer goods.

If incentives is the answer, how does this legislation assist in that respect?

Secretary MARSHALL. I think this legislation assists toward that end in that we feel it will, by its effect, under its provisions and its utilizations of the means authorized, tend to break these vicious circles, which cause a great deal of difficulty as depicted in the sentence you have just read.

For example, the greatest incentive of the farmer to plant more crops and to bring his foodstuffs to the city for sale, is something to buy in the city with his money. This money must have a reasonably stable foundation.

At the present time, there is not only little to buy—I am speaking very particularly now of Germany, for example, and the American zone, to be specific—there is very little to buy but, what is more difficult, the currency question just defeats the whole procedure. What you get in one country, or what one country can do, is not translatable into values in another because of the monetary breakdown. Unless all transactions are in dollars, of which there are very few, they have no assured basis of trade. They have "soft money," so everybody holds back.

The greatest incentive I can conceive of in this matter is, a production that is stimulated one way or another by the goal of an improved

monetary situation, so that goods are there for the man to buy, and the money he gets for his product will buy an equivalent amount of goods. The trouble is, the situation is now a vicious circle. Until the circle definitely breaks among all these countries, until they are given some solid foundation for the currency alone, they are up against a somewhat insoluble situation.

Take for example the endeavor to stimulate more coal production. Unless the coal miner can get more food for his extra efforts, he does not care about producing more coal. Then consider someone else, working at something else, just as hard. Does he get more food? No, he does not. Some action must be taken to establish an ordinary healthy state of commerce and trade in Europe.

The situation in Germany immediately relates to the other countries, which are very close by—Italy, France, and England. One difficulty we get into, is what do we use as the medium and basis for the transaction of business? The situation has resulted in merely a drain on dollars. Unless dollars were used there would be no business. We would find ourselves not providing the things that are necessary for Germany to obtain from these other nations, because there were no dollars for them. They simply did not have the dollars. Some means must be found for reestablishing the ordinary business of trade where the man has some confidence in the money, where he has an assurance that when he works he will get something back that has value, and he can use that to get something he needs at a reasonable cost. The whole situation will then begin to develop in a greatly improved manner, and eventually will blossom into a degree of prosperity.

MR. SMITH. You, of course, are making a very splendid argument for free economy, and you do not have that in Europe.

Secretary MARSHALL. Well, you have it and you do not have it. In Germany, there is a tendency to have State control of railroads, State control of this, and State control of that. There is also the British experiment with a certain socialistic form of enterprise. All those things I think will accommodate themselves after a healthy resumption of a trade basis.

MR. SMITH. I do not want to labor the point, but I have been thinking through this a bit and I am wondering what would happen to production in a coal-mine area, for example, if we plunked down a modern American drug store or an A. & P. store. Do you know what would happen to production? I would like to have Mr. Douglas answer that one.

Secretary MARSHALL. If the store would accept the money it would be desirable.

MR. SMITH. We might give them American scrip of some kind or another. It might be a way of getting dollars back into Europe.

Secretary MARSHALL. I don't know. You are over my head on this monetary problem.

MR. SMITH. I have but one more question, Mr. Secretary: Does this legislation anticipate a return of stock-piling materials in exchange for whatever loan or grant that we make to these countries?

Secretary MARSHALL. Yes; we have that in mind, to the degree that such materials are available and to the extent this country desires to purchase them.

MR. SMITH. I hope we will make a very strenuous effort to accomplish that purpose.

Thank you very much.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, what will the effect of this proposal be on high prices in the United States?

Secretary MARSHALL. That is certainly a heavy question for me to answer. We propose in our planning to export a smaller amount of goods abroad than we did in 1947. I would assume that we certainly would wish under any circumstances, to continue our foreign trade and encourage it. How we accommodate that to the rising price spiral is something I will have to ask you to debate more with those who are the experts on that particular phase of the matter.

My own assurance in the relation of high prices to the program as a whole comes from the fact that I find so many complete disagreements among the experts that I think I may be sitting in the middle; maybe I can make as good a guess as the next man.

Mr. MANSFIELD. Mr. Secretary, in your opinion, what will happen if we do not adopt a proposal such as this now before us for consideration?

Secretary MARSHALL. My opinion is that we would find the European situation—certainly from our point of view—in a process of disintegration, which would quickly permit development of the police-state regime. We ourselves would be confronted across the Atlantic with, if not a trade barrier, certainly with a great detriment to our ordinary business, or commerce and trade. We would be confronted by a situation which we would view with greater forebodings, and that would require us to do much more here to reassure ourselves as to the security of our position.

Mr. MANSFIELD. Will we spend as much as contemplated here, and more, if we refuse to take this risk?

Secretary MARSHALL. I am quite certain we will spend much more.

Mr. MANSFIELD. I would like a general answer to this question: What will such a refusal mean in money, in national security, and in our own economic welfare?

Secretary MARSHALL. I would say as to money, in the end a much more costly procedure will be forced on us.

What was the second one?

Mr. MANSFIELD. In our national security.

Secretary MARSHALL. I would say our position would be very materially weakened and, therefore, the necessity would be for a materially weakened and, therefore would necessitate action to attain a stronger position from the viewpoint of national security.

Mr. MANSFIELD. And the third one, in our economic welfare.

Secretary MARSHALL. My own reaction to that, from what I have been told by those who have been working on this problem for a long time, is that the economic resuscitation of western Europe, or as much of Europe as possible, along normal lines, would have a very healthy effect on American prosperity, and the contrary would be greatly to our disadvantage.

Mr. MANSFIELD. If we do not proceed with this proposal, will we, in your opinion, lose western Europe by default, and, if so, to whom?

Secretary MARSHALL. I think I have partly answered that already. The vacuum which I have referred to several times, which I think must be filled if we are going to find a practical basis for a peace

agreement, will be filled by a governmental procedure that is antagonistic to all of our conceptions, and which will hang over us in Europe thereafter. It is quite plain that the leadership in such procedure, which is antagonistic to all we feel is normal and desirable, is dictated by the Soviet Union.

Mr. MANSFIELD. And if that should happen the cost to us would far supersede the amount of money now being considered?

Secretary MARSHALL. I think that would be the case; yes, sir.

There is another factor involved, which would have its effect on our future costs, on our security and on our future prosperity. There would be a tremendous reaction in western Europe were we to turn back now in this matter. The psychological impact of that is pretty difficult to calculate, but it would be tremendous, and I think it would be greatly to our disadvantage in the future.

Mr. MANSFIELD. Have we the resources to undertake such a program as now contemplated, so it will apply to the rest of the world?

Secretary MARSHALL. I refer to the Krug report and to the Harri-man report for an answer to that, Mr. Mansfield.

Mr. MANSFIELD. If we can go into this program halfway, is it your opinion that the end result will be just as bad as if we did not go in at all?

Secretary MARSHALL. I could not quite say "yes" to that. I think the result would be the expenditure of a great deal of money with very little return. A very small result that probably would not meet the situation from our point of view at all, in the end. In other words, we would have gone into an enterprise with inadequate funds, and the business would be a failure.

Mr. MANSFIELD. At that, it would be a delaying action?

Secretary MARSHALL. It would not only be a delaying action but would result in a rapidly deteriorating situation.

I made a statement before the Senate committee that if the program could not be adopted in full—meaning in its general over-all conception—we had better not go through with it at all. That was my advice to the Senate committee, and it is my advice here. I think it would be a very serious mistake to adopt halfway measures, because no one can tell us to what extent the resulting deterioration in Europe would carry us.

As I said a moment ago, there would be a tremendous psychological reaction, followed by a depression, I think, of spirit and effort. We must always have in mind that the smaller nations are always very fearful of whether or not we are going along with them into the future, or whether we are going to withdraw behind the Atlantic and the Pacific and allow their affairs to go on without any relationship to ours.

Mr. MANSFIELD. Mr. Secretary, part of the reason behind this legislation before us is to contain communism. If, during the life of this act, any of the 16 nations adopt a Communist form of government, what then would be our policy?

Secretary MARSHALL. I would not attempt to prejudge that at the present time, but I think I am probably correct in saying that they could not really go through with their pledges on such a basis as that.

Mr. MANSFIELD. I do not know whether this is the proper place to ask this question or not, but I am sure it will be brought up in connection with this proposed legislation: Can we afford both the European-recovery program and universal military training?

Secretary MARSHALL. Can we afford both?

Mr. MANSFIELD. Yes.

Secretary MARSHALL. I have very definite views on the subject, and I would prefer not to state them here. Frankly, I find some difficulty in having my recommendations considered as coming from the Secretary of State. There is, rather, a tendency to listen to me as an Army general and a former Chief of Staff, which is not particularly helpful to my position as Secretary of State. I would much rather not discuss the question of universal military training.

I will say I have very definite feelings on the subject, and I will add this much, that it is not a question of what you can afford to do. In my own view, if you do not do something like that you cannot later afford what you are going to be forced to do. It is an economy and not an expense.

Mr. MANSFIELD. I was very interested in statements made by Mr. Thorp about this proposed country by country break-down that we are going to receive Wednesday. I am looking forward to it with a great deal of interest, and I know all of the other members of the committee are.

One thing that struck me as a little odd was, I believe, Mr. Thorp's statement to the effect that as far as Luxemburg is concerned it might be a matter of both grants and loans. Is it not true that Luxemburg is the seventh greatest steel producer in the world, and is it not true also that the steel industry in Luxemburg is financed to a large extent by outside capital, and is it not also true that there is certainly no deficiency in the steel market throughout the world at the present time, and if those things are true why should grants be extended to Luxemburg?

Secretary MARSHALL. Well, can you not let Mr. Thorp answer that on Wednesday?

Mr. MANSFIELD. Very well.

Secretary MARSHALL. Thank you.

Mr. MANSFIELD. Is western Germany to be considered under the European recovery program as a unit, and are its resources to be used in the rehabilitation of western Europe in general?

Secretary MARSHALL. The American and British and, I think I am safe in saying, the French occupation zones are going to be part and parcel of the European recovery program.

You speak of Germany's resources being applied to Europe as a whole. Certainly, Europe is, at the present time, desperately dependent on coal from the Ruhr.

Great efforts are being made to produce more coal in the Ruhr, so as to increase the allocations of coal that are needed in the rehabilitation in Europe generally.

There exists concurrently the problem of rehabilitation of the American occupied zone and the British occupied zone, so that they will be self-sustaining and not dependent on us for funds to meet their deficits in the necessary imports of food and so on. Germany is an essential factor in the economy of Europe, and must be tied into this general program.

Mr. MANSFIELD. In my opinion, Mr. Secretary, it is probably the most essential factor in the reconstruction of western Europe.

Secretary MARSHALL. You might say it had been the heart of the great industrial development of Europe in the past.

Mr. MANSFIELD. I am wondering if some effort will be made to stop the dismantling of some of these plants to aid in the processes which go with this particular proposal.

Secretary MARSHALL. We are obtaining those detailed data regarding the plant situation at the present time, and they will be submitted to your committee. I have already made a statement before the Senate Foreign Relations Committee regarding those plants so that you gentlemen can have an opportunity to view all facts in the case and determine your own reactions in relation to it.

The matter is complicated by the fact that we want a self-sustaining Germany, and we want the output of production from Germany that is essential to the economy of Europe. But we do not want to create an industrial Germany that will be a menace—a menace in a military way—to the future of Europe. Another complication is the feeling of the people of France, in particular their extreme sensitivity to anything done in Germany which in their opinion some years hence might lead to another tragedy for France.

There you have the reaction of a population and its tremendous effect on the political leadership of the Government, and its effect on everything we undertake to do in connection with the industrial rehabilitation of Germany.

It cannot be ignored. They have had a tragic past. They admit that there must be a rehabilitation of Germany, sufficient to make it self-supporting, and particularly sufficient to assist the general economy of Europe. However, they find it difficult to agree with us and our staff as to just how that is to be done, and to what degree it is to be done, because they entertain very real fears. We may dispute the logic of those fears, but we cannot dispute the fact of the fears.

We are also confronted with a very real relationship in this matter with other countries. That holds good with respect to some of the satellite states, Czechoslovakia and others, who have suffered in the past through German military actions. In connection with these plant removals we not only have the previous agreements that were made, but we have the fears, if what they consider an excess number of plants are left there. There is our desire to make Germany, as quickly as possible, self-sustaining, and our desire under the European recovery program to rehabilitate the economy of Europe as quickly as possible. From that comes the feeling that this plant or that plant or the other plant might well assist in such a rehabilitation.

When you turn to the local situation—General Clay specifically, for instance—and the British, somewhat in the same position, there is an intense desire to settle the matter forthwith, in order to get the economy organized with a fair degree of permanency. All of these complications are not readily adjustable to a solution agreeable to all. That is a rather lengthy statement, but those matters are all involved in your question.

Mr. MANSFIELD. Thank you.

Chairman EATON. Mr. Merrow?

Mr. MERROW. If the Soviet Union should desire to take Western Europe by force, what could the countries in Western Europe do about it, or what could we do about it in our own inadequate state of preparedness?

Secretary MARSHALL. Of course, that would present a terribly critical situation. The countries of Western Europe are, in the main,

ill-prepared for a resistance. A great deal would depend upon the reactions of the populace, and their support of the government in its efforts to meet the crisis. It would require on our part a reconsideration of our entire foreign relations and our entire foreign policy, and I would prefer not even to predict at the present moment just what the action of our Government might be.

Mr. MERROW. Will they be any better prepared in Western Europe after this plan has been in operation for 4 years to resist such an eventuality?

Secretary MARSHALL. I would say certainly in morale they would be better prepared. I would say also that the possibilities for such an occurrence would be more remote as the prosperity of Europe is restored.

Mr. MERROW. I am asking these questions because I think there is an important principle that should be considered in connection with this principle which we are dealing with here today.

In the first place, we are talking about the rehabilitation of the economies of the countries in Western Europe, and we propose to rehabilitate those economies over a period of 4 years in the hope that the various countries will not go communistic. On the other hand, there is an equally important principle in foreign policy, in my opinion, and that is adequate preparedness on the land, on the sea, and, more especially, in the air.

It would seem to me that the plan under discussion would amount to pouring billions of dollars into Western Europe in the next 4 years without adequate air-force protection for the investment.

I wonder if you would be willing to comment on that.

Secretary MARSHALL. That has so many facets I would rather not discuss it.

Mr. MERROW. One thing more, Mr. Secretary: We have seen a good deal in the paper, to pursue this a little further, about a 70-group air program which, according to the Air Force, is the irreducible minimum of air power that we should have.

According to my information, we would have to have a supplemental appropriation of \$500,000,000 for the present fiscal year, and an appropriation of \$6,000,000,000 a year thereafter for each fiscal year for a period of 4 years to obtain that minimum. The number of first-line planes in the 70-group program being between 6,000 and 7,000, and the reserves of about 8,100.

Now, if that is the irreducible minimum for safety, it would seem to me that we ought to give consideration to the principle of preparedness, along with this principle about which we are talking today. If we spend \$16,000,000,000 or \$17,000,000,000 in the next 4 years in Western Europe, those countries have been enriched to that extent, and therefore they are greater prizes for any aggressor.

So it would be very difficult for me to go along with a plan of this type unless we have adequate air power so that our will will be respected. Otherwise, it seems to me we are throwing the money away.

Secretary MARSHALL. I do not see it quite that way, sir. I think the chances for warlike turbulence in Europe become more remote as Europe becomes stabilized. I do not think there is a threat along the line that was indicated in your statement. I think naturally that

we have to be strong for some years to come, and I am intensely interested that we find a way to do it that is not wasteful of our funds.

This program we are proposing is designed to create a situation which tends to stabilize a great area which is now in a state of economic weakness. Weakness easily leads to greater turbulence, which might in turn lead to something much more grave. We are not proposing an aggressive program, in one sense. We are not proposing specifically a defensive program in that sense. We are proposing a procedure to stabilize conditions in Europe, and by the very definition of the word I think the result would be to promote peace rather than to create a situation which would be more likely to develop a war.

Mr. MERROW. Mr. Secretary, I have long been in sympathy with the principle you have stated, but what alarms me is the statement made public only a few days ago by the head of the Air Force that the Soviet Union has three times the fighting planes that we have. In the recent bill reported by this committee for interim aid was a table showing the military strength of the Soviet Union on the land, which is tremendous.

Now, in view of what has happened in the past few months it would seem as though aggression is on the march again. Whereas I am for helping to stabilize western Europe, it would seem to me that if we do not have security at home, and are not adequately prepared, we are dissipating our funds.

In other words, we are building those countries up; they will be rich prizes for an aggressor. If we should go along for 3 or 4 years spending money in Western Europe, and do not develop an air force that could make our will felt around the world the time may come when the 16 nations will be overwhelmed and we can do nothing about it. In this event we have poured out our money and have lost it.

Secretary MARSHALL. I can only repeat what I said: That the more quickly the European situation is stabilized the less likely is the aggressive action you have indicated.

At the same time, I would say as Secretary of State that it is very important that we maintain our military strength. I think it is very important that we find the most effective way of doing it, and not the most wasteful way.

Mr. MERROW. Thank you, Mr. Secretary. As I have said, I am for the plan in principle, but I would like to see at the same time the amount of money that is necessary. If we proceed along that line then I think we will have the respect for our will around the world, and the money you would propose investing in western Europe will be protected if we have a strong air force. Otherwise, it will not be protected.

Chairman EATON. Mr. Colmer?

Mr. COLMER. I have no questions.

Chairman EATON. Mr. Judd.

Mr. JUDD. Mr. Secretary, as I read all the data that has been sent up and the various reports, it appears that these requests from European countries are based on an attempt to restore them to the general industrial and living standards they had in 1938; is that right?

Secretary MARSHALL. I do not think it contemplates a living standard on a par with 1938 at the end of 4 years.

Mr. JUDD. But it does contemplate industrial or production standards of that level?

Mr. THORP. I think that is correct, in terms of their original requests. That is, their requests would have brought them back to standards of about 1938, but those requests have been somewhat reduced in the screening and, therefore, as a result of the program that is being put forward here it would leave them below the 1938 level.

Mr. JUDD. Are you speaking of industrial standards?

Mr. THORP. I am talking in standards of living. I refer to terms of production, however, and say it would be above the 1938 level.

Mr. JUDD. How much above? Do you have that figure?

Mr. THORP. I think rather than to make a quick statement, I would rather work that figure out and supply it to you later.

Mr. JUDD. It would be different for different countries?

Mr. THORP. It would be different for different countries and different for different segments in the economy. It might average in the neighborhood of 10 to 20 percent above.

Mr. JUDD. Is it true, as I have heard said, that in the Paris Conference no country was permitted, and the group as a whole was not permitted to examine the figures and requests submitted by any other country?

Mr. THORP. No; that is not correct. What happened was each country submitted its own initial figures, but there were technical committees which took the main items and studied them as a group.

Mr. JUDD. For example, could you have Swedes and Frenchmen and Englishmen examine Italy's requests or the requests of Switzerland?

Mr. THORP. There were representatives from these countries on the committees. There were members representing the local picture, and they came up with their total estimate.

Mr. JUDD. So you think that their requests really were just to restore them to approximately 1938 or the levels you have mentioned, and not considerably in excess of that? There have been adequately you think, adequate collection and examination of figures, and they are not excessive?

Secretary MARSHALL. I am sure that they have been collected here in Washington, and we did find it necessary to make some reductions in the figures that were requested in the CEEC report.

Mr. JUDD. One of the reasons I brought that up was because of a letter I have received from a member of the Griswold Commission in Greece, a man of absolute integrity and wide experience. His letter reads as follows:

Today we are trying to put the final touches to a screening of the Greek Marshall plan requests and after witnessing in general the way it has been necessary to come up with some figures I feel compelled to intercede in behalf of the American taxpayers.

Gene Clay, of the Public Finance Division of this Commission, is leaving Sunday to appear before the proper committee on the subject and has made a heroic effort to analyze the Greek requests, and it is quite probable that the data coming from him will be more realistic than from many other countries, but surely the figures are the maximum amounts which the people of this country could conceivably absorb into their economy, and I am of the opinion they are much too high and in some instances would result in a disservice to these folks. There is a rather rigid limit to the standards of living which can be supported over the years by even the greatest effort of Greece. The general character of its farming areas does not recommend a mechanization, which in turn would greatly increase foreign-exchange requirements for repairs, fuel, etc.

I honestly do not believe we should attempt to impose western standards or the hope of achieving them on a country which simply never can support them. Too much of the Marshall plan planning, it seems to me, is predicated on everyone being elevated to western standards.

That is the impression I have received a good many times: That some of our people are trying to raise them to our standards, and if we get them up there by 1952, and then withdrew, they cannot possibly maintain themselves at such a level, and they will go down with greater chaos and confusion than if we had not raised them so high.

My question is, Are we being realistic in the estimates we are proposing for investment and assistance to those countries, or are the estimates too often in terms of what we would like to have rather than in terms of what is possible in some countries?

Mr. THORP. I think the estimates represent the best efforts of the executive branch of the Government to estimate what might be called the minimum assistance which is necessary to bring these countries back to something in the neighborhood of the prewar level. Also, to provide them with a balance, for the balance of payments. Of course, the reason the industrial production has to be above prewar is to offset the loss of invisible income, and they will have to have that extra production for the purpose of export, in order to get the imports they used to pay for from invisible income.

Secretary MARSHALL. I think, Mr. Judd, from my own point of view in that matter, the best protection we have against the idealistic procedure you indicated is the number of people we have had involved in the investigations.

It is possible that they may have erred in the idealistic direction, but to me it is hardly conceivable. There were too many hard-headed people in business and in economics and other matters involved in this program. They were considering the whole world situation, as well as these particular areas. It was not a small group. It was not a little, completely absorbed group that had "localitis" in their own activity. There was a large number of people, and many business people and economists and similar experts along that line.

That, I think, is our best protection against going idealistic.

Mr. JUDD. I would have more confidence in it if the screening had been done, or was being done, by other Europeans. I think they would be in a better position to scale each other down than we are. They are more realistic. That is the reason I asked the question as to whether there had been careful screening in the Paris conference of each country's figures by other European countries.

Secretary MARSHALL. You use the words "careful screening." That would require some definition.

The CEEC was an organization that was entirely new, almost without precedent in the world, and an organization that had only a limited number of weeks within which to operate. We have taken the CEEC report and have had a large number of people, experienced people, I will say, rather than experts, go through it.

There have been a great many conversations and discussions with portions of the CEEC committee, and finally we have come to certain conclusions.

It was not to be expected that an entirely new organization of that kind, and an organization of sovereign nations at that, could undertake the screening process that we turn loose on our own internal

affairs here, before we bring them up to Congress, and where you gentlemen frequently think we have done a very poor job of screening. We go through a screening process within our own operation, and then we go through another screening process before the Bureau of the Budget, and then we present the matter to Congress and there is still more screening done.

Well, that was not to be expected in this European organization; certainly, not in the first 2 or 3 months of its existence. Particularly where some countries were very poorly organized and were in a very turbulent state, which would be notably the case in Greece.

Mr. JUDD. In the next paragraph, this gentleman says:

Just yesterday a most significant remark was made to me by the chairman of the Greek Marshall Plan Committee as follows: "As long as France, Italy, England, and others are endeavoring to obtain for themselves more than their share of the Marshall plan funds we must make our requests on the same basis." That this is being done generally is too obvious for comment but recognizing it we still find ourselves hard put to screen their requests. Here we find that statistical information is too often compiled to prove a contention and not to disclose factual conditions. We have been compelled to mistrust their figures and, of course, it discredits their case from the start.

He is on the ground, he is sympathetic. He is doing his best, and yet he sees at the time he sends in his report that he cannot fully trust the figures.

Mr. THORP. May I add some facts to that story, Mr. Judd, because you gave a reference to the time when a man took a trip. I am able, therefore, to distinguish approximately the time when this letter was written.

The Greek deficit included in the CEEC report is for \$510,000,000. As a result of the screening which took place here in this country by the various committees it was quickly recognized that the Greek figure was excessive. It was realized to be a high figure, and the deficit which is included in our report is \$157,000,000 less than one-third the amount that is described in that letter that you are reading.

So I do think that at least that was caught in the screening by the executive branch, and I think we have to consider this now in terms of a suggestion of \$157,000,000, as the quantity of the deficit for Greece, rather than the \$510,000,000 which was originally suggested.

May I say one other thing, and that is that the original requests from the various countries, coming into Paris, totaled in the neighborhood of \$29,000,000,000, and they screened that, themselves, as you probably know, down to approximately \$22,000,000,000, so there was screening done in Paris by the countries themselves.

Secretary MARSHALL. You made several references, Mr. Judd, to their putting in larger figures in order to trade and get a better position. Somebody was getting this, so they were going to get that.

Well, I would not say that was peculiar to Greece, and I would not say that was totally due to the fact that it was a Government that was in very hard circumstances. I have heard that story right here in Washington many times.

Mr. JUDD. I was wondering if you had done to them what the Congress frequently does to you.

It is very important that we be able to defend the figures before the people, with relation to the level it is attempted to restore, and the realism of the figures as a means of restoring that level must be unassailable. That is, they cannot be torn to pieces.

Now, assuming we are agreed on our objectives and have hard-headed estimates, this matter of administration comes up. How can we do it? This particular American in Greece had a comment on that. He said—

It would be my earnest hope that this plan would be divorced from the Army and from the State Department, except that they be subject to draft by the administrator, as would other Government agencies. The State Department is not an efficient administrative agency, and the Army is too expensive. I hope the finest business administrative brains can be called upon to do the job without the strangulation which accompanies Government operation and its inherent red tape.

On this question of administration, and saying that it should not be independent, because it is tied in so closely with foreign policy, is it not true that this plan is tied in just as closely with domestic policy as it is with foreign policy?

Secretary MARSHALL. Yes.

Mr. JUDD. And that when whoever is at the head of it brings his requests to the Cabinet, they involve not only you, as Secretary of State, but they involve also the Secretary of Agriculture, the Secretary of Labor, the Secretary of the Interior, the Treasury, and the Secretary of Commerce; that is, it is a great deal larger than just a foreign-policy measure. Is that not true?

Secretary MARSHALL. That is true.

Mr. JUDD. Is that an additional reason why it must not be tied too closely to the State Department?

Secretary MARSHALL. We are not tying it more closely to the State Department than it is tied to the Department of Agriculture and the Department of Commerce. The law is already perfectly clear regarding those two agencies. It is not perfectly clear regarding the State Department. So no reference is made to the Department of Agriculture and no reference is made to the Department of Commerce, as such, specifically, because the Congress has provided the specific laws that define their responsibilities. The Administrator has to operate in accordance with those laws, which means he must deal with Mr. Anderson who is responsible for the allocation of foodstuffs between the United States and overseas. He must act in coordination with Mr. Harriman, because he, by law, is charged with the responsibility in regard to commodities other than foodstuffs.

The State Department's responsibility is specifically mentioned because it has not previously been defined in unmistakable terms. As I read you this morning, there have been two Executive orders on the subject which had been wholly ineffective, and this is too serious a matter to leave up in the air. It is basic how you place this organization in government. Had there already been a very specific clear law in regard to this particular issue there would have been no necessity for having the matter brought up in this manner, but there was not, and we had already two very definite failures. It is too critical a procedure to leave in a questionable state.

Mr. JUDD. Then this Administrator has to have for this emergency practically Cabinet status, does he not, in that he must present his requests and program before the whole Cabinet?

Secretary MARSHALL. That is right. He is in contact with almost every one of them, and several of them in some detail, in the principal activities in which he is concerned.

Mr. JUDD. And he must have a carefully defined status such as, for example, you had as Chief of Staff of the Army. The Army and the Navy are also instruments of foreign policy. But once the foreign policy has been determined—say, war with Germany, the Secretary of State could not determine what you, as Chief of Staff, do in achieving that foreign policy objective. You ran the Army.

Secretary MARSHALL. That is an overstatement.

Mr. JUDD. It would have been bad for the country, not to mention yourself, to have had you as the Chief of Staff, tied too closely to the Secretary of State, or any of the others, in carrying out the specific job that you were an expert in, qualified, trained, and specialized to handle. We need exactly the same sort of a set-up for this job with an individual specialized and qualified for it, and with as carefully defined and unrestricted powers for the job as you had as Chief of Staff for your job.

Secretary MARSHALL. For example, when I wanted to ship supplies during the war, and I wanted to do it quickly, I was in a continuous battle with the State Department because they wanted those ships to continue in the South American trade. I wanted those ships to take troops and matériel in certain directions. The matter was not settled in a day, and sometimes not in a month, and sometimes not in 3 months. I had to do business with that agency of the Government which was involved in foreign relations, which in this particular instance pertained to all of Latin America. I was just as impatient as it is possible for an individual to be and not give away to it. I had to transact business in that way.

That same matter was projected into North Africa. You may remember, we had quite a time about North Africa. Also, in the Far East. In all those things, the Secretary of State performed certain functions. I could not usurp those functions, and I was not a free agent to disregard them.

The same considerations apply here, only it is a very clear-cut case in this instance. I think because this was not defined in existing laws, it has become very much accentuated, far and away beyond what will actually happen. There must, to my mind, be no misunderstanding about it because in the past, where the language seemed to indicate to me a very good arrangement, in practice it proved not effective.

This particular issue is too far-reaching in its effects. I feel the reaction that comes into most of these discussions is the feeling that bureaucracy—meaning Government—is ineffective. Business is argued to be dynamic and to get results and have no red tape.

Well, it certainly can cut across a lot in many ways, and at the same time it gets involved very heavily I find sometimes in red tape.

By the very rules you gentlemen lay down, and of which this particular draft of a bill is a good example, matters come forward that introduce a great many complications in actually framing a bill which will meet the situation. That is government. That is inescapable.

In our Government, we have a great deal of that. I have struggled with red tape most of my life. I have been generally on the receiving end, but in later years sometimes on the cutting end. However, I will say this—I do not know that it has a direct application—it takes more knowledge and skill to cut red tape than any other particular endeavor I know in government, because you get into difficulty more quickly without realizing what the complications are going to be.

The State Department is well known as having never been an operating agency, an ordinary administrative agency. I am well aware of that. Also there has been a great deal of clamor about matters of protocol. Proponents of other organizational set-ups are thinking of protocol when they decide that the Department should have no dead hand resting on this vibrant administrator.

I am most anxious to see a very efficient administration of this affair, and to have a man at the head of it who knows how to do business and how to get results. Also, I hope he will be one of those rare individuals who has those qualities and still can get along with people. People like that are rather rare.

I think there has been considerable exaggeration in the reaction to this matter. The feeling of the Congress, on the one hand, is that a great deal is being asked of them, and, therefore, they want to see that it is very properly controlled. On the other hand, there is present the feeling that ordinary agencies of the Government are not as efficient as modern business. Well, Government agencies operate under the many and complicated laws that are passed by the Congress.

Mr. Judd. Mr. Secretary, do you feel there would be any benefit in this Administrator—assuming we have a singleheaded authority—having an advisory committee—but not in the sense that there were so many advisory committees during the war who were merely advised as to what had already been decided—an advisory committee of representatives of industry, commerce, agriculture, labor, and so forth, who would have, defined, in the law, sufficient authority so that if they thought that the Administrator was unduly under the influence of the Secretary of State, or somebody else; or the Secretary of Agriculture thought he was unduly taking things from the American farmer, that they would have the right to appeal to the President over the Administrator, in exactly the same way as we have provided in the unification bill. We have one Secretary of National Defense but we provide specifically that the Secretary of the Army and the Secretary of the Navy and the Secretary of the Air Force can appeal over his head to the President if they feel that there is not proper balance in his handling of affairs.

This whole thing is so involved and it can mean so much damage to our economy if it is not well handled that I am sure this is the greatest objection or question to most people, whether we can get a mechanism that will operate efficiently and still not have such power as to throw us off balance.

Secretary MARSHALL. I think what you are proposing, Mr. Judd, would so limit the man that he would be under too much restraint to be able to do a good job.

Here is what I think will happen if we go ahead at all in keeping with the proposed bill: The individual concerned will have to work most intimately with the Secretary of Agriculture and the Secretary of Commerce, and more intimately with me, but my issues, I think and I hope, would be infrequent, rather than constant. The Secretary of Commerce and the Secretary of Agriculture would be involved a good part of the time; and the National Advisory Council is another group he will have quite a bit to do with.

Beyond all that, is the fact that that individual inevitably will be held accountable, by the Congress as represented by the committees, for how this affair is proceeding. You have it in your power to call

him up to testify. That will probably have a more restraining influence along the line you have just spoken of than anything else, and that may have so much of a restraining influence that it will make the matter too difficult. However, you cannot avoid that, that is a part of the Government. That is the way we are organized, and that is the way it will proceed. There will be great restraint, because the Administrator, personally, will have to appear and testify to his action along this line, or that line, and that involves him in his relations with Mr. Anderson, his relations to Mr. Harriman, his relations with the National Advisory Council, and his relations with me. So he is in a difficult position.

Now suppose you add another committee. Apparently the one you are referring to is somewhat of a check on him, rather than as a protection for him.

I am very much inclined to think that would impose just another confusing limitation. The conditions of Government are such that he is involved in these contacts from which he cannot escape. That is difficult. It is very hard to get a great business executive who is, by all the processes of individual enterprise and free enterprise in this country, a rather supreme individualist, to come into the Government and accept certain frustrations that are inevitable in the dealings with the Government. Yet that is what has to be done here. There is no other course possible.

I think it is quite essential to have in mind what these difficulties are going to be. They are going to be many. We must also consider the restraints, not only of those contacts as provided by law, but that are imposed by the necessity of reporting up here to Congress and answering all the questions that will be asked of him in detail, regarding each activity. There will be many letters, such as you have just read, which will provoke a certain line of investigation and upon which he will be called upon to make the reply. At the same time he is conducting a tremendously complicated agency.

MR. JUDD. I would like to ask you a question along a different line. There is no question but what some of these 16 European countries have been doing very much better individually in the last 6 months, or 4 months, than I think most people anticipated might be possible.

Are they doing as well collectively, as a group, would you say, as some of them are individually?

SECRETARY MARSHALL. I hardly know how to answer that because the group action is only represented specifically by those sessions that are presently going on, particularly between France and Italy, in relation to both the monetary and the customs union. Discussions, I think, are now getting under way on the Scandinavian Peninsula.

The individual action, has been most encouraging, and I think it is very largely the result of the psychological impact of some hope of procedure.

MR. JUDD. Do you think it is primarily the result of hope of help from us rather than, for example, the bad behavior of the Communist minorities in certain of those countries? In other words, is it due more to the successes of our side, or to the blunders of the other side?

Perhaps, not blunders, but a disclosure of their real objectives?

SECRETARY MARSHALL. I think that last has hardened all of these countries into the necessity of firm action on their part. Where their Governments have taken strength from the results of the efforts to

sabotage them, there has developed a stronger Government with a more definite purpose and with a more definite intent to go forward.

That is particularly the case where these great strikes were fomented. When they came out of that successfully, in preventing a general strike, they came out with a much firmer purpose to go ahead.

Mr. JUDD. Is it also true that they are getting a good deal of information in western Europe about what has happened to the peoples behind the iron curtain, which also hardens them?

Secretary MARSHALL. I could not say as to that, sir.

Mr. JUDD. There is a further question I am troubled about: Do you think western Europe can ever be economically self-sustaining, if each of those nations remains a separate economic unit?

Secretary MARSHALL. That is a rather technical question. It would be hard for me to answer it with my training. They were able to maintain themselves in the past. There have been a great many drastic changes in the world situation, but most of those changes apply, we will say, to England rather than to the continental countries. England is so dependent on imports, which makes this drastic necessity for a tremendous export program, particularly with her limited overseas investments on which to call as a source of invisible income.

The industrial productivity of the Ruhr has a relationship to the whole economy of Europe. The relationship of the Silesian coal fields is very important.

Mr. JUDD. Europe was not self-sufficient even when she had eastern Europe, which is largely the surplus area, and the deficit area is western Europe. I have grave doubts that even if this recovery program is well administered, and we put in plenty of money and make our very best effort, they can still succeed in becoming economically self-sufficient, unless they take vigorous steps to reduce trade barriers. In this country we are made up of 48 political units, yet we are one economic unit. There are no barriers at State lines.

Secretary MARSHALL. I think I can agree with you as to the degree of initiative required. They have made a beginning, which is a rather historic move, and I am hopeful that it will develop still further.

The problem in my own mind is whether or not the necessity becomes so drastically clear as it was last July and August. I am hopeful—the beginning having been made—that many commitments and agreements can be gradually worked out which will make it possible for them to overcome the deficiencies of their situation under present conditions.

Mr. JUDD. You will agree that we cannot do this without weakening ourselves, putting great strains on ourselves, and therefore it is hard to ask the people to weaken the United States even temporarily unless they are reasonably sure that out of that effort will come a compensating increase in the strength of the free democratic peoples.

Secretary MARSHALL. I think that is about it, sir. I do not like the word "weaken," because I am inclined to believe that we are not going to weaken ourselves.

Mr. JUDD. If prices go up it weakens our economy.

Secretary MARSHALL. If that continues, of course you get into a very serious situation whether you have the European recovery program or not.

Mr. JUDD. Over on your last page you say:

The United States is the only Nation today with the strength to lend vital support to such a movement—

and surely that is true. But the United States cannot carry on this kind of a program long, and the world will hate us certainly if we continue indefinitely to be world nurse and policeman.

Is it not true in a sense that really, about all this effort does is buy us some time, and buy them time, in which to move ahead into a better world organization which hereafter can carry such loads?

In the emergency this job must be done by us because we are the only ones having the strength to do it. I am asking if your Department, or the Government, has in mind anywhere in the near future our country initiating steps to reform or amend the United Nations, or revise the United Nations' machinery so that it, over the long-term periods, can do this which we are called upon at great cost and effort and risk to do ourselves, now?

Secretary MARSHALL. Having brought the United Nations into it, you have given me a pretty large order. It is certainly our hope, and it is certainly my intention—and I was chairman of our delegation to the United Nations Assembly meetings—that we would develop along lines which in the future would make it possible for a situation like this to be met by the United Nations rather than by a nation like ourselves having to take the steps that we have taken, or are contemplating taking now, in order to put the situation in order.

This program is not aid, in one sense. It is a constructive proposition, with a constantly decreasing obligation on our part.

In other words, if all goes well, if it can be carried out as we visualize it now—if unexpected circumstances do not intervene to make it more difficult—we will be out of the woods by the end of the fourth year. Now, beyond that is the question you brought up as to whether or not Europe can, under its modern conditions, be self-supporting. I know perfectly well we cannot continually help indefinitely and that they will have to maintain themselves on their own part.

As to the United Nations, that is in growth, and I hope, will develop to full growth. We took certain steps at this last meeting to try to improve the situation, to try to build up an organization that could undertake problems such as this, but long before there might arise the situation in which Europe now finds itself. There must be continual evolution in the functioning and in the development of the United Nations.

I think we are inclined to be impatient. There is most certainly a desire to see a more effective organization on the part of all of us, and it is as strong with me as it is with anyone else in the country.

I recognize it is a long, tedious process to have fifty-odd nations reach basic agreements. The fact that we did get as far as we did recently, to me, is very encouraging. The gaps in the procedure, and the "flies in the ointment," are evident to all of us; but we did do certain things and took certain steps which I hope later will receive general confirmation, as a greater degree of trust develops among nations. This lack of trust is our great trouble at the present time.

Mr. JUDD. But it is still true that the United Nations in its present structure is so constituted that one of the big five, if it so chooses, can block recovery and put us in the spot we are in now. For two years and a half one nation has blocked recovery, and forced us to carry this load. Therefore, must we not use the time we purchase in this effort to get that road block out of there—with Russia, if possible; without her, if necessary? Otherwise we may get over this emergency, but we

still do not cure the situation. We do not set up a mechanism that can cure the situation.

Secretary MARSHALL. I would say, in answer to your statement, Mr. Judd, being put in the position we have been, and carrying out the action that is proposed, we would greatly strengthen the situation. We would greatly strengthen the United Nations by our actions. We would create a situation where there would be more firmness of purpose and more general accord in that purpose toward the end to which we all aspire.

I think it is imperative for us to try to keep the organization growing.

Mr. JUDD. I wish you Godspeed in that.

That is all, Mr. Secretary.

Chairman EATON. The chairman would like to state that we hope to get through with the Secretary today. In other words, to do that we would have to stay here until 5 o'clock. We have four more very distinguished members of this committee who would like to interrogate the Secretary and unless there are some reasons with which the Chair is not now familiar, I would like to suggest that these four distinguished gentlemen lean to mercy and consume the hour between them so that all will have a chance.

Mr. FULTON. We have already agreed to that among ourselves.

I wanted to point out to the Secretary that your coming before this committee is in a different capacity than in coming before the Senate committee.

You, I believe, appeared there testifying to a specific bill, which was the same bill as H. R. 4840.

According to a motion passed by this committee, you are not appearing on any particular bill. You are appearing on this bill, partly, and on the Herter bill, but chiefly on the forming of a United States foreign policy for postwar recovery. The generality of the questions here are directed toward the formation of a policy by this committee, which may or may not be the same as the State Department's policies and which may or may not result in an independent bill being offered. Did you understand that that was the case?

Secretary MARSHALL. Not as clearly as you just expressed it.

Mr. FULTON. If that is the case, I would like to ask you, then, how this particular European recovery plan of which you speak fits into a world recovery plan. Have you been approached by many nations—for example, from the Far East—for a similar recovery plan—or have you, in your official capacity, been approached by the Latin Americans for such a recovery plan for them?

Secretary MARSHALL. I have been approached by China and the Far East, and I do not know whether there has been a general Latin-American approach, but it does amount to an approach by certain of the other American Republics.

Mr. FULTON. Then there have been meetings by certain countries to make inquiries other than just the European countries; is that correct?

Secretary MARSHALL. That is correct.

Mr. FULTON. Do you know of any far eastern countries who have had meetings for this specific purpose?

Secretary MARSHALL. The Far East?

Mr. FULTON. Yes. Was not there a meeting of the 11 nations at Manila recently for a similar program for the Far East?

Secretary MARSHALL. I was checking here to find out. I do not think of any offhand, and I wanted to make an appropriate reply.

Mr. THORP. The Economic and Social Council of the United Nations have certain regional commissions, one of which is a commission concerned with the problems in the Far East. I believe it was their second meeting. They had earlier an organization meeting. They had their second meeting in Manila, to discuss, in general, problems of economic improvement.

Mr. FULTON. Has there been any figure come out of that meeting?

Mr. THORP. Not that I know of. The report of that Commission is to come to the United Nations and will be made public, but I do not believe that that report has reached the State Department as yet.

Mr. FULTON. Has there been any amount given by the Latin-American nations that they will require for economic recovery?

Mr. THORP. As a whole, or individually?

Mr. FULTON. Either individually or as a whole. Have you been receiving figures?

Secretary MARSHALL. Yes; we have been receiving figures, and we were receiving them before this plan ever came up.

Mr. FULTON. What is the over-all statement of the total amount of world recovery necessary from the United States? How much will our American taxpayers have to put up in all, and over what period?

Secretary MARSHALL. A statement of the over-all requirements, which will involve the China problem in particular, will be submitted at a later time.

Mr. FULTON. I was the fellow who asked about the Wedemeyer report once before. Will you, then, give Congress the Wedemeyer report which you previously said you couldn't give?

Secretary MARSHALL. No, I cannot.

Mr. FULTON. Then we will have to act on the China policy without having the full information of the Wedemeyer report.

Secretary MARSHALL. That is correct.

Mr. FULTON. That concerns me, then, on this administration that is going to be set up. Will Congress be given access to the figures that may develop or the reports that may be given to this administration if it is under the State Department—because if those figures are going to be submerged the way the Wedemeyer report has been submerged and Congress can't see them, how can Congress set a policy?

Secretary MARSHALL. I think that is a totally different reason, and a totally different problem.

Mr. FULTON. What is your reason?

Secretary MARSHALL. I cannot state that here, other than to say I don't think it is in the public interest of the United States, and particularly of China.

Mr. FULTON. Can I ask you, then, are you specifically opposed to the Herter bill, which sets up the outside administration and gives so many foreign policy powers to an outside organization?

Secretary MARSHALL. I am not quite familiar with the foreign policy provisions; but as I understand it, the Herter committee operates with a board of directors, isn't that correct, which represents the Congress, the State Department, and the various agencies of the Government?

Mr. FULTON. Now do you object to that?

Secretary MARSHALL. I think that is not a sound basis, because it plans a great limitation on the individual who has to accommodate himself to all these agencies and their Government contacts.

Mr. FULTON. Would you give this administrator, either under your bill—or the Herter bill, the power to cut off relief without consulting and taking the direction of the Secretary of State?

Secretary MARSHALL. Will you repeat the question again, please?

Mr. FULTON. Would you give this administrator, either under the State Department version of the bill or under the Herter bill, the power to cut off relief in a country without taking specific direction of the Secretary of State?

Secretary MARSHALL. I would say, in all probability, such action might have a very definite effect on foreign policy.

Mr. FULTON. So you would not give him that independent judgment of cutting the relief off with any country?

Secretary MARSHALL. I cannot conceive of that, not having a very definite effect on foreign policy, and the question would be whether we could hazard the result or whether we should make some concession to the situation.

Mr. FULTON. Now, suppose Russia came forward with an independent plan, similar to yours, for the reconstruction of Europe. Have you given any thought to what might happen then—whether you would correlate your plan with it or would you cooperate with the Russians on such a plan?

Secretary MARSHALL. It would depend, I would say very decidedly, on how the matter was put forward.

I think there is a Molotov plan right now. I think there was some reference to it yesterday or today.

Mr. FULTON. What is your opinion on it? Will you cooperate with, oppose, or correlate with it?

Secretary MARSHALL. Under the present conditions, there have been no circumstances that would permit cooperation with it, except the suspension of our own efforts in western Europe.

Mr. FULTON. They, in turn, oppose your plan as you oppose theirs?

Secretary MARSHALL. I don't think I would say I oppose their plan, because I don't think they are offering anything to western Europe. They are consolidating eastern Europe.

Mr. FULTON. Then, going along further on this plant dismantling. The dismantling of the plants is done under a reparations policy that was set at Potsdam; and, of course, those policies were instituted before anything came up on the European-recovery plan.

What on the policy planning level is the State Department doing, to revise the Potsdam policies of reparations?

Secretary MARSHALL. We are not actually engaged in a revision of the Potsdam negotiations, other than the decision with relation to whether or not the capital asset transfers of plants will be made at the present time, and if so, on what basis.

Mr. FULTON. Are you tentatively holding up this dismantling and transfer of the plant out of the western zone of Germany until you can determine what that policy will be?

Secretary MARSHALL. Do you mind if I read this?

Mr. FULTON. How long is it? I am limited on my time. If you put it in the record, we will just consider it in.

STATEMENT BY SECRETARY MARSHALL ABOUT REPARATIONS

We are in the process of continuing discussion with the British in an endeavor to arrive at adequate arrangements regarding any farther shipments of dismantled plants to the East. We are also restudying the whole question particularly as it relates to the recent announcement that deliveries by the Soviet Union are imminent under the reciprocal delivery provision of the Potsdam agreement. That is not a simple question, because the Soviets are just beginning to deliver badly needed commodities in compensation for capital deliveries already made to them. We do not want to adopt a definite policy for the future until all these implications are fully understood.

For the present, however, the only deliveries to the Soviet Union which are going on or are in immediate prospect from the United States zone represent the tag ends of the plants previously allocated to the Soviet Union, the delivery of which was not suspended when the United States stopped further dismantling of general purpose plants in May 1946. These deliveries consisted largely of general purpose equipment from war plants, the retention of which in Germany has never been contemplated. The final portions of three such plants in the United States zone are now being delivered—a Bremen shipyard which was allocated to the Soviet Union in 1945 and which was already 95 percent dismantled as of December 1, 1947; and the general purpose equipment from two war plants, which, as of December 1, 1947 were, respectively, 60 percent dismantled and 53 percent shipped, and 86 percent dismantled and 84 percent shipped.

The delivery of these final portions has not been halted because their retention in Germany would not assist the economy of the western zones, and no economic justification could be given for holding on to the remnants of plants already substantially delivered. It appears preferable to complete these deliveries which were not suspended when general reparations were halted in May 1946. Until a definite governmental decision is reached as to further deliveries, it is desirable to avoid any action which might precipitate the whole issue and possibly invite reprisal by the Soviet Union. We can well afford, we think, to complete these relatively minor commitments until a firm decision has been reached as to our future course.

There has been no suspension of the general dismantling program.

It is difficult to state fully why a temporary stoppage should not be made without a full discussion of the reparations program. But there are two considerations which, in our judgment, make it exceedingly unwise to call a temporary halt to the program as a whole. The first is that to stop dismantling, and then try to resume, would have a very serious political consequence within Germany. The Germans of the United States zone have been promised that the dismantling will be promptly concluded, and that that will be the end of the matter. In other words, they are now clear as to the situation, what they have to do. They know where they are and can plan accordingly. If there is a stoppage, there will be uncertainty and contention, and the reparations issue will again be in the forefront. Any further delay by this Government will encourage political opposition within Germany.

The second reason is that a stoppage would seriously prejudice our relations with the recipient governments, members of the Inter-Allied Reparations Agency. The disadvantages of a permanent halt apply in a large measure to even a temporary halt. Those countries need the equipment now. I am talking about the 18 nations (not including the Soviet Union and Poland), which are western nations. We are obligated to deliver the equipment by international agreement, and failure to do so would give propaganda material to the critics of the United States within those countries. It is true that most of those governments are prospective recipients of assistance under the European recovery program. But their policies with respect to German reparations are dictated by many considerations which cannot easily yield to our desires.

I do not wish to suggest that the Congress should not have a real opportunity to examine the reparations program. The Department will be able to provide the data soon and I hope that the Congress will be able to consider it in the next few weeks. I do not wish to appear to prejudge the conclusions of the Congress, but I venture to predict that when it has considered all the factors it will not desire to purpose any radical revisions of our existing policy toward the signatories of this Paris reparations agreement.

STATUS OF PLANTS IN UNITED STATES ZONE SCHEDULED FOR SHIPMENT TO USSR

A/S 84. Deutsche Schiffs und Maschinenbau, Bremen/Weser—Shipbuilding advance list.

Allocated December 6, 1945.

95 percent dismantled as of December 1, 1947; 95 percent shipped.

Estimated date for completion of delivery: February 28, 1948.

A/S 6. Press, Stanz und Ziehwerk, Ru. Chillingworth, Nurnberg—Pressings, war plant.

Allocated April 24, 1947.

60 percent dismantled as of December 1, 1947; 53 percent shipped.

Estimated date for completion of delivery: March 31, 1948.

A/S 62. Dynamit A. G., Stadeln—Explosives, war plant.

Allocated January 24, 1947.

86 percent dismantled as of December 1, 1947; 84 percent shipped.

Estimated date for completion of delivery: January 31, 1948.

Secretary MARSHALL. Well, we are in the process of discussing the situation with the British; in order to arrive at adequate arrangement for any further shipments of dismantled plants to the east; that is, to the Soviet Union.

Mr. FULTON. Does that pertain to France, too?

Secretary MARSHALL. There is no argument really about France or those countries, except as to whether or not plants in prospect of being dismantled and shipped should be maintained in Germany for itself for more prompt rehabilitation.

In that respect, the discussion that is going on now is obtaining all the data from General Clay and the British area—but particularly our area—as to just what is the status of these plants; in other words, to submit the information that had been asked for in Congress, so that you might form a judgment in relation to this dismantling process.

Mr. FULTON. Now, there had been some talk of this plan of yours being inflationary. As a matter of fact, I think it is just the opposite, and may I ask you a couple of questions on that line very quickly?

During the year 1947 we exported about \$14,000,000,000, and we got back in about \$5,000,000,000 worth of goods, so we had about \$9,000,000,000 deficit; is that correct?

Secretary MARSHALL. I think that is approximately correct.

Mr. FULTON. And that \$9,000,000,000 deficit was inflationary, because we got nothing for the money we put out, or the goods we put out. We sent the goods, and we got nothing back, so it was inflationary.

Now, if this program goes ahead, and by reconstructing Europe or certain areas of the world so that we can get goods in return to make up that \$9,000,000,000 deficit, we really are making an anti-inflationary measure rather than an inflationary measure, are we not?

Secretary MARSHALL. I think that is correct.

Mr. FULTON. So that instead of being inflationary, in a long-time view, this is really a deflationary plan or a reflationary plan, because it puts solid goods to coming back in to give us something instead of a deficit?

Secretary MARSHALL. It results in a more normal production in relation to trade; and certainly, on the long-term basis, it would have that effect.

Mr. FULTON. So that when you get this trade built back up and have a multilateral basis of trade, then you need some sort of an organization, do you not, to give rules of fair conduct of international trade? You need an international trade organization, do you not?

Secretary MARSHALL. Yes, sir.

Mr. FULTON. Will you tell us how that international trade organization that is being formed now at Habana—the charter—will fit into the Marshall plan?

Mr. THORP. It is complimentary. If the recovery of Europe is to be effected, it must be based on a more free flow of commodities among countries, which is the principle of the Charter. On the other hand, unless you have an elimination of the present extreme shortages of goods, you cannot hope to accomplish this free flow of trade, and therefore the ITO and the European recovery plan are really very much interlinked with each other of terms of each one furthering the objectives of the other.

Mr. FULTON. Now under the Bretton Woods agreement and, of course, the act that was passed, by the Congress implementing it, there was a requirement that no nation be allowed to deviate from a certain set, agreed-upon rate of exchange for their currency; that is, fixing the currency rigidly.

Do you not think it is time we made some change on that and had currency exchange on a more reasonable and a more realistic basis? Do you not think that would help the plan?

Mr. THORP. I think one of the purposes to be achieved in the plan is to get more realistic foreign-exchange relationships and rates. I think the difficulty up to now has been the difficulty of any country being able to determine at the present time what is the appropriate rate of exchange. Therefore, there have been tendencies to allow rates to persist, even though they tended to be unrealistic, somewhat longer than should be the case.

Mr. FULTON. Then do you not think something should be done on the United Nations level or the Bretton Woods level to get away from that fixed setting of unrealistic values of exchange and getting back to good business again, the way we were earlier?

Mr. THORP. That is something which the International Monetary Fund can deal with, and my impression is that it is a problem they are much concerned about.

Mr. FULTON. Are you going to integrate that question of exchange with the Marshall plan so that we will not get to a place where by changing the valuation of their currency we will lose out in the end and perhaps have inflation or deflation. Have you thought of that?

Mr. THORP. Yes. That is part of what we would expect to cover in the bilateral agreements with the countries and also in working closely with the International Monetary Fund, looking toward thawing out this exchange situation.

Mr. FULTON. Do you not then think there should be some limitations put in this bill on what we expect the countries to do on their exchange valuations, so that we will not get caught in the middle? Do you not think we should have some principles set out in this bill to take care of it?

Mr. THORP. They have already agreed among themselves, I am certain, on financial objectives, and there would be covered in multi-lateral agreements.

Mr. FULTON. Why do you not have Congress put some requirements in the bill for that? As I see this act, there is nothing in the act that sets good requirements that they should live up to.

Mr. THORP. In the act there is section 10 (b) (2), which describes what should be included in the bilateral agreements and one of them is:

Taking financial and monetary measures—

there is a commitment, of course, by the other countries—

necessary to stabilize its currency, establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system.

That language was intended to accomplish the purpose which I think you are describing.

Mr. FULTON. Yes; but the question I am bringing up here is that the methods of doing it are not set out—that is, the end result—and would the Secretary object to Congress saying by what methods that should be reached? Would you object to that?

Mr. THORP. I wonder whether one can be sure as to what method would be appropriate. That is, having in mind that you want a proper exchange rate fixed, you already have procedures set up in connection with the Monetary Fund for doing that, and the Bretton Woods agreement provided a basis of the procedure to be followed, and this provided the inducement to break down the present tendencies to freeze improper rates.

Mr. FULTON. In closing, I was going beyond the Bretton Woods agreement and suggested even a change in that.

Mr. JAVITS. Mr. Chairman, I would like to make a parliamentary inquiry: Would this be the appropriate time to ask unanimous consent to insert the motion adopted by this committee which is the frame of reference for these hearings? Would the chairman entertain such a unanimous-consent request?

Chairman EATON. I see no reason why not. Do you make that request?

Mr. JAVITS. Yes; I do. I request unanimous consent that the motion may be inserted at the opening of these hearings.

Chairman EATON. If there be objections, they may be stated now. I hear none.

Mr. JAVITS. I refer to that motion, Mr. Secretary, so that you might have in mind rather clearly the framework which was intimated by my colleague, Mr. Fulton.

I shall confine my questions to 10 minutes.

You have been asked a good deal about the alternatives of undertaking and not undertaking the European recovery program, and you have testified eloquently and excellently on that, both here and before the Senate committee.

Now I would like to ask you about the success of the program. Is it just as important from the point of view of our foreign policy that this program be crowned with success as it is that it should be undertaken?

Secretary MARSHALL. That is correct, sir.

Mr. JAVITS. Is it not a fact that a failure in the program, if the European nations do not to some extent get on their feet, will hurt us at least as much and possibly more, as a failure to go on with it at all?

Secretary MARSHALL. Probably so.

Mr. JAVITS. Now the success of the program is tied up, is it not, with what happens in the rest of the world, other than the United States and other than the countries affected; is that true?

Secretary MARSHALL. That is to a large extent the case.

Mr. JAVITS. For example, has the Department given consideration to the fact that a very large amount of the money we are asked to appropriate will be spent in Latin America?

Secretary MARSHALL. Yes, sir; very much so.

Mr. JAVITS. And that rising prices in the Latin-American countries, as they did with the British loan, will make much less useful this assistance which we are giving to the European countries?

Secretary MARSHALL. I am not so certain of that particular reaction. My own thought in that connection was that the money spent in Latin America will stimulate a certain amount of trade throughout the world. We will buy goods there to obtain goods in short supply here for the European program. They obtain money to buy goods here that are not in too short supply, and we are starting the blood circulating in that respect.

Mr. JAVITS. For example, \$6 wheat in Argentina will considerably devalue that which we lend or give to the Europeans?

Secretary MARSHALL. That is correct.

Mr. JAVITS. Is it not a fact also that raw material supplies must flow to the nations we are trying to aid; in other words, that they need such materials for recovery and that those material supplies would come in part from Asia and the East Indies?

Secretary MARSHALL. I think quite a bit is due from those countries.

Mr. JAVITS. So that stability in that area of the world and some measure of productive recovery there is also essential to the success of our plans?

Secretary MARSHALL. It is certainly connected with it. I am thinking in terms of the fact that trade from that area to Europe, had been almost terminated through lack of a monetary situation that permitted a firm basis for recompense.

As trade is stimulated, their position, I assume, would be strengthened. I say "their." I mean the Far East and those countries where at the present time the economic condition is weakened because business is so slack that their prosperity is in danger. So, in that sense they are important to the recovery plan, but I would also say the recovery plan is very important to them.

Mr. JAVITS. Does that lead, Mr. Secretary, to the deduction that to make a success of the ERP, we must immediately proceed to deal with economic rehabilitation problems in both Latin America and the Far East?

Secretary MARSHALL. We certainly have those matters to be considered. We are very shortly going to bring up to the Congress the problem on China. To what extent we would get into the general economic situation in the Far East as it relates to all the other countries concerned out there, I am not prepared to state at the present time.

Mr. JAVITS. Well, the bill itself states, does it not, Mr. Secretary, that we are to be concerned in the bill with the colonies and dependencies of the European nations?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. And that immediately gets us into a very large area in Africa, too?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. Is it not a fact we will meet with the Latin-American nations beginning at Bogota, at which time we will again discuss economic cooperation in America?

Secretary MARSHALL. That is the purpose of the meeting.

Mr. JAVITS. And the impact of that meeting upon the European recovery program will be very great?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. So we are really facing a global problem if we look at it from the point of view of success, rather than an isolated problem with 16 European nations?

Secretary MARSHALL. That is correct.

Mr. JAVITS. Is it not also true that one of the assumptions of the Paris plan is that within the next 4 or 5 years a much greater quantity of, for example, timber, will flow from eastern Europe to western Europe?

Secretary MARSHALL. That is the hope.

Mr. JAVITS. So the basic assumption in the whole European recovery plan even goes to betterment of relations with the Soviet Union and its satellites?

Secretary MARSHALL. That is what we hope.

Mr. JAVITS. And therefore the challenge to American foreign policy is not on the limited basis of one area, but on a global basis of every area?

Secretary MARSHALL. I think that is reasonably correct, sir.

Mr. JAVITS. Now within the limits of my time, Mr. Secretary, I would like to ask you about the plans for the participation by United States private investment in the rehabilitation of Europe and, as we have just concluded, probably the world.

Now that is covered by section 7 (b) (3) of this bill and I fail to find in that section enlightenment on one important point.

Is it not a fact that in the past there have been very real difficulties to reconcile the activities of American private concerns with the governmental foreign policy of the United States? May I give you an instance of that? For example, it had been charged and I think it had been fairly well shown that in pursuing business operations, cartel arrangements were made between American companies and German companies which had a material effect on our preparedness for war and German preparedness for war.

Now what does the Secretary recommend be put in this bill to protect us against any such future occurrence, in view of the fact that the policy of the bill is to encourage American private investment?

Secretary MARSHALL. This bill involves certain guaranties in addition to private investment.

The interpretation you bring up I am going to ask Mr. Thorp to endeavor to answer.

Mr. THORP. I think the protection here is that it is not automatic. It is a project that has to be approved by the Administrator and also must be approved by the foreign government, and therefore with those two approvals, one would hope that it would be a project that would be to the benefit of both countries.

Mr. JAVITS. Mr. Thorp, do you contemplate, then, in that answer a continuing supervision by the governmental agency, the United States governmental agency concerned, to be sure that that investment is being administered and carried through in accordance with the dynamics of American foreign policy, or do you not?

Mr. THORP. I believe we do not; that is, these particular concerns would be no more subject to review and scrutiny by the United States Government than other American enterprises functioning abroad.

Mr. JAVITS. Do you not therefore feel we are laying ourselves open to exactly the same mistakes that we have made in the past, except at this time we are participating in a much more active way, by guaranties and underwritings; that is, the Government is?

Mr. THORP. I am not at all sure that the way to deal with that is to deal with it through this particular limited group of companies. If there is a problem of the kind which you describe, that should be dealt with on the basis of all American foreign investments and not some segment of them.

Mr. JAVITS. May I say to the Secretary that I favor very much the idea of having American private industry and investment participate in the rehabilitation of Europe, but I do think we need a little more thought about the technique in view of past history.

Secretary MARSHALL. Thank you.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Secretary, assuming that the four conditions which you laid down were to carry through—in other words, that the aid were to be rendered promptly, adequately, efficiently, and co-operatively—do you believe that the European recovery program will be sufficient to protect the governments of western European countries from capture by external force?

Secretary MARSHALL. Do you mean external to the particular countries concerned?

Mr. LODGE. Yes, sir.

Secretary MARSHALL. My reaction to that is that the more favorable the situation becomes, the less the opportunity for external sabotage and riots and strikes to be effective, to the extent of threatening the stability of the government. The greatest hazard we are involved in now is a weak country in a debilitated state, where there are evil forces endeavoring to stir up such dissension and such ill will that it leads to a break-down in the existing form of government.

Mr. LODGE. I would, of course, agree with you, sir, that this will do a great deal to minimize or diminish such disturbances.

I believe you said earlier in your testimony that a great many people became Communists simply out of misery. In other words, it perhaps might be put this way, they became Communists because they have no other constructive alternative.

In other words, this plan is designed to combat the contagion of communism.

I believe that in the "iron curtain" countries, in Poland for instance, there are perhaps 3 percent Communists and in Hungary there are perhaps 5 percent, and so on. It is a small percentage.

Therefore I am pressed to the conclusion that insofar as this program combats the popularity of communism, it is certainly a very vital and urgent thing.

However, I wonder if it is enough to simply combat the popularity of communism? Accordingly, regarding this as a strategical measure among other things, I would like to ask you whether you feel, sir, that there are other things that we can do beside this to protect these governments from capture by communism?

Secretary MARSHALL. I would take it that you have in mind possible military requirements?

Mr. LODGE. Well, sir, I had in mind all sorts of things which I realize you would not be able to discuss here, and which I would not ask you to discuss but what I would like is some indication that these things will be done because it occurs to me that with a minimum of expense we might protect a very huge investment and also safeguard our national security and the peace of the world.

I would like to have your comment on that, if you feel you would like to give it.

Secretary MARSHALL. I certainly cannot go into detail here at this particular time.

Naturally we have been thinking about the various factors involved in the issues you have brought up, and it is quite a problem as to just what might be done, in view of the various requirements for doing it, and particularly in view of the commitments involved in doing it.

That is a rather vague reply to what you have just asked me, but all of that will be considered, and I think quite carefully.

There is a considerable difference in view among my own advisors and those of the associated and particularly related branches of the Government. It is not an easy question to answer, but it involves considerations that are not being ignored at all, and are constantly in mind.

Mr. LODGE. I would like to know, sir, in that connection, whether you would agree with me that in Greece, for instance, the first thing to do is eliminate the disturbance. That is because you cannot restore economic stability until you have eliminated their disturbance.

It would seem to me that in France and Italy, to a lesser extent, that is true.

It seems to me that there must be some specific effort directed toward the restoration of political stability before you can have economic stability. Would you care to comment on that, sir?

Secretary MARSHALL. I think what you say regarding Greece is true. The question is, How are you going about doing it? That involves some issues in connection with Greece that I would not care to comment on publicly.

Mr. LODGE. Mr. Secretary, it is my understanding that Great Britain has recently made an agreement with Soviet Russia, providing for the exchange of British capital goods against Russian agricultural commodities.

Do you anticipate that under this plan these capital goods might be provided by us, or that we might provide goods to replace those capital goods in Great Britain?

Mr. THORP. This particular arrangement is, as you know, an arrangement for certain goods to be provided by the United Kingdom in return for things which they very much need, primarily wheat and coarse grains.

I doubt very much if one can develop any sort of program which would involve quarantining certain shipments. Actually our hope is that through the expansion of trade in various directions the net effect on the American economy will be reduced, and it has not been our position that we should take steps to curtail the ability of any of these 16 countries to obtain articles they can get from other parts of the world.

Mr. LODGE. In other words, the answer to my question is, "Yes"?

Mr. THORP. That is not right.

Mr. LODGE. My thought is that some of these goods might end up in Russia by way of Britain, while Britain obtains commodities in exchange from Russia.

Mr. THORP. Not any of our goods could do that. They would be goods that would be produced by the British. I am sure our goods would have to fit in with the requirements in the particular country.

Secretary MARSHALL. I had some discussion with Mr. Bevin about this.

The British were obtaining certain things from other countries which were in short supply over here, and it would reduce by that much any pressure on us to provide certain items.

Of course grains were involved in the transaction. Now you have carried it still further into replacement of the particular items that the British would utilize in that exchange.

The factor of our being involved to the extent of what we provide out of this European recovery program being utilized by Great Britain to meet the exchange payments for Russia had not been analyzed by me. The general procedure is one of a trade relationship, which is a healthy proposition, and of a particular arrangement which favored us to the extent that it reduced the pressure for the particular items which happened to be in short supply in this country.

Mr. LODGE. Yes. I can see how that might be beneficial.

Mr. Secretary, in connection with the dismantling of the plants in Germany, it is my understanding that there are some 47 pipe producing and assembling plants in the former British Zone of Germany.

I understand they are labelled for dismantling.

One of them in particular is capable of welding large-sized pipe up to 24 inches, which is the type, as I understand it, which is much needed for the transporting of oil, and would save scarce tankers if used in carrying Arabian oil from the Persian Gulf to the Mediterranean for use in Europe. My question would be this: In connection with this aid do we contemplate the dismantling of these plants in Germany, such as those which produce necessary short supply items?

Secretary MARSHALL. The original allocations were made on a very careful basis under our authority in the occupied zone of Germany.

Whether or not these calculations completely fit the general European recovery program, I cannot authoritatively state with finality at the present time, but I think in the main they do.

There had been a difference of opinion regarding some pipe plants. We have called on General Clay for a very detailed report, so that we could screen the proposal still further over here, to see if it will create any disadvantages to the implementation of the European recovery program.

Mr. LODGE. In other words, no damage has yet been done in that connection. We still have that problem to deal with?

Secretary MARSHALL. We are trying to settle it right now.

The real issue or complication will be that General Clay is very reluctant to stop in the procedure—it is a very lengthy, tedious procedure incidentally—but he is very reluctant to call a halt to what he is aiming to do because that makes it difficult for him to get the German people well organized and going ahead, when they are still in a state of doubt as to a particular plant, whether it stays or it doesn't stay.

Mr. LODGE. You mean the procedure of dismantling?

Secretary MARSHALL. No, but whether or not the plant is to continue in Germany. So the quicker that is settled from his local point of view, the more easy it is for him to go forward with the rehabilitation of Germany.

We have called upon him for a quite detailed report as to just what the status of each case is, the purpose being to bring that information to the attention of congressional committees, so that they may go over the matter and express themselves.

Mr. LODGE. Mr. Secretary, the present preamble of H. R. 4840 mentions foreign countries which undertake to cooperate with each other in the establishment of the maintenance of economic conditions essential to a peaceful and prosperous world.

Then section 3 refers to the countries which are participating countries.

At the time all these countries were called together, were all the countries of Europe invited to the Paris conference?

Secretary MARSHALL. All except Spain.

Mr. LODGE. Under this bill, the door is open for Russia and her satellites to participate if they can meet the conditions?

Secretary MARSHALL. That is correct.

Mr. LODGE. Is it open for Spain to participate if she can meet the conditions?

Secretary MARSHALL. That is another issue that I cannot answer at the moment.

Mr. LODGE. I wondered whether Spain was being treated on the same basis as Soviet Russia or not.

Secretary MARSHALL. There is nothing in the bill, as we say, that prevents that, but you have a general situation over there in the economic accord of these nations where they, on their own initiative, decided not to invite Spain to participate.

Mr. LODGE. That was decided by the nations?

Secretary MARSHALL. That was decided by them and not by us.

However, the bill makes no provision against Spain participating. That would have to be an issue that we would decide as it came up.

Mr. LODGE. In connection with the matters which have already been brought up to some extent, that is to say in connection with reciprocal aid between these various countries, the break-down of customs barriers, and so on, I fully appreciate that there are grave difficulties with respect to monetary matters and taxation, and so on. However, would it be possible, in view of the importance which you lay to that element, to provide this committee with more detailed information (a) as to what agreements already have been made among these various countries as to reciprocal help, (b) as to what has been accomplished to date pursuant to these agreements, (c) what agreements are in process of being made, and (d) what is your estimate of the future possibilities of reciprocity along those lines?

Secretary MARSHALL. That could be done, sir.

EUROPEAN RECOVERY PROGRAM

EUROPEAN ECONOMIC COOPERATION AND SELF-HELP

CEEC commitments

The Committee of European Economic Cooperation at its meeting in Paris last summer considered various measures to promote economic recovery by means

of (1) increased cooperation among the European nations; and (2) self-help and mutual help in the fields of production and internal financial and monetary reforms. The following statements summarize the commitments made, the progress thus far in putting these commitments into effect and further steps which are contemplated or which might be undertaken.

Progress along these lines must be the result of initiative by the participating countries themselves. They are well aware of the need for increased cooperation and self-help. As the following record shows, they have already made considerable progress and laid the foundation for further developments which should produce significant results. The European recovery program, if adopted, will assist and encourage this common European effort tremendously.

A. INTER-EUROPEAN PAYMENTS ARRANGEMENT

The Financial Committee of the CEEC Conference recommended the adoption of a proposal made by the delegations of Belgium, the Netherlands, and Luxembourg for setting off debits against credits in inter-European payments by means of the transferability of European currencies between each other. The Committee agreed: "The transferability of European currencies would permit a country which has a credit in its relations with another country to use it to settle a debit resulting from current payments to a third country. A set-off of this nature would reduce to a minimum payments in gold and convertible currencies [and] would make it possible to abandon the existing procedure for bilateral balance of trade * * *." It would permit dealing "only with the disequilibrium of the trade of a given country in relation to other [participating] countries of Europe taken together".¹ The Committee recommended that a meeting of experts should be held in London to work out the technical details of this proposal.

In accordance with this recommendation, a Payments Agreement Committee met in London from September 22 to 27, 1947, and also in Paris from October 15 to 25, 1947. As a result of these meetings, a multilateral compensation agreement was signed on November 18, 1947, by Belgium-Luxembourg, France, Italy, and the Netherlands. It provided for monthly compensations or clearing offsets among the contracting countries.

The nature of these offsets can be illustrated by a simplified hypothetical example. Suppose that under a bilateral payments agreement, country A owes country B \$20,000,000 as a result of trade between the two countries. This exhausts the credit margin which country B has agreed to extend. Country A can no longer import from country B in excess of its direct exports to country B except by paying in gold or dollars. The same situation exists between country B and country C. Country C, however, owes country A \$10,000,000. The position before clearing takes place is, then, as follows:

Country A owes country B.....	\$20, 000, 000
Country B owes country C.....	20, 000, 000
Country C owes country A.....	10, 000, 000

The clearing makes it possible for each creditor to reduce its claim on its debtor by \$10,000,000. This gives the following result:

Country A owes country B.....	\$10, 000, 000
Country B owes country C.....	10, 000, 000
Country C is in balance with country A.	

The credit margins of A and B have been restored to the extent of \$10,000,000 each thus permitting new trade to the extent of \$20,000,000 which otherwise could not take place.

The operation of the multilateral clearing arrangement was entrusted to the Bank for International Settlements, aided in its work by a committee composed of delegates of the contracting countries. The first meeting of this committee was held at Basle at the BIS offices from November 20 to 25, 1947, and a second meeting was held at Brussels from December 18 to 22. These meetings established two types of offsets: Those involving increases in balances or the creation of new balances, and those involving only decreases in balances. Directives were given the BIS for making proposals among offset possibilities.

The November agreement was left open to the adherence of other CEEC countries on either a fully participating or an occasional basis. Full membership carries the obligation to accept automatic offsets or those involving only decreases in balances under existing bilateral payments agreements. Occasional member-

¹ CEEC report, I, p. 133.

ship permits the participant to accept or reject in whole or in part any offsets proposed. A third category of participation would provide merely for the regular transmittal to the BIS of monthly statements of payments agreement balances in order that the BIS may have a complete view of the European payments situation. Denmark, Norway, Sweden, the United Kingdom, and Austria have thus far undertaken to participate as occasional members; consideration is also being given to the participation of bizonal Germany.

On January 19, 1948, the first inter-European clearing under the new system was announced, calculated as of December 31, 1947. While the extent of this first offset was limited, it demonstrated the technical feasibility of the mechanism. The effectiveness of the system will be increased as additional countries participate in the operations.

B. CUSTOMS UNIONS

Custom union study group

The Study Committee of Customs Unions, established in August 1947 at the CEEC conference, considered the question of customs unions as a means of achieving the speedier reduction and eventual elimination of tariffs between a group of countries. On September 12, 1947, thirteen of the CEEC countries declared their intention to create a study group "for the purpose of examining the problems involved and the steps to be taken, in the formation of a Customs Union or Customs Unions between any or all of those [13] governments and any other governments invited to participate in the work of the study group."²

This study group met in Brussels on November 10, 1947, upon the invitation of the Benelux countries (Belgium, Netherlands, and Luxembourg). Fourteen of the sixteen governments which participated in the Paris conference sent delegates. Norway and Sweden, as well as certain countries of the British Commonwealth, were represented by observers.³

The group examined the possibility of establishing a common customs union among all the countries represented and appointed a tariff committee which composed a questionnaire to be sent to the member states. The answers to this questionnaire, which were to be completed December 15, should permit the tariff committee to define the basis upon which a model of a common tariff may be prepared and offered for adoption by all interested countries.

The report of the tariff committee, which will take into account the principles laid down in the draft charter of the International Trade Organization,⁴ will be submitted to the group at its next meeting in Brussels January 26, 1948. This report will contain recommendations concerning, in particular, the establishment of a common nomenclature, the choice to be made between specific and ad valorem duties, and the evaluation of merchandise subject to ad valorem duty. It is anticipated that at this meeting arrangements can be made to complete the preparation of a specimen common tariff.

Regional customs unions

In addition to the project for a general European customs union including a large number of countries, there are several projects of more limited scope under consideration.

The four Scandinavian countries (Denmark, Iceland, Norway, and Sweden) following a conference of their respective foreign ministers in Copenhagen August 27-28, 1947, announced at Paris that they "were taking steps to examine immediately the possibility of an extension of the economic cooperation between their countries, including the question of the elimination, wholly or partly, of the customs frontiers between the four countries." Committees within the respective governments were appointed, but there has not yet been a further meeting of a joint study group.

The French and Italian Governments during the Paris Conference decided to appoint an examining group to study the conditions under which a Franco-Italian customs union might be established. On December 22 the Franco-Italian Mixed Commission for the Study of a Customs Union Between France and Italy announced the signing of a report, the complete text of which will be made public after examination and approval by the two governments. This report recommends not only a customs union but a full economic union between

² CEEC report, I, p. 35.

³ Representatives of the following countries attended as delegates: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Switzerland, United Kingdom and Turkey. Norway, Sweden, Canada, Australia, New Zealand, South Africa and India sent observers.

⁴ In particular article 42 according to which inter alia the common tariff of the several countries participating in a customs union ought not on the whole to be higher or more stringent than the average level of the duties applicable in the constituent territories prior to the formation of such a union.

the two countries, to which other governments of Europe would be invited to adhere. The report is understood to make recommendations for integration in the fields of agriculture, industry, foreign trade, finance, transport, manpower, and customs matters, and for the establishment of mixed committees to devise a joint approach on monetary matters. The report estimates that the economic union might be completed at the end of 4 or 5 years.

The Benelux customs union, which was initiated prior to the meetings of the Committee of European Economic Cooperation in Paris, entered into effect January 1, 1948, as the result of the exchange on October 29, 1947, of instruments of ratification of the Benelux Customs Convention. In addition to the customs union, agreement has also been reached to press for enactment of legislation for the unification of excise, transmission, and luxury taxes, and to continue further study of the problems connected with an over-all economic union. A summary examination of the experience gained in the establishment of the Benelux union served as the point of departure for the Brussels study group.

On September 19 the Greek and Turkish Governments represented at the CEEC Conference in Paris agreed to devote attention to the study of a regional customs union between the two countries. Interministerial committees both in Greece and in Turkey are currently studying problems related to a Greek-Turkish customs union. After the two committees have completed their independent studies, each will prepare a specimen customs union as a basis for joint discussions.

C. FINANCIAL AND MONETARY STABILITY

In the general report to the Paris Conference the 16 CEEC countries stated that the "success of [their] program depends on internal economic, financial, and monetary stability being restored, or maintained" and that where stabilization programs are required, they will be carried out with determination.⁴ Twelve participating countries issued separate declarations to the Conference on the internal financial and economic reforms undertaken or contemplated.⁵

Since the Paris Conference, the CEEC countries have intensified their efforts to attain budgetary balance, reduce inflationary pressures in general, and restore confidence in their currency. The extent to which the participating countries are at present attempting to help themselves is perhaps most strikingly illustrated by the examples of Italy and France.

Italy

In its declaration on financial policy to CEEC, the Italian Government recognized that reestablishment of complete confidence in the currency is an essential element of economic recovery. In accordance with the declaration, the Italian Government has recently adopted several important anti-inflation measures. Quantitative restriction of bank credit by the Bank of Italy in September 1947 has limited its expansion for such inflationary purposes as the holding of speculative inventories and bidding up of scarce material prices.

This credit control has been primarily responsible for the price decline of recent months. Tax revenue has increased steadily at a greater rate than the rise in prices and production. Public expenditures have been reduced by cutting railway and postal subsidies.

To strengthen the legal barriers against inflationary public finance, the Government has decreed (1) that no increase in expenditure can be authorized until a corresponding increase in revenue has been found; and (2) that a special law is required to authorize the Bank of Italy to make advances to the Italian treasury. These measures should assist the Government in fulfilling its intention to balance the budget in 1947-48 except for reconstruction expenditures which are to be financed by internal loans and the lira proceeds of foreign loans.

Italy's recent monetary reform has contributed to the establishment of a realistic exchange rate. On November 27, 1947, the former system of a fixed Government buying rate (350 lire to the dollar) was changed to a monthly variable buying rate based on the average free market rate during the preceding 30 days. Under the new system the exporter sells 50 percent of his exchange proceeds in the free market and the remaining 50 percent to the Italian Government at the Government buying rate for the particular month in which the transaction occurs. The holder of the 50 percent free exchange is obligated to utilize it within two months for the importation of listed commodities. Since this new system tends to establish a more realistic exchange rate, it should prove a stimulus to Italian exports, thereby helping to reduce the deficit in the balance of payments.

⁴ CEEC Report, I, pp. 26, 27.

⁵ CEEC Report, II, pp. 461, 524.

France

In its declaration to CEEC the French Government proclaimed its intention to carry out a comprehensive fiscal reform for the purpose of putting an end to financing itself through advances from the Bank of France, and to keep investment expenditures strictly within the limits of the resources derived from internal or foreign loans.

A program, largely inspired by the French commitment to CEEC, was proposed by the Ramadier government before the November cabinet change. On the expenditure side, it called for administrative economies, the elimination of subsidies which had aggravated budgetary deficits, and the complete elimination of the practice of financing uncovered treasury needs through advances from the Bank of France. On the receipts side, the program called for a comprehensive fiscal reform whose main objective was to simplify and control more effectively the antiquated French tax system.

This program has been accompanied by restriction of private bank credit through raising the discount rate, quantitative limitation of the volume of credit, and measures to channel available credit away from speculative and other non-productive uses and into priority sectors of the economy.

These combined measures led to an immediate strengthening of the franc, but in November the Communist-inspired strike wave further increased the magnitude of both the economic and financial problems. After having successfully overcome the immediate threat, the Schuman government proposed the most drastic tax and economy measures any French Government has taken since liberation to achieve economic and financial stability. France's budget for the calendar year 1948 incorporates the principles proclaimed in the French report to CEEC and elaborated in the October program. The over-all civil budget is to be cut 10 percent compared with 1947 in spite of price rises. A beginning has been made on tax reform and an increase of taxation. Expenditures have been further reduced by downward revisions of reconstruction expenditures foreseen under the Monnet plan. These measures are expected to result in a balancing of the ordinary French budget for 1948 at about 900 billion francs and of the extra-ordinary budget at 300-350 billion francs. This compares with a budget deficit in 1947 of 274 billion francs.

In its recent actions the Schuman government has undertaken to impose necessary sacrifices consciously rather than to let them be worked out by the blind forces of inflation.

An adjustment in the foreign exchange value of the French franc was announced January 25 by the French Government. The new rate, the French believe, will encourage the export of French commodities, the cost of which had become excessively high to foreign purchasers under the old rate of 119 francs to the dollar. The expected increase in French exports and tourist trade should, therefore, help France to acquire needed United States dollars and other foreign currencies. For example, American tourists contemplating a visit to France will now receive over 300 francs to the dollar instead of the former 119 francs. The adjustment of French exchange rates so as to accord more accurately with present French costs and prices is expected to promote in general a balance in the French international economic position.

France also hopes that the more attractive rate will encourage French capital now in foreign countries to return to France. This repatriation of capital would supply France with additional dollars.

D. MANPOWER

In their final report, the 16 CEEC countries undertook "to remove progressively the obstacles to the free movement of persons within Europe."⁷ The Manpower Committee, established at the Paris Conference, was entrusted with "assessing the availabilities and requirements of labor among the participating countries and of determining ways in which the coordinated transfers of workers between these countries can be facilitated."⁸ After securing information from the participating countries, the American, British, and French zone commanders in Germany, and the International Refugee Organization, the Committee completed a report which (1) showed manpower resources and requirements of these countries as of June 1, 1947, (2) reviewed action taken by governments to meet manpower deficiencies or surpluses, (3) recommended that countries whose manpower deficiencies cannot be met from their own resources should examine the possibility of concluding

⁷ CEEC report, I, p. 13.

⁸ CEEC report, II, p. 437.

agreements for the recruitment of manpower, including displaced persons, in other countries.

A conference on manpower, sponsored by the Italian Government, is to convene in Rome on January 26, 1948. The International Labor Office, the International Refugee Organization, and the Food and Agriculture Organization have been invited to send observers, as well as the United States. The conference will develop measures to utilize more effectively surplus manpower in such countries as Italy, to facilitate the movement of labor across international boundaries, and to improve occupational qualifications and training.

E. THE PRODUCTION EFFORT

At the CEEC Conference the participating countries set certain production goals which in their estimation represented the scale of agricultural and industrial output which must be achieved to supply the needs of the European population in 1951. The 16 countries undertook to use all their efforts to develop their national production in order to achieve these goals.

However, before the national productive effort can be made effective, the essential raw materials must be forthcoming. The attainment of these production targets depends in varying degrees upon the increased supply of essential imports from the Western Hemisphere. Within the limits imposed by shortages of necessary commodities and disorganization of production due to strikes, there has been significant progress in three of the most important fields figuring in the production program set at Paris.

The United Kingdom has increased coal production from a weekly rate of about 3.5 million tons last summer to a rate of 4.4 million tons in December. Coal exports to the continent have been resumed. Coal production in the Ruhr reached a daily rate of 275,000 tons in December as compared with 216,000 tons last May.

Early last fall the French Government revised sharply upward the bread grain acreage goal for 1948, originally fixed at 84 percent, to 95 percent of the prewar average. It is therefore estimated that France will produce 400,000 tons more than the original CEEC estimate for the consumption year 1948-49. In addition, the French Government now plans to raise bread grain production in French North Africa to 4 million tons annually as compared with the CEEC estimate of 3.5 million.

All the principal European steel-producing countries except the United Kingdom (Germany, France, Belgium-Luxemburg, and Italy) substantially increased their 1947 crude steel production over 1946. In the case of Belgium-Luxemburg, 1947 production surpassed 1938. While 1947 production in the United Kingdom was slightly below 1946, output in the last quarter of the year was at an annual rate in excess of 1946, achieving in October an all-time high annual rate of 14.3 million tons.

F. PARTICIPATION BY CEEC COUNTRIES IN THE ECONOMIC COMMISSION FOR EUROPE

The CEEC report established the principle that "wherever suitable international machinery exists, it is the desire of the participating countries that these tasks should be effectively followed up within the framework of the United Nations,"¹ and referred particularly to the forthcoming meetings of the committees and subcommittees of the Economic Commission for Europe. Five of the sixteen countries, not as yet being members of the United Nations, are not members of the Economic Commission for Europe, but they have been invited to those meetings of committees of the Commission in which they have indicated an interest.

Commodity committees

Technical committees have been established by ECE to deal with a wide range of commodity problems. The Coal Committee has taken over the work of the former European Coal Organization in recommending allocations of coal. A Fertilizer Subcommittee has met to make recommendations for increasing production of nitrogenous fertilizers, and a Timber Subcommittee has been established to make recommendations for increasing production of timber, particularly softwoods. A Steel Committee has been created, with subcommittees on ball bearings, conveyor belting and ceramic insulators, all of which are in such short supply in Europe that they are hampering production of important types of manufacturing equipment. In addition the Steel Committee, in cooperation with the

¹ CEEC report, I, p. 33.

Coal Committee, plans to give consideration to the possibilities of increasing steel production by a more effective utilization of existing coking capacity and better distribution of metallurgical coke, as suggested in the CEEC report.

Inland transport committee

Some of the most significant achievements of ECE thus far have been in the field of European inland transport. The Inland Transport Committee has taken over the work formerly performed by the European Central Inland Transport Organization. As a result of the work of the Rail Transport Working Party, 12 countries and the bizonal area of Germany have agreed to reestablish as of March 1, 1948, the prewar system for exchanging freight cars. This arrangement had the advantage of providing a regular procedure for the return of individual cars to countries of ownership, thus facilitating the flow of traffic across international borders. Its adoption will eliminate the chaotic situation which has prevailed since the war under which no country would return cars without a compensatory movement from another country.¹⁰ As a result of the work of a Road Transport Working Party, eight countries, together with the western zones of Germany, agreed to grant on a reciprocal basis freedom of operation for 6 months to highway trucks engaged in transit movements through their territories. In addition, the three German zones, Denmark, the Netherlands, Sweden, and Switzerland agreed also to grant freedom of movement for all other international transport of goods by highways, thus allowing the direct delivery of goods from the factory or farm in one country to the consumer in another.

The Road Transport Working Party has also made progress on the longer run problems of highway development. It has formulated plans for a network of improved interconnecting international highways designed to increase the efficiency of through truck traffic by eliminating the poor roads which heretofore clustered around international boundaries.

Electric power committee

The Electricity Working Party of the CEEC Conference in Paris proposed an International Program for additional electricity generating plant projects in Italy, France, Germany, Austria and Switzerland, in order to supplement national programs for plant extensions.¹¹ Implementation of this program would require that the United States supply certain equipment which will not be available in Europe, so no further steps have been taken to commence actual construction of the plants. The Electric Power Committee of ECE has, however, continued the work begun at Paris. This has involved a continuing survey of European large-scale power resources, examination of a possible international high-tension network, and of the desirability of further standardization of electrical equipment.

Mr. LODGE. As I understand it from you, Mr. Secretary, you would not be very optimistic about the success of this program unless some very definite steps are taken, not only for self-help within each of these countries, but for a certain amount of, let us say, economic federation among these countries; is that correct?

Secretary MARSHALL. That is one of the most important considerations in the entire program.

Mr. LODGE. Thank you very much, sir.

Chairman EATON. Mr. Jackson?

Mr. JACKSON. Assuming you are twice as weary as anyone else around the table and believing that humanity like charity should begin at home, I yield back the balance of my time.

Chairman EATON. Mr. Secretary, on behalf of the committee, I wish to thank you for your very informative testimony today.

However, I would like to say one thing before we break up: Dr. Judd made a reference to the Chief of Staff and expressed the hope that this new Administrator might be something like the late Chief of Staff. I can only say on behalf of the committee and the entire House of Representatives, I think, that if we could find in this country an

¹⁰ The prewar system was administered by the RIV (Regolamento-Internationale Veicoli or International Wagon Union).

¹¹ CEEC report, II, p. 175-178.

Administrator comparable to the Chief of Staff, and his ability and success, the whole country would be immensely pleased.

We will meet tomorrow morning at 10 o'clock in the Ways and Means Committee room, and Ambassador Douglas will be the witness.

Thank you.

The meeting is adjourned.

Secretary MARSHALL. Thank you very much, Mr. Chairman, and you gentlemen for your kind treatment.

(Whereupon, at 5:10 p. m. the committee adjourned to Tuesday, January 13, 1948, at 10 a. m.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 13, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10 a. m., in the Ways and Means Committee room, New House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will please come to order.

We are very glad today to welcome back to his old haunts our distinguished former member and colleague, Ambassador Douglas. He made a very wonderful record here, and has done even better since.

I would like to say to the distinguished Ambassador that the House of Representatives represented here today is not exactly the same as it was in his time. It has improved somewhat, of course, in its politics, but apart from that it so happens that the world at this moment is in economic chaos. The one great solvent Nation so far is the United States, and all of the great problems come to us in economic form. For that reason, the legislation involved must, under our Constitution, originate in the House of Representatives. So, for the first time in 150 years, Mr. Ambassador, the House of Representatives is in the front rank of this Government and proposes to stay there.

We would now like to ask you what you are going to talk about today.

STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES AMBASSADOR TO THE UNITED KINGDOM

Ambassador DOUGLAS. Mr. Chairman and members of the committee, I am very happy indeed to be advised that this branch of the legislative body in certain respects has been elevated to a position of eminence, which under the system prevailing when I was a member it did not enjoy.

One of the things I should say in opening is that there is very little that I can add to what the Secretary of State, Mr. Marshall, has said. He has adequately and, I think, impressively, covered a number of vital points. He has shown clearly the extraordinary significance of the part of the world of which we are now speaking, toward the recovery at which this legislation is aimed, what it means to the United States and our deep national interest.

Many members of this committee have traveled abroad, and have felt with their hands, as it were, the conditions there. Therefore, it is necessary for me to state at this time that I do not feel that I can

enlarge upon what the members of the committee already know, or extend the observations which the Secretary of State has so adequately made.

I confess that I am startled and amazed at the extraordinary speed with which, in but a very brief period of time, the American people have burst out of their traditional intellectual continental cocoon, and are observing the United States in its relationship to the world.

I venture to say, Mr. Chairman, that no country in history has experienced such a profound change in such a short period of time. It is appropriate that that should be the case, for our country has emerged from the war, as a result of its energies, its industry, and ingenuity, as the most powerful Nation on earth. With power, there goes responsibility. It is inevitably associated with authority.

So I can add little to what has been said in a broad way about the significance of the European recovery program to the United States, but I think that perhaps I can silhouette the character and the quality, the nature and the importance of the area of which we are speaking, by referring to certain facts which disclose its industrial power and its cultural background. They are important, for these 16 nations, the recovery of which we are determined to support, constitute a community of nations of western civilization, of which we are an inescapable member.

If I may, Mr. Chairman, I would like to refer to the charts that have been prepared which graphically disclose to me in a more emphatic way than I have ever before realized or appreciated the real significance of the area of the world of which we are speaking.

Before I refer to the charts, I should like to say that the geographic orbit of these 16 nations extends from the northern most tip of Europe, along the Atlantic littoral through the northern coast of the Mediterranean to a point contiguous to the Middle East.

However, this is not all because many of them have appended territories which embrace large parts of north and west Africa. Thus, the entire area over which these 16 nations exercise their influence, covers that extraordinarily important part of the world extending from the Arctic limits of the European Atlantic coast line to the tip of Africa.

Economically, Mr. Chairman, this area is highly significant.

Expressed in terms of population and in terms of percentages of the world, these 16 participating countries represent 12 percent of the total population of the entire world. I should add that when I speak of the participating countries I include western Germany.

The population of the United States represents about 6.5 percent of the total population. Thus the two together comprise almost 20 percent of the total inhabitants of the globe.

Twenty-six percent of the literates of the world reside within the European area of which we are speaking, and 14 percent in the United States. Thus, some 40 percent of the total literate people of the entire world live either in our own country or in the community of nations of which we are an integral part.

Twenty-seven percent of the total world output, world production, is derived from these 16 participating nations, and 35 percent from the United States. The two together, making up this community of which we are a part account for 62 percent, which is almost two-thirds of the entire production of the globe. This, of course, is based upon the prewar period, 1938.

Mr. BLOOM. How do you define that?

Ambassador DOUGLAS. It is agriculture, it is industrial production, it comprises every product.

Mr. BLOOM. Does it include steel and coal?

Ambassador DOUGLAS. Yes.

Mr. CHIPERFIELD. How much food does the United States produce as compared with the world?

Ambassador DOUGLAS. I am not sure we have that figure, Mr. Chiperfield, but if I do not have it here I can provide it.

(The information is as follows:)

I. In terms of calories, the United States produced in prewar years about 8½ percent of total world food output. It is now producing approximately 11 percent of total world food output.

II. In the prewar period, the United States produced about 23 percent of the world's grains (excluding rice) and in 1945-46, the United States produced about 32½ percent of world grain output.

Mr. VORYS. You speak of world output of the total production. Is that in dollars or is it in tons, and do you compare tons of wheat with tons of steel and tons of jewelry?

Ambassador DOUGLAS. It is expressed in terms of the dollar value, as of this period.

Mr. VORYS. As of 1938?

Ambassador DOUGLAS. Yes; 1938, and the production outside of the United States has been translated into the dollar value as of that period. That was a convenient method of arriving at these calculations.

Steel, alone, is interesting. These 16 participating nations and western Germany produce 37 percent of the total production of the entire world, or did produce that much, whereas the United States produced 38 percent in the same period, for a total of 75 percent of the entire amount of steel produced everywhere. These 16 participating nations and western Germany operated and controlled 68 percent of the merchant tonnage in 1938, whereas the United States operated and controlled some 14 percent, for a total of 82 percent of the overseas maritime transportation facilities.

In chemicals, the participating countries contributed 40 percent of the total output in production of the world, whereas the United States produced some 26 percent.

Of all of the exports from every country and area throughout the world, 24 percent emanated from the countries of which we are speaking, and 17 percent from the United States. Of all the commodities imported into all the countries and areas of the world, the participating countries accounted for 39 percent, and the United States for 11.5 percent.

Stated in different terms, the United States and these participating countries accounted for approximately one-half of the entire world trade, expressed in terms of imports and exports.

This chart, combined with the next one, discloses the occupations in broad categories of the populations of the participating countries—71 percent, for example, are nonfarm workers, whereas only 29 percent are farm workers. That is compared with 40 percent nonfarm workers throughout the world, and 60 percent farm workers.

This indicates quite conclusively that this area was in fact the second greatest industrial area in the world, second only to the United States.

The industrial power of this area was tremendous.

Mr. VORYS. Mr. Ambassador, if you are interested in having us read the figures on that chart, most of us cannot do it from this distance. I do not know whether it is of any importance or not.

Ambassador DOUGLAS. The next chart supports the disclosures of the first two charts. It is one which shows the fact that this area of which we are speaking was the center of the complicated, intricate, and sensitive system of world trade because of its industrialization. Most of its foodstuffs had to be imported, as the previous chart disclosed. It derived its raw materials from the far corners of the globe. It fabricated them into finished articles and sent them out across the seas, selling them to a variety of different peoples scattered about the seven seas, and thereby this area derived foreign exchange, with which it was enabled to purchase the foodstuffs which are required to maintain life at a reasonable level of living and the raw materials that it required for fabrication into finished articles.

Mr. RICHARDS. Mr. Ambassador, in speaking of this area, as I understand it you not only include the 16 nations but the American and British zones of Germany, as well?

Ambassador DOUGLAS. That is right, sir. In referring to the 16 participating countries I meant, and always mean, to include the western part of Germany among them.

This chart is illustrative of the complexity of the trading of this area of which we are speaking. It was bound together with highly complicated arteries, this highly intricate sensitive industrial system. It was held together by an inland transport web as finely spun as the web of any spider; by an overseas maritime fleet carrying its goods out and bringing back the imports that were required, and by a financial system which hinged upon the general convertibility of one currency into another.

For example, these countries of which we are speaking incurred traditionally a deficiency on trade balance with the United States. However, they had surpluses on trade balance with other parts of the world. Because they could convert one currency into another, they utilized the surpluses with other parts of the world for the purpose of meeting the deficiency which they had with the United States and with the Western Hemisphere.

Canada, for example, had traditionally a deficiency with the United States expressed in terms of dollars, but a surplus with the European countries. It employed its surplus with the European countries for the purpose of meeting its deficiency with the United States. As I have indicated, and as is amply demonstrated by performance over many, many years, this area was the center of a highly industrialized and extraordinarily complicated, sensitive system. We are a part of that community.

However, there are more than merely the economic aspects of the area of which we are speaking. These participating countries were culturally and politically a part of the area to which we belong. We derive much of our basic philosophy, our political and economic philosophy, from the people who inhabit this area. This area and ours constitute the seat of that view strongly held by free peoples, that

the dignity of the individual is the central and pivotal core of civilized living. This was an area in which in varying degrees political institutions were built up around the conception of the Parliament: the right of men through their elected representatives to control and direct the national affairs.

Now, what has happened to this area? I failed to say this, Mr. Chairman, before: A part of the bloodstream of these nations was derived from the accumulated savings that had been invested overseas and that therefore provided the exchange, or a part of the exchange, which, added to their exports, enabled them to buy the imports which they required.

As a pure product of the war, the invisible income derived from overseas investments of these 16 participating countries has been converted from a surplus of approximately \$1,500,000,000 a year to a deficiency of \$500,000,000.

Mr. CHIPERFIELD. Would you please explain why?

Ambassador DOUGLAS. The principal reason was that they were compelled to sell their overseas investments in order to derive the exchange with which they could buy, and had to buy, the necessary implements of war to maintain their national integrity.

Ambassador DOUGLAS. Much of the merchant shipping controlled and operated by these participating countries has been sent to the bottom of the seas, purely as a product of the ravages of war.

The war damage to this area and its plants and facilities has reduced inordinately the productive capacity of this area. Before the war, this area derived a considerable economic benefit from the fact that prices of imported food and raw materials fell by far more than prices of exports. However, since the war the prices of their imports has risen by approximately 50 percent more than the prices of their exports. Thus, they have had to pay more for their imports and receive proportionately less for their exports.

The population within this area has increased, as compared with 1928, by approximately 20 percent. As I recollect the figure, almost 40 percent of that increase has occurred in western Germany.

Mr. FULTON. Is that increase because of the bringing in of other people from other countries, or is it a result of a birth increase?

Ambassador DOUGLAS. It is both. There has been a migration from the eastern part of Europe into this area. In other parts of Europe the birth rate in large measure has accounted for the increase.

Mr. FULTON. In spite of the death rate?

Ambassador DOUGLAS. Yes. It is one of the extraordinary facts that despite the toll taken of human life by the war, the population within this area has increased some 20,000,000. I cannot say that 40 percent of it is due to migration from the eastern part of Europe into the western part of Germany, but a substantial part of the 40 percent has been due to that movement of people.

Mr. VORYS. Now, you say 20,000,000 people, and you mentioned 20 percent.

Ambassador DOUGLAS. It is 40 percent.

Mr. VORYS. We are talking about a population of about 270,000,000 people, are we not?

Ambassador DOUGLAS. Yes, before the war it was about 250,000,000 and now it is about 270,000,000.

Mr. VORYS. Then that is not 40 percent.

Ambassador DOUGLAS. I meant to say, if I did not say it clearly, that about 40 percent of the increase has occurred within Germany. That is about 40 percent of the increase of 20,000,000 has occurred in western Germany.

Mr. RICHARDS. That is what you said.

Ambassador DOUGLAS. If I did not say it that is what I should have said.

Mr. BLOOM. That is what you should have said, and that is what you said.

Ambassador DOUGLAS. More than that, there has arisen out of the postwar environment, a division, as it were, between eastern Europe and western Europe. Eastern Europe provided for western Europe a significant part of its essential imports, particularly of foodstuffs. There is now no flow, to speak of, of commodities of that sort from the great granary into the great consuming area of Europe.

As was indicated by implication in the previous chart, south-eastern Asia was an area which produced large imports into western Europe, and exports to other parts of the world, from which many of these participating countries derived exchange with which they could balance their deficiencies with the western world, that is, the Western Hemisphere. That source of exchange has been in large measure eradicated. Indeed, some of the areas in this part of the world instead of being now as they were before the war a source of income, are now a source of expenditure.

In one part, for example, the ratio has fallen by almost 75 percent, and in order that it may be increased at all, western European countries have had to incur an expenditure to import into the area.

It is not disclosed on this chart, but, finally, the war produced great dislocations and shifts in the sources of essential supplies. I have referred by implication to one of them; that is to say, the source of foodstuffs from eastern Europe and that source is now withdrawn.

Another item is coal. The United Kingdom and Germany were the two great providers of coal for this entire area. Purely as a product of war they are not now providers of any great amount of this essential source of energy. It is essential to human life and essential to the production of goods.

Mr. CHIPERFIELD. Mr. Ambassador, there is a scale on the chart. How much is it out of balance?

Ambassador DOUGLAS. I was going to come to that, sir, if I may, when I try to explain the way in which the amount incorporated in the program has been calculated.

Now, all of these factors together—that is, the loss of investment income, the decline in production, the loss in income on account of services rendered, shipping, the unfavorable price movements (that is, the discrepancy between the price of imports and the price of exports) the divorcement of eastern Europe as a source of food supplies, and the consequent focusing of demands for food supplies on other parts of the world, the increase in population, the dilapidated state of southeast Asia, the shifting of the source of the demand for coal—have completely unbalanced the position of these participating countries.

If you will recollect, in the first chart it was shown that some 40 percent of the literates are in this area, and, historically, it was true

that this area was one of the greatest states of free government, one of the sanctuaries of the parliamentary system. Most of them were overrun and occupied by the German hordes, and their traditional form of government was destroyed.

With the wave of liberation, that which had been substituted during the war was in turn erased. Accordingly, many of the governments of these peoples have been faced with the tedious and arduous task of reconstructing political institutions where none existed. If, therefore, they have not been as precisely correct in the politics which they have pursued; if they have not observed as clearly as they might otherwise have observed public policies of a valid nature, it can in part be ascribed to the task of reconstructing and rebuilding political institutions where none existed.

That, I think, describes and discloses the nature of Europe as it was before the war, the quality, character, and significance of it, and what has happened to it.

Mr. BLOOM. Do you mean where none existed at the time of liberation; is that right?

Ambassador DOUGLAS. Where none existed immediately after liberation. The present estate of these participating countries has been diminished. Their postwar condition has been impaired and their immediate condition has been further damaged by, as you know, the visitation of one of the most extraordinary droughts Europe has ever experienced. This was in the year of 1947.

Mr. CHIPERFIELD. Do you know how that drought actually affected the crops in those 16 countries?

Ambassador DOUGLAS. In the case of France, as I recollect, for the crop year 1946-47 the production of bread grains was just over 7,000,000 tons. In the crop year of 1947-48 the production is estimated at 3,700,000 tons.

Mr. CHIPERFIELD. Was this reduction due to the fact that the peasants, themselves, did not plant as much wheat?

Ambassador DOUGLAS. I think, Mr. Congressman, there are other factors which have aggravated the agricultural condition and I could not honestly say it was due entirely to the drought.

Later on, if I may, I would like to refer to what is considered one of those factors and tell you now briefly that it was due in part to the rather tattered internal fiscal and monetary systems of some of the countries.

Mr. JARMAN. It was in large measure due to droughts?

Ambassador DOUGLAS. Yes, following the very cold and bitter winter.

Mr. MANSFIELD. When we speak of the eastern part of Czechoslovakia, is it not true that that drew a line between the satellite countries, on the one hand, and the 16 participating countries on the other?

Ambassador DOUGLAS. That is right. Thank you, sir.

Now, these 16 participating countries, as you know, have met for the purpose of calculating that which they could do for themselves individually. They determined that which they could undertake to do in a cooperative enterprise for each other, and the outside support required to bring that scale of balances into equilibrium.

I should like, if I may, Mr. Chairman, to explain how the United States Government has calculated the amount for the 15 months' period from April 1, 1948, through June 30, 1949, which will be

necessary to achieve the recovery of this extraordinarily significant and important part of the world.

I do not know whether the figures on this chart are large enough to be clearly visible.

Mr. VORYS. The invisible assets are invisible.

Chairman EATON. What is the title of that chart, Mr. Ambassador?

Ambassador DOUGLAS. This we might call the calculation of the \$6,800,000,000 which we believe to be necessary if these 16 participating countries and western Germany are to recover and to regain political and economic stability and thus to be forthright members again of the community of free nations.

I shall compare this chart, after I have finished explaining it, with the calculations made at the Paris conference by the Committee on European Economic Cooperation, and with the calculations made by the Harriman committee.

There are certain selected commodities, and the members of the committee will find a list of the selected commodities on, as I recollect it, page 115 of the document dated December 19.

It is entitled "Outline of European Recovery Program."

The amount of dollars necessary for the participating countries to purchase these selected commodities from the United States is \$4,239,000,000.

Basis of the \$6.8 billion

	United States	Other Western Hemisphere	Total Western Hemisphere
1. Selected imports.....	4, 239	3, 346	7, 585
2. Other imports.....	2, 740	1, 478	4, 228
3. Total imports.....	6, 989	4, 824	11, 813
4. Selected exports.....	296	303	599
5. Other exports.....	1, 990	1, 455	3, 445
6. Total exports.....	2, 285	1, 758	4, 043
7. Merchandise balance.....	-4, 734	-8, 066	-7, 800
8. Freight (net).....	-293	-145	-438
9. Other invisibles (net).....	+263	+13	+276
10. Balance (July 1, 1947, prices) (break-down available by countries).....	-4, 764	-3, 198	-7, 962
11. Adjustment for higher prices..... All above figures based on July 1, 1947, prices, as was CEEC. This adjustment allows for a 7 1/4 percent rise in United States and 5 percent in other Western Hemisphere export prices, and a 5 percent rise in European export prices. The rise in prices may well be greater than this allowance covers.	-412	-158	-569
12. Adjusted balance.....	-5, 176	-3, 351	-8, 527
13. Total deficit Western Hemisphere.....			8, 527
14. Uncovered deficit, bizonal Germany, with nonparticipating countries outside Western Hemisphere.....			200
15. Total to be financed.....			8, 727
16. To be met by sources other than new U. S. Treasury financing.....			1, 285
17. Total new financing by U. S. Treasury.....			7, 442
18. Appropriations being requested by Army for prevention of disease and unrest in Germany.....			822
19. Subtotal.....			8, 264
20. Add funds required for obligation prior to June 30, 1949, to cover contracts for shipments in subsequent period.....			200
21. Total requirement for first 15 months, ERP..... Rounded to.....			8, 464

Mr. VORYS. Let us see if we can get this big chart tied into the chart on page 115.

Ambassador DOUGLAS. If you will add the first two columns of the chart on page 115 you will come out, I believe, with a total equal to these totals, before price adjustment. The table is entitled "Value of Selected Imports of Participating Countries from the United States Based Upon July 1, 1947 Prices."

The first column is the value of selected imports during the period April 1 to June 30 of 1948, and the second column is the value of the same selected imports during the period from July 1, 1948, to June 30 of 1949. I have put those two columns together to show how the calculation of the \$6,800,000,000 for the 15 months' period has been made.

Mr. VORYS. Have you not also made a price adjustment?

Ambassador DOUGLAS. The price adjustment is included in item No. 11. I will come to that.

These figures, in respect of the value of imports, were based upon July 1, 1947 prices, and then an adjustment on account of the increase in prices was made under item 11, but I think I can come to that, Congressman Vorys, and I hope to be able to explain it as we go through the chart.

Is this a useful method of presenting the matter to the committee?

Mr. CHIPERFIELD. Mr. Ambassador, to me abstract figures do not mean a thing unless you can tie it into the needs and requirements of a particular country. So many million metric tons does not mean anything.

Ambassador DOUGLAS. The first thing you have in mind is the availabilities. These calculations were based upon, among other things, two considerations. First, the requirements, and, secondly, the availabilities.

Mr. CHIPERFIELD. Otherwise, they would not mean a thing.

Ambassador DOUGLAS. They are based on precisely those two assumptions, among others.

The requirements on each one of the participating countries must be added to the requirements of all the countries and measured against availabilities, in order that we may have a complete picture.

Mr. CHIPERFIELD. However, Mr. Ambassador, those abstract figures you are now explaining just do one thing; they show that you had the right arithmetic to add it up to \$6,800,000,000.

Until we get this chart on Wednesday giving a break-down, I do not see anything to your chart except it is a total.

Ambassador DOUGLAS. It is a total for the 16 participating countries and western Germany and we are dealing with the 16 participating countries and western Germany.

The appropriation we are seeking is to establish or bring about and encourage recovery within these countries, and there is no way in which we could have an over-all view of the total amount unless we put the requirements of each one of the participating countries together and come up with the total requirements, always measured against the availabilities, and that is precisely what this chart undertakes to disclose.

There will be submitted to the committee the individual country studies embracing these countries.

Mr. VORYS. Is this not the fact, while your \$6,800,000,000 was arrived at by starting with, as Mr. Chipfield says, various countries and various commodities and building from details up to a total, all you are doing is starting to describe the thing going backward, so we can have in mind how the total got to be that way, and it will not be until Wednesday until a detailed study can be made of item No. 1.

However, we can at least today get in mind, by studying backward, the way you arrived at the thing going forward, and how you got your figures.

Ambassador DOUGLAS. That is precisely right. This is an overall attempt to disclose how the \$6,800,000,000, which is the total, was arrived at.

Mr. RICHARDS. You have just now started to describe it. You have not described it yet.

Ambassador DOUGLAS. That is right.

Chairman EATON. In spite of the figures, I think we could understand the printing if you would read them. We cannot see them.

Ambassador DOUGLAS. The first one is the value of the selected imports for each one of the participating countries, from the United States, amounting to \$4,239,000,000 and from the other Western Hemisphere countries, amounting to \$3,346,000,000, or a total of the selected imports, a list of which is to be found on page 115 of the document that has been published.

The total amounts to \$7,585,000,000.

Now, there are other imports that were not programed for each of the participating countries. They cover a wide, wide variety of articles necessary to highly intricate and complicated and sensitive industrial units.

Those other imports from the United States amount to \$2,750,000,000 and from the other Western Hemisphere countries, \$1,478,000,000, or a total of \$4,228,000,000.

The total imports, then, of the two categories, selected and other items from the United States, amount to \$6,989,000,000; from other Western Hemisphere countries, \$4,824,000,000; and from the total Western Hemisphere, \$11,813,000,000.

Mr. VORYS. I wonder if it is time yet to tell what you mean in general by selected imports and other imports. You used the word "programed" in the Senate hearings, and I did not get your explanation there.

It seems to me you have selected imports there. Someone has selected them and said these are the imports they ought to have. I would like to know what the other imports are.

Ambassador DOUGLAS. There are commodities which have been programed for these countries, and they are common to these countries. There is a great variety of other commodities in quality and kind for each one of the countries. Those programed are those which are generally common for all the countries.

Mr. JARMAN. Are those the selected imports?

Ambassador DOUGLAS. That is right.

Mr. JARMAN. The others are those which go to some countries but not to all?

Ambassador DOUGLAS. Generally speaking, that is true, although there are some commodities common to all the countries.

Mr. VORYS. Where do those show up in the book here, the other imports, in item 2?

Ambassador DOUGLAS. They are not shown. They are included in the country studies.

Now, the selected exports from the participating countries amount to \$295,000,000 to the United States and the exports to other Western Hemisphere countries amounts to \$303,000,000, for a total exports of selected commodities amounting to \$598,000,000.

Other exports amount to \$1,960,000,000 to the United States, and to the Western Hemisphere, \$1,455,000,000, or for the entire Western Hemisphere, \$3,415,000,000.

Total exports to the United States are \$2,255,000,000 and to the other Western Hemisphere countries \$1,758,000,000. For the entire Western Hemisphere, they are \$4,013,000,000. That is just on trade account.

These participating countries have a deficiency. That is, their exports are less than their imports in the amount of \$4,734,000,000 with the United States and \$3,066,000,000 with other Western Hemisphere countries, or a total, with the entire Western Hemisphere \$7,800,000,000. That is on trade account.

Mr. CHIPERFIELD. Does that last figure represent a balance of payments?

Ambassador DOUGLAS. This is on merchandise account only. I would like to explain that this calculation is not a pure monetary balance of payments calculation, because in respect of a large volume of commodities the figures have been derived by examining the essential nature of a variety of different significant and important commodities, the quantity of them, and translating the quantity into dollars.

Mr. CHIPERFIELD. Mr. Ambassador, in the interim-aid bill, and the \$350,000,000 relief bill, did not the State Department furnish a Balance of Payments chart for us?

Ambassador DOUGLAS. This is a total balance of payments, but I wanted to say it was not calculated in a purely monetary sense. We have taken commodities—at least, the selected and programmed items—and translated them into terms of dollars.

Does that answer your question?

Mr. CHIPERFIELD. Yes.

Ambassador DOUGLAS. On trade account and trade account alone the difference between exports and the imports with the United States is \$4,734,000,000. With other Western Hemisphere countries, it is \$3,066,000,000, and with the Western Hemisphere as a whole \$7,800,000,000.

Now, to that deficiency on trade account there has been added necessarily an item representing freight charges, and that is on a net basis. It will cost \$293,000,000 for us to transport the commodities to be exported from the United States to these participating countries, and from the other Western Hemisphere countries \$145,000,000. That is on a net basis. I want to make that clear.

Mr. VORYS. When you said "net," you mean the excess of freight charges for the imports over the freight charges for the exports as the net figure? Is that correct?

Ambassador DOUGLAS. No; that is not quite correct, sir. There are certain earnings and these figures, \$293,000,000 and \$145,000,000

represent the difference between the dollars which these European countries will earn on a shipping account and the dollars which they will have to expend on shipping account.

This calculation is further based upon the assumption that the Congress will authorize the sale of some 200 ships to the participating countries, and the bare boat charter during the period of the program, of an additional 300 bulk carriers, thus reducing the amount of dollars that would otherwise have to be expended to carry this freight and this traffic across the sea. Those ships will be manned by the country that controls them, they will fly the flag of the country that controls them, and the freight will be paid in the local currency and not in dollars.

Mr. VORYS. At this point could you possibly give us a figure of what the net freight deficiency would be if we did not follow the policy suggested and used all American bottoms and subsidized shipping?

Ambassador DOUGLAS. Over the entire period, the additional cost in dollars, which is probably a satisfactory way of saying the answer, would amount to about \$650,000,000.

Mr. VORYS. Is that over the 15 months?

Ambassador DOUGLAS. No; over the 4½-year period. Over the 15-month period, the savings in dollars on account of the chartering of ships will amount to about \$100,000,000. With respect to the savings derived from the sale of ships—I do not know that figure. I think there is an additional saving on account of the sale of ships. I will try to give you that figure.

(The information requested is as follows:)

ESTIMATE OF THE SAVINGS RESULTING FROM THE TRANSFER OF VESSELS UNDER ERP

Estimated requirements for dollar freights are based on the assumption that approximately 200 vessels would be transferred during 1948. If provision for such transfers is not made in ERP, the dollar freight costs would be increased by approximately \$115,000,000 per year. Since the requested transfers included Liberty ships as well as some C-type and Victory ships, the increased costs would apply both to bulk cargo and liner services.

As against the \$115,000,000 increase in freight costs per year, the sale of the vessels would require a 25-percent down payment and an additional 5 percent for each year. The down payment and 1 installment on the 200 vessels would approximate \$32,000,000. In addition, the vessels transferred to foreign flag would still require dollars to cover port charges and other disbursements in dollars to the amount of approximately 25 percent of what the freight cost would be.

Considering these two factors, it is estimated that the failure to transfer the requested 200 vessels would increase the cost of the program by \$54,000,000 for the first year and \$81,000,000 for each succeeding year. Since some time would elapse between the commencement of the program and the final transfer of the vessels, it may be assumed that this \$54,000,000 would be the added cost for the first 15-month period. The aggregate cost added over the entire program would be approximately \$300,000,000.

Under the program recommended by the executive branch, there is provided not only the sale of these 200 war-built vessels, but also the temporary transfer of up to 300 additional bulk-cargo carriers to the participating countries on bare-boat charter for handling commodities made available by the program of United States assistance. The latter transfer is expected to reduce the financial requirements of the participating countries by \$240,000,000 in reducing their requirements for dollar shipping services. This amount is divided \$100,000,000 during the first 15 months, \$94,000,000 during the following fiscal year, and \$46,000,000 in fiscal 1951. A further \$110,000,000 would be saved through a general easing of freight rates, especially during the last 3 years of the program. Both these savings have been applied to the calculations of the dollar requirements for European recovery on an over-all basis, but have not been distributed by countries.

Should the program for this temporary transfer not be adopted, the total cost of the European recovery program would be increased by \$350,000,000.

The aggregate added cost if neither transfers nor temporary transfers of ships are provided for would thus be \$650,000,000.

Mr. BLOOM. How are these ships going to be sold, are they going to pay for them, or is it another one of those transfers of ships?

Ambassador DOUGLAS. The hire for the charter of ships will be a nominal one, it is contemplated. With respect to sales, it will be 25 percent down for the first year, on the sale, and the regular terms defined under the Purchase Ship Sales Act. It will be 25 percent down the first year. I have forgotten what the total period covered is under the Sales Act.

Mr. CHIPERFIELD. Do we loan them the 25 percent?

Mr. BLOOM. Is it paid in dollars?

Ambassador DOUGLAS. That will be paid for out of their other resources.

Mr. BLOOM. In other words, we get it?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. You do not know, but we do get it?

Ambassador DOUGLAS. That is right.

Mr. VORYS. We heard in Germany that the furnishing of 75 ships under charter, it was estimated, would result in a reduction in the cost for freight of \$40,000,000. That was not an official estimate. It was given to us by an American official and concurred in by German officials. I had thought if that figure was correct that the total savings through having the shipping handled otherwise than through American bottoms might be far in excess of the amount you mentioned.

Ambassador DOUGLAS. That \$40,000,000 saving was over what period?

Mr. VORYS. I understood it was a \$40,000,000 annual saving.

Ambassador DOUGLAS. That calculation would not be at variance with this calculation to any great extent. Seventy-five ships save \$40,000,000. Five hundred ships would save about \$250,000,000.

I do not know how that calculation was made. It may not have included the cost of bunkering and a variety of other things.

Then there is other invisible income from the United States amounting to \$263,000,000, and from other Western Hemisphere countries amounting to \$13,000,000. That is on account of tourist expenditures and a variety of items of that character. There is some income which is derived from the remaining foreign investments.

Therefore, the balance, the deficiency with the United States is \$4,764,000,000 and with other Western Hemisphere countries \$3,198,000,000, or a total for the entire Western Hemisphere, \$7,962,000,000.

Now, those figures, insofar as commodities are concerned, were based upon the price level as of July 1, 1947. However, between July 1, 1947, and October the price level had risen 7.5 percent. Therefore, insofar as the commodities are concerned an adjustment had to be made on account of the increase in the price level and that adjustment with the United States amounts to \$412,000,000, and with other Western Hemisphere countries \$153,000,000.

I have been reminded that for the other Western Hemisphere countries, the increase in the price level was 5 percent, whereas within the United States the adjustment was 7.5 percent. Therefore, the total adjustment on account of prices with the Western Hemisphere amounted to \$565,000,000. Therefore, the adjusted balance shows

a deficiency of \$5,176,000,000 with the United States; \$3,351,000,000 with other Western Hemisphere countries, and \$8,527,000,000 with the entire Western Hemisphere.

I would like to emphasize, if I may, one point. In regard to these imports it has sometimes been asserted it is proposed that the commodities to be imported into these countries will provide a standard of living higher than or equal to the standard of living in 1938. I would like to show you the standard of living it is calculated these imports will provide; it is based upon what is known as the caloric diet. It is measured in terms of calories. A diet of 1,650 calories has been estimated by the National Resource Councils to be the semi-starvation level of the diet.

In 1947 and 1948 the diet of the people living within these countries was approximately 2,250 calories. In 1948-49, the period for which these estimates of commodity imports have been calculated, it is estimated that the average diet will approximate 2,550 calories.

The prewar diet in these countries had a value of 2,800 calories.

The per capita diet in the United States of our nonfarm population is 3,200 calories.

I want to make the point that it is not contemplated by any manner of means that this import program, the quantities of goods required by these participating countries, is based upon the assumption that the standard of living, expressed in terms of caloric diet, will be even equal to the prewar.

Mr. CHIPERFIELD. Mr. Ambassador, you do, however, under this program expect to bring the production up in these countries beyond prewar levels?

Ambassador DOUGLAS. It must be done because it is only by increasing production, and very substantially, and thus increasing exports, that these participating countries will be able to compensate for the loss of their invisible income, the shifts of sources of supplies and the increased population.

Mr. JONKMAN. Mr. Ambassador, that is our principal ailment here, is it not?

Ambassador DOUGLAS. What is that?

Mr. JONKMAN. Production.

Ambassador DOUGLAS. I think the ailment here is due to a combination of different factors.

Mr. VORYS. On that 2,250 caloric figure for 1947 and 1948 I confess I am amazed to find it is that high, although I realize you have Turkey and some countries in there that have practically a normal diet. However, when I think that Austria and western Germany are in there, they are a lot nearer that 1,650 that you have marked as "semistarvation" than are the 2,250 that you say is the average.

Ambassador DOUGLAS. Yes. Well, averages are sometimes misleading, as you know very well. The level of the diet in a great many of these countries is substantially below the 2,250 calories indicated. There are some in which the caloric value of the diet is substantially higher. For example, that is true in the United Kingdom. The caloric value in the United Kingdom is somewhere in the neighborhood of 2,800 or 2,900. The caloric value in France would be very much less than that. You know what the bread ration in France

is now as compared to prewar. That was disclosed, as I remember it, during the hearings on interim aid.

Mr. BLOOM. Have you taken into consideration the children and what they are going to get?

Ambassador DOUGLAS. I do not know that there has been any segregation of the population by ages, in relation to diet.

Mr. BLOOM. In all the calculations I have heard, they do not seem to take into consideration the starving children in Europe, and that, to me, is the most essential thing that I know of at the present time.

Now, when you speak of starvation over there I understand the children are getting but one meal a day. If you do not take into consideration in this program the relief of the children of Europe I think you are overlooking one of the most important things connected with what you are trying to do.

Ambassador DOUGLAS. Certainly I think it is fair to say that there has been no indifference to the condition of children, but these calculations are not based upon any cataloging of the population, according to age. Obviously, however, if the caloric value were in this area increased from 2,250 to 2,550, the children will derive very substantial benefit from it.

Mr. BLOOM. That has been promised right along, but I have not seen anything effective.

Ambassador DOUGLAS. Mr. Nitze tells me the ration does favor children. I know that is true in Germany, but I do not know whether that is true in France or Italy. I know that is the case in Britain and western Germany. Whether that is the case in France or Italy I cannot say.

Mr. JARMAN. In these population figures here, a 2-year-old child is considered the same as a 50-year-old man, is he not?

Mr. BLOOM. A 2-year-old child does not need the same amount of food.

Mr. JARMAN. He does not need the same amount of calories, does he?

Ambassador DOUGLAS. It is a different type of diet.

I wanted to emphasize the point that this program is not aimed at increasing the standard of living to the prewar level in these participating countries.

Now, we come down on this chart to the deficiency of the Western Hemisphere, amounting to \$8,527,000,000. The uncovered deficit of the bizonal area in Germany with nonparticipating countries outside of the Western Hemisphere amounts to \$200,000,000, so the total to be financed amounts to \$8,727,000,000.

You see, Germany purchased commodities from areas outside of the Western Hemisphere and from nonparticipating countries, that is, countries other than the 16 that met in Paris and prepared their report. The deficiency that the bizonal area of Germany incurs, on account of its necessary imports with those countries, amounts to \$200,000,000.

Mr. VORYS. So far as the United States Treasury is concerned, you simply add that to the \$822,000,000 you are coming to later in item 18, and it is the cost of occupation for Germany, as far as we are concerned; is that right?

**STATEMENT OF PAUL H. NITZE, DEPUTY DIRECTOR, OFFICE OF
INTERNATIONAL TRADE POLICY, DEPARTMENT OF STATE**

Mr. NITZE. The average figure that will go to Germany is larger than the sum total of \$200,000,000 and \$822,000,000 because there is included in the \$6,800,000,000 some category-B items for Germany, that is over and above the amount necessary to prevent disease and unrest.

It is approximately \$347,000,000. However, this item of \$822,000,000 is just the Army appropriation for the prevention of disease and unrest, which is merely what are called category-A items. The items necessary for recovery are included in the \$6,800,000,000.

Mr. VORYS. However, the \$200,000,000 is in addition to the \$822,000,000?

Mr. NITZE. That is correct.

Mr. VORYS. So you have for Germany about \$1,400,000,000?

Mr. NITZE. It is something on the order of \$1,300,000,000, or \$1,400,000,000. That is for all zones in western Germany.

Mr. JARMAN. If the \$200,000,000 is in addition to the \$822,000,000, why is one plus and the other minus?

Ambassador DOUGLAS. This is a deficiency with countries other than the Western Hemisphere and other than the participating countries. That is a dollar deficiency with countries other than those enumerated and therefore it has to be added on to be accurate. It would be \$8,527,000,000.

Mr. LODGE. Does that \$200,000,000 represent a deficiency with the Soviet Union or her satellites?

Ambassador DOUGLAS. No.

Mr. LODGE. What is it due to?

Ambassador DOUGLAS. It is wool from Australia, hides from South Africa, and a variety of countries of that order.

Mr. FULTON. If you are excluding the participating countries and the Western Hemisphere countries and you are excluding the Soviet Republic, plus the countries that are within their sphere, and that then represents \$200,000,000, then the next question logically follows: What is the deficit to the countries within the Soviet sphere, the eastern European countries behind the so-called iron curtain?

Ambassador DOUGLAS. There is no deficit.

Mr. FULTON. That is an even basis?

Ambassador DOUGLAS. That is right.

The total to be financed is \$8,727,000,000.

To be met by sources other than new United States Treasury appropriations, there are a number of different items, or rather \$1,285,000,000 from that source.

Now the analysis of that \$1,285,000,000 is as follows: \$700,000,000 from other Western Hemisphere countries. That \$700,000,000 figure is based upon the past experience that these 16 participating countries have had with the other Western Hemisphere countries. The \$700,000,000 takes the form of credit extended. One of the Western Hemisphere countries has already extended a substantial line of credit to one of the 16 participating countries.

Mr. VORYS. Is that Argentine to Italy?

Ambassador DOUGLAS. I was referring to Canada, and that has not yet been exhausted.

Mr. MUNDT. Could you say which one of those have lines of credit?

Ambassador DOUGLAS. I will give you the general derivation of that figure now, and at another time I will be glad to discuss it with you in greater detail, because there are certain reasons why there should not be a complete analysis, in very great detail in the record.

Mr. BLOOM. There are certain of those figures that cannot be divulged; is that correct?

Ambassador DOUGLAS. Those are derived from lines of credit extended and previous rate of drawing on those lines of credit, and secondly it is derived from the fact that some of these Western Hemisphere countries will charge a price for the commodities which they export to the participating countries which is less than the price at which the cost of their imports was calculated.

For example, let us suppose that one of the participating countries calculated it needs 1,000,000 bushels of wheat, and that it costs \$3 a bushel. That is \$3,000,000.

Now let us suppose that that 1,000,000 bushels of wheat will be imported into one of the participating countries at a cost of \$2 a bushel.

The difference between the \$3,000,000, which is the cost of 1,000,000 bushels at \$3 a bushel, and the 1,000,000 bushels at a cost of \$2 a bushel, represents \$1,000,000, and therefore that must be subtracted from the cost of the imports. Is that clear?

Mr. CHIPERFIELD. No.

Ambassador DOUGLAS. If the imports were calculated to cost \$3,000,000 in this particular case because the price per bushel was \$3—

Mr. BLOOM. Suppose it is reversed. What would happen there in that so-called hypothetical case?

Ambassador DOUGLAS. At the moment, that sort of a transaction is not contemplated.

Mr. VORYS. You have made an estimate for that. That is your item 11, "Adjustment for higher prices."

Ambassador DOUGLAS. You will recollect that the adjustment on account of prices in the United States was 7.5 percent, because that is the amount by which the price level had risen, during the period July 1 to October.

The adjustment on account of prices for the balance of the Western Hemisphere was calculated at 5 percent. The reason for the difference is that we did not calculate any increase in prices for certain commodities already being sold at a price above the prevailing world market.

Mr. LODGE. Mr. Ambassador, we might eventually be called upon to pay that as a deficit during the course of the next few years, might we not?

Ambassador DOUGLAS. What was that, sir?

Mr. LODGE. Since that is a line of credit and not a grant, we might eventually be called upon to pay that; and therefore it is perhaps just as well, it seems to me, not to take that reduction too seriously.

Ambassador DOUGLAS. The \$700,000,000?

Mr. LODGE. No; the \$1,285,000,000 figure.

Ambassador DOUGLAS. No; I think that is a legitimate deduction.

Mr. LODGE. Are these countries not eventually going to have to pay up on this line of credit established by various South American

countries? If they do, that will constitute a deficit in their balance of payments which we, under this European recovery program, would perhaps feel that we would have to pay for.

Ambassador DOUGLAS. That is after the period is over.

Mr. LODGE. It is?

Ambassador DOUGLAS. Yes.

Mr. LODGE. I understand.

Ambassador DOUGLAS. If I have not made myself clear about the \$700,000,000, I will come back to it at another time; but it is a reasonably firm calculation of the amount of assistance and support for the western European countries based upon previous experience.

Then we calculate there will be \$500,000,000 derived from the International Bank, Export-Import Bank, and from private sources.

The calculation of the amount derived from the Export-Import Bank and the International Bank is based very largely upon the lines of credit outstanding and the rate at which they have been drawn down in the past. There is an item of about \$50,000,000 to \$100,000,000, to be derived from private investment sources, included in the \$500,000,000; and, in addition, some of the nonparticipating countries will provide \$85,000,000; so those two items, \$700,000,000, \$500,000,000, as well as \$85,000,000, go to make up a total of \$1,285,000,000.

Mr. BLOOM. Now you say "private sources." Are private loaning institutions permitted at the present time under our laws to make loans to foreign governments or the people of foreign governments?

Ambassador DOUGLAS. These may be direct investments.

Mr. BLOOM. According to the Johnson Act, I do not think that is permissible, is it?

Mr. CHIPERFIELD. Did not Bretton Woods repeal the Johnson Act?

Ambassador DOUGLAS. No. These would not be governmental transactions.

Mr. BLOOM. The Government may do it but not private loaning institutions.

Ambassador DOUGLAS. It is not contemplated that these will be loans to governments from private sources, but these will be investments made by private sources.

Mr. VORYS. Private sources in 16 countries that can secure loans?

Ambassador DOUGLAS. Yes; from private sources in the United States; or, alternatively, the investment by United States concerns, expressed in terms of dollars, in private undertakings in one of the participating countries.

Mr. BLOOM. You may be right, Mr. Ambassador, but I have never heard that the Johnson Act was repealed.

Ambassador DOUGLAS. The Johnson Act was passed in 1931 or 1932, as I recollect.

Mr. BLOOM. It still stands.

Ambassador DOUGLAS. During the period since 1931 and 1932, substantial sums have been invested by American corporations or individuals in these European countries.

Mr. JARMAN. That would include oil companies?

Ambassador DOUGLAS. Yes; oil companies and refining projects.

There is this feature, too, as I have just been informed: The Johnson Act does not apply to those countries who participate in and have contributed to the International Bank and the International Monetary fund.

Mr. BLOOM. Any foreign government who has defaulted in any of their payments to this country or in their obligations to this country—it does not apply there; but any countries who have defaulted in any of their payments to this country, or any of their obligations—the Johnson Act definitely does apply.

Mr. VORYS. It does not.

Mr. CHIPERFIELD. It does not.

Mr. BLOOM. Very well; I am wrong again.

Mr. JARMAN. The Johnson Act does not apply to any investment by the Ford Motor Co. in a plant in a foreign country, does it?

Ambassador DOUGLAS. A substantial part of the \$150,000,000 would comprise items to which the Congressman has referred.

At any rate, those three figures make up the total of \$1,285,000,000.

Mr. VORYS. Do I understand that \$85,000,000 is all that is contemplated from all the rest of the planet, by way of loans, grants, or anything else in this picture?

Ambassador DOUGLAS. No, sir.

Mr. VORYS. That is, outside participating countries?

Ambassador DOUGLAS. No, sir. Most of the participating countries cannot supply dollars to any great extent. I am talking only about the participating countries, because this balance of payments applies only to the participating countries. There are three or four countries who have dollars and can supply dollars to meet their deficits.

Mr. MUNDT. Let us approach it the other way, because it is certainly not clear to me or to Mr. Vorys yet: If we appropriate \$6,800,000,000, which is the requested amount for the 16 countries, how much is the rest of the planet going to contribute beyond that?

Mr. VORYS. It will be \$85,000,000?

Mr. MUNDT. It looks like \$85,000,000 by your figures, but you say that is not it.

What is the amount in figures that will be comparable to the \$6,800,000,000? We are supposed to put in that much. How much is the rest of the world going to put in?

Ambassador DOUGLAS. I have indicated that among the Western Hemisphere countries—

Mr. MUNDT (interposing). How much of the rest of the world will put something in? Give us a definite figure that will be comparable to the \$6,800,000,000.

Ambassador DOUGLAS. This calculation is based upon the deficiency expressed in terms of dollars with the United States and with the Western Hemisphere countries. Now, of the total deficiency, Western Hemisphere countries will provide some \$700,000,000 in support. The \$85,000,000 to which you refer represents the dollars that will come from the participating countries which have a deficiency but which will be able to meet that deficiency completely and wholly out of their dollar resources. Therefore, that has to be subtracted, because it is an item we will not finance.

Mr. MUNDT. There is now a total of \$785,000,000 to be contributed by countries other than the United States to the European recovery program?

Ambassador DOUGLAS. \$700,000,000 in support will be provided by Western Hemisphere countries.

Mr. MUNDT. And \$85,000,000 by the participating countries?

Ambassador DOUGLAS. To meet their own deficiency. They need no loan; they need no grant of any sort or character. They have a

deficiency in their balance of payments, and they will pay \$85,000,000 to meet their deficiency. It is cash on the barrel head.

Mr. MUNDT. Then we should be able to answer "yes" or "no" this question: Is the total amount which the rest of the world is going to contribute to the recovery program of the 16 countries \$785,000,000, outside of the United States contribution?

Ambassador DOUGLAS. The deficiency with the balance of the world is not expressed in terms of dollars. I might say that. It is expressed in terms of other currencies.

One of the other countries of the world has extended a line of credit to one of the 16 participating countries. This other country to which I refer is not a Western Hemisphere country. That is in the amount of some \$320,000,000. I cannot give you, sir, the amount of dollar aid the balance of the world may provide.

Mr. JARMAN. Is the answer to that question that the rest of the world will provide \$700,000,000 in dollar aid, plus an amount of which you are not sure, in other currencies?

Ambassador DOUGLAS. Yes; that is correct. I do know of one item of \$320,000,000, but that is to tide over one of these countries in a period of great stringency now and will be exhausted before this program goes into effect.

Mr. VORYS. We were told yesterday—one of our committee members was going through the countries and added up about 7 to 10 of the 16 countries which were labeled by Mr. Thorp as cash or loan countries.

Now does the \$85,000,000 represent all of the cash countries? Is that all of the amount that these 16 countries are going to pay of their own deficits?

Ambassador DOUGLAS. There are three countries having deficiencies in their balance of payments. The deficiencies of those three countries can be met and will be met out of their own resources. They will receive neither grants, loans, nor other support from us. And the deficiencies of those three countries amount to approximately \$85,000,000.

Mr. VORYS. Now, are there not some countries having no deficiencies?

Ambassador DOUGLAS. Yes; there are some having slight surpluses. I doubtless have failed to explain the \$1,285,000,000 satisfactorily. Those are amounts for financing other than from appropriations of the United States Treasury. The total is \$7,442,000,000. There must be subtracted from the \$7,442,000,000, \$822,000,000, on account of an appropriation which the Army will seek from the Congress, for the purpose of preventing disease and maintaining order in Germany.

Mr. VORYS. Now, right at that point, since it has been announced that the State Department is taking over the administration of Germany June 30, and since the State Department is here contending for control of the funds, it is purely a confusing bookkeeping entry not to have the \$822,000,000 from now on added into the \$6,800,000,000; because, in the first place, it is all part of the total prospective cost to the taxpayer of European recovery; and second, it is all going to be administered by the same crowd in the same Department of the Government, if the law goes through as proposed here.

It is perfectly silly to carry that as a deduction and pretend we are talking about \$6,800,000,000 when we are talking about \$7,600,000,000 from now on.

Ambassador DOUGLAS. This is the only way it can be disclosed under the present distribution of authority. The Army now does have the responsibility for the administration of Germany. The Army will present this request for an appropriation.

Now, the State Department will not present that request; and it would be misleading—it would not be taking circumstances as they are, conditions as they exist, if the \$822,000,000 were not subtracted. That is the amount calculated by the Army to be necessary to maintain order and to prevent disease. There is \$400,000,000 other than the \$822,000,000 which will become available for the recovery of Germany. However, there is \$822,000,000 to prevent disease and to maintain order.

I think, giving the circumstances as they are, the authority of the Department of the Army as it now is, it would be misleading if the \$822,000,000 were not subtracted from the \$7,442,000,000.

Mr. VORYS. Just at that point, the total for Germany is going to be not \$822,000,000, or not \$822,000,000 plus \$4,000,000, but \$822,000,000 plus \$400,000,000 plus \$200,000,000, or about \$1,400,000,000; is that correct?

Ambassador DOUGLAS. That \$200,000,000 is in the figure. It is not \$822,000,000 plus \$200,000,000 plus \$400,000,000; it is \$822,000,000 plus \$400,000,000 or a total of \$1,222,000,000.

Mr. FULTON. Can you clarify that figure of \$822,000,000? Is that \$822,000,000 for all three zones of Germany outside of the Russian zone, or is it just our zone?

Ambassador DOUGLAS. It is \$822,000,000 which the Army will request for the purpose of preventing disease and maintaining order within the area of Germany over which it has jurisdiction.

Mr. FULTON. Does that mean the British and French zones or just the American zone?

Mr. JARMAN. In other words, Mr. Ambassador, is that not a cost flowing from our occupation of that area, rather than a cost, like these other costs, to recuperate the country?

Ambassador DOUGLAS. That is right. That is a sum of money which the Army will request to defray the cost of preventing disease and maintaining order within the area over which it has jurisdiction, a part of which is derived from the bizonal agreement with the British zone.

Mr. FULTON. How much are we putting into the British zone of that and how much into the French zone?

Ambassador DOUGLAS. The French zone is not included in the \$822,000,000. Now, as to the analysis of that \$822,000,000, you will have to get that from the Department of the Army. I am sorry I do not have it, sir.

Mr. JARMAN. Let us assume we do not pass this legislation. Would it not be necessary next year and the year after next, and as long as we occupy that portion of Germany, to be faced with some figure for occupation, even though this legislation were not passed?

Ambassador DOUGLAS. If this legislation is not passed, and economic and political stability does not begin to reappear on a solid foundation in Western Europe, the whole condition of this area will so change that I doubt that anyone can calculate what the cost to us will be in Germany, what the status of Germany will be, what will be the political structure of Germany, what views will control in the

Government of Germany, so I doubt that one can give an adequate answer to your question.

Mr. JARMAN. However, as long as we occupy Germany, there will be some expense, whether the bill passes or not?

Ambassador DOUGLAS. That is precisely right, sir.

Mr. JARMAN. Therefore, I agree that this is not to be included in this bill, because it is for a different purpose.

Ambassador DOUGLAS. The second implication in your question—and, in fact, it was an expressed statement of the Congressman—was that the State Department is to have jurisdiction over the expenditure of the funds. I submit that is not in accordance with the intentions or the ambitions or the plans of the State Department, or of the administrative proposal which has been suggested. However, we will come to that at another time.

Chairman EATON. Mr. Ambassador, would it be agreeable to you to adjourn shortly, now?

Ambassador DOUGLAS. There is just one more item.

There will be needed funds for incurring of obligations after June 30 of 1949, or rather to cover contracts for shipments for a period of 60 days or so after June 30, 1949. That amounts to \$200,000,000.

The total therefore which is being sought, and the explanation of the total amounts to \$6,820,000,000.

Mr. BLOOM. Is that \$800,000,000 included in the \$6,820,000,000?

Ambassador DOUGLAS. The \$822,000,000 is not; \$400,000,000 for straight recovery is.

Mr. VORYS. And \$200,000,000 in addition to the \$400,000,000 is included—it is at least included on the chart you have there, because you have it added in as item 14.

Ambassador DOUGLAS. I can explain it this way: There is somewhat of an over-simplification in this, but I think it will perhaps resolve the confusion—\$400,000,000 will be made available in addition to the \$822,000,000, for the recovery of western Germany.

The \$8,527,000,000 represents the dollar deficiency with the Western Hemisphere; \$200,000,000 of the \$400,000,000 required for Germany is included in that \$8,527,000,000 figure. However, there is a deficiency with countries other than those located in the Western Hemisphere, and outside of the area of the nonparticipating countries, in the amount of \$200,000,000, and therefore that has to be added.

Mr. VORYS. So that the total is \$1,222,000,000, and not the other figure?

Ambassador DOUGLAS. That is right, \$1,222,000,000. They are rounded off figures, but they are substantially correct.

I am at your service, Mr. Chairman.

Chairman EATON. The committee will stand adjourned until 2 o'clock, if the Ambassador will return then.

Thank you.

(Whereupon, at 12:05 p. m., the committee adjourned to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m., pursuant to the recess.)

Chairman EATON. The committee will be in order.

We will ask Ambassador Douglas to proceed with his testimony.

Ambassador DOUGLAS. Mr. Chairman, at the conclusion of the morning session of the committee we were discussing the final ending of the calculations which represented the basis for the request for \$6,800,000,000.

There are one or two points I would like to make, if I may, about the calculations.

The first has to do with the caption "Selected imports." The commodities included within that category of imports were selected, first, because they comprised the group of commodities which the Paris Conference, consisting of 16 participating countries, considered to be absolutely essential to the recovery of these countries, and, secondly, because the category comprised commodities of which generally there was a short supply.

It is not to be inferred from that statement that there are not other commodities in a very wide range of commodities that are not essential to the recovery of the European area of which we are speaking.

The second point I would like to make is that the National Advisory Council, which is charged with the responsibility of coordinating the lending policy of the United States—the National Advisory Council organization has made rough calculations and estimates of the amount of the \$6,800,000,000, which will be extended in the form of loans.

That rough and tentative calculation made by the NAC organization indicates that between 20 and 40 percent of the \$6,800,000,000 will take the form of extending credit.

Mr. BLOOM. That will be repaid?

Ambassador DOUGLAS. That is right.

These calculations that various departments of the Government have participated in making and which were explained to the committee this morning compare with other calculations. These other calculations were made by the 16 participating countries meeting in Paris and by the Harriman committee and I would like to explain to the committee what that comparison indicates. Before I do so, if the committee is not informed as to the historic development of the Committee on European Economic Cooperation, that is to say of the Paris Conference, and the evolution of the European recovery program, it might be well to have the record disclose what that history is. The Secretary of State on June 5 made a speech at Harvard, with which every member of this committee is thoroughly informed.

Immediately after that speech Mr. Bevin, the Secretary of State for Foreign Affairs in the United Kingdom, and Mr. Bidault extended an invitation to all the European countries, excepting Spain, to meet and discuss what could be done. An initial conference was convened in Paris, attended by Messrs. Bevin, Bidault and Molotov. When it was disclosed at that meeting that the purpose of the Conference which was to be held, among other things, was to determine what each one of the participating countries should do for itself and for each of the other countries, Mr. Molotov departed, after having used some forceful and significant language warning for example the United Kingdom and the French that the steps which they were proposing to take would have unfortunate consequences.

Notwithstanding Mr. Molotov's departure, invitations were issued and 16 of the countries which received them formally accepted and met in Paris on the 12th of July. They organized their working committees and an executive committee and they then proceeded to

calculate or estimate what each one could do for itself and what collectively and cooperatively they could do for each other. In addition, they calculated the amount of outside support which would be necessary for the recovery of the community of nations.

What was perhaps more significant were the commitments which each one of the participating nations pledged itself to fulfill, and at a later time perhaps reference will be made to those undertakings and pledges. However, for the moment, dealing with the calculations of the outside support, it is interesting that the Committee on European Economic Cooperation produced a figure which upon relatively comparable assumptions to the figures prepared by the various departments of the United States Government, amounted to \$8,035,000,000 for the calendar year 1948, as against the figure prepared by the executive branch of the Government of \$6,303,000,000 for the fiscal year 1949.

In other words, after the Paris Conference completed its work and had submitted its findings to our Government, various groups of people working in committees in which there was representation from many departments of Government, went through this Paris report, commodity by commodity, insofar as the selected commodities were concerned, measured the availability of commodities in question and all the factors that entered into the final calculation, and came forward with an estimated amount necessary for the recovery of western Europe, which was roughly \$1,700,000,000 less than the amount calculated by those attending the Paris Conference, and which was included in the report of the Committee on European Economic Cooperation.

At the same time, the Harriman committee, consisting of distinguished Americans, drawn from outside of the area of Government personnel, reviewed the report of the Paris Conference, and on a basis comparable with that on which the calculations of the executive branch were made, produced a figure approximately \$6,330,000,000, as the lowest estimate, and another figure as their highest estimate, based upon a higher availability of commodities, and somewhat different price assumptions, of \$7,060,000,000.

Those figures which I have indicated are the deficiencies in the balance of payments. You can find this table on page 100.

Mr. BLOOM. They are all for the first 15 months?

Ambassador DOUGLAS. No; this is all on the basis of 12 months for the Paris report did not make any calculations for a 15 months' period, nor did the Harriman committee. These figures which I have just recited are based upon a 12 months' period, because it is the only basis, the only standard which can be used since no figures were made by the Paris report for a 15 months' period.

Certain adjustments had to be made, first, in regard to the figure proposed by the Paris report. It was calculated that \$920,000,000 would be provided from sources other than appropriations by the United States Government, reducing their figure of \$7,120,000,000.

The Harriman report produced one figure of \$6,330,000,000, in terms of July 1, 1947 prices. Then an adjustment upward of that figure was made on account of an elevation of the price level, the same adjustment on account of prices which was made by the various departments of Government. Accordingly, after that adjustment was made the \$6,330,000,000 figure was increased to \$6,880,000,000. The

Harriman committee estimated that \$1,100,000,000 should be had for the purpose of meeting that \$6,880,000,000 from sources other than funds appropriated by the Congress, thus reducing the figure to \$5,780,000,000, whereas on a comparable basis the end figure produced by the executive branch was \$5,789,000,000. When certain further adjustments are made in those figures, the end result of the Harriman committee's report, that is after including, for example, the \$200,000,000 on account of forward obligations and the appropriation of the Department of the Army of \$822,000,000, the end result of the Harriman committee was \$6,811,000,000, as compared with \$6,800,000,000 for the executive branch.

This is a very important point, because it is quite revealing: I should say that there are a number of differences in the internal composition of the Harriman committee's calculations from those made by the executive branch.

For example, the Harriman committee was more conservative in the amount of imports from the United States and from the other Western Hemisphere countries than was the executive branch.

As a result of the smaller imports, it reduced the exports from these participating countries quite substantially, as compared with the estimates and calculations made by the executive branch.

The deficiency on trade account remains approximately the same, but it is significant and important as a consideration to bear in mind that a reduction of imports even to the European countries must be reflected in a reduction of exports.

Mr. JONKMAN. Right at that point, is that because their exports would depend upon raw materials?

Ambassador DOUGLAS. That is precisely why, sir. At any rate the end result of the Harriman committee's calculations and the calculations made by the executive branch of the Government, if you take the lower of the Harriman estimates, are approximately identical, and the estimates made by the executive branch are just in a minute way lower than those made by the Harriman committee. There has therefore been a check as it were on the calculations made by the executive branch.

I should like to tell the committee why, in our judgment, the \$6,800,000,000 figure represents a minimum.

Mr. VORYS. Would you mind an interruption, Mr. Douglas?

Ambassador DOUGLAS. No, sir.

Mr. VORYS. I have heard it said that in view of the fact that the administration made suggestions to the Paris Conference and set up the Harriman report and the executive branch has the responsibility of administration, it would not be surprising or merely a coincidence if the figures all came out about the same. There are many who do not think that these are three utterly independent surveys as to the source of the figures they worked with, or as to the compilations they made.

Ambassador DOUGLAS. Well, as to the Paris Conference, Congressman Vorys, the calculation was absolutely independent.

Mr. CHIPERFIELD. Mr. Ambassador, did you not have something to do with those figures at Paris?

Ambassador DOUGLAS. Not with the figures.

Mr. CHIPERFIELD. The press seemed to indicate thusly.

Ambassador DOUGLAS. No; I can tell you precisely what happened.

Mr. CHIPERFIELD. Would you tell us?

Ambassador DOUGLAS. The first addition or total of the calculated requirements of the 16 countries was put at a figure approximating \$29,000,000,000 for the 4-year period. It was perfectly tentative. It had not been approved by the Conference or by the executive committee. That figure was disclosed to Mr. Clayton and disclosed to me. We both made from separate parts of Europe, the same kind of a reply. When that figure was reviewed by the executive committee and the Conference, they reduced it very substantially to \$22,400,000,000, including the items amounting to \$3,100,000,000, which they calculated could be made available through the International Bank and from other sources, so that it was only in respect of the total that any expression of the view from the United States was given.

The United States Government did not participate in the calculation of the commodity requirements. Conversations were had toward the very end, when the Paris Conference was drawing to its close, in regard to the undertakings which each country would make to the other countries, the nature of the cooperative effort. However, it was made clear that what was said was done in the form of friendly aid in drafting which the secretary said in his Harvard speech we would make available.

The Paris Conference report was slightly more than \$1,700,000,000 in excess of the calculation made by the executive branch of the United States Government for a 12 months' period, and, of course, all the figures that I am talking about, except the one with reference to the \$22,400,000,000 have to do either with a 15 months' period or 12 months' period. At the moment I am talking about the 12 months' period.

So much for the way in which the Paris figures were made. As to the Harriman committee, and this is directed to the second part of your question, Congressman Vorys, many of the studies upon which the Harriman committee's report was based were made by independent people, shipping for example, and a number of others.

Now, Mr. Harriman or the executive officer of that committee can explain to you much better than I can the extent to which those calculations were wholly independent of the Government. However, I think it is fair to say that there was not collaboration in the calculation of figures as between the Harriman committee and the executive branch. Mr. Nitze says there was collaboration in getting the data together, but there was no collaboration in the measurement of the availabilities and a whole variety of items of that character.

I cannot say—perhaps Mr. Harriman can—that the two calculations were wholly independent, but I can say they were not made with a view to having them come out at the same end point.

Mr. VORYS. That is understandable. I am not saying that critically. If they all three came up with perfect answers, they probably would look the same. So the mere fact that there is a similarity does not necessarily prove anything wrong about the figures.

Ambassador DOUGLAS. No. It does indicate that there has been a reasonable amount of very careful screening and scrutiny and review of the figures. The point was that two relatively independent reviews had come out with figures which were approximately the same, based upon approximately identical hypotheses and assumptions.

Mr. BLOOM. You were figuring on 12 months. The calculations were all on 12 months. How did you get \$6,800,000,000 on the 15 months' period?

Ambassador DOUGLAS. As I explained this morning, Congressman—

Mr. BLOOM (interposing). I did not hear it. Maybe I was not here at that time. All of your figures that you have been talking about now as I understand concern the 12 months' period?

Ambassador DOUGLAS. That is right, except for the end figure, which is an adjustment of the Harriman committee's figures for the 15 months, \$6,811,000,000 as against \$6,800,000,000. The executive figures for the 15 months were based upon a minute calculation of certain commodities for the 3 months' period April 1 to July 1, and the following succeeding 12 months' period.

Mr. VORYS. Of course, I hope you appreciate that having this placed before us in tables of yearly figures, and then jumping to 15 months is dreadfully confusing, but let me also point out that on the chart you have before us, there is \$200,000,000 in for the period after the 15 months, so that that is just another little added confusion in there. The item 20 on your chart is \$200,000,000 to go beyond the 15 months. That may be a nice idea, but it does not help to dispel the confusion.

Ambassador DOUGLAS. However, that \$200,000,000, Congressman, is for the purpose of liquidating during the 60 days after July 1 of 1949, the obligations that have been entered into prior to July 1 of 1949. We could have put that \$200,000,000 or hidden it in another place.

Mr. BLOOM. When you differentiate between the 12 months and the 15 months do you prorate that extra 3 months?

Ambassador DOUGLAS. Not insofar as the executive branch is concerned. On page 108 of the published document you will find the calculation for the 3 months' period, that is April 1 to June 30, or July 1, and from July 1 of 1948 to June 30 of 1949. That was a calculation for both periods, made in the same way. The reason for putting the 3 months' period and the 12 months' period together was in order to explain how the total figures had been arrived at.

Mr. BLOOM. That is what I wanted to know.

Ambassador DOUGLAS. There it is, sir.

Mr. VORYS. It is not very helpful because there is a little item of \$200,000,000 difference between the one that you have up there and the one on page 108. This one ends up "\$8,727,000,000," and that one ended up "\$8,527,000,000."

Ambassador DOUGLAS. \$8,727,000,000, sir, on line 15.

Now as to the comparison between the executive branch estimates and the estimates of the Paris report and the estimates of the Harriman committee, we had to take a 12 months' period because both the Harriman committee and the Paris Conference made their calculations for a 12 months' period. We could not have made any comparison had we not had the comparison on the 12 months' basis, that is. Is that clear?

I should like to explain why—

Mr. BLOOM (interposing). No one said "Yes" when you said, "Is that clear?"

Ambassador DOUGLAS. Does anyone care to say "No"?

Mr. BLOOM. Congressman Vorys is interested in the \$200,000,000 figure. I am interested in the \$6,800,000,000 figure.

Ambassador DOUGLAS. I can go through this again, the \$6,800,000,000. The \$200,000,000 I think is included, Congressman. The uncovered deficit of the bizonal German areas with nonparticipating countries outside the Western Hemisphere is \$200,000,000.

(The Department of State has submitted the following additional material on this matter:)

THE BIZONAL DEFICIT WITH NONPARTICIPATING AREAS OUTSIDE THE WESTERN HEMISPHERE

1. The bizonal area is expected to import substantially more than it will export to the nonparticipating countries outside the Western Hemisphere in the first 15 months of the ERP. These countries, which are known as other nonparticipating countries include not only the countries of eastern Europe but all countries which are not in the Western Hemisphere or dependent territories of the 16 participating countries. Among them are very important raw-material-supplying countries such as Australia, New Zealand, South Africa, China, India, etc. Included in the 6.8 billion dollars appropriation request for the next 15 months of the ERP is \$200,000,000 to cover a portion of the imports from these countries.

2. Attachments A and B provide an illustrative pattern of this trade, showing how the deficit has been calculated and the basis of the request for an appropriation covering this deficit. In making use of these attachments the following explanation may be useful. These comments apply to attachment B which deals with fiscal year 1949 but they hold equally for the period April to June 1948 which is dealt with in attachment A.

3. Estimated bizonal imports from eastern Europe, including the Soviet zone of Germany and all the nonparticipating countries in eastern Europe, are expected to amount to 93.8 million dollars. These imports include bread grains, industrial raw materials and manufactured goods, as well as the freight cost on these goods. Imports from non-European nonparticipating countries are expected to amount to 267.2 million dollars, including freight cost. These imports include wool, nonferrous metals, tropical fats and oils, and industrial raw materials.

4. Having in mind the fact that trade with the areas of eastern Europe and with the Soviet Union itself must be conducted on a barter basis it was considered necessary to assign to these areas sufficient German exports to balance the imports from them. The bizonal exports to all areas in the first 15 months' period are relatively small, compared to import needs, and, in the program which has been constructed, have all been assigned to areas other than the non-European nonparticipating countries. If some of these exports are, in fact, diverted to these countries, the result will be a decrease in exports to such areas as the Western Hemisphere and an increase in the bizonal deficit with these areas corresponding to the reduction in the deficit with non-European nonparticipating countries. Therefore the entire amount of bizonal imports from the non-European nonparticipating countries, 267.2 millions, must be financed in cash.

5. The remainder of attachment B indicates the division of the deficit of 267.2 million dollars between British financing under the United States-United Kingdom bizonal agreement, and United States financing as requested under the ERP authorization. It is necessary to rely on United States and British financing for the bulk of this amount because the bizonal area has neither foreign exchange resources nor the possibility of any substantial credits from these areas which are themselves suffering from a shortage of dollars and curtailing their imports from dollar areas.

6. The Department of the Army is in general agreement with this presentation.

ATTACHMENT A

Explanation of \$200,000,000 item for uncovered deficit of bizonal area with nonparticipating countries

April-June 1948:

Imports (including freight cost) from U.S.S.R. and eastern Europe....	24.3
Imports (including freight cost) from other nonparticipating areas....	41.6
Total imports.....	65.9

April-June 1948—Continued

Exports to U.S.R.R. and eastern Europe.....	24.3
Total deficit with nonparticipating countries.....	41.6
Adjustment for price increase (7½ percent).....	8.1
Total deficit at adjusted prices.....	44.7
British contribution ¹	17.5
Uncovered deficit.....	27.2
Above in round figure.....	30.0

¹ Under the terms of the United States-United Kingdom bizonal agreement, revised as of Dec. 17, 1947 par. 1 (a) (iv). See Department of State Bulletin, Dec. 28, 1947, pp. 1263 et seq. It is contemplated that the British contribution will be largely available for procurement of goods and services from nonparticipating areas; if a portion of the contribution should be spent elsewhere, a corresponding shift in the destination of German exports would be required to cover a portion of the imports from the nonparticipating countries.

ATTACHMENT B

Fiscal 1949:

Imports (including freight cost) from U. S. S. R. and eastern Europe..	93.8
Imports (including freight cost) from other nonparticipating areas...	267.2
Total imports.....	361.0
Exports to U. S. S. R. and eastern Europe.....	93.8
Total deficit with nonparticipating areas.....	267.2
Adjustment for price increase.....	20.0
Total deficit at adjusted prices.....	287.2
British contribution ¹	70.0
Uncovered deficit.....	217.2
Plus deficit for 3 months.....	30.0
Total uncovered deficit for 15 months.....	247.2
Appropriation request.....	200.0
Deficit not covered ²	47.2

¹ Under terms of United States-United Kingdom bizonal agreement, revised as of Dec. 17, 1947, par. 1 (a) (iv). See Department of State Bulletin, Dec. 28, 1947, pp. 1263 et seq.

² As noted in text, revision of figures now under consideration will substantially eliminate this uncovered deficit.

Mr. BLOOM. I think we will have to have a private conference on that.

Mr. Ambassador, you say about the International Bank, that is a loan, is it not?

Ambassador DOUGLAS. Was the question whether the operation of the International Bank takes the form of loans?

Mr. BLOOM. Yes. How is that figure in here, that must be a direct figure the same as a bank loan.

Ambassador DOUGLAS. Certainly.

Mr. BLOOM. How do you figure that in with the aid to the 16 participating countries?

Ambassador DOUGLAS. The total requirements were calculated at a certain figure, \$8,727,000,000. That is the total requirements. Now, how were the total requirements to be met? We calculated, or the executive branch did, that \$1,285,000,000 would be derived from sources other than appropriated funds. \$500,000,000 of the \$1,285,000,000 would come from the International Bank, private investment sources, and the Export-Import Bank. There is a deficiency, for example, of \$100, somebody needs \$100. He may decide that he can meet his need by borrowing \$50, and drawing down on a

cash account, or some other device, for the remaining \$50. That is precisely what this calculation is. The total requirements are \$8,727,000,000. How are they to be met? \$1,285,000,000 from sources other than appropriated funds of the United States.

Mr. Mansfield. May I ask a question?

Ambassador DOUGLAS. Yes.

Mr. MANSFIELD. How much do you estimate American businessmen will invest in Europe under this proposal?

Ambassador DOUGLAS. We calculated roughly that between 50 and 100 millions during the 15 months' period would be either invested by American individuals, or American corporations or loaned. That would be from private American sources.

Mr. MANSFIELD. Do you anticipate in the period beyond that 15 months that providing these initial investments should meet with some degree of success that additional American investments would take place?

Ambassador DOUGLAS. Congressman, if economic and political stability begin to reappear on a solid basis in western Europe, I think a profitable field for American investment will develop.

Mr. MANSFIELD. Is it the purpose of this particular measure to offer any degree of security or to guarantee any security to the American investments in the first 15 months?

Ambassador DOUGLAS. The legislation contemplates the guaranteeing of investments made by American corporations or individuals up to 5 percent of the total amount of money appropriated, and then only on account of the transfer from foreign countries into dollars of the amount invested, provided the enterprise earns money.

In other words, the American investor will take a complete risk as to whether the project in which the investment is made is a profitable one, or a nonprofitable one, and the guaranty will apply only to the ability to transfer from French francs or pounds sterling from England into dollars, and then only up to the extent of the amount invested.

Mr. MANSFIELD. I understand. Thank you.

Mr. BLOOM. That is a conditional loan, is it not?

Ambassador DOUGLAS. It is not a conditional loan.

Mr. BLOOM. The private investor has a conditional loan. He is only guaranteed up to 5 percent.

Ambassador DOUGLAS. No. The total amount of the guaranties which may be extended, under this particular provision of the bill, and indeed under any provision of the bill, cannot exceed 5 percent of the total appropriated. That is to say the total amount of the guaranties cannot exceed 5 percent of \$6,800,000,000, if the Congress authorizes and appropriates \$6,800,000,000.

Mr. BLOOM. Are the loans made by the International Bank and the Export-Import Bank the same kind of loans or conditional loans or are they different kinds of loans?

Ambassador DOUGLAS. The loan made by the International Bank is a wholly different sort of a thing. That is a loan made by that bank to a foreign country or to a concern within the foreign country that has the approval of the central bank of that foreign country.

Mr. BLOOM. However, the Export-Import Bank loans are lower?

Ambassador DOUGLAS. The Export-Import Bank is an agency of the United States Government, and it extends loans out of funds appropriated or a lending authority extended to the Export-Import

Bank by the Congress. However, I am talking about something different with respect to guaranties. Total guaranties may not exceed 5 percent of the total sum appropriated, and then the guaranty can only be invoked up to the amount of the capital invested abroad, and then only to transfer from the foreign currency into American dollars, and then only if the venture abroad is a profitable undertaking. That is, we do not propose that there should be a guaranty of the ordinary business risk, other than the exchange risk.

Mr. VORYS. However, Mr. Ambassador, the guaranteed loans, while the amount of them is to be limited to 5 percent of the \$6,800,000,000, that amount is to be in addition to the \$6,800,000,000?

Ambassador DOUGLAS. No, sir. It is included within the \$6,800,000,000. That is certainly the intention.

Mr. VORYS. Would that not be \$340,000,000?

Ambassador DOUGLAS. That is right.

Mr. VORYS. That is if a whole lot of loans came up to take absolutely every penny that was available, and the authorization was \$6,800,000,000, the first year, is that correct?

Ambassador DOUGLAS. The authorization sought is \$6,800,000,000; yes.

Mr. VORYS. If the authorization were \$6,800,000,000, then there could be \$340,000,000 of guaranteed loans.

Ambassador DOUGLAS. Guaranteed investments; yes.

Mr. VORYS. Would that mean that \$6,800,000,000 minus \$340,000,000 could be appropriated and spent, or that \$6,800,000,000 should be appropriated, and in addition to that \$340,000,000 of loans?

Ambassador DOUGLAS. \$6,460,000,000 would be available.

Mr. BLOOM. Will the gentleman yield?

Ambassador DOUGLAS. Let me explain how that operates. Let us suppose an American company undertakes to invest \$10,000,000 in France for a certain purpose, and that the administrator has guaranteed, subject to all of the limitations to which I have referred, that investment. Then \$10,000,000 will have to be set aside in order to meet the guaranty, should it be necessary to invoke it.

Mr. BLOOM. Following Mr. Vorys' question, would you now have to reserve the full \$340,000,000, the 5 percent?

Ambassador DOUGLAS. No, sir.

Mr. BLOOM. Supposing you went up to \$6,800,000,000 and these investments were made. You still have no provision for the 5 percent. So you would have to earmark \$340,000,000.

Ambassador DOUGLAS. However, they would take the place, Congressman, of support extended in another form and merely be a substitution. An American company invests \$10,000,000 abroad. As to the foreign country, the balance of payments is relieved to the extent of \$10,000,000, just as much as though \$10,000,000 worth of tobacco had been purchased and sent to that country. The dollar resources of that country will have been relieved to precisely the same extent; that is to say, \$10,000,000. The administrator then guarantees the \$10,000,000, subject to all the limitations and conditions to which I have referred. That \$10,000,000 is merely a substitution for relief of their dollar shortage in lieu of something else.

Mr. MANSFIELD. Does that not in effect, Mr. Ambassador, take the strain off the expenditures by this Government and transfer some of

the responsibility to American private industry or American private business?

Ambassador DOUGLAS. Indeed it does.

Mr. JARMAN. However, you would not have to set aside the whole \$340,000,000 initially because those items of \$10,000,000 might not add up to \$340,000,000.

Ambassador DOUGLAS. That is right. As the administrator makes the guaranties, he will set aside the amount necessary to cover the guaranty should it be invoked.

If he makes guaranties only to the extent of \$40,000,000, then that will be exactly the amount which will have to be set aside to make good on the guaranty should it be invoked at some subsequent time. If, on the other hand, he makes guaranties in the amount of \$340,000,000, then he will have to set aside the \$340,000,000 in order to make good on the guaranties which he has extended.

Mr. JARMAN. He has no authority to make more?

Ambassador DOUGLAS. That is right.

Mr. MERROW. How would the \$340,000,000 be affected then as to the loans that are guaranteed 100 percent out of that?

Ambassador DOUGLAS. They are not going to be guaranteed 100 percent, Mr. Congressman.

There is no loan given. The American business corporation makes an investment of its own money. Let us say it is \$10,000,000. The administrator then guarantees that corporation that, should the venture abroad be a profitable one, and should the American corporation experience difficulties in transferring the foreign currency which it earns abroad into American dollars, the guaranty of \$10,000,000 or the extent to which it is impossible to transfer from a foreign country into American dollars will be made good. But there will be on guaranty issued as to the business soundness of the enterprise, nor will the guaranty extend beyond the actual dollar capital invested.

Mr. MERROW. He sets aside dollar for dollar then, using the illustration that the corporation invests \$10,000,000. The \$10,000,000 must be set aside?

Ambassador DOUGLAS. That is right, sir.

Mr. VORYS. That must be held for 14 years. Is that not correct?

Ambassador DOUGLAS. Whatever the period of guarantee is.

Mr. VORYS. The limitation is 14 years.

Ambassador DOUGLAS. That is right. The guaranty might run for a shorter period. It might be liquidated in 4 years or 5 years.

Mr. MERROW. If all that money is lost, then what?

Ambassador DOUGLAS. If the money is lost the venture is unprofitable. That would show on the profit-and-loss statement of the company or corporation. There is no guaranty by the United States Government that the investment will be made good.

Mr. MANSFIELD. Mr. Ambassador, this would be in the form of risk capital on the part of private enterprise, and it would appear to me on the basis of your explanation that if American business does go into any of these European countries, under the plan contemplated by you, that they would in effect be doing something which the Government in another way might have to do, and it would appear to me also that this would be a very worth-while procedure because the stronger business goes in, then the greater stability of the particular countries concerned would be because business will not take a chance

unless there is a reasonable assurance that they would find a profit attached to what they do.

Mr. VORYS. Mr. Ambassador, as I understand your statement and the text of the bill, this has nothing to do with profit. If there is no profit in the venture there is no loss to the United States Treasury.

Mr. MANSFIELD. That is right.

Mr. VORYS. If, however, the venture is profitable in the sense that the American entrepreneur is paid in francs and cannot get dollars for his francs, that guaranty provides assistance, and we have under this a new form of guaranteed foreign exchange.

As I understand it has nothing to do with the profit of the venture. It is merely to unfreeze foreign exchange by a new way, guaranteeing that you can get dollars for your francs or other form of foreign currency.

Ambassador DOUGLAS. Let me give you an example. I know of an American concern that would like to make an investment in one of the foreign countries. It is a company whose assets are in dollars. It wants to make an investment in dollars. It is reluctant to do so because it is fearful that having invested dollars abroad it will not be able to get dollars back because of limitations on the convertibility of the exchange. This device is designed to give the American investor a guaranty only as to exchange, a conversion of the foreign exchange into dollars, and then only if the venture abroad is a profitable one, and finally only up to the extent of and not beyond the capital invested.

Mr. JARMAN. If a \$10,000,000 investment made \$5,000,000, the guaranty would only apply to the \$10,000,000? In other words, if the \$10,000,000 investment to which you referred made \$5,000,000 during the time it was in operation, the guaranty will apply only to the \$10,000,000 and not to the \$5,000,000?

Ambassador DOUGLAS. If the investment were \$10,000,000 and over and above the repayment of the capital invested, the profit were \$5,000,000, or a total of \$15,000,000 were derived from the investment, the guaranty would apply only to the \$10,000,000.

Mr. BLOOM. Mr. Ambassador, I have the bill before me. It is an obligation of this Government to guarantee 5 percent of the sum appropriated under this bill or under the act? It is the sum total of 5 percent. Now if you guarantee, and that is what it says, the Government guarantees 5 percent of the amount of money appropriated, I cannot see that it is not encumbent upon the administration to hold back 5 percent for this provision of the bill. It says so, if you look on this page of the bill, and you will see that wording is very explicit and very clear. It is 5 percent guaranteed under the sum total of the appropriation.

Ambassador DOUGLAS. You are talking about what section?

Mr. BLOOM. Page 11.

Ambassador DOUGLAS. It is section 7 (b) (3) (ii)?

Mr. BLOOM. That is right. Now it said guaranty of 5 percent of the total amount appropriated.

Ambassador DOUGLAS. Yes; the language says:

the total liabilities assumed under such guaranties shall not exceed 5 per centum of the total funds appropriated for the purposes of this Act.

Mr. VORYS. That is a ceiling, not a floor.

Mr. JARMAN. It does not say it may not be less.

Mr. BLOOM. If there is less invested, there would be a lesser amount of guaranty of the Government.

Ambassador DOUGLAS. That is right.

Mr. BLOOM. It is in my mind what you say about the 5 percent. Answering Mr. Vorys, I cannot see where it is not incumbent upon the Government to reserve 5 percent of the total amount appropriated so as to pay any of these things if the investment is made.

Ambassador DOUGLAS. Not until the guaranty is made.

Mr. BLOOM. The guaranty is made under the act.

Ambassador DOUGLAS. No. The guaranty is to an individual company and at the moment no one knows what individual corporations will seek a guaranty. Therefore, it is not necessary to put aside any sum until the guaranty is made.

Mr. BLOOM. Can you conceive of any company or any business firm, if they can get a guaranty of the Government to 5 percent of the amount of money they are going to invest, they are not going to take advantage of this act?

Ambassador DOUGLAS. Yes; I can. I know of one.

Mr. BLOOM. He is not of my faith, then.

Mr. CHIPERFIELD. Mr. Ambassador, why did they put a limitation of 5 percent in there? If this is a good thing, why do they not go beyond 5 percent?

Ambassador DOUGLAS. I cannot tell you why the limitation was put in, Congressman. It seems to me that it is a good thing to do.

Mr. MUNDT. They just grabbed the 5 percent out of the air to try it out?

Ambassador DOUGLAS. That seemed to be an approximation of the amount. The National Advisory Council, which is located in a position and is clothed with the authority to coordinate lending policies, produced that figure.

Mr. MUNDT. There are so many possibilities in view of the current discussions as to who is going to administer the act because the bill says that whoever administers the act will determine, I presume, whether corporation A or corporation B is going to get a guarantee to produce a certain product in a certain country. Is that right?

Ambassador DOUGLAS. It will have to be approved by the local government, and by the administrator.

Mr. MUNDT. By the administrator?

Ambassador DOUGLAS. By both.

Mr. MUNDT. That to me provides one very small argument why we should have a bipartisan board administering the act. I can see some very embarrassing situations arising. Suppose in Vienna the New York Times and the Chicago Tribune both get the idea they would like to put in a \$500,000 plant to produce newspapers there.

Mr. BLOOM. That is an atrocity.

Mr. MUNDT. They would like to produce a paper there under the terms of this guarantee. The administrator is under an embarrassing set of circumstances. Is he going to grant it to the Times or to the Tribune? I think a man might make money guessing which one would get the permission at the present time, but I think this should be a place where a board could decide. That is a pretty big responsibility in view of some of the things which have been happening in the commodity markets.

Ambassador DOUGLAS. In the first instance the administrator would not be in a position of approving one or the other until the local government had approved one or the other.

Mr. MUNDT. They make the first approval?

Ambassador DOUGLAS. That is right, sir.

Mr. MUNDT. Is it probable, then, that our Government endorse this decision?

Ambassador DOUGLAS. Not necessarily. We might have some serious doubts about the soundness of the proposed investment.

Mr. MUNDT. Did the advisory board conceive this idea, and I think it has some intriguing possibilities, but did they have in mind some limited time of economic activity to which it would apply, or was it anything of an economic nature?

Ambassador DOUGLAS. Anything within the program, a petroleum refining plant, et cetera.

Mr. MUNDT. It would deal only with those projects?

Ambassador DOUGLAS. Those projects which are within the program, that is right.

Mr. MANSFIELD. I think that the creators of this particular bill are to be congratulated for putting this particular item in there because while you mentioned companies which might be interested in investment in these European nations now being considered, nevertheless it is a fact, I believe, that at the present time certain American companies in both Japan, Germany, and elsewhere are not able to convert money which they have legitimately made from the occupation currency or the francs or whatever it might happen to be, into American money and consequently are suffering a financial loss. Is that not correct?

Ambassador DOUGLAS. Yes. That applies almost everywhere in the world. There would be no guarantee that would cover any previously made investments.

Mr. MANSFIELD. However, you are working on the basis of experiences which you have already incurred?

Ambassador DOUGLAS. Yes.

Mr. LODGE. In other words, it would not protect, for instance, publications which already have the difficulty of conversion?

Ambassador DOUGLAS. Do you mean enterprises?

Mr. LODGE. Such as the New York Herald Tribune in Paris, Time, or Newsweek, any of those publications which at the moment have difficulty in converting their local currencies into dollars. They would not be taken care of, only future enterprises would be taken care of.

Ambassador DOUGLAS. It is not intended that this guarantee shall apply to any investment of any character that has previously been made.

Mr. LODGE. Nevertheless it will not serve as an inducement for them to remain. It will serve only as an inducement for new enterprises to be brought in.

Ambassador DOUGLAS. That is right.

Mr. LODGE. Let us assume that none of this \$340,000,000 is obligated during the first 14 months of the program. Well now, since this is a balance of payments proposition, does that mean that you must either within that final month obligate the \$340,000,000 or else use it for other purposes?

Ambassador DOUGLAS. If it is not obligated it may be used for other purposes.

Mr. LODGE. What is the time limit on that? Within what time does it have to be obligated, or used for other purposes?

Ambassador DOUGLAS. Let me see if I can put it this way: The 16 European countries are short of dollars. We have calculated the amount of dollar assistance in relation to the available supplies of commodities, which will be necessary to cover that balance of payments.

Mr. LODGE. Over a 15 months' period.

Ambassador DOUGLAS. Over a 15 months' period. Now if an American enterprise considers it wise to make an investment of \$10,000,000 in one of these 16 participating countries, let us take France for example, and accordingly invests \$10,000,000 in France, France has \$10,000,000 which she did not formerly have.

Mr. LODGE. That is right.

Ambassador DOUGLAS. With that she can buy cotton, wheat or whatever her requirements within the limits of the \$10,000,000 may be.

Mr. LODGE. That is right. I understood that. But let us assume that none of this \$340,000,000 is so obligated when the entire 15 months' period is over. Then the balance of payment is \$340,000,000 off, because there is not that amount with which to purchase wheat and so on as you just specified. What happens in connection with that \$340,000,000?

Ambassador DOUGLAS. That does not necessarily follow, Congressman, because if the guarantees are not made, not extended, then the funds appropriated will be available to provide the same dollar assistance that an investment made under a guarantee would have provided.

Mr. LODGE. However, the \$340,000,000 has to be open for guarantee during the entire 15 months?

Ambassador DOUGLAS. Yes; but only as long as the guarantees are extended.

Mr. LODGE. Yes; but the point I make is that after that, the 15 months' period, if no guarantees have been made, then the \$340,000,000 will be no longer available as guarantees, but will be applicable to the other provisions of the act in order to complete the balance of payments deficit; is that correct?

Ambassador DOUGLAS. Yes; but in any 1 month or week or day it makes no difference, so far as dollars available to the 16 participating countries is concerned, whether they are made available in the form of goods purchased with American dollars or whether they are made available in the form of an investment of American dollars in a foreign country.

Mr. LODGE. I quite agree.

Ambassador DOUGLAS. The result is quite the same.

Mr. LODGE. My supposition is that the funds will not be made available for either, since they have to be kept open for guaranties during the entire 15 months' period as I understand it; therefore if there were no corporations interested in investing money, no guaranties would be made available but the money would nevertheless be held until the end of the 15 months' period. Is that not correct?

Ambassador DOUGLAS. No, I do not think that follows, because the language says total liabilities assumed under such guaranties shall not

exceed 5 percent. Now let us suppose, as you put the case in your hypothetical question, no request for guaranties is made during the first 14 months. The dollars appropriated under the act would be expended to meet the program, and whatever the balance might be during the fifteenth month left in the appropriation, let us say for the purpose of illustrating, that it amounts to one-fifteenth of \$6,800,000,000.

Mr. LODGE. That is my question, then.

Ambassador DOUGLAS. The Administrator is not required under the act to extend the guaranty.

Mr. LODGE. How long must the Administrator do that?

Ambassador DOUGLAS. He need not keep any of it, because he is only authorized to make the guaranties and the total amount shall not exceed 5 percent.

Mr. LODGE. It seems to me the whole clause is illusory. He can obligate the \$340,000,000 in other respects and need not authorize any of it for this purpose.

Ambassador DOUGLAS. This is a permissive power.

Mr. LODGE. It seems to me that that is not right. There is no limitation of time. He can do it the first day it seems to me under what you said. He can remove this \$340,000,000 from this particular clause within the first day that the act goes into effect.

Ambassador DOUGLAS. If there are enterprises that seek guaranties up to the full amount of the guaranties which he is authorized to extend, he may.

Mr. LODGE. And therefore, a corporation might come to the Administrator 15 days after the act is into effect and he might meet the requirements in every other respect, and the Administrator could say, "I am sorry, but this total amount has already been allocated and therefore nothing doing."

Ambassador DOUGLAS. Hypothetically, that is possible. It is not likely.

Mr. LODGE. Therefore, it seems to me that the clause as written is illusory, and to that extent has very little meaning.

Ambassador DOUGLAS. I think there is an interesting point there, Congressman. The first is that it is illusory because it may not be used and the second is that it is illusory because it may all be used during the initial period.

Mr. LODGE. Precisely. The reason it is illusory is because it seems to me that there is no obligation on the part of the Administrator to withhold this 5 percent or any lesser amount for any given periods within the 15 months' period for this particular purpose. It is entirely permissive, discretionary, and therefore illusory as far as any obligation is concerned.

Ambassador DOUGLAS. You see, Congressman, I would presume that the Administrator would make the best business calculations that he could make in the light of experience as to how much he would be called upon to guarantee, and he would try to program it with reasonable orderliness throughout the period for which he was authorized to extend guaranties. This is the type of guaranty for which or in respect of which we have very little experience. It is pretty difficult, and indeed I think it is impossible, to prescribe definite and precise regulations as to how the guaranties shall be employed, what sums shall be set aside to cover anticipated guaranties that may be sought.

Mr. LODGE. I simply wanted to make it clear that it is illusory in that respect and that therefore this clause is permissive rather than mandatory.

Ambassador DOUGLAS. It is permissive; that is right.

Mr. MUNDT. I would like to pursue a little further the type of activity to which this guarantee can be applied. Did I understand you to say it should be applied only to economic activities involving the products which are to be distributed under the purview of this act; food, fabrics, fuel, and fertilizers, et cetera? Can it be applied to any activity of an economic nature which the administrator feels is serviceable to the United States?

Ambassador DOUGLAS. It can be applied, Congressman, to those ventures and enterprises which have been programed and approved. That is within the program. Let us take an example.

Mr. MUNDT. Let me ask you this specific question, because it seems to me this is a field where by all means it should be approved, and that is the activity mentioned down the line I believe by Mr. Lodge when he started in. The distribution of American news events by the Rome American, by the New York Herald-Tribune, Newsweek, Time, Life, through the showing of American moving pictures abroad, and the publication of American books, all of which are having difficulty now because they cannot translate their income into dollars, would it or would it not apply to those activities?

Ambassador DOUGLAS. If those activities were within the program, it would. If not, it would not.

Mr. MUNDT. How is a Member of Congress struggling for information to find out whether or not they are within the program going to determine it if you cannot tell me?

Ambassador DOUGLAS. I doubt in the present moment the program contemplates investments in moving-picture undertakings in the countries, or in the establishment of publications in these respective countries.

Mr. BLOOM. Does paragraph 1 apply there? Paragraph 1 on page 11, does that not apply?

Mr. MUNDT. I read that one. That is what gave rise to the question. It is not clear in my mind whether it would apply or not.

Mr. BLOOM. If the gentleman will yield, I think, Mr. Ambassador, the questions which have been asked you with reference to this 5 percent and the amount of money necessary to be held, I think the bill itself would be amended so as to make it certain what is really meant by it. I think the way it is now, that Mr. Lodge is correct in his statement that \$340,000,000 would have to be kept and you would have to keep it for a long time, whether for 14 months or 14 years. However, the bill presented here is very broad. It means certain things and it does not mean a lot of other things.

I think it should be amended so as to bring in all the points that have been brought out.

Mr. MUNDT. If I may continue my interrogatory, I do want to find out from somebody who knows, speaking for the administration or speaking for those who have conceived this bill, whether in your opinion it would apply to these information media, which I have recited; to press, magazines, book publishers, and motion picture operators, to be specific.

Ambassador DOUGLAS. These guaranties apply to the investment of new capital and not to investments previously made.

Mr. MUNDT. I understand that. So a new investment is made in pulp paper by Time magazine to print Life, Time, and Fortune in France, to be sold over there in France and they want it translated into dollars. Can they do it or can they not?

Ambassador DOUGLAS. That would depend upon whether they had the approval and consent of the local government in the first place, and as a part of the recovery program; and, secondly, it is conditioned upon whether the enterprise furthers and is in accordance with the fundamental purposes of the act.

Mr. MUNDT. Is it your position that that great vast area of latitude is to be left to some administrator of the bill and not be included in the legislation by Congress, as Mr. Bloom has suggested?

Mr. JONKMAN. Will the gentleman yield to me for a question?

Mr. Ambassador, it is all covered on page 2 in the act. The question is whether or not we include it in those purposes. At the bottom of page 2 you will find the purpose of the undertaking.

Ambassador DOUGLAS. That is right.

Mr. MUNDT. There is nothing there that by any stretch of the imagination could be specifically interpreted to exclude or include the question in point.

Ambassador DOUGLAS. In talking about the reconstruction and the recovery of a large part of the world, there are many things which this part of the world requires, and which contribute to its recovery and rehabilitation and restoration of stability within it.

That which is related to and is within the purposes of the bill, which is to achieve a recovery would be subject to the approval of the local government and having been approved by the local government would then be entitled to the extension of a guaranty, should the Administrator consider that it was within the purposes of the bill.

Mr. MUNDT. In order that we can begin to drift away from the sea of imponderables over to something understandable, it is not in the act. However, you are speaking now for the administration in support of the act.

Would it be in line with your recommendations and convictions that such activities as you have described would be suitable to be included or would you be inclined to think they would not?

Ambassador DOUGLAS. I would think I should give that more consideration because to be perfectly honest with you I have not thought about that particular type of an enterprise.

Mr. MUNDT. I know exactly where I stand on it. I want to stand out where you fellows do.

Ambassador DOUGLAS. Before I give you an answer I would like to consider it.

Mr. MUNDT. When you do that, will you also give thought to this: If you conclude that that is a wise economic activity to be treated under the provisions of this act, might it not also be wise and helpful to make it apply to enterprises which have already accumulated amounts of this unusable currency, because that would still get into the hands of the foreign country. The dollar exchange which they require would be included and it would tend to reinforce activities which presently are helping very greatly in carrying the American story abroad.

Ambassador DOUGLAS. If that were done, Congressman Mundt, the amount of the appropriation would have to be increased to the extent to which guaranties of that order were extended because otherwise no dollars would flow into the European countries on account of making good on such a guaranty. Is that clear?

Mr. MUNDT. I think that is clear.

Mr. BLOOM. That is a pretty good answer.

Mr. MUNDT. That is all, Mr. Chairman.

Mr. CHIPERFIELD. Would you care to proceed?

Ambassador DOUGLAS. I wonder if I might finish one other phase?

Mr. CHIPERFIELD. Proceed.

Ambassador DOUGLAS. I was about to say that in our judgment the \$6,800,000,000 is the minimum necessary to achieve recovery during the 15 months' period, or to carry out the purposes of the act within the 15 months' period, and I would like to tell the members of the committee why we consider or believe that to be the case: In the first instance, the grain available for the participating countries for the first year under this program is some 11,000,000 tons less than the stated requirements of these 16 participating countries, and as I showed or was disclosing this morning, the program does not contemplate, during the period 1948 and 1949, elevating the established standard of living to even the prewar standard of living.

Now secondly in respect of petroleum the deficiency is 8.8 million metric tons.

Mr. CHIPERFIELD. Are there available supplies up to \$6,800,000,000?

Ambassador DOUGLAS. The commodity requirements have been reduced because the amounts were not available and the deficiency in the first year in respect of grain is some 11,000,000 tons; in respect of petroleum it is 8.8 million metric tons; in respect of timber the deficiency is about 30 percent of the stated requirements. More than that, these calculations were based upon a price level as of October.

Since October the price level in the United States has risen, as compared with July of last year, almost 12.5 percent, in other parts of the Western Hemisphere, just under 15 percent, and throughout the entire Western Hemisphere to be exact 13.4 percent. In other words, the price level has risen far above the price level as of October which was the basis for the calculation. And that increase in price level since October has already reduced the amount of support contemplated in the \$6,800,000,000 by \$400,000,000.

Now the third reason why we believe that this is a minimum is because we have assumed a certain restoration of trade with Eastern Europe. For example, it is assumed that Poland will deliver 16,000,000 tons of coal to western Europe in 1948, increasing to 30,000,000 tons in 1951. It is likely that Poland will deliver that tonnage. However, there are uncertainties about it. For example, I think it was during the month of August the four northern European countries scheduled a meeting for the purpose of developing among them a customs union. They were immediately informed that should they proceed with their meeting and establish a customs union, coal from

Poland would be withheld, so that there are a number of uncertainties involved in the movement of commodities, essential commodities, from eastern Europe to western Europe, and yet the calculations are based upon the delivery of those commodities.

Mr. BLOOM. Is that Silesian coal?

Ambassador DOUGLAS. From that field, yes.

Mr. BLOOM. Is not that conditioned upon a loan?

Ambassador DOUGLAS. No, the delivery of 30,000,000 is not conditioned upon a loan. My recollection is the total amount exported was about 18,000,000 out of which 11,000,000 went to western Europe. That is my recollection. I will have to check my recollection as to those figures.

(The statement on this matter is as follows:)

Polish coal exports to countries outside the Soviet bloc: Table 1 attached indicates that Poland exported approximately 7,200,000 metric tons of hard coal and coke to countries other than eastern European countries in 1947. In 1946 she exported 2,300,000 tons to the same countries indicating that in 1947 she more than trebled her exports. Table 2 attached indicates Polish exports to eastern European countries in 1946 and by half-year periods for 1947. The data in table 2 reveals that the volume of exports to eastern European countries remained stationary in 1947 as compared with 1946.

The trend in Polish coal exports to countries outside the Soviet bloc since the inauguration of the Committee for European Economic Cooperation. The data in table 2 which give the exports for 1947 by half-year periods indicate that during the second half of the year Poland exported twice as much coal to countries outside eastern Europe than she did during the first half. Table 2, on the other hand, indicates that Polish coal exports to these countries rose approximately 1,200,000 tons during the second half of 1947 as compared with the first half.

For both groups of countries shown in the tables, the total volume of exports rose from approximately 12,000,000 tons in 1946 to almost 18,000,000 tons in 1947. Total exports to both groups of countries were approximately 5,500,000 tons greater in 1947 as compared with 1946 and the total increment inured almost wholly to the benefit of the western countries.

TABLE 1.—*Polish hard coal and coke exports to European countries other than eastern Europe, 1946 and 1947 (estimated)*

(Thousands of metric tons)

Country	1946	1947		
		First half	second half ¹	Total
Austria.....	124	187	582	769
Belgium.....	0	77	367	444
Denmark.....	731	320	690	1,010
France.....	566	320	335	555
Italy.....	10	208	204	410
Netherlands.....	4	118	185	303
Norway.....	379	190	508	668
Sweden.....	219	838	1,387	2,225
Switzerland.....	258	248	432	680
Portugal.....	0	0	4	4
Iceland.....	0	14	11	25
United Kingdom.....	0	0	70	70
Total.....	2,321	2,418	4,775	7,193

¹ Actual data available for period July–November, inclusive. Full 6-month figures based upon actual data for 6 months plus State Department estimate for December. December estimate calculated by projecting average for July–November and adjusting for seasonal factors.

TABLE 2.—*Polish hard coal and coke exports to Soviet and eastern European countries, 1946 and 1947 (estimated)*

(Thousands of metric tons)

Country	1946	1947		
		First half	Second half ¹	Total
Czechoslovakia.....	71	137	834	971
Finland.....	83	148	392	540
Yugoslavia.....	102	50	107	157
Hungary.....	150	137	126	263
Rumania.....	115	16	10	26
U. S. S. R.....	9,300	4,145	4,400	8,545
Total.....	9,821	4,633	5,869	10,502

¹ Actual data available for period July–November, inclusive. Full 6-month figures based upon actual data for 5 months plus State Department estimate for December. December estimate calculated by projecting average for July–November and adjusting for seasonal factors.

Mr. JONKMAN. Will the gentleman from New York yield?

Mr. BLOOM. Yes.

Mr. JONKMAN. Of course Russia could shut off that supply?

Ambassador DOUGLAS. That is precisely the point I was making, thank you, sir.

Mrs. BOLTON. Would you care to comment upon the 8.8 million tons of petroleum which you say is in deficiency? What would be required in your opinion if petroleum supplies were interfered with that are being counted on?

Ambassador DOUGLAS. That, of course, is another uncertainty and if they were interfered with, if for one reason or another sources of supply in the Middle East were shut off or diminished, then the whole petroleum program for Western Europe would have to be reviewed in the light of the diminishments thus created.

Mrs. BOLTON. So the refusal of Syria to ratify the agreement for the pipe line is of serious moment to the whole program?

Ambassador DOUGLAS. Yes, it is a consequence.

Mrs. BOLTON. That is only one instance.

Mr. MUNDT. How would that volume of petroleum be supplied, from the United States? It is coming from the United States now?

Ambassador DOUGLAS. It is calculated during the 15 months' period about 25 percent of the petroleum and petroleum products for Western Europe will come from the United States and that by 1951 only about 5 percent. For the increase in production of petroleum products it is assumed in other parts of the world will increase substantially, together with refining.

Mrs. BOLTON. In other parts of the world, largely the Near East?

Ambassador DOUGLAS. Yes, and the Caribbean.

Mr. MUNDT. Does that include petroleum-producing equipment or just products?

Ambassador DOUGLAS. Just the products.

Mr. MUNDT. Has your advisory commission or economic board determined that we have available for export of petroleum an amount represented by the 15 percent?

Ambassador DOUGLAS. There has been a long and complicated study on each one of these major commodities, including petroleum. I would be very glad to give you a copy of that. Mr. Krug is the person who has that.

Mr. MUNDT. I am just trying to find that out.

Ambassador DOUGLAS. Mr. Krug is the person who could answer your question in respect of petroleum much better than I. The program which is now being discussed before the committee is based upon the calculation of availabilities and Mr. Krug of course played a very, very important part in estimating available supplies.

There are other reasons why we believe the \$6,800,000,000 is a minimum.

Mr. LODGE. May I interrupt you there to ask you this: With respect to your third reason, aside from this problem in connection with the Silesian coal and in connection with petroleum, I assumed that this minimum figure is based on a maximum of reciprocal self-help among the 16 participating nations, and I would be interested if you would be kind enough to dilate for a bit on the extent to which we may expect reciprocal self-help among these nations and what has already been accomplished along those lines.

Ambassador DOUGLAS. I would be very glad indeed to do so. I wonder whether you would be good enough to withhold that question until I have completed these considerations, and then come back? Would that be satisfactory to you?

Mr. LODGE. That would be quite satisfactory.

Ambassador DOUGLAS. There are other important imponderables. This calculation which has been presented to the committee is based upon a certain volume of exports. That volume of exports from the participating European countries has to be achieved if the \$6,800,000,000 is going to be adequate. It may not for a variety of different reasons be achieved, not because of lack of desire to achieve it, but because of the intervention of factors over which these countries have no control.

Mr. CHIPERFIELD. Mr. Ambassador, if you leave that full amount of \$6,800,000,000 for the success of the program, then if something happens and you get less, then what is the situation?

Ambassador DOUGLAS. In our judgment, Congressman, it will impair the chances of the success of the program. However, there are a great many different risks as you know; Providence may be unkind. We may have crop failures, not only in Europe, if not in Europe, somewhere else in the world. There are a whole series of risks of that order over which man has no control, but there are a number of risks over which certain men have some control.

Mr. MUNDT. Mr. Ambassador, I think we are dealing with a highly important point when you are talking about the reason why \$6,800,000,000 should be the minimum amount appropriated. That is what you are starting out to prove in your statement.

Ambassador DOUGLAS. That is right.

Mr. MUNDT. It would be very helpful to the committee I am sure, and to the country if in establishing that as the basic figure you would establish it in terms of dollars as you go along. Now you say we need \$6,800,000,000 because we must have X number of bushels of wheat; X number of tons of oil, but that does not get it back in terms of dollars. Can you not put the dollar sign on those amounts as you go along, so we can add it and see how it comes out?

Ambassador DOUGLAS. I think a calculation can be made of that sort. There are imponderables as you recognize. One cannot say the extent to which the export target may not be reached.

Mr. MUNDT. There must be some kind of mathematics behind your arrival in your use of those factors to reaching that figure. I would like to know what that is.

Ambassador DOUGLAS. I have given you one mathematical calculation, expressed in dollars. The rise in prices, for example, has already reduced the effectiveness of the aid or the support by \$400,000,000.

Mr. MUNDT. I want to see the mathematics by which you start from scratch and reach \$6,800,000,000.

Ambassador DOUGLAS. Perhaps I do not understand, I am sorry.

Mr. MUNDT. I mean frankly if I had to go out and tell some South Dakota farmer tomorrow why \$6,800,000,000 is the least amount of money we need to get the program over, I could not do it simply by saying "The reason we need that much money is because we need 8.3 million tons of oil," and something else. I will have to show him we need 8.3 million tons of oil which is going to cost so many billions of dollars, or so many million, and we need so much grain which is going to cost so many million, so he can add up the dollar signs.

Ambassador DOUGLAS. That is in page 115 of the published document. There is a list of selected commodities expressed in terms of value and of quantity upon which the deficiency with the United States and the Western Hemisphere was calculated. That is page 115, 116, and 117 as I recollect.

Mr. MUNDT. Thank you.

Ambassador DOUGLAS. There is no table in regard to the item "Other imports."

Mr. JARMAN. Will the gentleman yield?

Mr. MUNDT. Yes.

Mr. JARMAN. Mr. Ambassador, may I comment to the Senator over there? On that proving to your people out there in dollars, you could not do that because of the fluctuation, day by day. Wheat might be 15 cents a bushel lower tomorrow. Oil might be 15 cents a gallon less. So it would be very difficult on that basis.

Mr. MUNDT. That is true, but if I tell them that, that is probably correct, they will say that \$6,800,000,000 is just somebody's wild guess because you have that fluctuation to contend with. I have to have some reason to firm up that figure.

Mr. JARMAN. That is what it cost, then. It costs that much, but the costs have gone up since then.

Mr. MUNDT. It would have cost about 13 percent less than that last October, as I understand.

Ambassador DOUGLAS. Last July.

Mr. BLOOM. I believe this morning you gave all of those figures.

Ambassador DOUGLAS. Yes.

Mr. BLOOM. You were analyzing those charts.

Ambassador DOUGLAS. I tried to.

Mr. BLOOM. I think it is a matter of record.

Mr. MUNDT. It is a matter of record, but not clear.

Mrs. BOLTON. I think you did not hear, Senator.

Ambassador DOUGLAS. This rise in prices which has already occurred will reduce the amount of the imports into the participating European countries by \$400,000,000, and therefore the effect of the rise in prices will be either to reduce the total production within the

countries and the amount available for export, on the one hand, or it will compel them further to draw down upon their already pretty well exhausted reserves. In either case, the amount of imports which they can continue to acquire will progressively diminish, thus affecting adversely in turn again their production. That was clearly evident and it was the significance of the calculations of the Harriman committee. The estimate of imports upon their lowest calculation was less than the estimate by the executive branch, and accordingly, the estimate of the exports from the participating countries was correspondingly less, which illustrates the significance of and the importance of imports into the countries if they are to achieve their production targets, export the commodities which they can export, acquire the exchange thereby for the purpose of purchasing additional imports, and thus keeping their full economic and industrial plant operating at an increasing momentum. And finally there is another imponderable: The Soviet through the Cominform has declared its open opposition to this program. We have witnessed during the course of the last 2 months organized efforts to interrupt and interfere with the production of several of these western European countries. To what extent organized efforts to frustrate the recovery of western Europe, to interrupt, interfere with the productive effort will be undertaken in the future, no one can say, but it is not likely that we have seen the end of such endeavors.

Mr. JONKMAN. You have extensive knowledge of the situation. Would you care to comment as to why Russia has not cooperated? Comment only if you care to. I do not want to put you in an embarrassing position.

Ambassador DOUGLAS. I think if the chairman would consider it to be appropriate at some time, it would perhaps be profitable to suggest a variety of different aspects of this problem in executive session.

Mr. JONKMAN. I will withdraw the question.

Mr. CHIPERFIELD. We would like to arrange that sometime, Mr. Ambassador.

Ambassador DOUGLAS. Those are the reasons generally why we believe this program represents a minimum which is necessary to achieve the purposes of the act during the 15-month period.

Now, Mr. Chairman, I might go on and talk about the administrative provisions of the bill. I might talk about the commitments which the European countries made to each other. Perhaps this would be an appropriate time for me to refer to them, because Congressman Lodge has already put a question.

Mr. LODGE. Mr. Ambassador, I understood the Secretary of State to say that the entire success of the recovery, rather than the relief aspects of this program, depended upon this reciprocal settlement, and that seemed to me also very important in view of this 1938 comparison which always crops up. I wonder if that is what we are trying to do, if we are trying to restore things to 1938 or whether we are instead going to recognize that the world in 1938 was changing, and that, therefore, what we must try to do is to achieve some sort of economic federation in Europe, rather than put Humpty-Dumpty together again, so to speak.

Ambassador DOUGLAS. Well, Congressman, these 16 participating countries met and they made certain undertakings which are as important in themselves as any calculations which they might have

made. For if these undertakings are observed faithfully, and I see no reason to believe that they will not be observed faithfully, the Paris Conference may well be a landmark in modern history. These 16 countries disclosed their internal economic position to each other, the first time it has been done, and they undertook to do certain things which would alleviate their positions, progressively and mutually, and I would like to refer the committee if I may to those commitments. They are to be found on page 13—at least all except one, in the report of the Committee on European Economic Cooperation.

The first of these was to develop production to reach the targets set, especially for coal and food.

I think it might be interesting in this connection to look at the production chart, to show what production was in 1938, what production fell to, and what the goals set may be. I think it is the third chart.

The black bar represents the production of all grains, meat, coal, finished steel, hydroelectric power, respectively, in 1938.

The next bar represents the production in 1946. That is this bar here—that is 1947.

The next bar represents the production in 1948.

The last bar represents production in 1952. With respect to all grains, these countries have undertaken to increase their production to a level substantially above the prewar level. With respect to meat, unfortunately it is still below, about 1½ million tons below the prewar level.

However, in coal they undertake to increase their production from 551,000,000 tons, where it stood before the war, to 586,000,000 tons roughly, by 1952.

In finished steel, they undertake to increase the production from 34,000,000 to 40,000,000 tons. In hydroelectric energy they undertake to increase their production from 60,000,000,000 to 112,000,000,000 kilowatt-hours.

Those undertakings in regard to production are important and significant. They are necessary, because of the various adverse consequences inflicted on these countries by the war, which cannot in a short period of time be overcome except through increased production and an increase in the volume of exports.

Mr. LODGE. I think that is extremely vital, Mr. Ambassador, but it was not precisely what I had in mind.

Ambassador DOUGLAS. I understand you had some other things, but these are undertakings by themselves.

Mr. LODGE. These are individual undertakings on the part of each nation?

Ambassador DOUGLAS. That is right. It is the sum total of them.

Mr. LODGE. What I was interested in was the trade aspects between the nations, and the way in which we could coordinate the bilateral arrangements which we make with each individual nation on a collective European federated economic basis.

Ambassador DOUGLAS. I understood. I was just taking these commitments in order. I was coming to some of the others which are of the nature you have in mind.

The second one was to make fullest and best use of their existing productive capacity and of course their available manpower.

The third is to modernize their equipment and transport. The fourth is to apply all necessary measures leading to the rapid achievement of internal financial, monetary and economic stability. That is an extraordinarily important consideration. I think Congressman Jonkman made some reference this morning, to the dilapidated internal fiscal affairs of some of these western European countries, associated with an unnatural exchange level. It has had an extraordinarily great depressing effect upon the production in each one of these countries whose financial system is tragic. These countries undertake to put their internal monetary and fiscal houses in order, and establish appropriate exchange rates that may be maintained. That is an extraordinarily and important significant factor because it means it has the effect of improving the whole financial and monetary system of this area of which we are speaking.

Mr. LODGE. Mr. Ambassador, before you discuss that, may I ask you, in talking about putting this internal house in order, what your attitude would be with respect to price controls within these various countries, and how you believe it affects the burden on the American taxpayer? Do you believe that price controls have acted to increase production and to rehabilitate these countries and therefore finally diminish the burden on the American taxpayer or do you believe that there must be a gradual relinquishment of price controls within these countries?

Ambassador DOUGLAS. I think the Congressman knows my traditional view on matters of that sort. I have not seen any reason to change my fundamental belief. I suspect that there are, perhaps, emergency conditions in which controls are perhaps necessary, but in my peculiar position I would like to discuss that, too, with the committee on another occasion.

Now, these 16 participating countries committed themselves to cooperate with one another, and with all like-minded countries in all possible steps to reduce the tariffs and other barriers to the expanding of trade both between themselves and with the rest of the world.

That is an undertaking to make of this area one in which commerce can move much more freely than it has moved before, in which the barriers, interferences with the flow of trade will be reduced. Indeed it is a step in the direction toward a goal which the Congressman has in mind.

Mr. LODGE. With respect to these bilateral agreements, not only between this country and the participating nations, but between the participating nations, who is to be the judge as to whether these agreements are being properly lived up to? Will that be the Administrator of the program? Is that to be entirely within the discretion of him to determine, or what degree of flexibility he believes is proper, what concessions should be made within the spirit of these agreements?

Ambassador DOUGLAS. There will be a continuing organization, and one of the purposes of the continuing organization will be to review the progress made toward the satisfaction of the pledges that these countries have made toward each other. So the first step will be the judgment of the organization itself.

Mr. LODGE. That would be the Administrator?

Ambassador DOUGLAS. The continuing organization of the 16 participating countries.

Mr. LODGE. They will determine whether the agreements are being lived up to, the Administrator will not?

Ambassador DOUGLAS. I would say that would be the first step. These 16 countries have committed themselves to the establishment of a continuing organization, consisting of representatives from each one, for the purpose of reviewing the progress made towards the satisfaction of the pledges given and to achieve in a cooperative measure the purposes in mind. This organization would make the first assessment of the extent to which the pledges had been fulfilled. The United States would have a representative to this continuing organization.

Mrs. BOLTON. Are those commitments parts of the record of the Paris Conference?

Ambassador DOUGLAS. They are. You will find them all, except with regard to the commitment of the continuing organization, in paragraph 32 of the record of the Paris Conference.

Paragraph 13 refers to the continuing organization.

Mr. LODGE. Now, with respect to the bilateral agreements with these several countries which participate, who is to determine whether any individual had failed to live up to any one of those bilateral agreements?

Ambassador DOUGLAS. The Administrator.

Mr. LODGE. The Administrator would determine that?

Ambassador DOUGLAS. Yes.

Mr. LODGE. If he finds there has been a substantial failure to live up to these agreements, what can he do then, or what should he do?

Ambassador DOUGLAS. The intention is clearly expressed in the document which was published. The United States reserved the right to withhold in whole or in part any further assistance or support.

Mr. LODGE. However, he has a very large discretion there as to whether he believes that certain concessions should be made with respect to those pledges?

Ambassador DOUGLAS. Yes; there may be a failure due to acts of God, over which there is no control at all. There may be failure because of the interventions of unfriendly forces, over which the participating countries will have no control. One will have to assess the reasons for any failure.

Mr. LODGE. Would you feel, Mr. Ambassador, that both with respect to the bilateral treaties and with respect to the arrangement made between the participating nations, that this nation, or our administrator, must definitely take the lead in attempting to achieve a maximum of reciprocal self-help among these nations?

Ambassador DOUGLAS. I think it is clear that he must do that.

One of the basic premises upon which this proposal was put forward was that the participating countries engage in an enterprise of mutual help.

Mr. LODGE. That will inevitably involve certain internal reforms which hitherto have been regarded as strictly a matter of internal affairs of certain countries, such as the coordination of tax systems and of fiscal matters and what not which would make effective the customs union or a sort of economic federation within the intention of this program. Is that not correct, sir?

Ambassador DOUGLAS. I am not at all clear that you have not covered a broader field than that which is covered within our own

Federal Union. We have a variety of different tax systems among the 48 States, and yet we have this free-trade area.

I think I know what you have in mind.

Mr. LODGE. I have one specific example that perhaps will suffice. Let us assume that under the Benelux agreement you have the removal of the trade barrier between Belgium and Holland on beer. However, Belgium retains its excise tax on beer. Naturally, people would purchase in Holland where there is no excise tax. Obviously Holland must put on a comparable excise tax, or Belgium must remove her tax, in order to create a fair competitive market. It seems to me that the European nations must tend toward that. Would you agree with that, sir?

Ambassador DOUGLAS. I think the larger area of free trade, the better it will be. The more closely integrated is the economic system, the better.

Mr. LODGE. I am sure you feel we must do our utmost to bring that about.

Ambassador DOUGLAS. Yes. I believe we must be prudent and cautious, lest we be actually guilty of invading the sovereignty of the countries.

I am sure the Congressman knows what I have in mind.

Mr. LODGE. Yes. On the other hand, I believe that there are many customs and traditions which are perhaps obsolete; and if the advantages of doing away with them were properly pointed out, very definite progress might be achieved along those lines.

Mrs. BOLTON. Would the gentleman yield?

Mr. LODGE. Certainly.

Mrs. BOLTON. I think it perhaps would be pertinent to remember some of our own history. It took us some years to drop the barriers between the States, did it not?

Mr. LODGE. Yes. That is just exactly why I make these suggestions, Mrs. Bolton.

Ambassador DOUGLAS. There are these other commitments, too, they have made to remove the barriers on the movement of people.

Mr. LODGE. It is particularly important, in view of the surplus population in Europe.

Ambassador DOUGLAS. That is right.

Mr. LODGE. I presume that although there is nothing in the bill about it—there will be some efforts made to solve that problem which is, as you yourself have pointed out, one of the basic causes of economic distress.

Ambassador DOUGLAS. Among other things, Mr. Congressman, it is only by achieving a more closely integrated economic system in western Europe that they will be able to overcome some of the extraordinarily heavy burdens that the war has imposed upon their backs.

Mr. CHIPERFIELD. Because of the fact that there are five more members in attendance at a conference with the Senate, Dr. Eaton suggested that we recess at 4 o'clock.

We would like to have you in attendance at 10 o'clock tomorrow morning, if that is agreeable.

Ambassador DOUGLAS. That is agreeable.

Mr. CHIPERFIELD. We will adjourn at this time and reconvene at 10 o'clock tomorrow morning, in the same room.

(Whereupon, at 4 p. m., the committee adjourned, to reconvene Wednesday, January 14, 1948, at 10 a. m.)

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 14, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10 a. m., in the Ways and Means Committee room, New House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will be in order.

Mr. Ambassador, will you proceed with anything you have before the questioning begins?

FURTHER STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES AMBASSADOR TO THE UNITED KINGDOM

Ambassador DOUGLAS. Mr. Chairman, yesterday Congressman Jonkman, I think it was, asked the extent of support that would be provided in the recovery of the 16 participating nations by countries other than the United States. Unfortunately, at the time I was not prepared to give him an answer to the question which was put. I can this morning, and in this form: The participating countries incur a deficit during the 15 months' period with nations other than the United States and other nations located in the Western Hemisphere, in the amount of \$811,000,000. Of the \$811,000,000, you will recollect the United States proposed to cover \$200,000,000 because the deficiency was incurred by the bizonal area of Germany over which we have jurisdiction. Accordingly, there is left an uncovered deficiency in the amount of \$611,000,000. That \$611,000,000 will accordingly be made up in the form of credit or other support extended by countries not located in the Western Hemisphere.

Members of the committee will recollect that the total amount of support provided by the countries in the Western Hemisphere other than the United States approximates \$700,000,000, so that the total amount of support provided for the recovery of the participating countries from sources other than the United States represents approximately \$1,310,000,000. That of course is exclusive of the South African loan to the United Kingdom to which I made reference yesterday in the amount of \$320,000,000. That loan is designed to carry the United Kingdom through until the period covered by the European recovery program commences.

There is a reference to the \$811,000,000 deficit to which I just referred, incurred by the 16 participating countries with nations not located in the Western Hemisphere on page 97 of the document entitled "Outline of European Recovery Program."

Chairman EATON. Is this amount of outside assistance in addition to that proposed by the United States?

Ambassador DOUGLAS. Yes, sir.

Chairman EATON. Are you ready for the questioning?

Ambassador DOUGLAS. Whenever the members of the committee are ready.

Chairman EATON. We will begin with Mr. Chipfield.

Mr. CHIPERFIELD. Mr. Ambassador, in your opinion will the impact of this program on our domestic economy be such that it would require rationing and price control to be restored in this country?

Ambassador DOUGLAS. Mr. Chipfield, in the first place the exports from the United States contemplated under the European recovery program during the 1948-49 period will be substantially less than the exports during the previous year. There will be, of course, commodities in short supply. Therefore there will be a certain amount of relief within the United States during the period in question, assuming that Providence is kind to us in the matter of climate, weather, and crops, as compared with the previous period.

Mr. CHIPERFIELD. Then you are hopeful, I take it, that we would not have to restore price control, is that the answer?

Ambassador DOUGLAS. Not on the basis of this program, Mr. Congressman.

Mr. CHIPERFIELD. Of course, there are other factors in the price spiral besides this program. I realize that.

Ambassador DOUGLAS. All great wars have produced, in their wake, a period of inflation. It was true after the Napoleonic wars, it was true after the Civil War, it was true after the First World War, and so it is true after World War II.

Mr. CHIPERFIELD. Do you think price control is helpful to production? That certainly is what we need now, is it not, to carry on a program like this?

Ambassador DOUGLAS. Production of course is the essence, really, of human life, and the progress and development of human conveniences and the elevation of the standard of living. I think that price control can be so extensive as to have a depressing effect on production, but agricultural products are, of course, very high.

Mr. CHIPERFIELD. Would you favor or propose a provision in this bill which would direct the Administrator to discontinue aid to any country, which through its own fault, refused to substantially supply the cooperative effort agreed upon at the Paris Conference?

Ambassador DOUGLAS. It is stated in the published document to which I have previously referred, the Outline of European Recovery Program, that the United States intends to reserve the right to withhold aid—I do not recollect the exact language—either in whole or in part, in the event that undertakings made by any one of the respective countries are not honored.

Mr. CHIPERFIELD. I find no such provision in the bill, although some say it is implied.

Ambassador DOUGLAS. I am not clear, Mr. Congressman, that there is such an express provision in the act.

Mr. CHIPERFIELD. Section 10 I think employs it, does it not?

Ambassador DOUGLAS. The Congressman is correct, and section 3 partly implies it. It reads:

Any country wholly or partly in Europe, including its colonies and dependencies, is a participating country within the meaning of this Act, while it remains adherent

to a joint program for European recovery designed to accomplish the purpose of this Act.

Mr. CHIPERFIELD. Since you have turned to section 3, let me ask you this question about section 3: Under your explanation in this published document, you say that it permit any other country to join, if they cooperate in this program. Is that correct?

Ambassador DOUGLAS. That is right, and become a full-fledged member of the cooperative effort.

Mr. CHIPERFIELD. What does the language say? "While it remains an adherent."

It cannot so remain something that it has not already been a part of.

Ambassador DOUGLAS. I see the Congressman's point. It does not express a provision for the extension of the list of countries. However, it does not prohibit the extension of the list.

Mr. CHIPERFIELD. Very well, take this language in lines 3 and 4 of this same bill, where it says, "including reduction of barriers which may hamper such trade." You do not have to be a free trader to be for the Marshall plan, do you?

Ambassador DOUGLAS. I do not understand.

Mr. CHIPERFIELD. It is the language just above where you read. It is page 3, lines 3 and 4.

Ambassador DOUGLAS. You see the participating countries have committed themselves and made undertakings to facilitate the exchange of commodities internationally, and expressly to reduce the barriers to the flow of trade, including the reduction of tariffs and the elimination of exchange restrictions and a variety of impediments of that order.

Mr. CHIPERFIELD. If I approved this bill as written, would I be expressing my approval of the reciprocal trade agreements, or the principal of free trade?

Ambassador DOUGLAS. Definitely not, Congressman.

Mr. CHIPERFIELD. I am glad to learn that.

Ambassador DOUGLAS. I would have no apprehensions on that score, because this applies to the undertakings made by these particular countries, and is not intended and indeed it does not expressly commit the United States to any such policy.

Mr. CHIPERFIELD. Will you furnish this committee with a breakdown as to how Great Britain spent the \$3,750,000,000 loan?

Ambassador DOUGLAS. I will furnish that information during the course of the hearings.

Mr. CHIPERFIELD. How much is Great Britain asking approximately under the Marshall plan?

Ambassador DOUGLAS. That depends upon unforeseen things, of course.

Mr. CHIPERFIELD. I understand.

Ambassador DOUGLAS. During the 15-month period, the British deficiency with the Western Hemisphere approximates some \$2,500,000,000.

Mr. CHIPERFIELD. If she did not receive that amount would Great Britain go communistic?

Ambassador DOUGLAS. The population of Great Britain is a very stable body of people, of long experience and tenacious character. I would doubt very much whether what we call communism would take hold of the minds of those who reside in the United Kingdom,

But if Great Britain does not receive additional support, then the imports into Great Britain will fall, the already relatively low standard

of living in Great Britain will fall, and a variety of other consequences, Congressman, touching us in other parts of the world will follow.

Mr. CHIPERFIELD. In the purposes of this act it is stated that unless normal economic conditions and stable economic relations are restored in substance, the countries of Europe will not be able to maintain free institutions and national independence.

Now, is not that "unless normal economic conditions are restored, these countries are going to lose their sovereignty and their freedom"?

Do you believe that?

Ambassador DOUGLAS. I believe that, Congressman, that unless the western part of Europe achieves economic and political stability, based upon the traditional conception and application of the parliamentary system and the dignity of the individual, that there will necessarily follow at a minimum a series of restrictions and controls on the liberty of individuals both in the economic field and in the political field, and that a fertile area will be provided for the planting of the seed and the taking root of ideas which are wholly hostile to our conception of civilized existence.

Mr. CHIPERFIELD. Mr. Ambassador, I mentioned to you a moment ago, about giving the personnel under this program the benefits of the Foreign Service Act. Will you comment on that?

Ambassador DOUGLAS. I should like to say, Congressman, that the administrative proposals put forward in advance, constitute "a" system of administration which appears to us to meet certain fundamental specifications. I would like to emphasize the word "a".

With that as a preamble may I go on and answer your specific question. I confess that the language of the act can be construed to be, if not in conflict, at least not necessarily consistent with the explanation in the document which I have referred to, the Outline of European Recovery Program. Under the language of the act, dealing with the appointment of ECA personnel in overseas posts, it is intended, although the language may not be clear and precise, that the recruiting of the personnel normally shall be undertaken by the Administrator, combined with such recruiting as the Secretary of State, may jointly undertake with the Administrator. There might be some recruiting among the career officers, for there may be a few members of the permanent career Foreign Service who meet specifications of certain of the overseas ECA personnel. The appointing power is vested in the Secretary of State because he is the only one under existing law who can appoint to the Foreign Service Reserve, and it is intended that the ECA officers, other than those in the regular Foreign Service who meet specifications, shall be covered into the Foreign Service Reserve.

The Foreign Service Reserve was established by the Congress in order that there might be appointed for specific and specialized jobs, competent personnel from outside of Government service, and outside of the permanent Foreign Service. There are today approximately 200 such Foreign Service Reserve officers.

Now, as to why it is considered advisable to appoint the ECA officers to the Foreign Service Reserve, the administration of the European recovery program abroad requires real competence, men who have had experience and have been sufficiently backgrounded to qualify them to undertake extraordinarily difficult tasks.

Now, in the Foreign Service Reserve, men enjoy a title and emoluments which give them a status and a position in foreign countries——

Mr. CHIPERFIELD. (interposing). Is it not true that personnel may be taken out of the Foreign Service Reserve and put under the benefits of the Foreign Service?

Ambassador DOUGLAS. There seems to be a little misapprehension as to just what the Foreign Service Reserve is.

There are just a handful of inactive Foreign Reserve relief officers. The Foreign Service Reserve was established by the Congress in order that the competent and experienced people, equipped to do specific jobs and undertake specific tasks, might be recruited from an area wholly outside of any reserve, wholly outside of the Government service for relatively temporary periods of time.

Mr. CHIPERFIELD. Thank you very much.

Ambassador DOUGLAS. About the Foreign Service officers, and the Economic Cooperation Administration officers abroad, I have said that the appointment to the Foreign Service Reserve gives such a Foreign Reserve officer a status in a foreign country, and emoluments which could not be provided insofar as status is concerned, in any other way, I believe; and as to emoluments which could be provided only by specific provision of the statute.

A minister, for example—and in the major embassies, it is contemplated that the ECA officer would have the rank of minister—including his pay, his allowance and other emoluments, receives approximately \$21,000 a year—just short of \$21,000 a year.

A counselor selected from outside and brought into the Foreign Service—and in the minor embassies, the ECA officer would be a counselor—receives emoluments, totaling approximately \$17,000 a year, though he can, under the statute, be increased by another approximately \$1,500.

(The following letter is inserted to clarify the points raised in the foregoing:)

DEPARTMENT OF STATE,
Washington, February 10, 1948.

Mr. BOYD CRAWFORD,
Clerk, Foreign Affairs Committee, House of Representatives.

DEAR MR. CRAWFORD: This is to clarify what might appear to be a discrepancy between the testimony of Ambassador Douglas and information furnished by Mr. Donald W. Smith of the Office of the Foreign Service during a telephone conversation with Mr. Frank Lindsay.

As pointed out by Mr. Smith, it has been contemplated that the chiefs of the special missions for economic cooperation would be appointed Foreign Service Reserve officers, or the equivalent. However, as Ambassador Douglas testified, it is contemplated that in the more important countries, the chief of the special mission would be given the personal rank of Minister.

In such cases, the salary of a minister, \$13,500, would be paid by utilizing the maximum rate of class 1. Together with the allowances appropriate for a Minister, the emoluments thus could total nearly \$21,000 in a major post such as London.

With reference to adherence to various personnel standards of the Foreign Service, such as age-in-grade standards, it has been the intention that applicability of such standards would be determined jointly by the Secretary of State and the Administrator in so far as ECA personnel were concerned. Adequate flexibility will be further insured under proposed legislative changes giving the Administrator an option as to whether or not the Foreign Service system is utilized in making appointments, as is now under consideration.

If there are any other points on which you desire further clarification, please let me know.

I am returning herewith your file on this subject which you brought to my attention.

For the Secretary of State:

Sincerely yours,

CHARLES E. BOHLEN, *Counselor.*

Now I do not mean to say that there are not many Americans who would be willing to serve overseas at a smaller rate of compensation, but I do mean to say that it is difficult to obtain the sort of competence that is necessary, properly to administer in a businesslike fashion, and in a way that will provide the Congress and the American people with an assurance that it is being properly done, unless we can offer compensation which is at least partially commensurate with the significance and importance of the task.

Moreover, in dealing with the representatives of foreign countries, the title which a person has gives him a status.

It is for those reasons that the bill contemplates the covering into the Foreign Service Reserve, of those who have been recruited by the Administrator to perform the functions overseas, and to discharge the responsibilities incident to an appropriate administration of the program.

Now in London, if I may give you a personal idea of what I would contemplate if the Congress saw fit to approve this particular provision of the legislation, I would place the ECA officer who would have the title of minister, in charge of all the economic operations of that embassy, for there is no economic facet of the British economic condition which is not related to the European program of recovery.

I would be very glad to show the members of the committee the type of monthly report which we now get out on Britain, covering every phase of the economic life of the country, excepting one feature of it, which is secret but that too is now a part of our monthly review of the British industrial, economic and financial operation.

We do that in London, even though there is not a European recovery program, because it is an important and a significant bit of information—a cumulation of information for us to have. Is that clear?

Mr. CHIPERFIELD. Thank you very much, Mr. Ambassador.

Chairman EATON. Mr. Ambassador, before calling on Mr. Richards, I would like to have clarified two ideas advanced by Mr. Chiperfield.

He raised the question of whether price control would affect production. It would seem to me when he raised that question, price control has as its object, if it has any, increased consumption and if you have increased consumption it would seem you would have actually increased production to meet that. Is that correct?

Ambassador DOUGLAS. Price control often does have the effect of redistributing in ways which the marketplace would not distribute the various commodities produced by any country.

Chairman EATON. The second point was, Mr. Chiperfield raised the question of if he had to advocate this bill, which I expect he will, of course, it would mean he would have to commit himself in favor of free trade. Now is it the intention that among these 16 nations, there will be established a complete free trade, or a partial free trade?

Ambassador DOUGLAS. The commitment is to reduce the barriers to trade, to reduce tariffs, and through the financial undertakings, to establish exchange rates which can be maintained, and that are appropriate, and thus to remove the exchange controls and also to remove quotas.

Now one of the devices that various countries have, they believe, necessarily employed, to protect their position, their financial resources, has been the imposition of quotas and exchange control. They are far greater, far more insuperable barriers to the flow of trade than tariffs, and that is one of the reasons why such emphasis has been placed upon the reformation of the internal fiscal affairs of the countries. Such reforms are desired to permit establishment and maintenance of exchange rates representing the relative cost-price conditions first; and, secondly, with achievement of that first result, that quotas and exchange restrictions may be removed, thus erasing and eradicating the two greatest of all impediments to the flow of commerce. But beyond that the 16 countries have committed themselves to go further and reduce tariffs.

Now it is interesting that the Benelux countries have formed a customs union which is a free-trade area and that France and Italy are now negotiating for the purpose of forming a customs union.

I made reference yesterday to the abortive endeavor of four other countries to form a customs union.

These 16 countries have committed themselves to study a customs union among them all, and embracing them all.

One of the great difficulties in establishing a customs union—I do not suggest that it is an insuperable difficulty—or free trade area among the entire group of countries is the peculiar relationship which the United Kingdom has with her crown colonies and the members of the Commonwealth.

Mr. RICHARDS. Mr. Ambassador, to go back a little bit, the Secretary in his Harvard speech proposed to the European nations that they get together and work out a plan to help themselves, and assured them if they made progress in that direction some assistance, toward the restoration of Europe could be expected from the United States.

Now as a result of the Secretary of State's suggestion, an invitation was extended—I believe Great Britain made the first move—to the nations of Europe to get together as suggested by the Secretary of State.

Sixteen nations in Europe accepted that invitation. I think their last meeting was in Paris last summer.

Now as the result of that meeting, and the Secretary's proposal, the United States has shown its good faith—the Congress of the United States has shown its good faith by passing an interim-aid bill in the full light of what the Secretary of State had proposed.

Now what I am interested in right now is what those nations have done since the Paris conference to help themselves. I think the peoples of the United States are very much interested in that point.

I understand that some of the group have taken steps to solve the problem of customs barriers. So far as the Luxemburg group is concerned I think studies had begun before the Marshall proposal.

Ambassador DOUGLAS. That is correct.

Mr. RICHARDS. Outside of that, I know of no steps that have been taken to solve this problem, except the studies that have been instituted by the Governments of France and Italy to solve their separate customs problem.

Now what has this group of 16 nations done to work out its own salvation, since that time?

Ambassador DOUGLAS. You will recollect, Congressman, that one of the commitments these participating countries made to each other was to reform their internal financial and monetary systems and to establish currencies within their countries in which their citizens had confidence.

That was an important commitment, for as many of the members of the committee realize who were in Europe during the summer, and others because of their knowledge of the effect of padded currencies the lack of confidence in the local currencies has been a depressant upon production and in addition has been one of the barriers to the flow of goods. It has been a depressant on production in a number of different ways, Mr. Congressman—and this is apropos of a question which Congressman Jonkman put yesterday morning in respect to agriculture—for in some of these European countries where there is no confidence in the local currency, there has been in a certain sense a flight from currency into goods.

Farmers have not disgorged, as they otherwise would have disgorged, the full measure of their harvests for the market. They have stored a part of their harvests.

Secondly, instead of cultivating as large an acreage as they might otherwise have cultivated for the purpose of growing grains, some have tended to shift their operations to livestock, for livestock is more lasting than some of the agricultural harvests. Therefore, in respect to agriculture and agricultural production, the restoration or establishment of currencies in which there is confidence will be positively a spur to agricultural production as compared with the depressant on production arising out of the lack of confidence in currency.

Mr. RICHARDS. While you are on the matter of currency, I fully agree with you about that.

It seems though that the European nations are depending upon the United States to stabilize their currencies through the provisions of the Marshall plan.

Now, what I know is what they have done themselves to stabilize.

Ambassador DOUGLAS. Perhaps I was dwelling on this point at too great length and if so I beg your pardon.

There has been another depressing effect on production arising out of the effect of currencies: Workers have worked as long hours as it was necessary to acquire that amount of currency which they could immediately spend.

The lack of confidence in currency was discouraging saving. They were not disposed to save that which might become of decreasing value in the immediate future, and accordingly some of them, instead of working for production, bought leisure which they could buy at a very low price, on account of the tax structure in the first instance and on account of the lack of commodities which they could buy on the market in the second instance.

Now, France, in order to cure this situation has recently enacted legislation which is very drastic and which is aimed at curing the condition. Indeed, it was a brave and forthright action on the part of the existing Government in France. They have taken a very forward step, aimed at achieving or satisfying one of the pledges which France, among other nations, has made.

It is doubtful in my judgment, though, Congressman Richards, as to whether any country in Europe can fully restore complete confidence

in the currency unless production increases, for there is a relationship between the price level, the value of currency on the one hand and the volume of production on the other, and accordingly if there is to be a real and a lasting restoration of confidence in currencies, production in each one of these countries must rise. There must be a larger volume of consumer goods upon the market. There must be a greater production in order that there may be greater exports, and as a result of the greater exports, in order that there may be a greater volume of exchange with which the necessary imports may be purchased. While each of these countries inherited a pretty dilapidated estate from the wartime period of occupation, they have pledged themselves to take the necessary steps within their power to cure the condition. It is highly unlikely that they will be able completely to cure their infirmities in this respect, unless they can buy more imports.

Have I made my point in that respect clear? Italy too has taken forthright steps aimed at curing her internal confused fiscal and monetary situation.

Mr. RICHARDS. Have they done anything collectively?

Ambassador DOUGLAS. Yes; they have, Congressman. They have established what is called a clearing exchange. All of the 16 participating countries are not members of that exchange, but a clearing exchange among a large number of these countries has been established. It went into effect during the first days of January this year.

As to production, they are making a determined effort. In the case of Britain for example the present rate of production on an annual basis is higher than in any year since 1940, and it is contemplated that Britain will export coal during the year 1948 in an amount greater than the amount which she committed herself to export in the Paris Conference.

Mr. RICHARDS. Now, Mr. Ambassador, as I understand it, some of the 16 nations have surpluses of certain commodities.

Some of them of course have shortages.

Has anything been done by the 16 nations as an entity, to pool the resources of these 16 nations? For instance, Italy has a surplus, or did have last year, of olive oil. Great Britain is beginning now to have a surplus of coal over and above her own needs. A few of the other countries have surpluses in some commodities. Now, what are they doing to pool their resources before they call on the United States to get in there and save the whole situation?

Ambassador DOUGLAS. Well, Congressman, the Paris Conference report contemplated that the surpluses that any of the countries might have that were needed by the other participating countries would flow to them.

Mr. RICHARDS. However, they have done nothing concrete about it since the Paris Conference?

Ambassador DOUGLAS. Britain has begun to export coal to the continent of Europe. That is a specific example of what has already taken place.

Mr. RICHARDS. How do they pay for that coal? Do they take local currency for that?

Ambassador DOUGLAS. They are making financial arrangements with other countries. We are not financing it and it is not contemplated that we finance it.

Mr. RICHARDS. What I am interested in is whether or not these nations have gotten together and said to each other, "We will give and take and help each other." The United States through interim aid, sent this stuff in there, and to increase their incentive to work, and also to meet their every-day needs, we agreed to accept local currency in payment for these relief supplies, and the fund built up in this way is used for further relief. Now, if Great Britain is producing more coal than she needs and there are many nations over there which do not have anywhere near as much coal as they need, is Great Britain willing to accept payment in local currency for the coal she ships to them, or does she demand payment in pounds or dollars?

Ambassador DOUGLAS. Of course, a multilateral trading system of the manner the 16 European countries are trying to restore involves the exchanges of their currencies, pounds into francs, French francs into Belgian francs, Belgian francs into lire, so that these currencies circulate around and have a purchasing power which can be exercised through their convertibility.

I do not know precisely what the financial arrangements are that Britain is making in this particular instance on the export of coal, but it is certain that the United States is not paying for it.

(Additional information on this point is as follows:)

TERMS ON WHICH THE UNITED KINGDOM IS EXPORTING COAL

The United Kingdom is not receiving dollar payments for coal exported to other participating countries. The United Kingdom is attempting to obtain essential food and raw material imports in exchange for its exports. Strenuous efforts are being made to reduce the trade deficit with other countries by increasing exports of coal and other commodities. Exports are being directed to those countries which will make available immediately and on reasonable terms the goods needed.

The United Kingdom is negotiating comprehensive trading arrangements with coal importing countries which are able to supply it with needed commodities. A bilateral trade agreement involving coal has already been concluded with Sweden. Similar agreements are being negotiated with Denmark, the Netherlands, and Finland. Since January 1, 1948, small shipments of United Kingdom coal have been sent to France and Italy.

Mr. JONKMAN. Mr. Ambassador, do you think that England is taking dollars for this coal, even though we do not furnish them?

Ambassador DOUGLAS. No. England needs dollars, of that there is no doubt.

Mr. JONKMAN. Are you certain that these exports of coal are being paid for in local currencies?

Ambassador DOUGLAS. I am certain that they are either being paid for in the local currencies of the 16 participating countries and not in dollars. It is not determined whether they will be paid for in goods or not. Barter of course restricts the thing we are trying to accomplish.

Mr. RICHARDS. Instead of each individual nation trying to stabilize its own currency based on its individual economy, would it not be helpful for these 16 nations to proceed along the lines they have said they would proceed along, and fix a standard value for all the currencies in those 16 nations, and thus facilitate trade and commerce between them?

Now as I understand the 16 nations have taken no collective action along that line.

Ambassador DOUGLAS. Congressman, it is almost an impossible task to undertake unless there is reasonable stability in each one of these countries. No one believes more than I do in a sound and valid internal fiscal and monetary system for any country, and no one believes more than I do in the stability of some sort of a currency that has elements of commonality in it, for it is a common currency that is one of the most useful servants of trade.

Now the elements of commonality, such as they were, which existed before the war, and such as they were to a lesser extent during the period of occupation, have been completely shattered by the devastation of the war, and the task of restoration is not an easy one.

It will take courage, forthrightness on the part of governments, and time. It cannot be done overnight.

Mr. RICHARDS. I agree with you, Mr. Ambassador, about that. This currency problem, and stabilization of world currency, is one of the greatest problems of this age or any age, for that matter.

If they cannot do that, and it is evident that they cannot do it overnight, do you think that a barter system among the 16 nation to handle the surpluses in one nation and the shortages in another would not be helpful, during this period of depression?

Ambassador DOUGLAS. Congressman, I think that clearing arrangements have been established that are more effective than barter, because barter is a purely bilateral arrangement, one country with another; whereas money is an instrument of exchange and it can be translated into a whole variety of different commodities in a variety of different areas. The significant thing is that notwithstanding the difficulties implicit and inherent in the restoration of fiscal stability, these countries have already established this clearing arrangement through which the currencies of one country may be cleared with currencies of another.

Therefore, the steps that have been taken are not unimportant. Indeed they are quite important.

I would like to make one further observation and it is this: For the reasons which I have indicated, if the support from the United States is forthcoming, the cooperative effort of these countries to which they have pledged themselves can be, and I believe will be, advanced. The pledges will be met. However, unless there is a European recovery program of such magnitude that these countries will be able to buy the imports which they need, they will necessarily be compelled to impose further and further restrictions upon imports, exports, the convertibility of exchange; further and further quotas and exchange restrictions.

I doubt, sir—this is an honest and very considered opinion—if the type of economic integration to which you refer and which you would like to see established can be had among these participating countries unless their present estate is so organized that they will be enabled to purchase the raw materials which they need, and thus to increase their production for export, accordingly to buy in turn imports, and as a result to break through this stifling and strangling group of

devices which have been taking the breath of life out of the economic system.

Mr. JARMAN. Going back to the increased production of coal in Britain, France had been importing coal from the United States; had she not?

Ambassador DOUGLAS. Yes, sir.

Mr. JARMAN. That coal that goes from Great Britain this year to France—it does not make any difference whether Great Britain collects in pounds or francs. Of course, she is not going to collect in dollars. Does it not relieve to that extent the need of dollars from the United States by France?

Ambassador DOUGLAS. It does indeed, sir.

Mr. JARMAN. Regardless of what she collects?

Ambassador DOUGLAS. It does indeed, sir.

The profound and far-reaching alteration in the source of supply of coal, purely an incident of war, has imposed upon the European countries during the year 1947 a dollar cost approximating \$700,000,000 which those European countries before the war did not have to defray.

Mr. RICHARDS. May I ask a question?

Ambassador DOUGLAS. According to the extent to which coal requirements of these countries can be met from indigenous sources of the United Kingdom or the Ruhr, to the same extent the dollar burden on these countries will be diminished. This program contemplates restoration of the indigenous sources of supply of coal.

The prewar production of coal among the participating countries, as I recollect it, was 552,000,000 tons a year. By 1952 the production of coal will be 585,000,000 tons of coal.

Mr. RICHARDS. Now, Mr. Ambassador, in that connection the point I wanted to make is this: If Great Britain has, say, 1,000,000 tons of surplus coal, is there any authority in the collective organization of the 16 nations to allocate that coal to the member nations needing it most?

As I understand it, Great Britain can send that coal to Canada. She can promote her own program of trade. But unless the central agency within the 16 member group can compel Great Britain to send that surplus to help other members of the group, I do not see where we are going to get anywhere.

Ambassador DOUGLAS. Well, Congressman, the prewar flow of British coal would be approximately as follows: Some for bunkering, some to Argentina, for the coal that was shipped out to the Argentine provided Britain with the exchange for which she bought meat and other agricultural products and raw materials from the Argentine, or even other parts of the world. So as to the extent to which Britain resumes the exportation of her coal to the Argentine, to the same extent her demand for dollars is diminished.

Britain exported coal to Norway and to Sweden. Ships went out from Britain carrying coal and they brought timber and other essential raw materials back to Britain.

They satisfied approximately one-half of the coal requirements of Italy. My recollection is that about one-third of the prewar coal requirements of France were satisfied directly or indirectly from the United Kingdom. The Netherlands was one of the countries whose coal demands were met by British exports of coal.

Indeed, Britain and the Ruhr were the two great suppliers of coal for that continent.

Now the exports of coal from Britain, and I understand two cargoes have already gone, has been destined for France. This is the way the allocation machinery operates, where coal is now in short supply: There was established 3 years ago, I believe, what was known as the European Coal Organization, on which the United States was represented. The European Coal Organization, in the light of the amount of coal available for export from the Ruhr, the Saar, and from the United States and certain other sources, then recommended to the suppliers the allocation of that coal among the members of the Organization.

The coal in the light of the allocations when confirmed by the specific countries was then generally purchased through agents within those countries.

The European Coal Organization was superseded, I think it was in January of this year, by a new committee called the Coal Committee of the Economic Commission for Europe.

That Commission has now taken over the functions of the European Coal Organization so there is allocation machinery in existence now. I should say that that organization is a United Nations organization and I should like to point out one factor in regard to one aspect of the Commission: although the Soviet may be represented on it, it does not have the power of veto.

Mr. RICHARDS. Now, Mr. Ambassador, let us take into consideration another commodity—steel—which is one of the scarce commodities in Europe right now.

Ambassador DOUGLAS. I beg your pardon. The Soviet Union has not participated in the coal committee, but some of the satellites have.

Mr. RICHARDS. Steel is one of the short commodities. I understand Great Britain is building more shipping now than all the other nations of the world combined. I understand she is asking for allocation of 2,000,000 additional tons of steel.

How would we propose through this legislation to handle a situation like that?

Ambassador DOUGLAS. There has been established under the Economic Commission for Europe a steel subcommittee which will study ways and means of increasing steel production.

I am not at all clear, sir, and I would not want to give a definite impression that that committee has authority to recommend international allocations. I have doubts as to whether it has and I would not want to mislead you in any way in my answer. I doubt that it has allocating powers.

Mr. RICHARDS. No power has developed through the 16-nation group to handle a situation like this in Europe?

Ambassador DOUGLAS. Not yet. Not in respect to steel. I think that is a correct answer.

Mr. RICHARDS. Now, Mr. Ambassador, I am very much interested in this matter of stock piles.

Ambassador DOUGLAS. May I just make one further observation about the cooperative effort of the countries?

Mr. RICHARDS. Yes.

Ambassador DOUGLAS. They are anxious to cooperate, but for reasons which I have indicated they may find it impossible to honor

their pledges unless support for their recovery is provided. They have committed themselves to the establishment of a continuing organization, consisting of the representatives of the participating countries, and the United States will have a representative, if the Congress approves this recovery program, and this is what the group of nations said precisely in relation to this continuing organization:

This organization will insure to the fullest extent possible by joint action the realization of economic conditions necessary to enable the general objectives to which each country has pledged itself to be effectively achieved.

They have committed themselves to establish this organization when there is reasonable assurance that the amount of support necessary to the carrying forward of the cooperative effort will be forthcoming.

Mr. RICHARDS. Thank you, Mr. Ambassador.

Now we have two bills here before us, one of them is the one carrying the name of Dr. Eaton as its author, and the other is that of Mr. Herter, the chairman of the Herter committee.

Now each bill makes reference to stock piles of strategic materials of which we are in short supply. Now if you will look on page 18 of the Eaton bill, section 5, it says that the sale to us is to be facilitated of the strategic materials in which we are in short supply, and the Herter bill at the bottom of page 13 suggests that these strategic materials should be turned over to us in payment for some of these materials and supplies we are going to furnish to Europe. What do you think about that?

Ambassador DOUGLAS. To the extent, Congressman, local currencies are used for the purchase of strategic materials, to that same extent the amount of dollars that the countries possessing the strategic materials may earn through commercial exports is diminished, and accordingly, to the same extent the amount of dollars which we would have to appropriate would be increased if there is to be European recovery.

Let me put it this way: One of the exports of the participating countries is a strategic material to the United States and through it the participating country derives dollars. They are included in their estimated dollar income as a result of sale to us.

Mr. RICHARDS. Then you do not feel that there would be any real advantage in the United States requiring that surplus strategic minerals be turned over to us in part payment.

Ambassador DOUGLAS. No, sir. We will have to make up the deficiency in their dollars caused by the purchase of the strategic materials with local currency.

Mr. RICHARDS. The gentleman from Connecticut would like to ask a question.

Mr. LODGE. In view of that could this money be given these participating countries with the understanding that it will be repaid in the form of strategic materials at a subsequent date?

Ambassador DOUGLAS. Perhaps it would be appropriate for me to refer to the provisions in H. R. 4840 that cover strategic materials, and the way in which it is proposed that the administration of this bill in this regard would be conducted.

The bill provides that each one of the participating countries possessing strategic materials shall facilitate the sale to the United States of strategic materials on reasonable terms and in reasonable

quantities after allowance is made for the country's domestic and commercial export requirements.

I think the bill provides that the administrator may advance funds for the exploration and development of production of strategic materials.

Now it is contemplated in the administration of the bill that in the event of a loan, for example, strategic materials valued as of the date they are imported into the United States could be applied toward the repayment of a loan.

Moreover, it is contemplated under the administration of the bill that local currencies received as the counterpart of any grant that the United States might make, could be used for the purpose of engaging in exploration for and the development and increased production of the strategic raw material.

My recollection is that it is estimated that as a result of the operation of the provisions of the bill and the administration of them, some \$171,000,000 should be available. I would like to review the matter, and I will put a statement in the record.

(The information is as follows:)

STATEMENT ON STRATEGIC MATERIALS

The primary consideration in connection with obtaining strategic materials is an increase in their production, since production at current levels is generally not adequate to meet existing needs. It is the considered judgment of the executive branch that the method of obtaining strategic materials proposed in connection with European recovery program legislation is more likely to result in our obtaining a larger quantity of such materials than alternative plans which have been suggested.

Under the proposed legislation it is contemplated that (1) part of the funds appropriated may be used by the Administrator of ECA to finance development of increased sources of supply (sec. 8 (c)), (2) technical information and assistance may be provided to aid in increasing production (sec. 7 (a) (3)), (3) under the bilateral agreements with participating countries, local currency proceeds may be used to foster exploration development for production (sec. 10 (b) (5)), and (4) the bilateral agreements will provide for the recipient countries' facilitating the sale to us in quantities, on terms, and for time periods to be agreed, of strategic materials beyond their requirements for domestic use and commercial export (sec. 10 (b) (5)). The time period may extend for a considerable number of years.

Furthermore the legislation authorizes the Administrator under certain circumstances to require the repayment of loans under the program in the form of delivery of strategic materials. Ordinarily, however, it is contemplated that such materials will be purchased by us with dollars separately appropriated. It is believed that the incentive furnished by our purchasing such materials for dollars will result in a greater production and a larger procurement by us than would be the case if the countries were required to furnish such materials without dollar payment as a condition of our assistance. Moreover this procedure will permit the transactions to be handled directly with private producers and distributors rather than confining them to Government channels.

For the reasons stated above the Munitions Board representative on the inter-departmental subcommittee which prepared the policy recommendations on strategic materials summarized in the Outline of the European Recovery Program strongly favored the proposal in the form presented to the Congress.

The ultimate monetary cost to us should be approximately the same regardless of whether we pay for such commodities in the future or whether we require the countries to furnish them to us without dollar payment. This may be explained as follows:

It is contemplated, in any case, that assistance under the European-recovery program should be in the form of loans rather than grants up to the estimated capacity of each participating country to repay without jeopardizing the objective of sustained economic stability. In calculating the capacity of a country to repay, its receipts from future exports of all types including strategic materials

operations we made with Bolivia, we would not be able to make a mower in this country. That is the control that England and the Netherlands have on tin. There is no substitute for it.

Ambassador DOUGLAS. I agree with you, Mr. Congressman. The war in the Far East cut all the Allies off from the high-grade tin deposits in Malaya and the Netherlands Indies. If I omitted tin it was because I was merely giving an illustrative list, and I should have put tin at the top of it as an item in which production expansion is vital.

For the record, \$72,000,000 out of the \$171,000,000 figure to which I referred is on account of tin, which is an indication of the importance that is placed upon expanding tin production.

Mr. BLOOM. The important part of it is this: They have the control of this thing. They make the price. They make the allocation of what we are to get, and this country today cannot transact its ordinary business unless we have at least 50 percent of the tin ore that is mined throughout the world.

Ambassador DOUGLAS. The International Tin Committee has been disbanded. The tin cartel no longer exists. However, I agree that the bilateral arrangements that are made with the countries should protect the interests of the United States adequately, with respect of tin, just as the interests of the United States should be protected in respect of all of the other strategic materials.

Mr. JAVITS. Is not the nubbin of this matter we are discussing now, Mr. Ambassador, to be found in the inflexibility of this bill with regard to the needs for mutuality of consent between the participating government and the United States as to the use of impounded local currency? Is not that exactly the point that we are to change if we are to meet the very proper views, and that you yourself agree with, which have been expressed here?

Ambassador DOUGLAS. I am not sure I understand what you mean, Mr. Javits.

Mr. JAVITS. It is the provision that local currency shall be spent only by mutual consent between the United States and the participating countries. Is it not exactly at that point that we are to have greater freedom of action, with respect to these strategic materials?

Ambassador DOUGLAS. I think there has to be flexibility in the administration of the Act, Congressman.

The explanation of the use of the local currency is included in the document that was printed by the committee entitled "The Outline of European Recovery Program," and as I recollect it there are six purposes for which the local currencies may be used.

Mr. JAVITS. Only with the consent of the other countries.

Ambassador DOUGLAS. That raises a question, Congressman, which I would like to discuss with you at great length.

Mr. JAVITS. I did not want to intrude on the time of my colleagues.

Ambassador DOUGLAS. The matter of local currency is one of the most perplexing problems in the administration of this act. I could give you some figures of the magnitude of the local currencies that

may be accumulated which, if left subject to our control exclusively, would give us the power of financial life or death over these countries.

I would appreciate the opportunity very much to go into it with you and get your views.

Mr. JAVITS. On my own time.

Ambassador DOUGLAS. All right, sir.

Mr. MUNDT. Mr. Ambassador, you have been talking about these bilateral agreements, dealing with strategic materials. We have some experience tables I presume now on the ease or lack of ease which we can make bilateral agreements as a result of the passage of the Fulbright bill, some 16 or 18 months ago.

Could you tell us with how many of these 16 countries you have been able to conclude satisfactory working agreements on the Fulbright bill in the last 18 months?

Ambassador DOUGLAS. I would have to supply that, Mr. Congressman, because I do not have it.

Mr. MUNDT. Have you been able to do it with England in your own particular field of specialization?

Ambassador DOUGLAS. I cannot answer the question.

Mr. MUNDT. You will provide the material?

Ambassador DOUGLAS. Yes.

(The information referred to is as follows:)

The Fulbright Act, passed on August 1, 1946, introduces a concept of international cultural relations without precedent. While it has similarity in principle with the boxer indemnity fund and the Belgian-American Foundation, the administrative practices implicit in the act fit into no familiar pattern.

While it may appear that little progress has been made, a careful review of the situation will indicate that the achievements to date have been considerable. It should be pointed out that even at the time of the passage of the act it was not contemplated that actual exchanges would begin until the academic year 1948-49 and assurances can be given that such exchanges will take place before that deadline.

The principal complications have arisen from the regulations issued by the Treasury Department governing the use of currencies derived from surplus disposals abroad with the responsibilities which they impose upon the financial offices of the Department for the meticulous consideration of the financial aspects of the program as they involve possible convertibilities of currencies, protection of United States interests in times of wide fluctuations of exchange rates, etc.

In spite of the intricacies involved and the great amount of time required to resolve many fine questions of international financial relations, agreements have been concluded with two countries for the operation of the program and their educational foundations have been established and initial programs are ready for departmental approval for getting the programs into operation. The status of the programs in the remaining 20 countries in which programs are actively being considered at this time is as follows: The necessary implementing agreements are in the hands of 9 foreign governments for discussion looking to signature and may be signed at any time depending upon the speed of action in the other countries. One agreement is now in the process of transmittal and 5 more are in the final stages of clearance and should leave the Department within the next 2 weeks. In the case of 5 countries, agreements are ready for discussion with other countries but considerations of foreign policy require that signature be postponed. In view of the many problems involved, and the number of agencies of the Government concerned, the progress to date does not appear to be unsatisfactory.

Status	Country	Amount in current agreement	Duration of program under present agreement :
2 signed.....	China.....	\$20,000,000	20 years.
	Burma.....	3,000,000	Do.
9 under discussion.....	Italy.....	5,000,000	5 years.
	France.....	8,000,000	20 years.
	Belgium.....	3,000,000	Do.
	Egypt.....	1,500,000	5 years.
	Iran.....	200,000	1 year.
	New Zealand.....	2,300,000	20 years.
	Austria.....	250,000	1 year.
	Philippines.....	2,000,000	20 years.
	Turkey.....	500,000	2 years.
1 in transmittal.....	Czechoslovakia.....	2,000,000	5 years.
5 in clearance.....	United Kingdom.....	5,000,000	Do.
	France.....	1,000,000	1 year.
	Netherlands.....	5,000,000	5 years.
	Australia.....	5,000,000	20 years.
5 held for political reasons.....	Norway.....	1,250,000	5 years.
	Hungary.....	5,000,000	20 years.
	Poland.....	8,000,000	Do.
	Slam.....	4,000,000	Do.
	Netherlands Indies.....	7,000,000	10 years.
	Finland.....	1,250,000	5 years.

¹ In most cases the 5-year programs are subject to renewal up to a limit of \$20,000,000.

Mr. VORYS. Mr. Ambassador, the figures that have been presented refer to a return to the year 1938 as a basis for European recovery. Is that not an approximate date used?

Ambassador DOUGLAS. That is right. However, I do not think it is fair to say they are compared with 1938. Production figures were compared with 1938. The standard-of-living figures, expressed in caloric value of diets, were related to 1938, and a variety of things of that order, but the calculation of the amount required is not related to 1938.

Mr. VORYS. That is the point I wanted to bring out. This draft bill before us, in a sort of general statement at the beginning mentions a return to economic normalcy in Europe.

Now, I note in the CEEC report the following reference to the 1938 status of the 16 countries.

Their income from foreign investments and other invisible exports was sufficient to purchase nearly one-quarter of their imports from the rest of the world.

That is on page 4.

If Europe before the war got a fourth of their imports from investments and invisibles, I just do not see any chance of our facilitating their return to that sort of a situation.

Ambassador DOUGLAS. It is not contemplated the United States will make up the foreign investments, Congressman, but it is contemplated in this program that the production of these European countries shall be so increased that the losses of their investment income can in part be made up.

Mr. VORYS. Who is supposed to buy that production? If they need dollars are we supposed to buy this increased production? I do not think we can. I do not think we can absorb the gigantic increases in production that are contemplated by a number of these countries.

Ambassador DOUGLAS. It is not necessary that we absorb them, Congressman. What is necessary is that ultimately as western Europe recovers, currencies will become convertible, and that therefore countries other than the United States will absorb a part of the

increased production. It is, of course, contemplated that we will absorb some of it but not all of it by any manner of means.

Mr. VORYS. It seems to me that the CEEC report and the administration bill contemplate in general a restoration of normal economic conditions in Europe, as in 1938, that those are the conditions that led to war, and those are the conditions that can never be restored, and I do not see very much vision any place around in attempting to create some new way for these Europeans to live. I do not think they all can live as they once did. I think many of them are going to have to move away. However, throughout this thing it seems to me, they have been talking about dollar shortages; they are talking about restoration of that 25 percent, a quarter, of the imports that they used to get through invisible means. I do not see how it is going to work out based on the information placed before us so far.

Do you think it is going to work out otherwise than by our simply buying their stuff and continuing to pump dollars into there, one or the other?

Ambassador DOUGLAS. I think it can be worked out, Congressman. As I have said to the committee on a previous occasion, I think there are risks in this program, and I would be the last one to make the statement that this program will certainly and without question achieve the purposes for which it was designed. However, I think, Congressman, in measuring the risks that are implicit in this undertaking, we have to measure the risks that are certain if we do not undertake it.

Mr. VORYS. By the way, at this point—if somebody else has asked this question skip it—I hope that you will have prepared and bring up to us here a dollars and cents sort of budget estimate on what a policy of withdrawal would cost.

You have discussed it, General Marshall has discussed it, I myself have discussed it in public speeches and otherwise, the possible cost of withdrawal. I have made some rough estimates in my own mind, but it seems to me that it might be quite possible to make a fairly reliable estimate of what the policy of doing nothing might add up to in military expense and otherwise.

Ambassador DOUGLAS. I would be very glad to discuss that with you and see what can be done in accordance with your request. Would that be satisfactory?

Mr. VORYS. Yes. Now to come back to this matter of 25 percent invisibles for Europe. What that means is this: That the European economy became older, as they exhausted their natural resources, through investment all over the world, they had arrangements that enabled them to secure an excess of imports over exports that worked rather well until the war. That is right, is it not?

Ambassador DOUGLAS. Except it was not the product of their becoming older that furnished invisible incomes.

Mr. VORYS. In any case, the proposal now is that the United States take up the torch of civilization and assume a position of world leadership and stewardship and that we furnish all this stuff to the needy world in the time of its need.

Whenever we talk about making it in the form of investments rather than gifts, we are reminded of the temporary shortage of dollars and are urged not to make it in the form of loans, so that we will have some invisible returns come in.

I wonder why, as we exhaust our resources through this crucial period to meet the needs of Europe and of the world, we should not do what Europe did in arranging for some invisible assets to bring in some imports?

Ambassador DOUGLAS. Congressman, to compare the existing situation with that long period that started somewhere in the middle of the eighteenth century and earlier, and that extended up to 1914, and to a lesser degree during the twenties and the thirties is, I think, incorrect.

The foreign investments made by the European countries were not made in an environment such as the environment which now prevails. They were not made by governments on the whole. They were made by private investors who provided the capital for the development of our railroads. It was private investors that provided the capital for the development of many of our industries. That was the type of private transaction that occurred all over the world: the accumulated savings of the foreigners in many of these respective countries went out to seek overseas investment in an environment in which there was little doubt about the future; the foundations of society had not been undermined; confidence as to the organization and permanence of society prevailed and accordingly private investors sought a profitable employment of their accumulated savings in the far corners of the world.

That environment now does not exist. Private investors in the United States are not disposed in this sort of an environment to invest funds overseas, until economic and political stability begin to reappear in a form which will justify the taking of the risk. That is the first part.

Mr. VORYS. I would like to comment on that, if I may, though I also want your full answer: Would it not be a good idea if we could arrange our long-time policy so that a somewhat similar pattern would be followed, that instead of having forced investment by Government action of private citizens' money, we would attempt to stimulate private investment over the world?

Ambassador DOUGLAS. Congressman, that is one of the purposes of this act. It is implicit in it. The fundamental purpose of this act is to encourage the restoration of stability in their part of the world, so that private investment may thereafter legitimately and properly and prudently play its part.

Mr. VORYS. Is this not supposed to be a long-term policy we are discussing now? I thought perhaps after many, possibly necessary, emergency stopgap actions here and there, that we were attempting now to settle upon a long-term policy for the United States. Am I wrong about that?

Ambassador DOUGLAS. You are quite right, sir. This bill is designed to provide a coordinated program, not for relief but for the recovery, and the resurgence of stability in this critically important part of the world. It is because of that, that the authorization sought is for a period of four and a quarter years.

Mr. VORYS. Yes, but in terms of the policy, wholly without regard to specific authorizations of money, we ought to be thinking about a policy that runs longer than 4 years, should we not?

Ambassador DOUGLAS. Of course we are, Congressman. The fundamental purpose of this act is to achieve recovery and stability in western Europe.

Mr. VORYS. Then what?

Ambassador DOUGLAS. Once recovery and stability in western Europe are achieved, there is no further need for American public support for the participating countries, and private investment may then play its part. The assets that are hidden in western Europe will begin to emerge during the period, and government will be withdrawn from this type of operation. That is the fundamental policy. That is the fundamental purpose and objective.

Mr. VORYS. After that period, then will come the time when we will need a Government policy of such a character that private investment will be encouraged and protected. Is that not true?

Ambassador DOUGLAS. I am not certain what you mean, Congressman. The creation of an environment in which private investment plays its part, yes, and the establishment of peace. Private investment plays its part in a peaceful atmosphere.

Mr. VORYS. The mistake we made during and after the last war, many people think, was not requiring commitments from other nations when we were needed. It seems to me most important that we do not make that mistake again, and that we do not get up a policy of throwing in aid in war and in the sort of peace that we have now, if it can be called peace, without any commitments from our beneficiaries, as to what is going to happen when we are no longer needed but when we may need strategic materials and other things.

It seems to me what I thought was a long discussion of policies, which would go beyond the 4- or 5-year period of dislocation but into the future, is being too much confined to just what we are to do during this period of need, and not what the rest of the world is to do when the immediate period is over and when we may want something, strategic materials, for instance.

I cannot see why, on strategic materials, we should not make a provision which might, as Mr. Jarman said, make our present procedure a loan, but a very limited type of loan. Those countries should agree that they will pay us back in strategic materials some day, if, as, and when new sources of strategic materials are opened up, in return for what we are doing for them now.

I cannot see what is wrong with that. That is the particular item of discussion this morning that makes me think we are not looking ahead far enough.

Ambassador DOUGLAS. Congressman, these contracts and obligations may run for a long period of time.

I refer you to section 10 (b) (5) which reads in respect to strategic raw materials for stock-piling purposes:

for such period of time as may be agreed to.

Now those contracts may run for a period of 10, 15, or 20 years.

Chairman EATON. Will the gentleman yield?

Mr. VORYS. I yield.

Chairman EATON. I have had a very interesting suggestion here sent up to me, that we buy all the strategic materials that we wish to stock pile, pay for it in money and subtract that amount from these proposals that we now are considering. How would that strike you?

Mr. VORYS. We have just been told that part of that is already budgeted and in response to the suggestion that we go ahead and agree to buy some more, or that they agree to sell some in the future

for the stuff they get, we are told that must not be done, as I understand it.

Ambassador DOUGLAS. I do not say that cannot be done, Congressman; I am prepared to say, however, that during the period which we are now considering, to any extent to which the device of requiring payment to the participating countries in local currency is followed, to the same extent during the period which we are discussing their dollar deficiency will be increased. The results will be that either the program will be correspondingly decreased and recovery be correspondingly postponed, the chances of achieving our objectives impaired, or, alternatively, an equivalent increase will be necessary in the amount of dollars appropriated.

Mr. LODGE. Mr. Ambassador, I do not quite see how the deficiency of dollars would be augmented by agreements providing for the turning over of raw materials which we need or strategic materials, upon the termination of this program. It seems to me that the dollar deficit would be handled exactly the same way, and I will take an example. Let us assume that we need coal. Well, I believe you said that the British have 200 or 300 years reserve. They could not possibly mine all that at once and use it, but in the course of time they can, and that would apply to other materials which are strategic. At the time that they would turn over these strategic materials, the crisis would on my assumption have lapsed and they would be no longer in need of the dollars which we are providing under this program.

Ambassador DOUGLAS. May I make this observation: Congressman Vorys has very properly referred to one of the very great changes that has occurred as a result of the war, in the position of the participating countries. He has referred to the statement made in the Paris report that the situation was that in the prewar period 25 percent of the imports of these countries were acquired as a result of the income from foreign investments.

He has pointed out that the income derived from that source is now very substantially diminished. What was formerly a surplus is now a deficiency, and the implication of his observation was that that change in position of these countries has imposed an obstacle in the way of the achievement of prewar recovery and stability.

As I understand it, that was the effect of the observation he made.

He can see that is one of the difficulties.

At the same time, after having made the observation that that great change is a difficulty, it is suggested that the difficulty be aggravated by requiring these countries which would otherwise derive dollars from their exports of strategic materials, to deliver them to us without receiving an equivalent amount of dollars.

Mr. LODGE. They would not otherwise derive dollars from them unless they sold them to us.

Ambassador DOUGLAS. You are suggesting that the difficulty be aggravated by requiring them to deliver the strategic materials to us for nothing, or in consideration for their local currency counterpart.

Mr. LODGE. It would not be for nothing, it would be to increase the percentage of this sum to be loaned only as a long-term proposition and at a time when there would no longer be a dollar deficit in the country.

Ambassador DOUGLAS. If it is possible to achieve recovery, according to the observation of Mr. Vorys, then the difficulty is aggravated by requiring them to deliver for nothing, or for a local currency, strategic materials during the period in question or later on.

The sole question here, and this is a question about which I cannot have a fixed opinion, and about which I doubt anybody can have a fixed opinion, is the ability of the foreign country, without incurring continuous deficiencies in their balance of payments with all things that follow from it, to deliver their resources to us for nothing, or for local currency. That is something that has to be reviewed in the light of their then capacity and ability to pay.

Now as to the extension of loans for the development of strategic raw materials, it is contemplated in one of the bills which you are considering, that the Administrator may make available funds for the purpose of exploring for and increasing the production of strategic raw materials.

It is contemplated that those loans for purposes of that character or for some other purpose may be repaid during the life of the loan for whatever period it may run, in terms of, or by the delivery to the United States of strategic raw materials, valued, perhaps at the time of delivery, according to the prevailing market price of the materials delivered. Does that answer your question?

Mr. VORYS. Of course, there are gambles involved in this whole program. Would anything give more evidence of the confidence of the United States in the future of these 16 nations than for us to lend them money to be repaid in convenient ways a long time in the future; loans which would obviously be no good unless those countries had a long and prosperous future.

Ambassador DOUGLAS. Well, Congressman Vorys, it is an inescapable part of the capacity of the exchange mechanism and of the countries to get dollars with which to repay.

Now they may be going concerns internally, but unless they can transfer their local currency or their exports into dollars, they cannot repay.

Mr. VORYS. That is not the kind of loans we have been discussing at such great length this morning. We have been talking about a possible loan—I think Mr. Jarman made the point that you might call it a loan. We are talking about a possible loan of dollars, repayable not in dollars but in say a certain percentage of production of lead or in tin 15 years from now.

Ambassador DOUGLAS. That is contemplated under the act.

Mr. JUDD. Will the gentleman yield?

Mr. VORYS. I yield.

Ambassador DOUGLAS. I think it is explained on page 49 of the document submitted.

Mr. JUDD. Following up the question of the gentleman from Ohio as to what would be the psychological effect on these countries of our saying "We expect you to be able to pay a portion of these grants or loans over a period of years by the transfer to us of certain strategic materials for stock piling."

I agree with the gentleman from Ohio it would have a favorable effect. On the other hand, coming back to the section you read, page 18, section 10, what could have a more adverse effect psychologically

than the first words of that subsection which indicate that we never expect them to be able to get back to the point where they can repay in critical materials of which we hope they will have surpluses? We say that they must enter into agreements that hereafter they will sell "to the United States for stock-piling purposes for such period of time as may be agreed to and upon reasonable terms" and so on.

We say to them, "You do not have the privilege of being so mean as to refuse to sell us some, but instead give it to our enemies. However, we do not expect you to get in such shape that you can repay, not in dollars, but in materials."

Ambassador DOUGLAS. Let me repeat, it is contemplated that loans made may be repaid by delivery to the United States of strategic raw materials, the value of which will be calculated at the current prevailing market prices.

Mr. JUDD. This does not speak about repaying, it says "facilitating the sale to the United States."

Ambassador DOUGLAS. That is one of the things, Congressman. Certainly during the period they are short of dollars, that should be appropriate. Certainly, we want to facilitate the sale to us of strategic raw materials, but it is also contemplated that some at least of the loans may be repaid by delivering to the United States strategic raw materials, valued as of the current market prices prevailing at a certain time.

Mr. JONKMAN. Mr. Chairman, will the gentleman yield to me?

Chairman EATON. I wonder if it would be possible to recess until 2 o'clock at this point?

Mr. JONKMAN. Is not our difficulty here that we do not distinguish between the times we are talking about grants and the times we are talking about loans?

Now only 20 to 40 percent of this proposed amount is going to be loans. The rest is going to be grants.

Now as I understand your line of reasoning you say, if you are going to ask them to give us in return for credit, stock-piling goods, there will be taken away the dollars they expected to get for it that they have already figured on?

Ambassador DOUGLAS. That will, sir.

Mr. JONKMAN. If they have \$200,000,000 worth of oil in their exports counted at the present time and we say "We want you to give us that for stock piling," they are going to have less dollars, are they not?

Ambassador DOUGLAS. Let me put it this way, Congressman: Let us suppose we extend to a country a loan—

Mr. JONKMAN (interposing). I am talking about grants now. A loan has to be repaid. The very fact that you talk about the possibility of a loan being repaid shows it is a bad loan.

Ambassador DOUGLAS. I thought you were talking about a loan. I beg your pardon.

Mr. JONKMAN. I was talking about grants.

Ambassador DOUGLAS. Would you mind, Congressman, repeating what you have just said?

Mr. JONKMAN. If instead of giving them a grant we say, "Well, now, we do not like to give it all away. Why do you not give us back some strategic materials? You do not need them, and we will apply them on account."

That I think if I follow your reasoning is taking away the dollars that you have already figured on in basing your dollar needs?

Ambassador DOUGLAS. That is right, Congressman.

Mr. JONKMAN. Then what is there to prevent us from saying that even on these grants, after this 5-year program is completed that we expect them to repay some of these grants? Let us say Britain will have \$2,000,000,000, and I think it is going to be mostly grants. Let us request them to give us a certain amount of oil, say 5,000,000 barrels at \$5 a barrel. I am not talking about loans, I am talking about grants.

Ambassador DOUGLAS. It would depend entirely, Congressman, upon the capacity of Britain to make up the dollars which she would thereby lose.

Mr. JONKMAN. That is not going to be now, but 5 years later.

Ambassador DOUGLAS. Let us suppose they have recovered 5 years from now, Congressman, and let us assume that they are in balance. Then let us suppose that they deliver to us, 5,000,000 barrels of oil at \$5 a barrel, they will be thrown out of balance again, or maybe.

Mr. JONKMAN. At that time?

Ambassador DOUGLAS. At that time. That is why I said, Congressman, at the present moment I do not believe anybody can forecast the ability of any country 5 years from now, to undertake to do certain things of the order you suggest.

Mr. JONKMAN. Then we come back to Mr. Vorys' statement, that a quid pro quo for the United States, whether tangible or intangible, always lies in futurity.

Ambassador DOUGLAS. If they could afford to pay it we would expect something of that sort. However, would it not be rather inconsistent for us to engage in this undertaking, aimed at the restoration of recovery and stability in western Europe during the period in question, and then to require these European countries, or to exact from them, conditions which will undermine the stability and recovery which they have achieved?

Mr. JONKMAN. My understanding of the situation is that in that very statement you are begging the whole question.

The plan, as you said a moment ago, to turn from relief to reconstruction but nevertheless to plan there to help them help themselves. Now, under the new plan we are just getting in worst. For instance, under the residual aid bill we had six recipients. Under the interim aid bill we had three. Now we have 16. It is "Come one, come all." It is a free program. That is all.

Chairman EATON. Mr. Ambassador, would you be willing to recess now?

Ambassador DOUGLAS. If I may, I should like to present to the committee the country studies to which reference has been made and which the committee has requested, and I should like to make it very clear exactly what these country studies are, but perhaps it would be better if I did that after lunch.

Chairman EATON. The members of the committee that have not already recessed will now recess until 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m.)

The CHAIRMAN. The committee will be in order, and we will resume with our witness, the Honorable Lewis W. Douglas, Ambassador to Great Britain.

STATEMENT OF HON. LEWIS W. DOUGLAS—Resumed

The CHAIRMAN. Mr. Jarman.

Ambassador DOUGLAS. Mr. Chairman, before questions are put to me, may I say that the country studies which we had promised to be submitted to the committee were submitted this morning. May I make just a short explanation for the benefit of the committee of what these country studies are?

The CHAIRMAN. Yes.

Ambassador DOUGLAS. And how they were made and the purpose of the studies.

The CHAIRMAN. Yes.

Ambassador DOUGLAS. The accompanying set of country studies has been prepared by the executive branch for use in connection with the consideration of the European recovery program. These studies deal in the first instance with the economic and political backgrounds of the 16 countries represented at the Paris Conference, as well as western Germany.

In so broad a field, it was necessary to pick out the aspects which seemed most relevant to the subject at hand. The studies are not, and could not be, within the necessary limitations of space, comprehensive, but it is believed that they will be useful in presenting pertinent background data.

The background statements are accompanied by separate analyses of the part to be played by each country in the recovery program. Since increased production is the keystone to European economic recovery, particular attention is given in the studies to the production programs contained in the report of the Committee on European Economic Cooperation. These programs have been analyzed and evaluated by technical United States working groups after representatives of the CEEC who came to Washington had given further explanation of the Paris report.

With respect to the components of such trade, the United States technicians treated exports and imports in two broad categories. The first category includes a list of selected items which, with certain minor exceptions, were those intensively studied by the CEEC technical committees. This category also includes certain other major commodities exported from the United States in which supply problems are likely to arise.

The second category includes all other imports and exports.

The estimates in the first category for each country are more accurate as to each commodity than the estimates in the second category. Special United States commodity committees were established to study production, import and export potentialities of items on the selected list. Moreover, these items include those in which, by and large, there has been wide experience in planning international allocations and supply.

On the basis of the analyses mentioned above, estimates of the balance of payments positions of the respective countries were prepared. The balance of payments estimates as well as estimates of production, exports and imports must be understood to be illustrations of what may reasonably be expected.

In setting forth estimates of imports there is no intention to suggest specific country allocations or commitments of any kind. Actual commitments will be made in the future by the Administrator—or whatever agency is charged with the responsibility of administering the program—in the light of specific programs and all of the estimates.

These estimates, therefore, are derived assumptions which are necessarily inherent in all forecasts particularly of a complex problem. Nevertheless, it is believed that careful consideration has been given to relevant factors and that the estimates, taken as a whole, reflect the magnitude.

The CHAIRMAN. Thank you.

Ambassador DOUGLAS. May I also state just for the record that commodity reports covering all of the commodities on the selected lists excepting petroleum have been submitted to the committee.

With these commodity reports, there have been also submitted the confidential supplements to the commodity reports. They disclose in tabular form the value of exports and imports and a variety of other items.

Mr. CHIPERFIELD. You would not be able to read those here, would you?

Ambassador DOUGLAS. Oh, no, sir, not here; that would absorb so much time.

The CHAIRMAN. But if we do not read them now, when will the time come from to read them later?

Ambassador DOUGLAS. Well, that is the problem of all of us—shortage of time and shortage of dollars.

Mr. BLOOM. May I ask a question?

Mr. JARMAN. I have not yielded yet.

Mr. BLOOM. I am sorry; it was just one question.

Mr. JARMAN. All right.

The CHAIRMAN. If it is only one question, you may be permitted to ask it.

Mr. BLOOM. Mr. Ambassador, I believe you stated this morning that there were in that long list of strategic commodities a total of \$172,000,000 commodities. Could you give me the articles that are included in it?

Ambassador DOUGLAS. Yes; but it is a long list.

Mr. BLOOM. Since it is a long list, I shall not take the time, then. But, for tin, you have nearly 50 percent of that \$172,000,000. I believe that is correct.

Ambassador DOUGLAS. I could, Congressman, submit into the record this long list. You asked how many items there are there. Let's see how many items there are.

Mr. BLOOM. Well, never mind counting them right now. At any rate, I believe that tin alone is 50 percent of the entire amount of \$172,000,000.

Ambassador DOUGLAS. Tin would represent about one-third, a little over a third.

Mr. THORP. About 40 percent.

Ambassador DOUGLAS. Yes; about 40 percent.

Mr. BLOOM. And, how many different articles are of that nature?

Ambassador DOUGLAS. Of this particular group, there are 16 items specifically referred to, and a variety of items not referred to.

Mr. BLOOM. Tin is the most essential of them?

Ambassador DOUGLAS. There are about 30 to 35 in the entire list.

Mr. BLOOM. Well, anyway, the tin is the most essential of the articles you have in the list?

Ambassador DOUGLAS. It occupies the largest place in the list, yes, sir.

Mr. BLOOM. There would be no difficulty in the few countries that control the tin output, or rather the cartel in tin controlling the world output, there would be no difficulty through them for that requirement; I mean, the requirement for use in this country for stock piling and for domestic use both.

Ambassador DOUGLAS. In the first place, Mr. Congressman, the cartel has been dissolved, it is not now in existence. In the second place, as to those amounts necessary for stock-piling purposes, arrangements can be made for them.

Mr. BLOOM. You say the cartel has been dissolved?

Ambassador DOUGLAS. So I am informed, yes, sir.

Mr. BLOOM. Well, the same smelters are still in existence and the same stockholders have the same stock, so I do not see how the cartel could have been dissolved.

Ambassador DOUGLAS. The same companies may and do continue in existence, Mr. Congressman, but the arrangements that had been made among them for the purpose of fixing production and price are no longer in force and effect.

Mr. BLOOM. That is all. Thank you.

The Chairman. Now, Mr. Jarman.

Mr. JARMAN. Mr. Ambassador, in introducing your figures originally, you referred to the fact that they were quite revealing, very revealing. I wish to emphasize that by saying that while I have realized that these 16 countries constituted a very important segment of the world, I had no idea that they were as important as I learned from your figures on those charts. Incidentally, somebody did a mighty good job in preparing the chart, and deserves commendation for it.

I have made a number of speeches in my district since my visit to Europe last fall, speeches in which I had thought I had done a reasonably fair job of selling this program and, particularly, selling the reasons for the necessity for it. I have since been hearing you have been exceedingly regretful, however, that before I made the first of those speeches I had not had the opportunity of hearing your testimony, in which event I think I would have discarded at least half of what I said and taken at least half of my speech from your testimony.

I wish sincerely to thank you for it. I think your testimony has been very valuable and very helpful. I wish to say further that I do not think there has been any witness who has appeared before this committee during my 11 years membership on it who had the subject relevant to which he was testifying so thoroughly at his fingertips as you have. I think you have done an excellent job here for us, just as I am sure you and your assistants have done an excellent job for the country, and I wish to thank you for it.

It naturally follows that I do not have a great many questions along the line that heretofore have been propounded to you. I do want to emphasize certain of your replies and also gain certain further information which I did not get, perhaps, perfectly clear.

You spoke of the trade balance between the 16 countries and Soviet Russia, and you spoke of it as being balanced as between them. Now, how great is that?

Ambassador DOUGLAS. Well, I meant to say, Congressman, that the trade between western Germany and the European countries to the east is in balance over the period of the recovery program.

Mr. JARMAN. As between the 16 countries and eastern Germany, however, there isn't any trade of any consequence now?

Ambassador DOUGLAS. I think there is, Congressman, but it is very difficult, if not impossible, to get the relation between the trade between eastern Germany, which is the Soviet zone, and the countries located east of the "iron curtain." So, I cannot answer precisely that question. But, there must be coal, timber, for example, which are being exchanged.

Mr. JARMAN. Along that line, you were questioned at length this morning, you will recall, about what, if any, the 16 countries were doing to aid themselves. The point seems to have been made that, for instance, England ought to sell coal to the 16 countries, and not to other countries.

I was wondering, if England should sell coal which they have to Rumania and if they should get wheat in return, would that not serve exactly the same purpose as if they sold it to France—with respect to relief under this program, I mean.

Ambassador DOUGLAS. It would have the effect of taking some burden off us.

Mr. JARMAN. Because they need wheat, and if they get it from Rumania, they need not get it from us—to the extent they obtain it from Rumania.

Ambassador DOUGLAS. That is right; yes, sir, I agree.

Mr. JARMAN. Now as to the foreign customers of the 16 participating countries, I would like to ask you a question. They do have a little foreign investment, don't they, or it may even be more than a little? Are there any figures as to the approximate amount?

Ambassador DOUGLAS. I do not have them in my mind, but I think yesterday the question was put and I indicated that we would insert those figures in the record. I am sorry I do not have them in my mind at the moment.

Mr. JARMAN. Well, you said something about it this morning, at least I made this note here, that instead of these being investments, they were in reality liabilities. Do you know what I had in mind when I made that note?

Ambassador DOUGLAS. You are referring to the invisible account.

Mr. JARMAN. Yes.

Ambassador DOUGLAS. Well, on the entire invisible account, the surplus that these 16 countries prewar enjoyed amounted to approximately $1\frac{1}{2}$ billion dollars. That includes income from investments overseas, shipping services, and a variety of other services of that character, and there was in 1947 a deficiency of \$500,000,000. If you will notice in the chart, it is calculated for the period of 15 months. The invisible account includes the income earned on their foreign

investments, which is approximately \$4,900,000,000. That is to be found on page 103 of the public document.

Mr. JARMAN. I do not find myself in agreement with the criticisms that have occurred concerning these committees, such as the Harriman and other committees—the criticism that they seem to have reached practically the same conclusions. I do not agree because I am impressed with the fact that they are dealing with the facts as they are, and that in a committee diligently studying them and studying them sufficiently long, that committee will necessarily reach approximately the same conclusions as another such committee. Therefore, I think it is complimentary to those committees, rather than subjecting them to criticism—the fact that their conclusions agree.

It reminds me—the criticism reminds me—of something that none of our colleagues here except the chairman knows anything about, because they are sufficiently new here that they have not had the experience with civil-service examinations. They will have that experience, if they see the time when they have the misfortune to gain control of the Congress, and if they do gain that control, then they will find that they will be subjected to exactly the similar criticism we have known. They will find that everybody who wants to be a rural carrier or a postmaster will want an examination fixed so that they will be on the eligibility list, and they will be severely criticized just as we are and just as these committees are criticized for having reached exactly the same conclusions, one with each other.

It follows that one of my colleagues asked you some question about this 5 percent guaranty to private industrialists; he asked you if it was grabbed out of the air. I have forgotten what your reply was, but my impression was that from the thorough way in which you have this at your fingertips and the thorough investigations that these committees have made, there could be no question but that it was not grabbed out of the air; that is, that on the other hand, this 5 percent was based on good and sufficient justification and that the reasons for it were thoroughly justifiable. Is that not true?

Ambassador DOUGLAS. It was based on a necessarily very rough calculation of the amount of American private investments which might be undertaken under the guaranty. In one sense, it was therefore arbitrary; in another sense it was not a wholly unrelated guess. It is sort of a guaranty, Congressman, and it is very difficult to arrive at an estimate that is reasonably accurate. I might put it this way: that it was thought that 5 percent of the total fund appropriated, as a limitation upon the amount that could be guaranteed, was somewhat higher than the total amount for which guaranties would be sought.

Mr. JARMAN. But that 5 percent, as compared to the 95 percent, was not grabbed out of the air.

Ambassador DOUGLAS. No.

Mr. BLOOM. Will the gentleman yield?

Mr. JARMAN. Yes.

Mr. BLOOM. Following up this 5 percent, that is not 5 percent of the amount of goods going to be sold; it is 5 percent of \$6,800,000,000?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. So that the 5 percent is not 5 percent of 100 percent, but it is 5 percent, to a total amount of \$340,000,000; isn't that right?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. So if you sell \$10,000,000 worth of goods, he is getting—instead of 5 percent of the sum total, he is getting 5 percent of this appropriation of \$340,000,000?

Ambassador DOUGLAS. No, Congressman. An American investor who believes that there is a good business risk in Europe, a good venture in which he can invest his funds profitably, can ask for a guaranty of the total amount of his investment. This has nothing to do with goods. It is a guaranty of investment only, the capital sum of the investment, and then only if the project is profitable, and then only if he experiences difficulties in transferring the local currency into dollars.

Mr. BLOOM. But, it is still \$340,000,000?

Ambassador DOUGLAS. That is the limit beyond which the guaranty cannot go.

Mr. BLOOM. That is right.

Mr. JARMAN. I just wish to emphasize the fact that while the 5 percent, as between, say, 4 percent or 3 percent or 7 percent, is a little harder to get, it is my guess that it was not grabbed out of the air, as compared to the 95 percent. In other words, you could not use 95 percent of the money that way because there would not be enough left from the remainder.

Ambassador DOUGLAS. That is right.

Mr. JARMAN. And, therefore, it was not grabbed out of the air.

Ambassador DOUGLAS. That is right.

Mr. JARMAN. Now, I would like to know whether, Mr. Ambassador, I have been correct in the statement in which I have indulged, when I spoke to this effect—that while there are exceptions, I gained the impression that, on the whole, the people of Europe, as individuals, as governments, and as countries, although they are working under very considerable handicaps, are doing a very good job in trying to help themselves. Do you agree with me on that?

Ambassador DOUGLAS. I think that is substantially correct.

Mr. JARMAN. And, now, the gist of the whole thing is that these countries need dollars. It does not make a great deal of difference how many francs the Frenchmen have, or how many pounds an Englishman has; if he has got to pay dollars for the food he needs to keep himself alive, then he will be just as hungry as if he did not have any local currency. Isn't that true, generally speaking?

Ambassador DOUGLAS. Yes, sir.

Mr. JARMAN. And so, anything that was discussed here this morning which would operate so as to tend to reduce the supply of dollars in these countries during the next few years can but add to the amount we must supply, if we assume that we have a duty in this; and I am going to indulge that assumption strongly—that we do have a duty.

Ambassador DOUGLAS. Yes.

Mr. JARMAN. I am wondering what the situation would be—I wonder if I could have an expression from you—if, suppose all currency today were convertible, what would be the situation of these 16 countries? Of course, I realize that is an utopian assumption.

Ambassador DOUGLAS. If all currency were immediately convertible, the economic environment of the world would be entirely different.

Mr. JARMAN. Would be what?

Ambassador DOUGLAS. Would be wholly different. We would have achieved a condition of international economic stability which I think would make it unnecessary for the United States to provide the sort of program which we are now contemplating and considering.

Mr. JARMAN. I am pleased to hear that. Without having talked to you, that is exactly what I thought. It simply emphasizes the fact that the need is for dollars; there was a time when we were a debtor nation rather than a creditor nation—we can assume, if we do not dwell too lengthily on our resources and our industry and what not—by a stretch of our imagination we could say there could have been a time before the First World War, could there not, when we might have found ourselves under similar conditions of that kind?—as I say, we would have to stretch our imaginations to reach that conclusion.

Ambassador DOUGLAS. Well, sir, our economic situation is so unlike that of the European countries that it is hard or impossible to make a comparison like that.

Mr. JARMAN. As I say, you would have to use your imagination.

Ambassador DOUGLAS. Oh, sure.

Mr. JARMAN. Returning to the question of tin, about which Mr. Bloom spoke and asked you concerning, and referring now not only to tin but to other strategic materials, although tin was the major one, it is your position, is it not—and I agree with it, if I understand correctly—that these agreements for the furnishing of tin or such materials, the mechanics of it, so to speak, of furnishing the materials to us at some later date—that those details need not necessarily be spelled out in the bill?

Ambassador DOUGLAS. I doubt if there is any need to spell it out in detail in the bill. The bill authorizes certain things. It provides that when loans are made that the Administrator shall negotiate the terms at which the loans will be repaid, and if not repaid in terms of money, in terms of what; that is, the bill does now authorize the repayment of loans either in money or in stated goods.

Mr. JARMAN. You are referring to section 5?

Ambassador DOUGLAS. No; it is section 7 (c) (1):

The Administrator may provide assistance for any participating country, in the form and under the procedures authorized in subsections (a) and (b), respectively of this section, through grants or upon payment in cash or on credit terms or on such other terms of payment as he may find appropriate.

So that he is authorized under the terms of the act to require repayment of a certain portion of loans in goods.

Mr. JARMAN. Considerable reference occurred this morning, you will recall, to the fact that we should evidence our confidence in the ability of these countries to come back by indulging in additional loans to those contemplated here and indicating that it was somehow a reflection upon them for us not to do so.

Now, I wonder how valuable our confidence in those countries would be if the evidencing of it in that manner was such that it resulted in this—that they never can come out of the slough of despond in which they find themselves, or creating a situation through conditions put into the loan such that they must fall back again into that slough.

Ambassador DOUGLAS. I doubt if they would accept it as a manifestation of confidence on our part if they considered they were unable to meet the conditions of the loan.

Mr. JARMAN. I agree with you on that.

Ambassador DOUGLAS. As a matter of fact, with respect to those countries that cannot repay or cannot repay in full all of the support that is contemplated to be extended, the requirement that they should repay would impose future dollar burdens upon them and thus aggravate the difficulty instead of relieving it.

Mr. JARMAN. Speaking of the repayment of the loans, some reference was made before adjourning this morning—and I have forgotten what it was exactly—to the repayment of a loan to this country in dollars, for any loan. I am wondering if any loan is ever repaid to this country on account of a loan to Europe in actual dollars, or whether it is not done by balance of trade.

Ambassador DOUGLAS. Yes; it is repaid in dollars.

Mr. JARMAN. Actual dollars?

Ambassador DOUGLAS. Either dollars derived from the export of goods or dollars derived from the sale of goods to some other country or countries, or the export of gold.

Mr. JARMAN. But those dollars—maybe I did not say exactly what I meant. If there is actual transportation of dollars, say in gold, from a European country to this country, those dollars still are derived from the sources mentioned, and those are over here, isn't that right?

Ambassador DOUGLAS. That is right.

Mr. JARMAN. Actual dollars do not really cross the Atlantic.

Ambassador DOUGLAS. Well, they may, of course, actually mean gold.

Mr. JARMAN. Bullion?

Ambassador DOUGLAS. Yes; gold bars.

Mr. JARMAN. It seems now to me that all of this discussion about strategic materials, whether they should obligate themselves to pay for some of this assistance in the future in strategic materials and so forth, it seems to me that it all resolves itself to the question of whether it is our duty, the duty of this country, to try to remedy the situation in which that great and important segment of the world finds itself, largely at least through causes not of its own making and for which it was not responsible.

If we do reach the conclusion that we do owe a duty, then it seems to me that we are simply wasting time in discussing whether we should take money out of one pocket and put it in another by requiring them to pay us in materials in the future. For my part, I think we—and I have said this repeatedly—do owe a duty in this unfortunate situation from a strictly humanitarian standpoint, and that, secondly, the position of leadership in which this country has found itself through no particular effort on its part, either—it is just like Topsy, it is just because of its resources and vast area and the industry of its people that it got into that dominant position—I am impressed by the fact that there results from that position the duty, that there rests upon the shoulders of this country an obligation as being by far the leading nation of the world not to permit this great section of the world to fall into ruin and be dominated by communism if we can possibly avoid it.

I think further that we owe a duty to ourselves, to our country, and particularly to the little lads, the little boys who today play around the firesides in the homes of the United States, to do whatever we can to prevent the domination of the rest of Europe and then,

perhaps, the rest of Asia, by communism and the probable consequent slaughter of those little boys on the battlefields of World War III or IV.

So, for my part, whether they do pay us back in tin or some other strategic materials in 10 or 15 or 20 years or not, it seems to me the duty devolves upon us, a duty so grave and so tremendous that we are not accomplishing a great deal in indulging in argument about whether we should carry this out so as to let them drift back into that slough of despond by commitments to us for the future which they probably could no more make good than they could after World War I, when we proceeded to help them out by loaning them billions of dollars which they could not possibly have repaid.

Thank you very much for indulging me.

Ambassador DOUGLAS. I think our national interests could best be served by playing a part in the restoration of stability in western Europe, and if there are countries who can afford to repay over a period of time loans extended them or repay by returning to us strategic materials, then I think it is to our national interest that it be required; but the important thing is, as you have indicated, we have an exceedingly vital national interest in the restoration of stability in this important part of the world.

Mr. JARMAN. Now, the repayment back in strategic materials that we have spoken of, if they can do it; that is contemplated by the bill without amendment by this committee?

Ambassador DOUGLAS. That is right.

The CHAIRMAN. Mr. Vorys is recognized for one or two additional questions.

Mr. VORYS. Thank you.

I note in today's paper that the International Bank was marking time until they see how the Marshall plan is coming out. Now, when we had the bank and fund before us, we thought that the fund would stabilize currencies, and that the bank could do the reconstruction and maybe, if it was not enough, that we could come along afterward and help out.

I am wondering on this matter of stabilization of currencies; what is the situation with reference to the International Fund? Why can't they do it now?

Ambassador DOUGLAS. I do not know what the plans of the committee are, but I presume that possibly the committee will hear the executive director of the International Monetary Fund before the hearings are concluded.

I suggest also that the Secretary of the Treasury, who is the chairman of the National Advisory Council, could perhaps throw more light on the question than I can. You understand, I am not trying to duck the question.

Mr. VORYS. No. I think that is a good suggestion, and I hope to have these witnesses. Now, there has been a good bit of discussion about the type of administration. In fact, it has even been pointed out that you could have two secretaries of state.

Do you feel that the lend-lease mechanism was a mistake or that it was wrong?

Ambassador DOUGLAS. No; I think it operated very well.

Mr. VORYS. Back in 1944 I attempted to put the administration of UNRRA under the Secretary of State and my motion to have that

carried out was taken out on a roll-call vote after we got back in the House. You may remember we first operate in committee of the whole. I thought at that time that it was a good thing to have the international organizations under the Secretary of State, but, of course, I was greatly persuaded by the arguments used to defeat the amendment that I placed in that bill.

I guess you were not in the Government either during UNRRA, or Lend-Lease, were you?

Ambassador DOUGLAS. Yes; I was in the Government for 2 years in the life of Lend-Lease, during the war.

Mr. VORYS. During the war?

Ambassador DOUGLAS. Yes.

Mr. VORYS. Were you in Lend-Lease, connected with the Lend-Lease Administration?

Ambassador DOUGLAS. No, sir. I was about a week, and then stayed in the War Shipping Administration.

Mr. VORYS. You will remember we had a Lend-Lease Administrator.

Ambassador DOUGLAS. Oh, yes. I had a great many associations with Lend-Lease during the war.

Mr. VORYS. And, while there were conflicts at times in other countries and possibly here from the fact that we had two separate administrations and that the directive merely gave advisory powers to the Secretary of State, as far as I know it was not considered fatal to the efficient operation of lend-lease. Perhaps I should ask these questions of some other witness.

Ambassador DOUGLAS. As I recall it, and my memory may be wrong, the basic lend-lease agreements were made by the Department of State and under those agreements the Lend-Lease Administration operated.

Moreover, as I recall it, there was the Munitions Assignment Board, and there were a variety of agencies of that character that allocated the materials to Lend-Lease which in turn made arrangements for the delivery of that material so allocated to the recipient countries.

I can just make this point, that in the administrative proposals that have been submitted to the Congress providing a method of meeting what we think to be the principles that should be observed, it is not contemplated that the administration should be under the Secretary of State, and I say that in all candor. The impression has gotten abroad that that is the intent but I can assure the Congressmen that it is not the intent. As I understand the history, there was a group in the administrative or executive branch of the Government that first insisted that the administration of the Economic Cooperative Administration be in the Department of State and subject entirely to the jurisdiction of the Secretary.

The Secretary took a firm position in opposition to that view. He said there was only one thing in which he was concerned and that was that the administration of the European recovery program be subject to foreign policy. He did not want to be concerned with the vast variety of business undertakings and operations that he would have to be engaged in.

Mr. VORYS. Well, on that matter of the degree to which foreign policy might be affected, I think the statement was made before us that it could be 20 percent of the questions coming up, but the state-

ment was made before the Senate that conceivably every question could involve a question of foreign policy.

That could be true, could it not? There is no percentage way in which we can determine in advance what aspects of the administration of such a vast and important program as this would involve foreign powers?

Ambassador DOUGLAS. I think it is possible to define at least a segment of the operations that is not related to foreign policy. Then, of course, Congressman, the administration of the European recovery program has to be fitted into the functions and responsibilities of a variety of different governmental agencies. It is not only the State Department. I do not want to take your time to enumerate them, or to take the time of the committee, but there are a great many departments of government that have responsibilities and are discharging the responsibilities that are intimately related with our internal economic position and with the allocation of materials for export and the granting of export licenses, and a variety of things of that sort.

Petroleum, for example, and wheat, are wholly outside the State Department, and the responsibilities for the discharging of functions of that order are vested in other agencies—the Department of Commerce, Department of Agriculture, Department of the Interior, and then there is the Department of the Army which has jurisdiction over Germany.

Mr. VORYS. I am quite familiar with that point. I just wanted to bring up this one aspect, that when I made an attempt to put UNRRA under the Secretary of State, it was voted down, and now they are advocating this. I just wondered—

Ambassador DOUGLAS. UNRRA was an international organization and the State Department did handle the relationship between our Government and UNRRA. In the case of the Board of Economic Warfare the line of jurisdiction was not clearly drawn and it created a great deal of trouble—I don't mean in the Western Hemisphere, but in other parts of the world. It became a part later on of the Foreign Economic Administration.

Mr. VORYS. But it did have a separate administrator?

Ambassador DOUGLAS. Oh, yes; but we provide for that, too, Congressman, wholly separate from the Department of State.

Mr. VORYS. I have just this one other question. How does anybody decide—more specifically, how does the Administrator decide how much is to be a grant and how much is to be a loan? What is to be his test?

Ambassador DOUGLAS. The ability to repay. Of course, he has to consult with the National Advisory Council.

Mr. VORYS. The ability to repay in dollars?

Ambassador DOUGLAS. That is right; or, as the bill provides, in other terms.

Mr. VORYS. Then the whole test is a stabilization of currency test; is that it?

Ambassador DOUGLAS. No, that is not the whole test. The ability to transfer would be one test, but there would be a great many other tests, too, that would be applied.

Mr. VORYS. You see, we had two former experiences where we gave away or furnished for free or granted vast amounts. One was

when the consideration was military, in lend-lease—a matter of security. The other was where it was a matter of relief. Now, while there are or at least may be substantial security considerations, and while also there are relief or humanitarian considerations in this, there is still a third thing that bulks more largely, and that is the economic situation.

The amounts that are necessary for military purposes, that is money well spent, or at least money that must be spent; and the amounts that are given for humanitarian or relief purposes, of course, we expect no pay for that—we look for no repayment there.

But, when it comes to giving away money for economic-purpose activities for which I have not been able to figure out a formula and have not found one and have not heard of one that has satisfied me, that is something else, and that is what I am asking about in particular.

Ambassador DOUGLAS. On page 45 of the document which was published under the title, "Outline of European Recovery Program," there is an explanation of the criteria that it is contemplated will be applied. It really starts on page 45 and extends over to page 46.

Mr. VORYS. Yes, I am familiar with that. It comes back to their ability to repay in dollars, and that again comes back to a stabilization proposition, it seems to me.

Do we pour in dollars until there is a new kind of stabilization required, or what is the test? Another way of stating it is that the test is ability to repay, and that we make grants when there isn't any ability to repay. There are a lot of people in the world and a lot of nations in the world that are not able to pay, and that test alone is insufficient—inability or ability to pay—and there is not enough to grant to take care of all the requests where there is inability to repay. Is that right?

Ambassador DOUGLAS. That is right, but we are not taking care of all of those requests, Congressman, by any manner of means. This program was designed and prepared to achieve a clear objective, and that was the recovery of stability, the restoration of stability, both economic and political, in a part of the world which is of extraordinary significance to western civilization, of which we are an integral member.

Mr. VORYS. I have no further questions.

Mr. CHIPERFIELD. Mr. Mansfield?

Mr. MANSFIELD. Mr. Ambassador, there have been a number of reports spreading around the country concerning the effect on the American economy of this proposal. Just how much wheat is it contemplated will go overseas under this plan?

Ambassador DOUGLAS. Secretary Anderson, I presume, will be asked to testify before this committee, and he will be able to answer your question specifically. The commodity reports should disclose the percentage of wheat. It is 15.3.

Mr. MANSFIELD. Do you have any idea about the quantity of box-cars in percentages?

Ambassador DOUGLAS. That is about 13.9 percent of estimated capacity.

Ambassador DOUGLAS. That is 13.9 percent.

Mr. MANSFIELD. How much of our coal?

Ambassador DOUGLAS. About 5.5 percent.

Mr. MANSFIELD. How much of our steel?

Ambassador DOUGLAS. Finished steel, about 2.9 percent; crude and semifinished, 1 percent.

Mr. MANSFIELD. Now, Mr. Ambassador, you are perhaps more conversant with the situation in England than any other person in the Government, and I would like to ask you what, in your opinion, is England's economic position today in regard to coal, for coal consumption and shipments overseas?

Ambassador DOUGLAS. The present rate of production of coal in the United Kingdom is at the annual rate of approximately 215,000,000 tons. The British themselves for the year 1948 have set a production target, as I recall it, of 214,000,000 tons.

During the year 1948 they will continue restrictions on the domestic consumption, in order that there may be available for export the amount which they undertook to export during the year, which is, to my recollection, 7,000,000 tons. It is likely they will export more than that.

By 1952 their program calls for a production of 249,000,000 tons of coal a year, which is greater than the annual rate of production during the period 1934-38. I believe they can achieve that goal if they attack the problem with vigor and determination.

Mr. MANSFIELD. Is it true that one of the reasons for the British coal deficiency in recent years is because of bad management under the government which preceded the present Socialist government, by which I mean to state that approximately 70 percent of what was taken out of the mines was retained, and something between 20 percent and 30 percent was put back into the mines, which, if true, would offer a contrast almost in exact opposite to what the coal producers were doing in this country—is that true?

Ambassador DOUGLAS. That is right. The British coal industry is in its present state for a variety of different reasons. One, the mining properties suffered from indifferent management extending over a long period of time. Moreover, the industry became bound up in certain emotional prejudices, and the figure which you have recited is an indication of the difference between the way in which the coal properties were managed in the United Kingdom and the way they have been managed in the United States.

Of course, that situation was aggravated by the war. During the war, when Britain was confronted with the dilemma of leaving the younger men in the mines in order to assure production or to draft the men out of the mines into the army, they took the second horn of the dilemma. The younger men were withdrawn from the mines, and the number employed by the mines fell from something over 800,000, where it stood in 1937 or 1938—it was about 1,100,000 at another period—to something under 700,000 at the beginning of 1946. Therefore, there was not only an absolute decline in the number of coal miners, but there was a qualitative change in the age distribution.

Mr. MANSFIELD. That, coupled with the fact that there has been relatively little modernization with machinery, plus the fact that a good many of these young men who have left the mines have refused or have been reluctant to go back into the mines, has contributed to the decline of British coal production.

We hear the statement made that the people of England and other European countries just will not work. Is that statement a true statement or are the factors which you have brought out been responsible

in large part for the decline in production and not the lack of effort on the part of the workers themselves?

Ambassador DOUGLAS. Generally speaking, in Britain there is a desire to work. In the coal mines, as you know, commencing, I think, on the 1st of May, Britain adopted a 5-day week. That 5-day week has been abandoned, and coal miners are now working $5\frac{1}{2}$ to 6 days a week. In the steel industry they are working 7 days a week.

Mr. MANSFIELD. What is England's relative position in shipping today, as compared with the period just prior to the war?

Ambassador DOUGLAS. In round numbers, Britain lost approximately 25 percent net of her merchant fleet.

Mr. MANSFIELD. How much has she regained?

Ambassador DOUGLAS. I am sorry that I cannot give you that.

Mr. MANSFIELD. Could you find that and put it in the record?

Ambassador DOUGLAS. Yes; I can find that. I can give you the number of ships that are now on the ways, but I cannot tell you what percentage, precisely, of that which she lost during the war has been replaced by new construction. I will give you that figure.

(The information requested is as follows:)

United Kingdom merchant fleet (in millions of dead-weight tons)

Total United Kingdom fleet, 1939	22.7
Deduct:	
War losses	15.3
Marine losses	1.2
Total	16.5
Balance	6.2
Add:	
Captures and acquisition from enemy	1.1
Purchases of United States war-built tonnage (since passage of Ship sales Act of Mar. 8, 1946)	2.3
Purchases of old United States tonnage (period 1939-June 1947)	.8
Purchases from elsewhere (period 1939-June 1947)	.1
Total	4.3
Balance	10.5
New building over period 1939-June 1947	10.6
Grand total	21.1
Net loss during period 1939-June 1947, including the allied tonnage replacement scheme	1.9
Leaving June 1947 tonnage at	19.2
Tonnage 1938 equals	22.5

Source. British Embassy and Ministry of Transport Office, London.

Note.—The difference between figure of 19.2 and 20.1 in ch J, Maritime Transport Report, is accounted for by the difference in time, and by inclusion in 20.1 figure of United States lend-lease vessels.

Mr. MANSFIELD. Could you give the committee just what that 25 percent loss means in tonnage?

Ambassador DOUGLAS. In dead-weight tons it amounted to some 15,360,000.

Mr. MANSFIELD. Yesterday you brought out some very interesting illustrations about the decline in the 16 western European countries of certain of their industries. How much of a percentage of shipping have these 16 nations, as a whole, recovered since the war?

Now, I have in mind the fact that as far as Greece is concerned, it is practically back to normal, due to the fact that we turned over so many ships to them. Other countries have likewise been helped in part by us, and I am just wondering, on a percentage basis, how much they have recovered from the losses of the war.

Ambassador DOUGLAS. At the end of 1938, the dry-cargo tonnage under the control of the participating countries amounted to approximately 36,000,000 tons.

At the end of 1947 the figure amounted to 32,000,000 tons; that is, exclusive of Germany.

Mr. MANSFIELD. What kind of tons did you use in answering my question with regard to the loss in British shipping?

Ambassador DOUGLAS. I used dead-weight tons.

Mr. MANSFIELD. What is the difference between dead-weight and gross tons?

Ambassador DOUGLAS. I have been using dead-weight tons all the way through. The capacity of a ship expressed in dead-weight tonnage is, roughly, the capacity of the ship to carry cargo.

Mr. MANSFIELD. Their the figure you gave me concerning Britain was in dead-weight tons?

Ambassador DOUGLAS. That is right.

Mr. MANSFIELD. And the latest figure you gave me for the 16 participating countries was also in dead-weight tons?

Ambassador DOUGLAS. That is right.

Mr. MANSFIELD. How could it be they would have approximately 32,000,000 tons at the present time when British shipping through a loss of 25 percent of its shipping alone suffered a loss of 15,300,000 plus?

Ambassador DOUGLAS. We sold some tonnage to Britain during the postwar period, and we have sold some to other participating countries since the war. The total I do not have in my head, but I can get it for you.

Mr. MANSFIELD. I wish you would get those and put them in the record.

Ambassador DOUGLAS. Yes, sir.

(The information requested is as follows:)

Deadweight tonnage of United States merchant ships sold since war to 16 European recovery program countries

Country	Dry cargo	Tanker	Total	Country	Dry cargo	Tanker	Total
Austria.....				Netherlands.....	709, 500	100, 506	810, 006
Belgium.....	151, 200	16, 750	167, 950	Norway.....	760, 800	284, 750	1, 045, 550
Denmark.....	224, 600		224, 600	Portugal.....	8, 700		8, 700
Eire.....				Sweden.....	36, 900		36, 900
France.....	830, 400	301, 500	1, 131, 900	Switzerland.....			
Greece.....	1, 068, 600	117, 250	1, 185, 850	Turkey.....	47, 800	20, 930	68, 730
Iceland.....	5, 100		5, 100	United Kingdom.....	1, 469, 411	830, 596	2, 300, 000
Italy.....	972, 000	835, 000	1, 307, 000				
Luxembourg.....				Grand total.....	6, 284, 811	2, 007, 284	8, 292, 095

Source: U. S. Maritime Commission, Jan. 20, 1948. Information as of Dec. 31, 1947.

DEFINITION OF SHIPS' TONNAGES

Dead-weight tonnage

Dead-weight tonnage is the lifting capacity of the ship. It is the number of tons of 2,240 pounds of fuel, water, stores, cargo, and passengers that a vessel is designed to carry with safety. It is the basis for quotation as to cost of con-

struction, sale, and charter and as such is the measure of potential revenue capacity of vessels.

Gross tonnage

Gross tonnage is the capacity of the spaces within the hull of the vessel and of the closed in spaces above deck available for cargo stores, passengers, or crew with certain exceptions expressed in tons of 100 cubic feet. This term is an indication of size and is used primarily to designate passenger or combination passenger and cargo vessels. Gross tonnage has no fixed or exact relationship to a vessel's commercial possibilities or earning capacity.

Mr. LODGE. Will the gentleman yield for a question there?

Mr. MANSFIELD. I will be glad to.

Mr. LODGE. That objections, I understand, have been voiced in Great Britain concerning the United States proposal with respect to sales and cargo in connection with this program—in other words, that this would compel the British to reduce their shipbuilding program—can you confirm this?

Ambassador DOUGLAS. Sir Stafford Cripps made an announcement that Britain would have to reduce her shipbuilding program because of the shortage of steel, quite irrespective of any chartering proposals of the United States or proposals for the sale of presently United States controlled merchant ships.

Mr. LODGE. In other words, this proposal for the sale and charter of United States vessels will have no effect on a shipbuilding program of Great Britain?

Ambassador DOUGLAS. I cannot say it will have no effect, but I can say what Sir Stafford Cripps announced the day before yesterday.

Mr. LODGE. You believe there will be no great objections raised on the part of the British?

Ambassador DOUGLAS. I presume there would be some objections, but the announcement of Sir Stafford today—or, rather, day before yesterday—would have the effect of diminishing the volume of objections.

Mr. LODGE. You still believe that we should go ahead with that aspect of the legislation.

Ambassador DOUGLAS. Yes; I do, too, sir.

Mr. LODGE. Thank you very much.

Ambassador DOUGLAS. The fact of the matter is, it saves us a great many dollars.

Mr. MANSFIELD. Mr. Ambassador, there is a great deal of talk in this country by people opposed to the proposal now before us, that we should not do anything for governments which they look upon as socialistic, and they say funds of this kind will serve to further socialize governments. What, in your opinion, should be our opinion toward the governments in Europe who have changed their forms of government, such as Italy, and those who have leaned leftward—I believe is the term—such as England?

Ambassador DOUGLAS. The end result is the matter with which we are concerned. The recovery of western Europe and the restoration of what I have called stability is the purpose which we have in mind. If these countries, some of them, can achieve that purpose and fulfill their pledges under the mild type of socialism which exists in some of them, that is their business.

It would be, I think, too much of an invasion of the right of free people to determine the sort of economic system under which they wanted to live, provided always it is dedicated to the proposition that

men should be free—it would be too much of an invasion on our part to undertake to dictate or influence them in the matter.

Mr. MANSFIELD. It is a fact, is it not, that countries such as Italy and England, which I have mentioned, have changed their forms of government because it was the desire of the majority of the population in each to do so?

Ambassador DOUGLAS. It appeared to be at the time that the elections were held.

Mr. MANSFIELD. What they have done, in effect, is to go through the regular balloting process to achieve the types of government which they have at the present time?

Ambassador DOUGLAS. They have an equal right to modify, change, or reverse the economic policies that have been adopted by the governments which they elect to office.

Mr. MANSFIELD. There has been some talk about various kinds of coal as it affects the European economy.

I recall that American coal—and a lot of it was not very good coal—was shipped to Europe during the past year, and perhaps still is being shipped there in sizable quantities and in sizable tonnage, and that these European nations, generally speaking, had to pay anywhere from \$17 to \$23 a ton for this coal.

Now is there any possibility under this proposal whereby shipments of American coal could be decreased and greater shipments of German and British coal are used to take up the slack?

Ambassador DOUGLAS. That is the fundamental objective of the coal-production target, as set for Britain by her and for Germany; The purpose of increasing the production of coal indigenous to the participating European countries is to relieve the participating European countries of expending dollars in huge amounts for this particular source of energy. You will see that by 1952, I think, it is calculated that the deficiency in the production of coal from among the participating European countries amounts to 2,000,000 tons. Only 2,000,000 tons then would be required from the United States.

Mr. MANSFIELD. Has there been a slacking off of Polish coal shipments to other European countries in the west since the start of the consideration of the Marshall proposal?

Ambassador DOUGLAS. I think not.

Mr. MANSFIELD. Have you any idea of the prices the Poles are asking for their coal?

Ambassador DOUGLAS. The Polish price of coal is \$15 a ton at shipside or at the Polish border.

Mr. MANSFIELD. That indicates a tremendous advantage in Polish coal prices over a comparatively short period of 2 or 2½ years, does it not?

Ambassador DOUGLAS. Yes. And, of course, since prewar, the advance in price all over the world has been inordinate.

Mr. MANSFIELD. I would like to ask this question of Mr. Thorp, if I may—I have been waiting all day for this country-by-country report, because I want to study it and ask some questions about it: Will we get that report today or tomorrow?

Ambassador DOUGLAS. The country-by-country report has been submitted to the committee, Congressman.

Mr. VORYS. Would the gentleman yield? I wonder if you have any summary? I went through the 17 volumes this noon. I could not get through all of it, but I found no summary page. I wonder if you have in there, or if you are going to furnish us with, a summary page?

Ambassador DOUGLAS. There is a general introduction. It is very difficult to get up a summary because of the variations between each one of the countries.

There is a document that has not been submitted to this committee which is purely an estimate of the deficits on current account of the participating countries, and I would be very glad indeed to offer that to the committee. That may be helpful to the members of the committee, or it may be a relief program to the members of the committee.

Mr. CHIPERFIELD. I think the committee would like to have that. (The information requested is as follows:)

ESTIMATED DEFICITS ON CURRENT ACCOUNT OF EUROPEAN COUNTRIES PARTICIPATING IN THE PROPOSED EUROPEAN RECOVERY PROGRAM

The proposed United States support for a European recovery program, as presented by the executive branch to the Congress, is based substantially on the estimated balance of payments positions of the participating countries with the Western Hemisphere for the period of the proposed program. The estimated deficit and surplus balances on current account which have been prepared by the executive branch for each participating country are presented in the attached tables.

The executive branch concludes that approximately 15 percent of the combined deficits with the Western Hemisphere for the period April 1948 through June 1949 can be financed from sources other than new United States Treasury funds, although the percentage of the deficits of individual participating countries that can thus be financed will vary greatly from country to country.

The attached tables also show the estimated deficits and surpluses of the participating countries with nonparticipating countries outside the Western Hemisphere. The executive branch has not requested any authorization to cover the participating countries' deficits with this area except for a certain portion in the case of bizonia Germany.

The nature of a deficit balance on current account can be briefly stated in the following terms. Transactions between a particular country and other countries such as imports and exports of merchandise and services, earnings of interest, amortization, dividends and profits, and transfers of remittances, are customarily regarded as "on current account." These transactions result in payments and receipts. If a particular country's receipts from foreign countries are smaller than its payments to foreign countries within a certain period, it has incurred a deficit on current account. It can only incur such a deficit if it has reserves of gold, foreign exchange or other foreign assets which are used to settle the deficit, or if it receives credits or grants, or if foreigners make new investments within that country.

An estimate of a deficit in a particular country's balance of payments for a future period should not be regarded primarily as a forecast. Rather, it is a measure of the country's need for outside assistance to supplement use of its own resources in achieving certain levels of consumption and investment. The deficits in the balances of payments of countries participating in the proposed European recovery program, as estimated by the executive branch, are the measures of their external needs for maintenance of tolerable living standards and achievement of self-supporting economies.

NOTE.—Attention is directed to the fact that the individual country balances in the attached tables have not been adjusted for changes in export and import prices, and in freight rates, that may occur during the period. Such adjustments have been confined to the combined balances of all the participating countries.

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Estimated surplus (+) or deficit (-) of ERP countries on current account with total Western Hemisphere, by country and by period, 1948-52

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-43	-151	-194	-200	-167	-152	-713
2. Belgium-Luxemburg.....	-106	-439	-545	-372	-311	-246	-1,474
3. Belgian dependencies.....	+5	+21	+26	+11	+7	+11	+45
4. Denmark.....	-30	-162	-192	-143	-128	-119	-582
5. Ireland.....	-30	-121	-151	-122	-117	-107	-487
6. France.....	-310	-1,090	-1,400	-778	-493	-253	-2,924
7. French dependencies.....	-29	-134	-163	-111	-90	-50	-414
8. Greece.....	-37	-157	-194	-115	-87	-77	-473
9. Iceland.....	-2	-10	-12	-9	-9	-8	-38
10. Italy.....	-197	-780	-977	-769	-615	-562	-2,913
11. Netherlands.....	-155	-659	-814	-616	-583	-499	-2,512
12. Dutch dependencies.....	-6	-45	-51	+33	+39	+55	+76
13. Norway.....	-14	-76	-90	-68	-49	-27	-234
14. Portugal.....	-19	-55	-74	-38	-32	-24	-168
15. Portuguese dependencies.....	-	+3	+3	+2	+8	+5	+18
16. Sweden.....	-10	-65	-75	+13	+80	+78	+76
17. Switzerland.....	+6	+20	+26	+23	+29	+22	+100
18. Turkey.....	+7	-5	+2	-10	-6	-4	-18
19. United Kingdom.....	-567	-1,923	-2,490	-1,659	-1,241	-1,265	-6,556
20. British dependencies.....	+50	+290	+410	+284	+333	+390	+1,307
Germany:							
21. Bizonia.....	-165	-750	-915	-708	-486	-390	-2,499
22. French zone.....	-15	-66	-81	-78	-74	-77	-310
23. Saar.....	-2	-9	-11	-14	-14	-14	-53
24. Combined balance on current account (at July 1, 1947, prices).....	-1,069	-6,393	-8,062	-5,334	-4,126	-3,323	-20,845
25. Adjustment for savings in dollar shipping services.....	+10	+90	+100	+134	+86	+30	+350
26. Total adjusted for savings on shipping.....	-1,059	-6,303	-7,962	-5,200	-4,040	-3,293	-20,495
27. Adjustment for higher prices.....	(-115)	(-450)	-565	-395	-339	-291	-1,690
28. Adjusted balance (upper level).....	-1,774	-6,753	-8,527	-5,595	-4,379	-3,584	-22,085
29. Adjustment for lower prices and lower freight rates.....	+115	+150	+265	+142	+578	+916	+1,071
30. Adjusted balance (lower level).....	-1,774	-6,753	-8,527	-5,068	-3,462	-2,377	-19,424
31. Range of adjusted estimates (in billions of dollars).....	-1.8 to -1.8	-6.8 to -6.8	-8.6 to -8.6	-5.1 to -5.6	-3.6 to -4.4	-2.4 to -3.6	-19.4 to -22.1

Estimated surplus (+) or deficit (-) of ERP countries on current account with United States, by country and by period

[In millions of dollars]

Country	April to June 1948	1948-49	Total, April 1948 to June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-23	-107	-140	-144	-116	-99	-499
2. Belgium-Luxemburg.....	-80	-318	-398	-238	-167	-131	-934
3. Belgian dependencies.....	+5	+22	+27	+16	+12	+15	+70
4. Denmark.....	-18	-74	-92	-57	-45	-43	-237
5. Ireland.....	-10	-46	-56	-35	-22	-14	-127
6. France.....	-255	-903	-1,158	-673	-500	-324	-2,665
7. French dependencies.....	-20	-74	-94	-50	-37	-2	-183
8. Greece.....	-31	-100	-131	-76	-57	-48	-312
9. Iceland.....	-1	-7	-8	-7	-6	-5	-26
10. Italy.....	-149	-584	-733	-566	-490	-483	-2,865
11. Netherlands.....	-98	-382	-478	-321	-283	-248	-1,330
12. Dutch dependencies.....	+12	+51	+63	+232	+231	+242	+768
13. Norway.....	-7	-52	-59	-46	-27	-7	-139
14. Portugal.....	-10	-33	-43	-18	-12	-3	-76
15. Portuguese dependencies.....	-	+5	+5	+6	+11	+8	+30
16. Sweden.....	-7	-39	-46	-7	+26	+45	+18
17. Switzerland.....	+3	+9	+12	+10	+19	+20	+61
18. Turkey.....	+3	-2	+1	-4	-2	-2	-7

For footnotes referred to by letter symbols in above table, see page headed "Notes."

Estimated surplus (+) or deficit (-) of ERP countries on current account with United States, by country and by period—Continued

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
19. United Kingdom.....	-241	-891	-1,132	-892	-551	-510	-2,885
20. British dependencies.....	+70	+300	+370	+323	+373	+421	+1,487
Germany:							
21. Bizone.....	-134	-585	-719	-535	-373	-322	-1,949
22. French zone.....	-13	-33	-46	-68	-59	-65	-238
23. Saar.....	-2	-7	-9	-15	-14	-16	-53
24. Combined balance on current account (at July 1, 1947, prices).....	-1,014	-3,850	-4,864	-2,965	-2,079	-1,570	-11,478
25. Adjustment for saving in dollar shipping services ^b	+10	+90	+100	+134	+86	+30	+350
26. Total adjusted for savings on shipping.....	-1,004	-3,760	-4,764	-2,831	-1,993	-1,540	-11,128
27. Adjustment for higher prices ^c	-84	-328	-412	-284	-241	-207	-114
28. Adjusted balance (upper level).....	-1,088	-4,088	-5,176	-3,115	-2,234	-1,747	-1,227
29. Adjustment for lower prices and lower freight rates.....	(^e -84)	(^e -328)	^e -412	^d +28	^e +257	^f +422	+29
30. Adjusted balance (lower level).....	-1,088	-4,088	-5,176	-2,803	-1,736	-1,118	-1,083
31. Range of adjusted estimates.....	-1.1 to -1.1	-4.1 to -4.1	-5.2 to -5.2	-2.8 to -3.1	-1.7 to -2.3	-1.1 to -1.7	-10.8 to -12.3

Estimated surplus (+) or deficit (-) of ERP countries on current account with other western hemisphere, by country and by period

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-10	-44	-54	-56	-51	-53	-214
2. Belgium-Luxemburg.....	-26	-121	-147	-134	-144	-115	-540
3. Belgian dependencies.....		-1	-1	-5	-8	-4	-15
4. Denmark.....	-12	-88	-100	-86	-83	-76	-345
5. Ireland.....	-20	-75	-95	-87	-95	-93	-370
6. France.....	-55	-187	-242	-105	+7	+71	-269
7. French dependencies.....	-9	-60	-69	-61	-53	-48	-231
8. Greece.....	-6	-57	-63	-39	-30	-29	-161
9. Iceland.....	-1	-3	-4	-2	-3	-3	-12
10. Italy.....	-48	-196	-244	-193	-135	-79	-651
11. Netherlands.....	-59	-277	-336	-295	-300	-251	-1,182
12. Dutch dependencies.....	-18	-96	-114	-199	-192	-187	-692
13. Norway.....	-7	-24	-31	-22	-22	-20	-95
14. Portugal.....	-9	-22	-31	-20	-20	-21	-92
15. Portuguese dependencies.....		-2	-2	-4	-3	-3	-12
16. Sweden.....	-3	-26	-29	+20	+34	+33	+58
17. Switzerland.....	+3	+11	+14	+13	+10	+2	+39
18. Turkey.....	+4	-3	+1	-6	-4	-2	-11
19. United Kingdom.....	-326	-1,032	-1,358	-867	-790	-755	-3,770
20. British dependencies.....	-20	-40	-60	-39	-40	-41	-180
Germany:							
21. Bizone.....	-31	-165	-196	-173	-113	-68	-550
22. French zone.....	-2	-33	-35	-10	-15	-12	-72
23. Saar.....		-2	-2	+1		+1	
24. Combined balance on current account (at July 1, 1947, prices).....	-655	-2,543	-3,198	-2,369	-2,047	-1,753	-9,967
25. Adjustment for higher prices.....	-31	-122	-153	-111	-98	-84	-446
26. Adjusted balance (upper level).....	-686	-2,665	-3,351	-2,480	-2,145	-1,837	-9,813
27. Adjustment for lower prices and lower freight rates ^e	(^e -81)	(^e -122)	^e -153	^d +114	^e +321	^f +494	+776
28. Adjusted balance (lower level).....	-686	-2,665	-3,351	-2,255	-1,726	-1,259	-8,591
29. Range of adjusted estimates.....	-0.7 to -0.7	-2.6 to -2.6	3.3 to 3.3	-2.3 to -2.5	-1.7 to -2.1	-1.3 to -1.8	-8.6 to -9.8

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (-) of ERP countries on current account with other nonparticipating areas, by country and by period

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-17	-84	-101	-55	-32	+5	-183
2. Belgium-Luxembourg.....	-16	-82	-98	-75	-50	-53	-286
3. Belgian dependencies.....				-1	+2	+1	+2
4. Denmark.....	-18	-54	-72	-28	+5	+22	-72
5. Ireland.....	-8	-34	-42	-41	-39	-40	-162
6. France.....	-95	-236	-331	-266	-272	-160	-1,029
7. French dependencies.....	-5	-27	-32	-35	-33	-43	-143
8. Greece.....	-7	-59	-66	-42	-33	-36	-177
9. Iceland.....	-1	-2	-3	-2			-5
10. Italy.....	-8	-45	-53	+67	+115	+227	+356
11. Netherlands.....	-24	-106	-130	-62	-46	-24	-263
12. Dutch dependencies.....	-11	-44	-55	-44	+26	+19	-54
13. Norway.....	-14	-48	-62	-44	-29	-27	-163
14. Portugal.....	-4	-19	-23	-12	-17	-20	-72
15. Portuguese dependencies.....	+7	+33	+40	+32	+28	+20	+129
16. Sweden.....	-17	-68	-85	-43	-21	-5	-154
17. Switzerland.....	+19	+33	+52	+41	+50	+76	+219
18. Turkey.....	+4	+63	+67	+30	+31	+28	+156
19. United Kingdom.....	+172	+816	+988	+937	+946	+963	+3,834
20. British dependencies.....	-50	-204	-254	-207	-225	-223	-909
Germany:							
21. Bizone.....	-41	-267	-308	-222	-277	-265	-1,072
22. French zone.....	-3	-13	-16	-22	-24	-20	-82
23. Saar.....	-1	-5	-6	-8	-8	-9	-31
24. Combined balance on current account (at July 1, 1947 prices).....	-138	-452	-590	-102	+88	+446	-156
25. Adjusted for higher prices.....	-42	-179	-221	-180	-183	-172	-756
26. Adjusted balance (upper level).....	-180	-631	-811	-282	-95	+274	-914
27. Adjustment for lower prices and lower freight rates *.....	(*-42)	(*-179)	(*-221)	d-46	+167	+327	+257
28. Adjusted balance (lower level).....	-180	-631	-811	-118	+255	+773	+99
	-0.2	-0.6	-0.8	-0.1	+0.3	+0.8	+0.1
29. Range of adjusted estimates.....	to	to	to	to	to	to	to
	-0.2	-0.6	-0.8	-0.3	-0.1	+0.3	-0.9

*Total estimated surplus (+) or deficit (-) of ERP countries on current accounts * by country and by period 1948-1952*

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-60	-235	-295	-255	-199	-147	-996
2. Belgium-Luxembourg.....	-122	-521	-643	-447	-370	-299	-1,759
3. Belgian dependencies.....	+5	+21	+26	+10	+9	+12	+57
4. Denmark.....	-48	-216	-264	-171	-123	-96	-654
5. Ireland.....	-38	-155	-193	-163	-156	-147	-659
6. France.....	-408	-1,326	-1,734	-1,044	-765	-413	-3,953
7. French dependencies.....	-34	-161	-195	-146	-123	-95	-557
8. Greece.....	-44	-216	-260	-157	-120	-113	-650
9. Iceland.....	-3	-12	-15	-11	-9	-8	-63
10. Italy.....	-205	-825	-1,030	-692	-500	-335	-2,557
11. Netherlands.....	-179	-765	-944	-678	-629	-623	-2,774
12. Dutch dependencies.....	-17	-89	-106	-11	+65	+74	+22
13. Norway.....	-28	-124	-152	-112	-78	-54	-396
14. Portugal.....	-23	-74	-97	-60	-49	-44	-240
15. Portuguese dependencies.....	+7	+36	+43	+34	+36	+34	+147
16. Sweden.....	-27	-133	-160	-30	-39	-73	-278
17. Switzerland.....	+25	+58	+83	+64	+79	+86	+319
18. Turkey.....	+11	+58	+69	+20	+28	+24	+130

For footnotes referred to by letter symbols in above table, see page headed "Notes".

*Total estimated surplus (+) or deficit (—) of ERP countries on current account * by country and by period 1948-1952—Continued*

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
19. United Kingdom.....	-395	-1,107	-1,502	-622	-395	-302	-2,821
20. British dependencies.....		+56	+56	+77	+108	+157	+398
Germany:							
21. Bizone.....	-206	-1,017	-1,223	-930	-763	-655	-3,571
22. French zone.....	-18	-79	-97	-100	-96	-97	-392
23. Saar.....	-3	-14	-17	-22	-22	-23	-84
24. Combined balance on current account (at July 1, 1947 prices) ^b	-1,807	-8,845	-8,652	-5,436	-4,038	-2,877	-2,100
25. Adjustment for savings in dollar shipping service.....	+10	+90	+100	+134	+86	+30	+380
26. Total adjusted for saving on shipping.....	-1,797	-8,755	-8,552	-5,302	-3,952	-2,847	-2,066
27. Adjustment for higher prices ^c	-157	-629	-786	-575	-522	-462	-2,346
28. Adjusted balance (upper level).....	-1,954	-7,384	-9,338	-5,877	-4,474	-3,310	-2,299
29. Adjustment for lower prices and lower freight rates.....	(e-157)	(e-629)	(e-786)	d+128	*+745	+1,243	+1,328
30. Adjusted balance (lower level).....	-1,954	-7,384	-9,338	-5,176	-3,207	-1,604	-1,932
31. Range of adjusted estimates (in billions of dollars).....	-2.0 to -2.0	-7.4 to -7.4	-9.3 to -9.3	-5.2 to -5.9	-3.2 to -4.5	-1.6 to -3.3	-19.3 to -23.0

Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, April-June 1948

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-60	-43	-33	-10	-17
2. Belgium-Luxembourg.....	-122	-106	-80	-26	-16
3. Belgian dependencies.....	+5	+5	+5		
4. Denmark.....	-48	-30	-18	-12	-18
5. Ireland.....	-38	-30	-10	-20	-8
6. France.....	-405	-310	-255	-55	-95
7. French dependencies.....	-34	-29	-20	-9	-5
8. Greece.....	-44	-37	-31	-6	-7
9. Iceland.....	-3	-2	-1	-1	-1
10. Italy.....	-205	-197	-149	-48	-8
11. Netherlands.....	-179	-155	-96	-59	-24
12. Dutch dependencies.....	-17	-6	+12	-18	-11
13. Norway.....	-28	-14	-7	-7	-14
14. Portugal.....	-23	-19	-10	-9	-4
15. Portuguese dependencies.....	+7				+7
16. Sweden.....	-27	-10	-7	-3	-17
17. Switzerland.....	+25	+6	+3	+3	+19
18. Turkey.....	+11	+7	+3	+4	+4
19. United Kingdom.....	-395	-567	-241	-326	+172
20. British dependencies.....		+50	+70	-20	-50
Germany:					
21. Bizone.....	-206	-165	-134	-31	-41
22. French zone.....	-18	-15	-13	-2	-3
23. Saar.....	-3	-2	-2		-1
24. Combined balance on current account (at July 1, 1947 prices).....	-1,807	-1,669	-1,014	-655	-138
25. Adjustment for savings in dollar shipping services ^b	+10	+10	+10		
26. Total adjusted for savings on shipping.....	-1,797	-1,659	-1,004	-655	-138
27. Adjustment for higher prices ^c	-157	-115	-84	-31	-42
28. Adjusted balance.....	-1,954	-1,774	-1,008	-686	-180

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (-) on current account of ERP countries, by country and area, fiscal year 1948-49

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-235	-151	-107	-44	-84
2. Belgium-Luxemburg.....	-521	-439	-318	-121	-82
3. Belgian dependencies.....	+21	+21	+22	-1	-
4. Denmark.....	-216	-152	-74	-88	-54
5. Ireland.....	-155	-121	-46	-75	-34
6. France.....	-1,325	-1,090	-803	-187	-296
7. French dependencies.....	-161	-134	-74	-60	-27
8. Greece.....	-216	-157	-100	-57	-59
9. Iceland.....	-12	-10	-7	-3	-2
10. Italy.....	-825	-780	-584	-196	-45
11. Netherlands.....	-755	-659	-382	-277	-106
12. Dutch dependencies.....	-89	-45	+51	-96	-44
13. Norway.....	-124	-76	-52	-24	-48
14. Portugal.....	-74	-55	-33	-22	-19
15. Portuguese dependencies.....	+36	+3	+5	-2	+53
16. Sweden.....	-153	-85	-39	-26	-68
17. Switzerland.....	+53	+20	+9	+11	+33
18. Turkey.....	+58	-5	-2	-3	+63
19. United Kingdom.....	-1,107	-1,023	-891	-1,032	+516
20. British dependencies.....	+56	+260	+300	-40	-204
Germany:					
21. Bizzone.....	-1,017	-750	-585	-165	-257
22. French zone.....	-79	-66	-33	-33	-12
23. Saar.....	-14	-9	-7	-2	-5
24. Combined balance on current account (at July 1, 1947 prices).....	-5,845	-5,393	-3,850	-2,543	-452
25. Adjustment for savings in dollar shipping services *.....	+90	+90	+90	-	-
26. Total adjusted for savings on shipping.....	-5,755	-5,303	-3,760	-2,543	-452
27. Adjustment for higher prices *.....	-629	-450	-328	-122	-179
28. Adjusted balance.....	-7,384	-5,753	-4,088	-2,665	-631

Estimated surplus (+) or deficit (-) on current account of ERP countries, by country and area, fiscal year 1949-50

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-255	-200	-144	-56	-55
2. Belgium-Luxemburg.....	-447	-372	-238	-134	-75
3. Belgian dependencies.....	+10	+11	+16	-5	-1
4. Denmark.....	-171	-143	-57	-86	-28
5. Ireland.....	-163	-122	-35	-87	-41
6. France.....	-1,044	-778	-673	-105	-266
7. French dependencies.....	-146	-111	-50	-61	-35
8. Greece.....	-157	-115	-76	-39	-43
9. Iceland.....	-11	-9	-7	-2	-2
10. Italy.....	-692	-759	-556	-193	+67
11. Netherlands.....	-678	-616	-321	-295	-44
12. Dutch dependencies.....	-11	+33	+232	-199	-44
13. Norway.....	-112	-68	-46	-22	-44
14. Portugal.....	-50	-38	-18	-20	-13
15. Portuguese dependencies.....	+34	+2	+6	-4	+32
16. Sweden.....	-30	+13	-7	+20	-48
17. Switzerland.....	+64	+23	+10	+13	+41
18. Turkey.....	+20	-10	-4	-6	+30
19. United Kingdom.....	-622	-1,559	-992	-867	+937
20. British dependencies.....	+77	+284	+323	-39	-207
Germany:					
21. Bi-Zone.....	-930	-708	-535	-173	-222

For footnotes referred to by letter symbols in above table, see page headed "Notes."

Estimated surplus (+) or deficit (-) on current account of ERP countries, by country and area, fiscal year 1949-50—Continued

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
Germany—Continued.					
22. French Zone.....	-100	-78	-68	-10	-22
23. Saar.....	-22	-14	-15	+1	-8
24. Combined balance on current account (at July 1, 1947 prices).....	-5,436	-5,334	-2,965	-2,369	-102
25. Adjustment for savings in dollar shipping services ^b	+134	+134	+134		
26. Total adjusted for savings on shipping.....	-5,302	-5,200	-2,831	-2,369	-102
27. Adjustment for higher prices ^c	-575	-395	-284	-111	-180
28. Adjusted balance (upper level).....	-5,877	-5,595	-3,115	-2,480	-282
29. Adjustment for lower prices and lower freight rates ^d	+126	+142	+28	+114	-16
30. Adjusted balance (lower level).....	-5,176	-5,658	-2,803	-2,255	-118
31. Range of adjusted estimates (in billions of dollars). {	-5.2 to -5.9	-6.1 to -5.6	-2.8 to -3.1	-2.3 to -2.5	-0.1 to -0.3

Estimated surplus (+) or deficit (-) on current account of ERP countries, by country and area, fiscal year 1950-51

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-199	-167	-116	-51	-32
2. Belgium-Luxemburg.....	-870	-311	-167	-144	-59
3. Belgian dependencies.....	+9	+7	+12	-5	+2
4. Denmark.....	-123	-128	-45	-83	+5
5. Ireland.....	-156	-117	-22	-95	-39
6. France.....	-765	-493	-500	+7	-272
7. French dependencies.....	-123	-90	-37	-53	-33
8. Greece.....	-120	-87	-57	-30	-33
9. Iceland.....	-9	-9	-6	-3	
10. Italy.....	-500	-615	-480	-135	+115
11. Netherlands.....	-629	-583	-283	-300	-46
12. Dutch dependencies.....	+65	+39	+231	-192	+26
13. Norway.....	-78	-49	-27	-22	-29
14. Portugal.....	-49	-32	-12	-20	-17
15. Portuguese dependencies.....	+36	+8	+11	-3	+28
16. Sweden.....	+39	+60	+26	+34	-21
17. Switzerland.....	+79	+29	+19	+10	+50
18. Turkey.....	+25	-6	-2	-4	+31
19. United Kingdom.....	-395	-1,341	-651	-790	+946
20. British dependencies.....	+108	+333	+373	-40	-225
Germany:					
21. Bizone.....	-763	-486	-373	-113	-277
22. French zone.....	-98	-74	-59	-15	-24
23. Saar.....	-22	-14	-14		-8
24. Combined balance on current account (at July 1, 1947 prices).....	-4,038	-4,126	-2,079	-2,047	+88
25. Adjustment for savings in dollar shipping services ^b	+86	+86	+86		
26. Total adjusted for savings on shipping.....	-3,952	-4,040	-1,993	-2,047	+88
27. Adjustment for higher prices ^c	-522	-339	-241	-98	-183
28. Adjusted balance (upper level).....	-4,474	-4,379	-2,234	-2,145	-95
29. Adjustment for lower prices and lower freight rates ^d	+745	+578	+257	+321	+167
30. Adjusted balance (lower level).....	-3,207	-3,462	-1,738	-1,726	+255
31. Range of adjusted estimates (in billions of dollars). {	-3.2 to -4.5	-3.5 to -4.4	-1.7 to -2.2	-1.7 to -2.1	+0.3 to -1

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, fiscal year 1951–52

[In millions of dollars]

Country	Total *	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating
1. Austria	-147	-152	-99	-53	+5
2. Belgium-Luxemburg	-299	-246	-131	-115	-53
3. Belgian dependencies	+12	+11	+15	-4	+1
4. Denmark	-96	-119	-43	-76	+23
5. Ireland	-147	-107	-14	-93	-40
6. France	-413	-253	-324	+71	-160
7. French dependencies	-63	-50	-2	-48	-43
8. Greece	-113	-77	-48	-29	-36
9. Iceland	-8	-8	-5	-3	
10. Italy	-335	-562	-483	-79	+227
11. Netherlands	-623	-489	-248	-251	-24
12. Dutch dependencies	+74	+55	+242	-187	+19
13. Norway	-54	-27	-7	-20	-27
14. Portugal	-44	-24	-3	-21	-20
15. Portuguese dependencies	+34	+5	+8	-3	+29
16. Sweden	+73	+78	+45	+33	-5
17. Switzerland	+98	+22	+20	+2	+76
18. Turkey	+24	-4	-2	-2	+28
19. United Kingdom	-302	-1,265	-510	-755	+963
20. British dependencies	+157	+380	+421	-41	-223
Germany:					
21. Bizone	-655	-390	-322	-68	-265
22. French zone	-97	-77	-65	-12	-20
23. Saar	-23	-14	-15	+1	-9
24. Combined balance on current account (at July 1, 1947, prices)	-2,877	-3,323	-1,570	-1,753	+446
25. Adjustment for savings in dollar shipping services ^b	+30	+30	+30		
26. Total adjusted for savings on shipping	-2,847	-3,293	-1,540	-1,753	+446
27. Adjustment for higher prices ^c	-463	-291	-207	-84	-172
28. Adjusted balance (upper level)	-3,310	-3,584	-1,747	-1,837	+274
29. Adjustment for lower prices and lower freight rates ^d	+1,243	+916	+422	+494	+327
30. Adjusted balance (lower level)	-1,604	-2,377	-1,118	-1,259	+773
31. Range of adjusted estimates (in billions of dollars)	-1.6	-2.4	-1.1	-1.3	+0.8
	-3.3	-3.6	-1.7	-1.8	+0.3

For footnotes referred to by letter symbols in above table, see page headed "Notes."

NOTES

EXPLANATORY NOTES FOR TABLES SHOWING ESTIMATED SURPLUS (+) OR DEFICIT (—) OF ERP COUNTRIES ON CURRENT ACCOUNT

* Total equals balance with "Total Western Hemisphere" plus balance with "Other nonparticipating areas"; excludes balance with other participating countries and balance between participating country and its dependencies.

^b Estimated dollar savings resulting mainly from recommended temporary transfer of up to 300 additional bulk cargo carriers on bare-boat charter basis.

^c Calculated for "United States" and "Other nonparticipating areas" on basis of 7.5 percent price rise of imports (5 percent for "Other Western Hemisphere") as against 5 percent price rise of exports since July 1, 1947.

^d Calculated for "United States" and "Other nonparticipating areas" on basis of July 1, 1947, price for imports and exports, and a 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 2.5 percent price decline for imports, July 1, 1947, price for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947.

^e Calculated for "United States" and "Other nonparticipating areas" on basis of 7.5 percent price decline for imports, 5 percent price decline for exports, and 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 10 percent price decline for imports, 5 percent price decline for exports, and 10 percent decrease in ocean freight rates since July 1, 1947.

^f Calculated for "United States" and "Other nonparticipating areas" on basis of 15 percent price decline for imports and 10 percent decline for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 17.5 percent price decline for imports, 10 percent price decline for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947.

NOTE.—Figures showing range of adjusted estimates to the nearest hundred million dollars for fiscal years 1949–50, 1950–51, and 1951–52 (line 31 in the attached tables) will not necessarily add across to totals because of rounding. Differences in rounding also account for discrepancies between the range estimates in the attached tables and those contained in the pamphlet Outline of a European Recovery Program. The unrounded data in millions of dollars in the attached tables correspond with those in the Outline of a European Recovery Program.

Mr. JONKMAN. If the State Department under bill H. R. 4840 is going to meet the CEEC requests in full or practically so, will we not be allowing Europe to build up by separate nations, an unbalanced export program as against an integrated Western European program?

Ambassador DOUGLAS. I would not think so, Congressman.

Mr. JONKMAN. For instance, I brought out on Monday five nations, the United Kingdom, Norway, Sweden, France and Denmark who had already recovered their 1938 industrial output schedule. The answer is that might not be enough because for instance the United Kingdom has lost an invisible income of a not inconsiderable amount. I think it must run in the neighborhood of \$1,500,000,000 or \$2,000,000,000 because I heard you say this morning that that is what is allowed for the United Kingdom in 1947-48 schedule.

If the United Kingdom is going to be permitted to make that up by exports, at whose expense is it going to be done and what correlation is there going to be between the development of other countries?

Ambassador DOUGLAS. Obviously the only way in which the United Kingdom can make up the losses which she has suffered during the war is by the restoration of a productive area in southeast Asia, and by an increase in her productive capacity.

The mere fact that her industrial production has increased, in order to compensate the loss does not mean there necessarily need be any great impact of that industrial production on other nations because there is a constant shifting of the area of production and the types of things that are being produced.

For example, Britain is one of the leaders today in the production of certain types of high precision instruments. After all, Congressman, the market place in which I place a great deal of confidence is one of the most automatic adjustments that the mind of man has yet been able to develop.

Mr. JONKMAN. Who programs all the exports under bill H. R. 4840?

Ambassador DOUGLAS. From where?

Mr. JONKMAN. From here, under the Marshall plan, who programs them?

Ambassador DOUGLAS. First of all, there is the problem of determining in respect to foodstuffs, that amount which will be available for export, and that amount which will be retained for domestic consumption. That function is discharged by the Department of Agriculture.

Mr. JONKMAN. I understand that you, with our help, are going to let the law of supply and demand or the market price decide who is going to progress most under this program of the 16 European countries?

Ambassador DOUGLAS. I am saying, Congressman, that these participating European countries have to submit themselves to the market price, so far as their exports are concerned.

Mr. JONKMAN. I repeat, if you are going to make up the deficit that the United Kingdom has lost, by loss of its invisible income, that she had far more than any other country of that, are not things going to get out of balance, and will we not get the blame for it? Also, are you not getting right back to the 1938 situation and the struggle for trade supremacy and all its consequences?

Ambassador DOUGLAS. I doubt it very much. The alternatives, Congressman, must be viewed too. What happens to the United Kingdom if she does not develop?

Mr. JONKMAN. Of course, the answer to that might be in the question, What has she done up to this time? Has she done any worse since the exhaustion of her \$3,000,000,000 loan?

Ambassador DOUGLAS. It has not been exhausted yet, but there has certainly been a reduction in the ration in Britain since the crisis began to develop in August.

Mr. JONKMAN. Well, she has improved her coal output, has she not, since this spring?

Ambassador DOUGLAS. She has.

Mr. JONKMAN. And she has been very leery about using any of the \$3,750,000,000 since that time, has she not?

Ambassador DOUGLAS. She has.

Mr. JONKMAN. What is the difference?

Ambassador DOUGLAS. She has been compelled to reduce the food ration, and she has drawn down on her reserves at an extraordinarily rapid rate. Now there comes a time when those reserves are completely exhausted and then, Congressman, what happens?

Mr. JONKMAN. My point is what occurs because of certain influences or what cause brings what effect. Now the United Kingdom began to feel that her credit was running out under this \$3,000,000,000 loan, so she has reduced her luxury imports, has she not?

Ambassador DOUGLAS. Yes. She has imposed a very, very heavy tax on movie imports, but, Mr. Congressman, the total net drain in dollars on account of American movies displayed in England is approximately \$60,000,000 a year. I do not say that is not worth saving to the United Kingdom but it is a mere drop in the bucket. If you are talking about exhaustion of the British loan, I can give you some figures of a different order of magnitude.

Mr. JONKMAN. Do you not think we should have an independent administrator to carry out this program?

Ambassador DOUGLAS. I agree completely with the bill which is before you, in that it contemplates the setting up of an independent administrator, but it does not contemplate that the administrator will have the authority to allocate that amount of foodstuffs that will be made available for exports and that amount which will be maintained in the United States. It does not contemplate that each of the Secretaries have the power to issue export licenses. Those authorities are now in other agencies of the Government and it does contemplate that insofar as foreign policy is concerned he takes his guidance and direction from the Secretary of State. However, this is an independent administration that is being established and the administration has to be fitted into the established agencies of government, with the authorities which they possess, unless of course it would be the desire of Congress to repose in the administration charged with the responsibility of the European recovery program all the powers that have to do with the internal economy of the United States.

Mr. JONKMAN. After all, does it not require sound business sagacity and management as opposed to good fellow and good neighbor policies?

Ambassador DOUGLAS. Congressman, it requires a man of extraordinary ability, broad business experience, wisdom, prudence, and courage. This has to be done in a businesslike way that will com-

mand the confidence of the Congress and of the people of the United States.

Mr. JONKMAN. Except in rare occasions where a vital foreign policy of the Government might be involved, he should be permitted to go ahead on his own.

Ambassador DOUGLAS. He should be permitted to conduct his operations except insofar as the internal economy of the United States and all of the authorities possessed by other agencies that have to do with it are concerned, and except insofar as questions of foreign policy are concerned.

Mr. JONKMAN. That does not permit the administrator even to program the European needs?

Ambassador DOUGLAS. It is contemplated under the bill that the administrator shall review the requests received from abroad, shall review and determine them.

Mr. JONKMAN. Is his the final determination?

Ambassador DOUGLAS. Yes. It is always subject to the other agencies of Government having to do with the internal economy of the United States and always subject to the foreign policy of the United States.

Mr. JONKMAN. It comes back to the State Department?

Ambassador DOUGLAS. As far as foreign policy is concerned, but I would point out to the Congressman that the Administrator has no authority over the internal economy of the United States and that amount which shall be made available for export. He has to take the allocations made for that purpose by another agency of the Government that is charged with that responsibility.

Mr. JONKMAN. Assuming that is true, we also have to take the advice and instruction of the State Department as to where he puts it, and what country he favors.

Ambassador DOUGLAS. No, he does not, not necessarily. If the Secretary of State felt that a certain act should be taken which was beneficial to the foreign policy he would so inform the administrator. Or the Secretary of State might feel that a certain program contemplated was contrary to the interests of the foreign policy of the United States, and the Secretary would under the language of the act be in a position to intervene and to prevent that act from being taken unless of course the administrator would disagree with the Secretary of State, in which event if he were a strong man and the kind of man who has to be selected to administer this program, he appealed to the President of the United States.

Mr. VORYS. Would the gentleman yield?

Mr. JONKMAN. I will be glad to yield.

Mr. VORYS. I think it would be a splendid thing just as a suggestion if this Administrator had the background for instance, of having been budget director, president of a foreign university, president of a great insurance company, and having had some familiarity with the inception of this plan, and Ambassador to the Court of St. James.

Mr. BLOOM. Are you talking about Ambassador Douglas?

Mr. VORYS. I was speaking purely theoretically about someone who had that particular set of qualifications.

Ambassador DOUGLAS. It is a hypothetical personality unknown to anybody in this room.

Mr. VORYS. Any resemblance to any living person is purely coincidental.

Ambassador DOUGLAS. I am delighted that he is a hypothetical person, because if he was not a hypothetical person he would have some remarks to make in rebuttal.

Mr. JONKMAN. I would have liked to have had this break-down country by country earlier. Perhaps I should defer it until a time when Mr. Thorp again takes the stand but because of your intimate and broad knowledge of European affairs, I would like to question you on it somewhat.

On Monday it was agreed that of the 16 countries, 7 countries at least could be eliminated, as far as grants were concerned. Those seven countries were Ireland, Iceland, Portugal, Switzerland, Turkey, Sweden and France.

Ambassador DOUGLAS. France I think was not one. I was not here, Mr. Congressman, at the time.

Mr. JONKMAN. I did not intend to mention France. I will repeat them: Ireland, Iceland, Portugal, Switzerland, Turkey, Norway, and Sweden.

Anyway, that does not concern you particularly because you say you were not there. Mr. Thorp admitted that he felt they should be eliminated as far as grants are concerned. We then came to the question of Denmark.

Ambassador DOUGLAS. May I ask Mr. Thorp if he would like to say something just on that point?

Mr. THORP. I just would like to say, Mr. Jonkman, I think if we checked the record we would find there was no firm and flat admission, because I do not think one can make an absolute judgment on these matters, but I did state that it was in my judgment a very real possibility.

Mr. JONKMAN. I think with reference to one or two, you said "Probably they should be excluded from any grants."

However, when we came to Denmark I called attention to the fact that Denmark had reached its prewar industrial production—that is for 1938—and also its prewar agricultural production, I believe. I was not so sure about that. The opinion at that time was that Denmark should not be excluded as the other seven had been.

Now I am reliably informed by an official of the United States Government who talked with a high official of the Danish Government last fall in Denmark, and when that Danish official was asked "Well, do you expect to come in under the Marshall program," the answer was "Well, we did not expect to. We are in sound financial condition, our credit is good and we did expect to float a private loan in the United States which we think we can do. However, all the others are coming in and we might as well get our share."

Have you had any knowledge of the conditions in Denmark as to whether Denmark should be favored with grants-in-aid?

Ambassador DOUGLAS. I am sorry I will have to beg off on that question because I do not know about the internal economic and financial position of Denmark.

These country-by-country reports were prepared by technical committees and have just been published. I have not had an opportunity to examine each one of them. The only one that I have taken a hasty look at was the one covering the United Kingdom.

Might I just make this observation: You referred to the fact that the industrial production in the United Kingdom was now above the prewar level.

I presume you were referring to the total index of production, and in that connection it is significant and important to point out that agricultural production in the United Kingdom—and of course agricultural products are not exported—is approximately 30 to 33 percent higher than before the war. When one lifts the agricultural production out of the total index of production in the United Kingdom, one gets a very much smaller index of industrial production than the figures on their face would indicate to be the case.

Mr. JONKMAN. I think my statistics came from the CEEC report, and I think the United Kingdom was about 2 percent above.

Ambassador DOUGLAS. However, not 114 percent which one figure indicates which I have just seen.

Mr. JONKMAN. That is wrong, the 114 percent.

Ambassador DOUGLAS. Insofar as industrial production is concerned.

Mr. JONKMAN. If that supposition is true, do you think you ought to extend aid to those countries under those conditions?

Ambassador DOUGLAS. I think, Mr. Jonkman, to the fullest extent possible, the extension of credit to some countries, and to concerns within countries, should be made either through the private investment channels or by the International Bank which was established for that purpose.

Mr. JONKMAN. Then the answer is "No"?

Ambassador DOUGLAS. My answer is "No."

Mr. JONKMAN. What do you think of the stability of a loan that is made under the first stated condition? It is a matter where we have an invitation here, come one, come all, and while we do not need it, we could float the private loan and we are going to take advantage of it. Do you think it offers a good basis for repayment, and a feeling of obligation to repay?

Ambassador DOUGLAS. I think it is a matter that has to be very carefully and industriously reviewed and screened by whoever is in charge of the administration of this program.

Mr. JONKMAN. Without casting any reflection on any of the 16 countries, our past experience with foreign loans has not been so good. There is one little country who has had a sound concept of its obligations and that is not one of the 16 at the present time.

Ambassador DOUGLAS. That raises a very complicated question. Some defaulted not because they wanted to but because they had no choice.

Mr. JONKMAN. Is it not also true that if you take this plan in its general aspect, these participating countries can be said to have been given a certain consideration for coming in, and might they not at a later date feel that that was sufficient consideration for what they received?

In other words, if these seven countries as I have mentioned are just coming in to help the other countries, and not because we would help them on their own, are they not giving a consideration for whatever they get?

Ambassador DOUGLAS. I am not clear as to whether the 7 countries to which you have referred should be placed in that category, but these 16 participating countries met to do certain things, and even though

some of them did not require credits—some of them can pay, apparently, on the barrelhead and some of them can meet their requirements through the normal investment channels—they are nevertheless a part of this community and as you suggest, as recovery in the other countries proceeds general recovery and stability of the whole area advances.

More than that there have to be certain undertakings of a joint and cooperative nature, such as a hydroelectric development in which several of them—one perhaps can pay on the barrelhead—have an interest in development.

Mr. JONKMAN. What do you know about the three countries, Belgium, Luxemburg, and the Netherlands, as to whether or not we should loan to them at the present time?

Before you answer that will you answer this question: Should they receive grants in aid which are not expected to be repaid?

Ambassador DOUGLAS. I confess I have not examined the internal condition of these individual countries country by country with sufficient care to give an answer to your question which would be a considered one. More than that, in these matters, the question of whether a country should receive a grant or whether it should receive a credit is a matter that must be determined, it seems to me, in the light of the evidence, and all the evidence, and the time the program of that particular country comes to the United States for final and definitive action.

Mr. JONKMAN. I have not discussed the United Kingdom to any great extent or France, but that leaves, with those and those I have already mentioned, Austria, Italy, and Greece. I would have liked to have seen that break-down but is it not true that the bulk of the grants will be to the five members; the United Kingdom, France, Austria, Italy, and Greece?

Ambassador DOUGLAS. To give an ill-considered answer; yes.

Mr. JONKMAN. Of course you would have 20 percent to 40 percent loans, so the bulk will be grants in aid.

Ambassador DOUGLAS. That was the calculation made by the National Advisory Council.

Mr. JONKMAN. What effect do you think that is going to have on these smaller countries? They are going to feel that all they did is receive a loan which had to be repaid while the bulk of the money is given to the larger countries in the nature of grants in aid. What is that going to do to the status of the loan?

Ambassador DOUGLAS. There are some smaller countries in apparently very sound financial condition. I cannot imagine there would be any particular resentment in a smaller country that is on a solid and sound position merely because it did not receive a grant, whereas another country, though it might be larger that was in a dilapidated and tattered state, did receive a grant. Indeed the smaller country might have a very great interest in the recovery of the larger country because the larger country might provide a broader market for the smaller country which it could not enjoy with the larger country remaining in a depressed state.

Mr. JONKMAN. Let me remind you of a local relief experience that we have had right in this country when, for instance, people who had been frugal and had saved and had a home—which they could not eat—were refused relief when that was all they had, while people

who had been spending and who had been wasting received the best of everything.

Do you remember the discontent that was caused by that, and would not it be human nature to have that same thing in Europe if we are going to give loans to some countries and grants to other countries?

Ambassador DOUGLAS. I cannot prophesy, Congressman, how these respective countries may respond. They have all joined the CEEC. They have all entered upon this cooperative undertaking, limited though some may believe it to be, they are all concerned with the recovery and stability of the general area. Their national security, too, rests in large measure upon the restoration of stability.

Mr. JONKMAN. I do not want to get argumentative, but I do not think we have to prophesy, we only have to go by experience and human nature. You know we are talking about calculated risks, but there is a risk in calculations too, that we should not have trouble with if we have past experience to guide us. I think we should look ahead and see where we will be 4 years from now.

There is another question that bothers me, for instance, In those three countries, Austria, Italy, and Greece, has anybody any reason to think that if the present Communist turbulence or interference continues that we will be any further at the end of 4 years with those countries than we are now at the end of 3 years? In other words, that interference there is the sabotage of all effort and discourages all initiative because the people in those countries just do not know where they will be a year from now.

Have we any reasonable expectation in those three countries of establishing the 1938 equilibrium, if they had it then?

Ambassador DOUGLAS. Restoring at least stability in the area, and not necessarily the 1938 level?

Mr. JONKMAN. Yes.

Ambassador DOUGLAS. I will make this observation, Congressman, and it is a considered one that I have no doubt that the interim-aid bill which the Congress passed, and the prospects that the Congress will approve a European recovery program, contributed incalculably to the determined resistance of the French Government against the recent endeavor on the part of the Communists to interfere with the industrial and economic life of France through a series of strikes and thus perhaps to achieve power.

Mr. JONKMAN. I am glad to hear that come from you. You have been on the ground and you know what is going on there.

Ambassador DOUGLAS. I think that is a fair observation to make;

Mr. JONKMAN. I think the American people want some reasonable assurance of the probable success of their efforts.

I have one more question, brought up at that discussion, this morning about the effect of our exports on the domestic price situation. It has been said in the past by the highest authority, for instance, that the high prices are caused by the higher living of the American people, and in the same statement, an attempt has been made to ascribe high prices to our foreign-aid program, but this statement is not borne out by the past. I would like to quote that from this angle: Supposing in our grain reduction we had 1 or 2 percent surplus, there would be no high prices merely because of scarcity, would

there, if we had 1 or 2 percent surplus? To make clear what I ask, let me ask this question:

The moment we ship abroad 5 percent, and we have a shortage of 3 or 4 percent, there would immediately be a scramble, not to be caught in that shortage of 4 percent, or to catch those who have been caught short and sell them goods at increased prices. Would that be true?

Ambassador DOUGLAS. A surplus presupposes that which is consumed and that for which there is no demand. Now that which is consumed, and that for which there is a demand that is satisfied, is contingent on price.

It is very much like a study I saw 14 or 15 years ago upon the capacity to produce in the United States. It was a fine tabulation and calculation but it completely ignored the price at which commodities could be produced, so that the determination of surplus is related to the prices.

Mr. JONKMAN. You do not answer my question. I would like to have an answer to the question now: As long as there is a 1 or 2 percent surplus, we would have no increased prices because of threatened scarcity, except you could speculate that it might be wrong, but assuming that figure, you would not have that.

Ambassador DOUGLAS. Except as a surplus itself, if any, might be an incident of price mechanism.

Mr. JONKMAN. Under that condition if you exported 5 percent of your production in commodities, say wheat, you would immediately have a shortage, would you not, and that would cause a scramble for purchases, and, of course, raise prices; is that not true?

Ambassador DOUGLAS. It might have that effect.

Mr. JONKMAN. Would it not inevitably have that effect?

Ambassador DOUGLAS. It probably would have that effect; yes.

Mr. JONKMAN. Would it not inevitably have that effect?

Ambassador DOUGLAS. If the prices were such that people wanted to buy.

Mr. JONKMAN. I am not an economist, and I do not know much about the grain market—I am glad to say—but I have heard men who understood the grain market say that as much as 100,000 bushels shortage in one year in wheat or corn would have 9 or 10 times the impact such a thing should have in prices merely because there was an estimated shortage. Would you agree to that?

Ambassador DOUGLAS. I should think I would, Congressman, yes.

Mr. JONKMAN. So after all our export program is the fly in the ointment and is a serious impact on high prices, is it not?

Ambassador DOUGLAS. I do not think it is by any manner of means the only factor. There are a whole variety of other factors. There is a tremendous amount of credit being built up or accumulated in the United States largely as a product of the war and other policies.

There are other things that have occurred in the United States which have had their impact upon prices. The recovery program for 1948-49 contemplates a smaller volume of exports than the volume of exports in 1947; a smaller volume of wheat, a smaller volume of almost all commodities. Therefore, under the European recovery program for the 15 months there should be some relief as compared with the preceding year.

Mr. JONKMAN. I think that would be true, but we had high prices last year also and if instead of shipping 400,000,000 bushels of wheat to Europe, you kept them here and had a surplus, what would it do to your \$3 wheat, if you could not dispose of it?

Ambassador DOUGLAS. I would imagine that there would be a complete depression of the market.

Mr. JONKMAN. You would not buy long?

Ambassador DOUGLAS. That is right. I would suggest, Congressman, that possibly Secretary Anderson will testify before this committee. If it is not contemplated that he do so, I refer you to his testimony before the Senate committee yesterday.

Mr. CHIPERFIELD. Mr. Ambassador, Dr. Eaton suggests we stop at 4 o'clock. If you can come back tomorrow afternoon at 2 o'clock we will then have an opportunity to cross-examine you and finish up with the cross-examination. We will hear from Secretary Forrestal, I think, at 10 o'clock.

Ambassador DOUGLAS. Thank you very much, Mr. Chairman.

(Whereupon, at 4:05 p. m., the committee recessed to reconvene at 10 a. m., Thursday, January 15, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, JANUARY 15, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10 a. m., in the Ways and Means Committee room, New House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. We will come to order.

Mr. Secretary, we are glad to have you with us this morning.

STATEMENT OF JAMES FORRESTAL, THE SECRETARY OF DEFENSE

Secretary FORRESTAL. Mr. Chairman and members of the Foreign Affairs Committee of the House, the Secretary of State, in supporting before your committee the program of United States assistance known as the European recovery program, said there were three basic questions involved:

Why does Europe need help?

How much help is needed?

How much help should be given?

His answers to those questions were clear, and in their broad aspects, supported the recommendations of the executive branch of the Government as placed before you by the President in his message to the Congress of December 19. What I have to say I consider to be an extension of views already presented, except with this difference: That I am speaking from the somewhat more limited point of view of our military security.

All of you are familiar with, and some of you have seen, the conditions in Europe that make necessary the European recovery program. The instinctive generosity and humane impulses of Americans would ordinarily move us to aid our neighbors in distress. Without taking too much complacent satisfaction in the statement, we are a generous people, and in keeping with that tradition, we have already made vast contributions to the alleviation of distress on the European Continent. There is, however, another and fully as compelling a reason for us to do our utmost to bring about European recovery.

As Secretary of Defense my concern is directed particularly toward the considerations of national security which face us in this particular problem. And so in answering the question which General Marshall posed, "Why does Europe need help?", I shall address myself principally to the factors affecting the security of the United States.

As in most other periods of history, there is a conflict of world politics taking place in Europe today. There is nothing more unusual about this political conflict, viewed in the long light of history, than there is about political differences in our own country, with this one exception: That we are in a world today in which, broadly speaking, there are two great powers, the Union of Soviet Socialist Republics and the United States, and that there is a vacuum in middle and western Europe as a result of the destruction caused by, and visited upon, Hitler's Germany. In most political differences a balance of power is exercised by moderate influence in the form of men or nations who are able to contribute the good offices of compromise and amelioration. Today, however, because of the vacuum in Europe, the nation components of what would otherwise be the balance of power find their position impaired by economic instability, political unrest, and consequent military ineffectiveness.

In these circumstances we are seeking to redress the balance of Europe by helping the western nations to get on their feet. Our purpose in doing this is not to forge an iron ring around any nation or to set up an aggressive military threat to any other nation. Our purpose and our object is totally and exclusively to prevent another war by the creation of the political and economic and social equilibrium which is requisite to the maintenance of peace.

Without our aid it is by no means certain that the western European nations can save themselves from economic collapse and political disintegration. In spite of great difficulties and tremendous handicaps, certain of these nations have already made an extraordinary start toward recovery. I have in mind Belgium, Holland, and Luxemburg. Recently, France and Italy have also given indications of a renaissance of national vitality and national will. Two leaders have risen in the persons of Mr. Schuman of France and Mr. de Gasperi of Italy, who have shown the capacity for the exercise of leadership without any corresponding effort to grab for totalitarian power. And in Great Britain there is substantial evidence that the great resilience and moral fiber which served the nation so well when she stood alone against Hitler are again asserting themselves. Coal production has failed by only a small margin of hitting the goal set for 1947 and while the exchange problem is still a continuing source of concern the British have recognized the fact that work and production are the foundations of an adequate standard of living; in other words, that political science as asserted by Bentham, Ricardo, and Adam Smith still has a validity that Marx assumed was gone forever.

The 16 nations which associated themselves in Paris last summer with the plan for European recovery comprise a great workshop with 270,000,000 inhabitants. Should this workshop be integrated, with all its industrial and military potential, into a coalition of totalitarian states, it is possible that we in time would find ourselves isolated in a hostile world. That situation would, in my opinion, be a threat to the peace of the world, to our economic and political position, and, in fact, to the very existence of the United States.

You are familiar with Hitler's success in the middle and late twenties in exploiting both the economic distress which existed in Germany just after the last war and the inequities which he declared were imposed on Germany by the Versailles Treaty. With every

device of political demagoguery, he beguiled and seduced his people with promises of food, employment, and redress of grievances, and with these he laid the foundation for the political movement embraced in the National Socialist Party of Germany. It was these events which led to the tragedy and destruction of World War II. Today, conditions similar to those in which Hitler's evil doctrines fell on politically susceptible ears, might be recreated, not merely in Germany, but in other countries of Europe. Our hope is to prevent that recurrence by the acceleration of a healthy European recovery, where the processes of trade, of business, and a free exchange of goods, commodities, and individual travel can again give men the foundations of hope.

After World War I, the United States, France, and Great Britain, together with other capitalistic countries of Europe, participated in the restoration of the economic stability of Germany. I am one of those who feel that this restoration of economic stability could have laid the foundations for an ultimate republican regime in Germany. It was aborted by the economic crisis of 1929, accompanied by the abrupt cutting off of external credits to Germany, precipitating a chain of events which led to the rise of Hitler. As in all other countries in times of political and economic difficulty, the moderates and the liberals of Germany fell between the pincers of bolshevism on the one hand and Hitler's Nazis on the other. It is my hope that throughout Europe, what we are proposing to do now will restore hope and courage in this great central bloc of ordinarily decent and peace-loving people in every country.

The result can be, and I believe will be, that these nations, if they recover their true sovereignty and their true positions in the society of western Europe, will reassert those principles of individual freedom and determination to live in a free society, which form a large part of our own inheritance. Central in that pattern are, of course, Great Britain and France. From both of these nations we have drawn great lessons in political wisdom, in spiritual and cultural values. I believe that none of us today can accurately picture the effect on our minds and our hopes for the future if we had to witness the surrender of France to a totalitarian authority or the economic collapse of Britain.

And yet if I did not believe that there was a vigor and a vitality in both nations which are capable of surviving, I would not be supporting the programs which your committee is considering. Despair is a disease which is easily communicated, but we must not forget that what I call the epidemic of hope is an even more powerful motivating force in man. The example of an industrious and hard-working Belgium, Luxemburg, and Holland, which is reflected in the now well known Benelux trade agreements, had repercussions throughout Europe and evoked admiration here. I firmly believe that there are similar reservoirs of energy, resourcefulness, and strength in Europe, which can be stirred to beneficial action by the catalyst of American aid. Europe is a trading and commercial continent. The skill and knowledge of business are still in existence and will be vigorously reasserted if we can recreate the background against which trade can flourish: Namely, stable currencies, the elimination of commercial barriers and the withdrawal of restraints upon free enterprise.

Peace and security are not to be viewed merely in terms of great military power or wealth in the hands of the United States—and I

consider it both illusory and dangerous to make the assumption that military power alone in our possession can give us the guaranty that we should like to have for the future.

France had its Maginot Line, Hitler had his blitzkrieg, Philip II of Spain had great wealth and possessions, and ancient Rome had her legionaries, but none of these gave real security. In each case there were conditions which insured the failure of an apparently impervious formula. In our own case the security of the Nation has to be viewed not merely in the light of our military power, but in the light of restoration of balance throughout the world. I use balance, and not necessarily balance of power, but, for I have reference to a balance of political action, of economic health, and also of course of military strength.

The essential requirements of our own people are of course the first charge against United States resources. However, the conclusions of three special committees—those of Harriman, Krug, and Dr. Nourse—are in agreement that our economy in general and our financial capacity in particular, are able to support the proposed program.

The cost of that program for the reconstruction of Europe will be high. It would be idle to say that it will not mean sacrifice, self-denial, and hard work for all of us; but it is a sound investment in the attainment of world peace. It contributes to insurance against war, and combined with the maintenance of a substantial military power at home, will be far less expensive than standing isolated and alone in an unfriendly world.

It is always dangerous to try to draw exact analogies or parallels between periods of history. In the first place, the construction men place upon history is apt to be at variance from time to time, but it seems to me that the position in which we find ourselves today is not unlike that of Britain after the Napoleonic wars. Britain having spent 20 years and much of her resources in defeating the attempt of Napoleon to conquer Europe, was anxious to withdraw from that continent. She found great difficulty in doing so, however, without exposing Europe and eventually herself to a recurrence of the very great threat of which she had just disposed. So Britain had to stay in order to make an effective contribution to the maintenance of the balance of power in Europe.

In my opinion, however, Britain was neither plotting nor planning for her own advantage; her statesmen were merely wise enough to understand the terrible cost of world-wide conflict and the necessity for localizing those conflicts that did occur.

Britain, through the exercise of her influence, was able to keep relative peace and stability throughout Europe for a century. There were, to be sure, many wars, both in Europe and in other parts of the world—but the conflicts were always kept localized. They did not result in vast injury to, or destruction of, the economic machinery of Europe or the political machinery of society. I think it can be said, therefore, that British policy in the nineteenth century was successful.

Our objective in the present recovery program for Europe is the prevention of war. Neither this program nor our national-defense expenditures are designed as a threat against any nation nor as an effort to restrain any nation or to dominate a group of nations. The policy of the United States, as I see it, is directed to the end that free nations shall be allowed to select their own governments, and

that no one country or political concept shall be permitted by force to conquer the world.

We need to maintain substantial military power, but I would rate the need for the restoration of the European community as equally strong.

Chairman EATON. Mr. Secretary, thank you for your very statesmanlike utterance.

We will now resort to questions.

Up to this session, we have not used the 5-minute rule with the result that a number of our members have had no opportunity to ask questions whatever. Therefore, with the consent of the committee, I think we will adopt the 5-minute rule now and make the rounds on that basis, if agreeable.

First, Mr. Chipperfield.

Mr. CHIPPERFIELD. I have no questions, Mr. Chairman.

Chairman EATON. Mr. Bloom?

Mr. BLOOM. Mr. Secretary, what was the cost, if you know, of the prosecution of the war?

Secretary FORRESTAL. I am always dubious about using figures without having them checked and double-checked but my own recollection is about \$350,000,000,000.

Mr. BLOOM. That is the total cost. However, in listening to your very informative address, it came to my mind that the plan we are trying to adopt here is pointed toward winning the peace; is that right?

Secretary FORRESTAL. That is my impression; yes.

Mr. BLOOM. There is no question about it because if we do not do this or do something, we will never have peace until something definite is done. Talking about costs, I just thought I would like to know if the war went along for 30 days, what would that amount be compared to the amount to be authorized under this legislation?

Secretary FORRESTAL. At the end of the war I believe we canceled approximately \$63,000,000,000 of appropriations in the period of 6 months after the conclusion of hostilities in August of 1945.

The total appropriations, as I recall them, of the Army and the Navy in the peak year were on the order of \$100,000,000,000 or over.

I do not have in my mind the per diem cost but relating that to months it would run 8 to 10 billions of dollars a month.

Mr. BLOOM. If we do not adopt this plan, Mr. Secretary, have you heard of any other kind of a plan that should be adopted to achieve the same objective?

Secretary FORRESTAL. I have heard stated as one possibility the suggestion that we withdraw into our own economic borders, so to speak, and create a military power so great that no one would attack us and no one will start another war because of the existence of that power. I think the fallacy in that is, in the first place the creation of that power would involve the mobilization of such a large part of our economic power as well as our manpower, as to deny ourselves that production which we need ourselves to get back to a normal equilibrium.

Mr. BLOOM. That would not be achieving peace?

Secretary FORRESTAL. No; it is an armed armistice.

Mr. BLOOM. Now, Mr. Secretary, I am going to ask a question that might appear rather foolish, but since there were certain questions asked of Ambassador Douglas yesterday, this might be justified:

There seems to be a certain amount of uncertainty throughout the different branches of the Congress and throughout the country about how this plan is going to operate, who is going to operate it, and who will hold the responsibility at the head of it.

Would you want to say, Mr. Secretary, that if the Administrator were to be named in advance, in case the legislation should go through as planned, would that not rather still the fears of a great many people as to what is going to happen in the different places, or how this is going to be administered; to give the assurance to the Congress and the people of the country that Mr. X is going to be the Administrator of this branch and they can be assured by Mr. X being mentioned. I do not mind mentioning the person. It is Ambassador Douglas himself.

It was mentioned by one of the members of the committee, not by me, if it was known that the Ambassador was to be the Administrator of this plan, whatever plan was adopted, would that not be a token of assurance to the committee and everyone that the plan was going to be conducted in a responsible way?

Secretary FORRESTAL. I think the name of Ambassador Douglas would carry a great weight of confidence and assurance that we would have competence in the administration.

I have not examined with any great precision the impact or the exact method of administration. I believe it must conform to two principles: First it has to be within the framework of our national policy and secondly it must have the assurance of efficient administration. In other words the country must be confident that this will be done on the most wise business basis—I combine the words “wisdom and business” consciously. I do not mean to imply that business is always wise, but here I would think one needs both. One needs the experience and confidence of business people, and one also needs the wisdom and statesmanship which will direct the efforts of business.

Mr. BLOOM. The chairman and I went into executive session here and the chairman answered by just one word, and that was “Yes.”

Thank you very much, Mr. Forrestal.

Chairman EATON. Mr. Mundt, we are under the 5-minute rule.

Mr. MUNDT. My total time so far in these hearings amounts to 3½ minutes, so I am very glad to get 5 minutes.

Chairman EATON. Add one minute and a half to that and go ahead.

Mr. MUNDT. Mr. Secretary, you stressed, of course, as the Secretary of National Defense naturally would, the military side of this argument, and you also placed great emphasis on the economic situation in Europe and its contributions to peace.

I would have been a little better pleased myself had you included in your paper some statement to the effect that we cannot just go over there and buy peace with dollars or produce peace through economic activity. We have an educational job to do over there, I think, too.

We have to consider more than the creature comforts of Europe. We must do something to help direct the thinking and to help provide facts about freedom by some method to the people of Europe.

I wonder whether you agree with me that it is highly important that we have an adequate and comprehensive and consistent publicity program abroad to accompany this vast investment which is contemplated here.

Secretary FORRESTAL. I would be glad to incorporate what you said practically intact in my statement. However I think the gain must be made with two things in mind: Wisdom and a limitation to facts. In other words, whatever we do in terms of expounding the American contributions to Europe and the American system of government and freedom shall be done on a factual and not a propaganda basis. I am sure you have the same feeling in that that I have.

Mr. MUNDT. You pointed out that some 270,000,000 people are involved in what you call the workshop of Europe. About 320,000,000 people are now dominated by totalitarian concepts emanating from Russia. If you add to that the people of Spain and the people of eastern Germany who will naturally have to go along with the political philosophy, you have about 600,000,000 in the potential manpower in Europe which, if it ceases to be divided among different concepts of government and it goes into one totalitarian rule, makes a rather good-sized piece of manpower as against about one-fifth of that many in the United States.

As Defense Secretary I wonder what you think might be the costs of trying to arm this country sufficiently to be secure against a technically equipped group of 600,000,000 people anywhere in the world. Would it not be considerably more than we have to spend under the present condition?

Secretary FORRESTAL. It presents a problem of such proportions as to be almost beyond any precise statement. It would run into such a drain upon our own resources and upon our own economic stability as to—I do not like to make extreme statements, but I think it is not unreasonable to say that it should lead to an economic and political result here which might achieve the ends toward which that philosophy is conceived and directs its efforts.

Mr. MUNDT. We hear so much about economy, in which I think we are all interested, but it certainly seems to me the possibility that there is more economy in pursuing some program along this line than there would be by just trying to brace ourselves against just the possibility of an attack by 600,000,000 people. Do you agree to that?

Secretary FORRESTAL. If you divide the world into a camp in which we are, in the Western Hemisphere, opposed and poised against the forces of the rest of the world, it presents what seems to be an almost impossible position for this country.

Mr. MUNDT. Would you agree with me that in order to do this job most adequately and efficiently as well as economically perhaps we should review the attitude we have shown toward the resources of Germany both from the standpoint of utilizing them to improve the economic tone of Europe generally, and to make sure they are not drained off by people who may be against us?

Secretary FORRESTAL. We must not restore Germany to a position where she can rearm and become a new threat in another 25 years. At the same time it is economic idiocy to assume other than that some production can be allowed to continue and make its contribution to what we are talking about.

Mr. MUNDT. That we should not use German resources to arm any potential enemy?

Secretary FORRESTAL. Yes; and with a concerted policy toward Germany, that result can be secured.

Chairman EATON. Mr. Kee?

Mr. KEE. Mr. Secretary, I regret very much not having been here to hear your previous statement.

This committee is not merely going into the problem of the bill before us but into the broad field of foreign policy.

So far we have devoted most of our time to a discussion of the program contemplated and of the provisions of but one of the measures which we have under consideration. That is the measure that provides for the prosecution of the entire program of European relief, together with the appropriation, that is, the amount we are to appropriate to carry it on, and also other matters connected therewith.

We have, however, one other bill under consideration which does not carry the broad program but only provides a means for the administration of the program set up in the bill above mentioned.

I would like to inquire of you, in view of the fact that this measure affects our foreign policy and our foreign relations whether or not in your opinion it should be administered by an agency entirely independent and divorced from the State Department or whether the administration should be under the responsible direction and control of the State Department.

Secretary FORRESTAL. Are you asking me if I think this Administrator should be an operator outside the State Department or under the control of the State Department?

Mr. KEE. Yes; and also, if outside the State Department, whether or not he should be under the control and direction of the State Department.

Secretary FORRESTAL. Before you came in, Mr. Kee, I said I would try to confine what I had to say to the national security aspects of this question; that I had not given close study to the organizational set-up; that, in general terms, I thought two objectives had to be secured; that whatever is done under this program shall be in line with the national policy of the country which is expressed by the Secretary of State, acting for the President; and that it shall be done on a wise basis, a business basis. No matter what you set up in the form of an organizational chart, you must have a man who is compatible and amiable with, let us say, the Secretary of State, with the result that those two men can work in complete harmony.

I cannot envisage this plan being successful if you start out with a man trying to administer this job, either inside or outside, between whom and the Secretary of State there is not complete mutual confidence and sympathy.

Mr. KEE. Should a provision not be incorporated in the legislation, that in the event of any dispute arising with respect to foreign policy, the decision either of the President or of the Secretary of State should be final upon that subject?

Secretary FORRESTAL. I think it has to be, but there again I would regard it as beginning to fail if a dispute arose that had to be settled in those hard terms. I think that the business aspect of this proposal is of vast proportions. When I say "business," I mean economic commerce and trade. Any attempt by one or the other to usurp authority completely could defeat the end results we are after. We are after the restoration of commerce in the world, and one of the essentials is political stability, and essential to political stability is stability of currencies. It is difficult to separate this job into compartments. It is pretty well interrelated.

Mr. KEE. We are dealing not only with the 16 nations of the world, but it affects our foreign policy with reference to all nations of the world; does it not?

Secretary FORRESTAL. I think it has a bearing on the policy of every nation in the world.

Chairman EATON. The time of the gentleman has expired. Mr. Jonkman?

Mr. JONKMAN. Mr. Secretary, on page 3 of your prepared statement, you say:

In spite of great difficulties and tremendous handicaps, certain of these nations have already made an extraordinary start toward recovery. I have in mind Belgium, Holland, and Luxemburg.

You seem to feel so strongly about that, that on page 6 you repeat it. You say:

The example of an industrious and hard-working Belgium, Luxemburg, and Holland, which is reflected in the now well-known Benelux trade arrangements, had repercussions throughout Europe and evoked admiration here.

Those countries accomplished what they accomplished without any help from the United States; did they not?

Secretary FORRESTAL. I do not think that is true, Mr. Congressman. I would want to check this, but they have had a loan from the United States.

Mr. JONKMAN. That is not from the United States.

Secretary FORRESTAL. To me, it is.

Mr. JONKMAN. I do not think that is consistent if you say that is from the United States. They went to the International Bank and borrowed money on good faith and credit.

Secretary FORRESTAL. I see your point. I say they did not do it without external help.

Mr. JONKMAN. However, it was based, as you say, on industry and hard work. They accomplished that before there was any reference made to the Marshall plan. The Benelux agreement was entirely independent of the Marshall agreement.

Secretary FORRESTAL. I think that is a fair statement.

Mr. JONKMAN. Do you not think that is the foundation upon which we should seek to base economic solidarity as well as military security for these people—that they solve their own problems?

Secretary FORRESTAL. I think we propose to do that, Mr. Jonkman. The reason I tried to emphasize the needs for having this under business administration is exactly that. I think the difference between Belgium, Holland, Luxemburg, and the rest of the countries is quite clear. Belgium, for example, wound up the war without great damage to her industrial machinery and she also wound up the war, as you know, with very substantial gold reserves. That enabled her to put into effect a sound currency by, as you know, the freezing of bank accounts to reduce the amount of buyable currency in the market and thereby reduce the pressure toward inflation. She was able to do that by special and peculiar circumstances.

Holland in turn had resources that had not been destroyed. Her trading powers were still in existence.

Mr. JONKMAN. You are departing now from your prepared statement where you base it on industry and hard work.

Secretary FORRESTAL. I include commerce, trading and barter between people as covered by industry and hard work.

Mr. JONKMAN. We know that Holland and Belgium immediately got busy on their currency situation and is not the currency situation the trouble in a lot of these countries, that they have not brought their currency to a strong basis?

Secretary FORRESTAL. That is true, but again I say Holland and Belgium had special circumstances that enabled them to do it more swiftly than for example Britain did with the tremendous debt she incurred.

Mr. JONKMAN. It is my concern and that of a lot of the American people, whether or not our constantly acting as a wet nurse to these other nations that will not get down to hard work and industry is going to be a basis for contribution to economic solidarity and to military security.

In other words, we have been constantly ahead of some of them with help, so that they begin to rely upon us.

Secretary FORRESTAL. I would not challenge your point of view, but I would suggest that the Italians under their existing Government without the use of the Marshall plan but with, I think, the provocative help of the idea of the Marshall plan or the European recovery program, in the last 6 months made very rapid strides toward the very thing you are talking about. The Italians have gone to work and with a will that has been quite contrary to the aims and hopes of the Communist Party.

I think the same applies to the accomplishments in recent weeks of the Schuman government in France. I think the steps they have taken are precisely the things you are talking about. In other words, the imposition of taxes that are designed to produce a stable currency.

Mr. JONKMAN. That has been done in what country?

Secretary FORRESTAL. In France. I am referring to the five laws which Schuman was able to get through the French Parliament in the last 2 weeks.

Mr. JONKMAN. You see, after all we have been ahead of them each time. Sometimes I think, for instance, after getting through with UNRRA, our residual relief bill was to a large extent based upon fallacies.

Then we were ahead of them with the Marshall plan and came out with the interim aid bill. Now we have this great construction program.

The point I want to make is that Holland and Belgium and Luxemburg, knowing that they had to solve their problems, did solve them.

If we are constantly going to be pouring in money there, obviating or eliminating to a large extent the necessity of their solving their own problem, are they ever going to do it?

Secretary FORRESTAL. I would differ with you on the fundamental thesis, in that I think Holland, Belgium, and Luxemburg were able to solve their problems because of the hope of continuation of the European society.

I think that the manifestation of that courage and belief is a great example for the rest of Europe. I believe that it is the fact that we have given every indication of not leaving Europe immediately that sustains the Italians and the French now to go back to work.

I think without that—and I again dislike extreme statements—but I think you have the seeds of chaos and anarchy which is the ground in which Hitler or someone similar comes into power.

Chairman EATON. The time of the gentleman has expired. Mr. Jarman?

Mr. JARMAN. We all share the great admiration for the three countries you mention. They are doing fine. I wonder if it is an absolutely correct comparison to compare them with England.

How long did Holland and Belgium remain in the last war?

Secretary FORRESTAL. They were supposed to have been exposed to the direct impact of it for a very limited time. I would say from April 1940 to June. I think that was around the date.

Mr. JARMAN. Holland was a neutral in the first war, and Belgium lasted considerably longer during the first war?

Secretary FORRESTAL. That is right.

Mr. JARMAN. Whereas England stood out from beginning to end in both wars, and stood out alone for about a year, I believe, in the second one.

Therefore, for the reasons I believe you mention, I am not sure it is quite a correct comparison between Holland, Belgium, and Luxembourg and Italy, England, France, or any of the other countries.

They were overrun. I am not sure about the assistance rendered them. I believe their being occupied countries caused them to be eligible for UNRRA relief, which was not true for England, or Italy until we amended the law, because Italy was an enemy power.

The only question I had in mind to ask you has been checked on by several of my colleagues. I wish to follow it up a bit. The comparison of the cost of the so-called Marshall plan and the alternative is the question. You spoke of the fact or of the necessity for fortifying this continent. I believe that is the way you referred to it. That is the way I have referred to it in speeches. You spoke of the necessity for manpower which would occur in that event and how it would affect our economic situation.

Secretary FORRESTAL. That is right.

Mr. JARMAN. In addition to that what is the President's budget for national defense, about \$10,000,000,000?

Secretary FORRESTAL. It is \$11,100,000,000.

Mr. JARMAN. In addition to the economic situation, and with the manpower which would necessarily be withdrawn from our productive economy, I am wondering how the Marshall plan would compare in cost with fortifying this continent, setting up a standing army such as none of us ever conceived of in peacetime.

Have you ever thought about that comparison?

Secretary FORRESTAL. I have made some tentative calculations but the sum becomes so fantastic that I stopped the calculation.

One particular item would run to about \$8,000,000,000, if we are to achieve this absolute security that we think of in our minds.

Mr. JARMAN. In my discussions of this matter, I have just been making a rough prediction without any calculations at all. I do not know how nearly correct it is or how far wrong it is but I have expressed the opinion that the alternative—that is, permitting Europe and perhaps the remainder of Asia to fall victim to communism—in other words, for us to stand out against the rest of the world, fortify this continent and maintain a standing army accordingly, would probably cost this country each year what the Marshall plan would cost throughout the 4 or 5 years. In other words, \$17,000,000,000.

Secretary FORRESTAL. I think there is no question about that. During the war I learned to think not so much in dollars as in available resources and manpower, and the subtraction from our present economy of the manpower, materials, and resources needed to create such a military program and give us the absolute security we talk about would immediately force us to accept a much lower standard of life. That is another way of saying what you have said without using dollars.

Mr. JARMAN. I am glad to have my predictions verified by such an able and illustrious authority.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. May I approach this from a little different angle? Inasmuch as you are Secretary of Defense, in your study of the defense of this country you have taken into consideration the areas of the world which about upon the U. S. S. R., I assume?

Secretary FORRESTAL. Yes.

Mrs. BOLTON. Those are, of course, Greece, Turkey, Iran, and Afghanistan. That is as far as western Europe is concerned.

The loss of foodstuffs and supplies of various kinds, when the iron curtain dropped upon eastern Europe and Europe was then denied the foodstuffs and so on which she had been accustomed to getting from those areas. What areas had you considered as possible in the supplying of those same necessities to Europe? They cannot all come from the United States.

Secretary FORRESTAL. One area is the Middle East.

Did you refer to economic items and food?

Mrs. BOLTON. Yes.

Secretary FORRESTAL. The whole Middle East is the source of energy fuel for Europe. That is one area. Of course the Far East is the source of many raw materials, both for Europe and ourselves.

I think the trouble with the world is, unfortunately, in one sense so interrelated that it is hard to isolate any part of it and say, "This is the really central strategic point economically or strategically."

Mrs. BOLTON. Have you considered Africa as a very possible source for future food, for instance?

Secretary FORRESTAL. There is no doubt that Africa is one of the great potential sources of the world in terms of tillable land, mineral resources, waterpower, and land space for population.

Mrs. BOLTON. Do you know in the consideration of this whole plan for the recovery of Europe, whether thought has been given to the colonies and possessions of those same western European countries on the continent of Africa?

Secretary FORRESTAL. I cannot respond to that question, Mrs. Bolton. I do not know the answer to that.

Mrs. BOLTON. There seems to be no doubt about the possibility of developing the agricultural productivity of certain Near East areas to supply European food shortages caused by the loss of eastern Europe sources.

What would be the result if the fuel supply of the Near East and Middle East were cut off from Europe?

Secretary FORRESTAL. I think it would have a profound effect on the success of this recovery plan for Europe. I am not speaking now of the United States. The fuel from the Middle East and energy from that source is essential to the entire world, and particularly to Europe.

Mrs. BOLTON. You would be in agreement that the development of the Euphrates Valley, for instance, with its immensely rich soil, could be made of inestimable value in the feeding of western Europe?

Secretary FORRESTAL. I have been informed that that is one of the great possibilities, that the Tigris and Euphrates Valleys are subject to great development.

Mrs. BOLTON. Would it not be of vast significance if other countries did what Syria has done: refused to ratify agreements of the pipe lines?

Secretary FORRESTAL. Indications of that are profoundly serious in my mind.

Mrs. BOLTON. In the matter of the whole frontier—Greece, Iran, Afghanistan—would it seem to you a moment when we might, in renewing our agreements which I believe are due in the spring with such countries as Iran, endeavor to increase the amount of training and help that we gave in the development of the airport at Tehran, and so on; would it seem to you a valuable thing?

Secretary FORRESTAL. That is a little bit outside of my role. It would seem to be the desirable thing.

Mrs. BOLTON. I am speaking now from the defense standpoint of the United States.

Secretary FORRESTAL. You related what you said to the assured continuity of what I call that source of energy fuel both to the United States and Europe. There is no question about that desirability.

Chairman EATON. The time of the lady has expired.

Mr. Mansfield?

Mr. MANSFIELD. Mr. Secretary, in response to a question previously raised as to what the alternative of this plan would be, if this legislation was not accepted by the Congress and put into operation you stated, I believe, that you had heard that we would have to intensify our national defense; and you further stated, if I am correct, that, in your opinion, this would be a disintegrating factor, because we would have to take so many people out of industry, and the end result would be economic dislocation; is that correct?

Secretary FORRESTAL. Yes.

Mr. MANSFIELD. Then I take it from your point of view, the chief consideration as far as this particular measure is concerned, is the re-creating of something approximating normal, world, commercial relationships.

Secretary FORRESTAL. Yes.

Mr. MANSFIELD. What would be your opinion if we put into this legislation strong enough language to make it mandatory that from countries which received loans and grants and which possessed the necessary natural resources, we in return would expect to receive strategic minerals in short supply, or totally lacking in this country, so that in that way we could build up our national stock pile.

Secretary FORRESTAL. In principle I think it would be a desirable thing. I should want the view of the State Department as to whether language which sometimes you think is quite simple and quite harmless might prove too limited, but the principle of that I would subscribe to and I have asked Mr. Arthur Hill, the Chairman of the National Security Resources Board, which is responsible, by the way, to the President and not to me, to take a look at the category of materials which we would find it desirable to import. Whether

to put it in legislation or not, is a matter I would defer to the judgment of the State Department, but that objective is a good'one.

Mr. MANSFIELD. Thank you, Mr. Secretary.

Chairman EATON. Mr. Merrow?

Mr. MERROW. Mr. Secretary, on the bottom of page 2 and the top of page 3, you have stated that today the nations in Europe "find their positions impaired by economic instability, political unrest, and consequent military ineffectiveness."

Now if this plan is put into operation over the next 4 years, how effective are these nations going to be from a military point of view at that time?

Secretary FORRESTAL. I certainly would be very ill-advised to try to make any prediction of the degree of their recovery of military effectiveness, but we know that if the balance of political stability is to be reestablished, there must be some start made.

In the first place, we have to assume that France and Britain retain and improve their military position. That does not mean that they are preparing for war, it simply means the normal return of the elements of sovereignty; in other words, armed force. The degree of it I would not venture to predict.

Mr. MERROW. They would be in a better position economically and politically at the end of 4 years, but if at that time, for instance, Soviet Russia decided she wanted to take the nations of Western Europe by force, do you think they would be able to resist for any period of time?

Secretary FORRESTAL. That would lead me into a field of military speculation that I am not professionally qualified to indulge in.

I do not care to evade your question, but I would like to go back to this personal belief: That the hope of the world is the restoration of equilibrium; that even Hitler hesitated about the disturbance of equilibrium, because any man who has huge power is aware that when he commits himself to aggressive action, the consequences are apt to be beyond his own immediate sphere and beyond his prediction, so that no matter how much power any nation has, even if the totality of force and power against them makes the odds very much in their favor, I think they still weigh carefully before they commit the final act of war.

Mr. MERROW. What disturbs me, Mr. Secretary, is this, that these nations over a period of 4 years will be built up, if we spent this proposed money, and therefore they will be richer prizes for any aggressor.

On page 4 you stated:

Should this workshop be integrated, with all its industrial and military potential, into a coalition of totalitarian states, it is possible that we in time would find ourselves isolated in a hostile world.

It appears to me that if we are not thoroughly and adequately prepared, that after we have built them up economically and politically they could be seized in a very short period of time, and the aggressor would have the military potential that we have built up.

Secretary FORRESTAL. I think that the return of effectiveness of diplomatic influence, of economic strength, of physical security, are all interrelated; and I believe that they march together. I think that the money we put into these countries will not go to create vast armies, but I place great insistence upon the history of Europe which

has been the effort of many men to conquer, and many men have come very close to success, and no one ever has succeeded. There is a tremendous core of capacity for suffering, for life, and for freedom in Europe.

I think what I call the catalyst of our aid can bring that to light.

Mr. MERROW. On page 7 you have spoken about "substantial military power at home" to go along with our proposed plan for rehabilitating these countries.

Do you think that anything short of complete control of the air is "substantial military power" to guarantee the security of this investment?

Secretary FORRESTAL. Well, if you talk about complete control of the air, Mr. Merrow, you would have to localize it a little bit more.

We are secure at the moment, so far as this continent is concerned. We have control of the air.

Mr. MERROW. We have only about 150 long-range bombers that we could put in the air, and that is pretty insignificant, is it not?

Secretary FORRESTAL. Not for the security of this country; the combination of our air forces and the planes in reserve and our naval air are adequate, but we are talking air power in wider terms.

I am in agreement with you, but I wouldn't want to restrict it only to the protection of our own shore line or of our own air space.

The future use of strategic air power may develop in somewhat the way that the use of naval power did in the nineteenth century. You may come to air fleets in being as the ultimate of political and military power. But when you have those air fleets in being, you will also have to have places from which they can depart, and that sets off a long series of discussions which go a little bit beyond and substantially beyond, in fact, the mere possession of airplanes.

Chairman EATON. The time of the gentleman has expired.

Mr. Javits?

Mr. JAVITS. Mr. Secretary, is this role assigned to the Department of Defense in the European recovery program?

Secretary FORRESTAL. There has been no specific assignment, but I would doubt that they have had time to make such a specific assignment to anybody.

Mr. JAVITS. Let us take two questions which I am directly interested in, and a great many other people.

First, the integration of 16-nation security forces. Have there been any discussions of any effort to do that?

Secretary FORRESTAL. No.

Mr. JAVITS. And, second, is it not a fact that the whole amount involved in the recovery program will be materially affected by the amount of money which each nation spends on its security forces?

Secretary FORRESTAL. Well, that is a matter of evolution, I think. It is obvious that the first steps are economic and political.

Mr. JAVITS. Is it not a fact, for example, that the British are cutting down their military establishment, for example, Palestine and Egypt; and is it not a fact also that they are pulling out of Germany to the extent of economic maintenance of that area as a military measure, for reasons of economy?

Secretary FORRESTAL. I think that is true.

Mr. JAVITS. And that that materially affects the amount of efficiency in the budget which this European recovery program purports to take up?

Secretary FORRESTAL. You say that accounts for the deficiency?

Mr. JAVITS. Not the whole deficiency, but it contributes to the budget deficiency or the budget amplitude which is dealt with in this European recovery program.

Secretary FORRESTAL. Certainly it has an effect to the degree that England shrinks its defense. There is that much more available for other purposes.

Mr. JAVITS. And the material effect?

Secretary FORRESTAL. Well, I would like to look at the financial end. My recollection is that Britain is spending about \$2,800,000,000 for defense, but I would think it is material.

Mr. JAVITS. Does it not seem to you, Mr. Secretary, that it would be necessary that our Department of Defense be assigned a definite role in the European recovery program in order to see whether the amount being spent for these security establishments is appropriate or not, and to what extent it may be diminished, or perhaps it needs to be enlarged, or to what extent it needs to be integrated, and also the Secretary well knows the essence of this program is self-help and mutual cooperation; should that not extend to the defense forces as well as to economic matters?

Secretary FORRESTAL. Well, I don't need to point out to you the delicate and rather sensitive area which is involved, which you get into when you get into that question. The essence of our concept of help to Europe is that we do not invade the sovereignty and the sensitive national pride of nations; and I think that our attitude should be one of being willing to help, rather than forcing gratuitous help upon unwilling receivers.

Mr. JAVITS. It is a fact, nevertheless, that the whole economic picture, being materially affected by the course of the defense establishments, we must if we deal with the economics of these countries take an interest in them?

Secretary FORRESTAL. I think I am in agreement with the trend of your questioning.

In the first place, you view the purpose of this proposed legislation as not creating an armament or an armed continent.

The basis is to create a continent that can be free of the need for armaments.

Mr. JAVITS. So that the least we can ask would be that the money that is being appropriated here is not in any way diverted off to security establishments unless we so will it?

Secretary FORRESTAL. Well, I don't want to appear to evade your question, but I wouldn't want to be too explicit. I wouldn't want to write that into the legislation. I would hope that it could be expressed in terms that might not offend.

Mr. JAVITS. Mr. Secretary, in order to avoid writing it into the legislation, would it not be fair for us to require that our Department of Defense have some role in the administration of the European recovery program?

Secretary FORRESTAL. I am not seeking any extension of powers. I have plenty, and I am not one to add to them, but I will be very happy to accept that responsibility if given to me.

Mr. JAVITS. My question was would it not be fair that we should at least seriously consider that point.

Secretary FORRESTAL. To be serious, Mr. Javits, on that, I think that it is desirable, and I am sure that Mr. Marshall's background—I myself would have no misgivings about being able to get effective expression of my views.

Mr. JAVITS. I have one further question on a somewhat related point. The trend of the questioning of one of my colleagues on the Middle East induces me to ask this question: Is it a fact that one of the critical elements in the security of the United States is the integrity and prestige of the United Nations?

Secretary FORRESTAL. In my own opinion they are wrapped up together. However, I think it would be an equal mistake to assume that the United Nations can overnight assume all the responsibilities which we hope it can in the future assume.

Mr. JAVITS. But it is an important factor, a very important factor in our security considerations?

Secretary FORRESTAL. There is no question of that.

Chairman EATON. The time of the gentleman has expired.

Mr. Lodge.

Mr. LODGE. Mr. Secretary, naturally I shall understand it if there is any question which I ask which you prefer not to answer. This whole field is in a rather delicate realm.

I would like to approach the problem from the point of view of the European recovery program as a strategical measure and ask you this question, sir: If we go ahead with this program on the four recommendations made by the Secretary of State, that it be prompt, that it be adequate, that it be efficient, and that it be cooperative, do you feel that the threat of internal force, particularly in France and Italy, can by virtue of this program alone be adequately met?

In other words, instead of discussing the threat of external force as discussed by Mr. Morrow, I would like to have your comment in that connection on the threat of the internal force and specifically within those countries.

If you would rather not answer that, I shall quite understand.

Secretary FORRESTAL. You are referring to a coup, to a political change created by force?

Mr. LODGE. By internal force, rather than by constitutional means.

Secretary FORRESTAL. I think that is always existent in nations, as when I said earlier, where the economic and conditions of life create an anarchy and despair, which are the fertile field for Hitler, that is how Hitler achieved his power, and that is how most other revolutions have put men into total power.

Mr. LODGE. You would not be satisfied, then, that the European recovery program in and of itself would be sufficient to counteract such an attempt?

Secretary FORRESTAL. Well, to be candid about it, I think that if the trends in both Italy and France, for example, toward return of hope and return of constitutional government can be supported by what I call the catalyst of our help, if we can get by this next year in those countries, I would suspect that that would be sufficient.

Mr. LODGE. Well, Mr. Secretary, I have it on fairly reliable authority that Togliatti came to Paris on November 16 or 17 last and informed Duclos that while the Communist forces in Italy were about

equal with the Government forces at that time, and he thought that by March or April they would be in position to outpunch the Government forces and take Italy over by force. Then do you feel that the interim-aid bill, plus the promise of the Marshall plan, would be sufficient to help Italy to withstand that attempt, or do you think that there are other things which could be done in order to protect that vital area from Soviet domination?

Secretary FORRESTAL. Well, I would like to reflect. I think I know what is in your mind. I would like to reflect on that, because everything we do and every political fact today has a relation to every other possible fact, and without getting too obtuse, the manifestation of our continued interest as you know better than I possibly, is a great factor in Europe, and I believe that that manifestation can continue, and again I would defer to your probably superior judgment about that particular country.

I think we have a good chance of coming through, of the existing Government, which is the constitutional government, coming through successfully.

Mr. LODGE. I merely wanted to call attention to the problem.

I also would like to ask you this: I hear that we have been spending American dollars for the purchase of obsolete British planes for use by the Greek Army in Greece, and that at the same time we have been destroying acres of 1945 American planes within Germany on the theory that they are in excess of current needs. Would you care to comment on that, sir?

Secretary FORRESTAL. Well, maybe I should know the answer to that, but I don't, Mr. Lodge, and I will be very glad to explore it and furnish the answer to you.

Mr. LODGE. Thank you, sir.

Mr. JACKSON. Mr. Secretary, I should preface my questions with the same remarks made by Mr. Lodge, that if there are any of them you don't care to answer I shall understand.

Secretary FORRESTAL. I am very glad to have the questions, as a matter of fact.

Mr. JACKSON. Would you mind telling us how many naval personnel we have in Greece at the present time?

Secretary FORRESTAL. I would be speculating. It is a limited number. I think it is between 50 and 100.

Mr. JACKSON. What in general is their mission?

Secretary FORRESTAL. Well, it is almost entirely technical. It is assisting the Greeks, for example, in the technique of minesweeping, in some work on their harbors, in some assistance in the training of personnel. That, as I recall it, is the limit of their activities. But I shall be glad again to check and see if there is anything to extend or to add to those remarks.

(The information requested is as follows:)

NAVAL GROUP, AMERICAN MISSION FOR AID TO GREECE

Engaged in advising and assisting Royal Hellenic Navy in training, logistics, maintenance, and supply under Public Law 75, aid to Greece and Turkey.

Medical and dental personnel care for health and sanitation of entire American mission in addition to assisting Greek Government authorities in matters of health and sanitation:

Rear admiral, line, chief of the Navy group with additional duty as senior Navy member, joint planning group.....	1
Captain, line.....	1
Commanders, line.....	4
Commander, Medical Corps.....	1
Commander, Supply Corps.....	1
Commander, Civil Engineer Corps.....	1
Lieutenant commander, line.....	1
Lieutenant, line.....	1
Lieutenant (junior grade), line.....	1
Lieutenant (junior grade), Medical Corps.....	1
Lieutenant (junior grade), Dental Corps.....	1
Lieutenants (junior grade), Supply Corps.....	2
Lieutenant colonel, U. S. Marines.....	1
Total.....	17

Seamen.....	2
Radiomen.....	5
Pharmacist's mates.....	5
Yeomen.....	4
Storekeepers.....	6
Machinist's mate.....	1
Total enlisted.....	23

NAVY GROUP, JOINT MILITARY ADVISORY AND PLANNING GROUP

A joint group under the Chief of the American Mission for Aid to Greece as members of his staff for planning and in an advisory capacity:

Captain, line.....	1
Commander, line.....	1
Lieutenant colonel, U. S. Marines.....	1
Total officers.....	3

OFFICE OF THE UNITED STATES NAVAL ATTACHÉ, ATHENS, GREECE

Commander, line, naval attaché.....	1
Lieutenant commander, line, assistant naval attaché.....	1
Total officers.....	2
Yeoman.....	1
Storekeeper.....	1
Total enlisted.....	2

Mr. JACKSON. What in your opinion, Mr. Secretary, would be the practical effect of establishment of a beachhead on the Mediterranean in either Greece or Turkey with reference to our national security?

Secretary FORRESTAL. The establishment of a beachhead—you mean by us?

Mr. JACKSON. By any foreign power antagonistic to the United States.

Secretary FORRESTAL. I think that any act of war in the Mediterranean, or in the Middle East, has definite significance for us. In other words, to put it another way, the free transit of commerce and trade through the Mediterranean I consider to be a vital part of our national security.

Mr. JACKSON. Would we resist the establishment of any such beachhead?

Secretary FORRESTAL. I don't think I should respond to that.

Mr. JACKSON. Is Middle East oil essential to our national security at the present time?

Secretary FORRESTAL. Well, it is essential to the world; and as we are a part of the world—as somebody said about oil, oil is a global business, and you can't punch a part of that business in one point without having a repercussion at some other point.

In other words, the whole balance of distribution of oil, which is what we are really talking about in relation to our sources of supply, is a global matter; and I think the recovery of Europe as well as the business of the world, including the United States, but not the United States alone, requires the development of middle-eastern oil reserves to their maximum extent.

Mr. JACKSON. More specifically, Mr. Secretary, I should like to know whether or not our supply lines to the Middle East are essential, and what would be the immediate effect upon this country if we were denied access to that oil. What would our situation then be from the national defense standpoint or from the standpoint of the Defense Establishment?

Secretary FORRESTAL. I think it would be very difficult.

Mr. JACKSON. What personnel do we have in Turkey at the present time, Mr. Secretary?

Secretary FORRESTAL. I have a general recollection of the Navy, but I would have to check on the Army.

Mr. JACKSON. With reference to the Navy?

Secretary FORRESTAL. Well, in Turkey I think it may be 20 or 25 people.

(The following additional information has been submitted by Secretary Forrestal:)

NAVAL GROUP, AMERICAN MISSION FOR AID TO TURKEY

To advise and assist in the rehabilitation and modernization of the Turkish Navy, including rehabilitation of naval shipyards and the instruction of Turkish navy personnel in the operation of United States naval vessels being provided as part of the Turkish aid program under Public Law 75, aid to Greece and Turkey:

Rear admiral, chief of the Navy group, en route Turkey.....	1
Captains, line (1 submarine), both in United States.....	2
Captain, Civil Engineer Corps, in Turkey.....	1
Commanders, line (2 submarine), in United States.....	3
Commander, Medical Corps (submarine), in United States.....	1
Commander, Supply Corps, in Turkey.....	1
Lieutenant commanders, line, 2 in Turkey.....	4
Lieutenant commander, Supply Corps (submarine), in United States.....	1
Lieutenants, line, 5 in United States.....	5
Total officers, of which 4 are in Turkey and 1 is en route.....	19
Boatswain's mate.....	1
Electrical technicians.....	2
Radarmen.....	2
Shipfitter, in Turkey.....	1
Carpenter's mate.....	1
Machinist's mates, 1 in Turkey.....	3
Pharmacist's mate.....	1
Yeomen, 2 en route Turkey.....	6
Storekeepers, 1 in Turkey.....	4
Total enlisted, of which 3 are in Turkey and 2 are en route.....	21

OFFICE OF THE UNITED STATES NAVAL ATTACHÉ, ANKARA, TURKEY

Captain, line, naval attaché.....	1
Lieutenant colonel, U. S. Marines, assistant naval attaché.....	1
Total officers.....	2
Yeoman (enlisted).....	1

NAVAL MEMBERS OF THE UNITED STATES DELEGATION TO THE UNITED NATIONS
SPECIAL BALKAN COMMISSION (NOW AT SALONIKA, GREECE)

Members of the United States delegation of the UN Balkan Commission to observe disturbances on the Greek borders in accordance with a special resolution of the United States:

Commander, line.....	1
Lieutenant colonel, U. S. Marines.....	1
Major, U. S. Marines.....	1
Total officers.....	3

Mr. JACKSON. Their mission is by and large the same?

Secretary FORRESTAL. The same, technical assistance.

Chairman EATON. The time of the gentleman has expired.

Mr. Judd?

Mr. JUDD. I have no questions.

Chairman EATON. Mr. Vorys, will you inquire under the 5-minute rule, and after that it will be a free-for-all.

Mr. VORYS. Mr. Secretary, a brief and informal poll of our committee indicates that you are one of the most satisfactory witnesses that ever appeared before us. Your testimony is always direct and brief and very frank.

Secretary FORRESTAL. I appreciate the observation. Do not build me up too much. I may get fat headed.

Mr. VORYS. I have one sentence in your extremely persuasive and effective and eloquent statement that I want to ask you about.

You say this:

Neither this program nor our national defense expenditures are designed as a threat against any nation nor as an effort to restrain any nation or to dominate a group of nations.

The part I question is this, whether they are an effort to restrain any nation.

Secretary FORRESTAL. That is a good question.

Mr. VORYS. It seems to me that unless this gigantic effort on our part is an effort to restrain any nation committed to aggression and break down the peace, it is utterly unjustified.

Perhaps I am just picking out a little spot, but I wanted to ask you about that.

Secretary FORRESTAL. I think it is a loose use of language. I think your question is well taken.

Mr. VORYS. Our effort is to restrain any nation, is it not, that commits itself to aggression in violation of the principles of the United Nations?

Secretary FORRESTAL. I completely agree with you. As I say, we would be utter hypocrites if we tried to say that having spent vast sums of money and some of our most precious lives to restrain and contain and destroy Mr. Hitler, that we did not propose to follow the same philosophy in the future.

Mr. VORYS. I have one other question. The question has already been raised, but I do not know whether I got your answer. When I was over there this fall, and before and since, I have been perplexed about the possibility that we might be in our economic aid merely building a richer prize for possible aggression.

I wish you would comment a little further on that, while I know you have already commented on it.

Secretary FORRESTAL. I think that there are manifest problems as the Secretary of State has said, in any risk about Europe, but the greatest risk is in inertia. We have that in the risk we ran in 1931 in Manchuria, the risk the British ran when the Italians went into Ethiopia. We have a larger risk now because the scale of the action and the balance of the destruction makes it a larger risk, but in the first place, the amount of effort and of reconstruction and of industrial rehabilitation that would flow into Europe in the first 18 months would, I suspect, by the limitations of transit and manufacture, not be very, very great.

In that 18 months my own hope and belief is that you will see a restoration of Europe to a degree that will give us confidence in the success of our program.

I think we have to examine the shadow of the question that you raised constantly, but all of these things that we have talked about this morning, it seems to me, are interrelated.

The restoration of economy, the partial restoration of military effectiveness, the preservation of the concept of the free sovereignty of nations, they are all marching together in a pattern.

If the pattern should be reversed I think we should have to reexamine the situation.

Mr. VORYS. Is this not part of it, that land forces, mass armies for use in Europe against any possible aggressor must come from the 16 nations that we are now considering, and that one aspect of this is to support the economies that are supporting those armies that might be a first line of defense against a certain type of aggression?

Secretary FORRESTAL. Yes. I think you put it much better than I did. That is the effort first to give confidence and hope to the countries so they will make the effort to get that modicum of military effectiveness, and also to get a restoration of their national pride, of which an effective military force is a component, and all of those are involved. But the impression I did not want to leave is the impression that we were hoping to spend this money to create a great concert of military force. That is, I think, illusory. You cannot depend upon that to provide us with security. The world has to develop as a whole, and not in segments.

Mr. VORYS. I have one other question.

You have mentioned, and Secretary Marshall has mentioned, and Mr. Douglas has mentioned, and I happen to have mentioned in various comments on this that the cost of the opposite policy to that which you are considering might be very high. That is as I see it, we either stay in or pull out.

Secretary FORRESTAL. That is right.

Mr. VORYS. Those are roughly the two alternatives. The pull-out policy would result in an immediate saving of millions, billions of dollars, right in the next fiscal year. We would not spend a dime on recovery, relief, occupation, support of our forces any place outside of the Western Hemisphere.

I have had an idea that that immediate saving would involve a gigantic expense, and I know you have commented on that.

I wondered if it would be possible to get up a not strict budgetary proposal, but some sort of an estimate of the cost of that policy which many sincere Americans feel is a right policy, so that some comparison of the cost in dollars and cents over a 10-year period might be made. It could not be precise.

Secretary FORRESTAL. I think it is worth while trying to do.

Mr. VORYS. I wish you would try it.

Secretary FORRESTAL. I will try to do it, because I am frank to say if this program were not going through, I should feel constrained to come to the Congress and ask for a very substantial increase of our appropriations this year, and by substantial I mean in the order of 25 or 50 percent.

Mr. VORYS. Thank you.

Mr. JUDD. Mr. Secretary, Russia has repeatedly declared in official statements of her high officials that she intends, if possible, to defeat the objectives we have in this plan, namely the economic rehabilitation of free nations in western Europe.

Do you think that it will be more difficult for these countries in western Europe, particularly countries like England, Netherlands, France, which have had great trade in the past with their colonies and with the other areas in Asia, do you think it will be much more difficult for the purposes of this plan to be accomplished if they are unable to restore something like that prewar pattern of trade relations?

Secretary FORRESTAL. I think that is another component of the whole pattern.

Mr. JUDD. Therefore, anything that will enable them to do that, the more speedily they can recover their prewar pattern of trade, the more quickly they can recover in Europe?

Secretary FORRESTAL. That is my opinion.

Mr. JUDD. Do you think that the chaos is spreading in China and Asia, ideological and otherwise, and hindering and will continue to hinder that recovery?

Secretary FORRESTAL. It is bound to.

Mr. JUDD. Well now; then, this becomes the main point. If those countries do not recover, they are in chaos, so they are ineffective or come under the control of the Soviet satellites the way eastern Europe has come under such control.

Do you or do you not think that would enable Russia to be a great deal more vigorous and aggressive in her avowed intention to defeat our plan in Europe and therefore jeopardize it?

Secretary FORRESTAL. If you follow the assumption, as you have said, she has made that clear. I take it from time to time through official sources she has done that, and that that is her effort. Nevertheless; just as we have complex problems in trying to be of help to the world, trying to destroy the world has an equal problem—that is, trying to destroy it everywhere at the same time. So in a sense I think you know, I share the concern implied in your question.

There is a difference in the accessibility, however, between Asia and eastern Europe to the countries which you are talking about, which come into the simple matter of speed of transit, of supply and even of individuals, and I suspect that will create a somewhat more difficult problem, just as it is for us.

Mr. JUDD. My point is, inasmuch as she has announced she intends to defeat this if possible, it is good sense if we can within our resources and without undue scattering or diversion, it is good sense for us to do everything possible to defeat her attempt to defeat us.

Secretary FORRESTAL. In other words, to meet it wherever it is manifest.

Mr. JUDD. Yes, that is it, if she can weaken our strength, she wants to do it. If we can prevent her concentrating all her strength in one area at a time and taking them one by one, which has been the stand of technique of practically all aggressors, a simple decent conception of self-preservation requires us to do it without animosity, but in clearly meeting an avowed threat, is that right?

Secretary FORRESTAL. I agree with your thesis that you cannot divide. You can assign, and I think that is what the Secretary is trying to do, in decrees of priority, but I think for us to throw up our hands in one part of the world and get salvation in another is not a logical procedure.

Mr. JUDD. Yes. The contention made here that we cannot recover unless Europe recovers, but we can also say it will be much more difficult for Europe to recover unless there is recovery in other parts of the world.

Secretary FORRESTAL. One is a function of the other.

Mr. JUDD. But there is a matter of relativity involved.

Secretary FORRESTAL. Yes.

Mr. LODGE. Mr. Chairman, is it in order to ask the Secretary a couple of questions?

Chairman EATON. We are going to recess at 12. That will be in 9 minutes.

Mr. LODGE. Mr. Secretary, to discuss this matter a little further along strategical lines, it would seem to me that roughly you might say that there are four elements involved in the strategical picture. The first would be the economic element, ERP, the second is the cultural-information program, the third is the twilight zone in which we might attempt to meet the threat of internal force, and the fourth of course is the disposition of military forces.

I would like to ask you this: If France and Italy fell because of internal force, would we then, in your opinion, have to evacuate all our forces from Germany, Austria and Trieste?

Secretary FORRESTAL. Well, you are assuming that they fall to a government unfriendly to us?

Mr. LODGE. Yes, sir. I assume they will fall to the same government that many other nations have fallen under.

Secretary FORRESTAL. Of course any time you try to respond to that type of a question, you are faced with a problem because it presents a finality and a categorical series of actions that I do not think will occur in quite that black and white pattern.

I do not believe that any political action in Europe on the part of those countries would force our withdrawal, except at the point of force.

I mean by that, I don't think we would, and my own opinion would be that we should not evacuate because those political events occurred.

Mr. LODGE. Let us assume that the Communists carry out their threat to establish what we call an independent government in the

north of Italy. It would be synchronized with strikes in France. If they achieved that, as a start, that would definitely jeopardize the security of our troops in those areas, would it not?

Secretary FORRESTAL. It would involve a review of the situation at the time. There is no question about that.

Mr. LODGE. Well, sir, what I am leading up to is along the line of questions asked by Mr. Javits. I understand there is no liaison whatsoever between the French and Italian armed forces or between General Marras in Italy and General Revers in France.

Would it seem to you appropriate for the French and Italians who at this time have identical interests, or at least are threatened by the same force, to have some sort of liaison between their armed forces, just as existed during the war?

Secretary FORRESTAL. Well, they are two republican governments. I am speaking with a small "r" now, and they are the government or the kind of government we hope will persist in those countries, and I should think that would be appropriate.

Mr. LODGE. It seems to me that viewing this as a cooperative strategical measure, that it is perhaps as important for the military elements to achieve cooperation among the 16 nations as for the economic elements to achieve cooperation.

Would you agree with that, sir?

Secretary FORRESTAL. As I say, it seems reasonable. It is a little outside of my orbit, however. That is a diplomatic business, but from a practical standpoint it seems to make sense.

Mr. LODGE. Thank you very much.

Mr. MUNDT. May I ask one question? It grows out of something that Mr. Kee raised, when he was discussing the relationship of this program to the State Department.

I have this feeling, Mr. Secretary, that it is highly important in the over-all success of this program and in its continuation if it is going to run across a period of 4 or 5 years that there be brought behind it the largest possible bulk of American public opinion.

I do not feel that there is an administration foreign policy or a Democratic or Republican foreign policy. It should be an American program. I sort of like the idea incorporated in the Herter proposal, which I am sure you have read, which would bring into this picture somehow the best brains of both of the major political parties with some kind of a bipartisan group behind it.

Certain aspects of this program do deal with foreign policy. That is whether we will go into it or whether we do not, whether we adopt this program of raising up our friends abroad or not.

Once that is done it is largely economic, to be administered as I see it and to be directed by people skilled in the science of business, farming, economics, and so forth.

Do you see anything incompatible with the general over-all approach of gearing this program into an American foreign policy and incorporating it in some way with a bipartisan board, or bipartisan group, which will make it increasingly an American program, rather than of any particular President or any particular Secretary of State?

Secretary FORRESTAL. I know in general terms, Mr. Herter's proposal, but, Mr. Mundt, without again trying to avoid your question, I have tried to keep away from the administrative detail of how the plan is carried out.

I will say that I agree with your thesis that to be successful and to have the continuity of affirmative belief in it, to have that confidence back of it, you must have some organization which will give the people the conviction that it is a national and not a partisan enterprise.

Mr. MUNDT. From that it would logically follow that Mr. Wallace to the contrary notwithstanding, we are largely a bipartisan country? Secretary FORRESTAL. Yes.

Mr. MUNDT. And that somehow we should bring behind it, therefore, both of the major parties, feeling that they have something to do in implementing American programs?

Secretary FORRESTAL. Well, for the same reason that I don't construe my own place in Government as being a partisan post.

In other words, I am serving the country and not a party. For the same reason I think it is essential that this enterprise be surrounded with the same character of policy and administration.

Mr. MUNDT. I agree 100 percent.

Mr. KEE. Mr. Chairman, may I ask a question there?

Chairman EATON. Mr. Kee.

Mr. KEE. At the same time, Mr. Secretary, whether we have an independent organization administering this program, or have it administered by Government agencies. In either event, and in the final analysis, the final determination of our foreign policy should not be placed in any independent or even a Government organization beyond the authority of the President of the United States.

Secretary FORRESTAL. Well, no matter how you get the arrangement set forth, I think in response to your question, the actions of any man that runs this project or enterprise must conform to the patterns of national policy, as expressed by the Secretary of State. Whether you, directly under him, or parallel with him, regulate those matters, I haven't gone into that and I haven't tried to form a judgment, but the principle you would enunciate is sound. I don't see that that is inconsistent necessarily with what Mr. Mundt proposes.

Mr. JUDD. I have one question.

Not only is this important from the standpoint of mobilizing public opinion here at the moment, but do you agree, Mr. Secretary, that it is even more important from the psychology of the people over there who at this particular juncture at the beginning of 1948 conceivably are wondering, "Well, if we are going into this thing now and a Republican administration in toto is returned to power in November, might it not be over then?" and therefore discourage an all-out effort on their part because they think it would not be continuing and would not be a predictable or dependable program?

Secretary FORRESTAL. Confidence in that continuity is as essential, almost, as the substance of your proposed bill.

Mr. KEE. That is right.

Chairman EATON. Mr. Secretary, I would like to make it absolutely clear, in view of the question just asked by Mr. Judd, that if the Government becomes totally Republican, it will not be so discouraging after all.

Thank you.

Secretary FORRESTAL. It will remain American.

Chairman EATON. Thank you very much for your very constructive testimony and we all wish you well.

We will recess until 2 p. m., when Ambassador Douglas will return. (Thereupon, at 12 o'clock noon the committee recessed until 2 p. m.)

AFTERNOON SESSION

The committee reconvened at 2 p. m., at the expiration of the recess.

Chairman EATON. The committee will be in order.

The first to question the Ambassador will be Mrs. Bolton.

**FURTHER STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES
AMBASSADOR TO THE UNITED KINGDOM**

Mrs. BOLTON. Mr. Ambassador, I should like to pursue this tremendous subject of America's policy in the field of world recovery from a somewhat different angle from that of my colleagues.

Important as it is that we study the figures submitted by the Government and those received from other sources, basic as they undoubtedly are, this committee has approached the problem under a resolution read into the record the other day by Mr. Javits, which stresses the responsibilities of considering these matters upon a general policy basis, with the European problem as the first study. Our capacities are limited, and we cannot meet every need. Therefore we must determine upon what basis we shall act. Because our resources are limited, it becomes necessary that we find ways to give as little material aid as can be made to answer the fundamental necessities required to help these countries to rebuild themselves.

Many suggestions have been made pointing to the possible joining together of these nations of western Europe in order to strengthen themselves in their recovery program. Many feel that a union of some sort is essential to the winning of the "cold war." One needs to remember that it took us some years to find a common way, so that we should recognize that any form of federation in Europe cannot be consummated overnight.

What I want to ask, Mr. Ambassador, is whether during the weeks of your close association with the delegates of the 16 nations in Paris you found any inclination toward union.

Ambassador DOUGLAS. I feel quite strongly, Mrs. Bolton, that practically all of the governments represented at the Paris Conference are particularly keen to establish in western Europe and among themselves, a much more integrated-coordinated economic system than any which that part of Europe has historically enjoyed.

Mrs. BOLTON. That would, of course, lead toward a closer and closer union than it would possibly have politically?

Ambassador DOUGLAS. Yes.

Mrs. BOLTON. If we in our dealings with them are not careful in the bilateral agreements that we draw up—if we are not careful to keep as much similarity in those agreements as it is possible to do, may we not separate them again? They have come together, the 16 nations, and decided that these are their problems and that this is the way they wish to present them. Are we in danger of pulling them apart again with a bilateral agreement?

Ambassador DOUGLAS. I think it would depend, Mrs. Bolton, upon the type of commitment which would be made by any individual country; the kind of commitment in relation to the particular position of that country.

Let us take the matter of strategic raw materials. For example, some of them possess resources, either within their dependent areas, or within the area for which they have jurisdiction within the continent of Europe. Some of them do not. So it seems to me it would be perfectly appropriate to have a variation of commitments among the respective countries on that account.

Mrs. BOLTON. There would, however, be a thread of similarity?

Ambassador DOUGLAS. There would be, in the multilateral agreements that each country has made with the other, a complete similarity.

Mrs. BOLTON. A question has been raised as to whether it would be possible for them to set up a group of their own like an executive committee through which we would deal, instead of each country coming forward separately. Would there be any practical value to that?

Ambassador DOUGLAS. One of the jobs of the 16 participating countries is to have a continuing organization, provided there is a reasonable assurance that external support is forthcoming. This continuing organization would review the progress made by each country, the extent to which the undertakings were being honored, and in addition would engage in joint cooperative efforts to reach the objectives to which they are pledged. So that the undertaking which these countries have made includes the establishment of an organization which perhaps would not conform completely in its functions to that which you have in mind, but which would approach it.

Mrs. BOLTON. Do we sit on that group?

Ambassador DOUGLAS. It is contemplated that the United States would have a representative sitting with that group.

Mrs. BOLTON. The Communist group has expressed itself violently opposed to this closer association of the countries of western Europe. That would seem to indicate that such a closer association would be a very real problem to them and therefore, from our point of view, it becomes an even more necessary part of the program.

Ambassador DOUGLAS. We are a part of the community of nations that goes to make up what we call western civilization, and the closer the relationships and the closer these participating countries approach unity, the more homogeneous, the more solid and the firmer will be that general part of the world, comprising the countries which have on the whole so many elements of commonality.

Mrs. BOLTON. In the development of the program has there been any study made of the amount of development that could be given a little boost in the countries in Africa that are directly dependent toward their so-called mother countries?

Ambassador DOUGLAS. Some of the countries which have colonial dependencies have given a great deal of study to the development of natural resources within their dependent areas and therefore of course to the extent to which those dependent areas can supply us with needed raw materials and themselves with needed raw materials.

Mrs. BOLTON. Some of the questions we have all been asking relative to stock-piling strategic materials is associated very closely with the colonies and the dependencies. French Africa, for instance, and the Netherlands in Africa, are fabulously rich in many of the materials that are needed by us.

England of course is developing her dependencies there with that in view.

Have you any knowledge of the extent to which France and the Netherlands are moving in that area of development?

Ambassador DOUGLAS. I have no specific knowledge now, Mrs. Bolton. I know at least two of the countries that have overseas dependencies are doing so.

Mrs. BOLTON. Would it be possible to suggest that in the loans which we make, we be repaid by the products of certain mines that will be developed in the future? This would imply a trained-personnel responsibility when the moment comes for their development to contribute not only the machinery but also the know-how.

Ambassador DOUGLAS. One piece of legislation which the committee is considering authorizes the Administrator to extend support for the purpose of exploration and development of raw materials.

The legislation provides that loans may be repaid by delivery to the United States of certain specified strategic raw materials valued according to prevailing market prices as of a certain date. It also provides for the facilitation of the sale to the United States of strategic raw materials. As we discussed the matter yesterday, those countries that have very, very real difficulties in their balance of payments would not find any relief in their balance of payments if they were required to deliver to us, not in liquidation of the loan, the raw materials.

Mrs. BOLTON. In the matter of the United Kingdom and its trade relation to its dominions, who is going to determine the dollars that go to these dominions?

Ambassador DOUGLAS. I did not hear the first part of your question.

Mrs. BOLTON. The United Kingdom has certain trade arrangements with its own dominions. As I understand it, certain dollars go to those dominions.

Ambassador DOUGLAS. The bill does not contemplate, Mrs. Bolton, that there should be an extension of support to any of the members of the commonwealth.

Mrs. BOLTON. However, England could take some of her funds and so use them?

Ambassador DOUGLAS. It is not so contemplated. She can take her own reserves but not support from the United States. She may do as she chooses with her own resources, but she may not use the support extended by the United States.

I have been reminded by my assistant that, of course, if the administrator is authorized to purchase off-shore—that is, to purchase materials that are in short supply in the United States in other parts of the world—some dollars would on that account flow to Canada, for example, for the purchase of wheat. That is relieving the pressure on our own internal market and providing dollars for Canada. However, that would be a commercial transaction and not an extension of direct support.

Mrs. BOLTON. Mr. Ambassador, a concurrent resolution has been introduced and sent to this committee to the effect that the 16 countries should take positive action relative to the development of their own production, the reestablishment of their currencies, and so forth.

Would it be your feeling that there might be wisdom in including in any bill drafted as a result of these hearings, some such insistence?

Ambassador DOUGLAS. Actually the United States Government would make bilateral contracts with each one of the participating countries. The bilateral contracts would include not only the undertakings to which you have referred, as between the 16 participating countries, but such additional undertakings and commitments as the United States Government might require.

The contract would then become a contract between governments; that is, it would have the sanction of our government and it would have the sanction of the other government party to the contract.

Mrs. BOLTON. This would be completely included and perhaps more conclusively done in a bilateral agreement than any insertion in the legislation.

Ambassador DOUGLAS. One of the pieces of legislation which you have before you contemplates much of what you have in mind. For example, section 10 (B) (1) cites these contract agreements which shall be made and provides that they shall include provisions for a number of different undertakings to which each one of the countries entering into a bilateral agreement with us must agree.

This particular piece of legislation which the committee is considering does not include what is the intention; namely, to make reference or to require the reaffirmation by each country of the multilateral commitments that they made.

Some of the things in section 10 are repetitious of the multilateral agreements made by these countries in Paris.

Mrs. BOLTON. In the matter of the success of the whole program is it upon this group that you were describing a few minutes ago, that the duty revolves of checking constantly to make sure that progress is being made?

Ambassador DOUGLAS. One of the functions of the continuing organization would be to examine and review the extent to which the undertakings are being complied with.

In each country, there would also be a very careful analysis of, and examination of the performance of that country.

Mrs. BOLTON. Does it appear to you that that is an adequate set-up?

Ambassador DOUGLAS. Well, Mrs. Bolton, men do jobs. The quality of the job is a function of the quality of the man who does the job. This set-up, if it is manned by men of experience and competency, I think is adequate. No set-up with men of incompetency is adequate.

Mrs. BOLTON. I wanted to avoid this, but you forced me into it. It is then of extreme importance that the method of administration that is set up under this bill be such that it will attract only the best?

Ambassador DOUGLAS. If they are available.

Mrs. BOLTON. And what did you mean by availability?

Ambassador DOUGLAS. It is difficult, as Mrs. Bolton knows, to enlist in Government service anywhere men of the type of experience and competency that is so often necessary for adequate skillful performance of a public duty.

Mrs. BOLTON. Is it partly due to the fact that during the war, companies released their men for war service for long periods, or is it the habit we have in this Republic of ours to indict a lot of men who have done a pretty good job, when the job is over?

Ambassador DOUGLAS. I think it is a combination of a variety of things, Mrs. Bolton. A great many men have served in the war and

they have made sacrifices. They feel that their obligations to their families interfere with their making additional sacrifices.

Some of them, I suppose, have the feeling that Government service is a sort of a thankless job at best, and there is the question of course of the compensation which the Government can pay. There are a variety of things of that sort that enter into personal decisions.

Mrs. BOLTON. Fundamentally, we must be exceedingly careful that we set up an administrative practice that will permit those in the top positions, certainly, to really function.

Ambassador DOUGLAS. Yes, that is very important.

Mrs. BOLTON. To your mind, that should channel through the State Department, in the top brackets?

Ambassador DOUGLAS. No, I do not think so, Mrs. Bolton. I do not think the State Department should be responsible for or engaged in or related to the wide variety of business transactions which the administration of the European recovery program will be involved in continually.

I do think that the administration of the European recovery program should be in conformity with and in concert with the foreign policy of the United States. I think, too, the administration of the European recovery program must necessarily abide by certain decisions, the responsibility for the making of which is now vested in a number of different Government agencies, because that responsibility affects our own internal economy.

Mrs. BOLTON. You would be reluctant, however, to have us present a divided front?

Ambassador DOUGLAS. I think it would be a mistake both on this side, Mrs. Bolton, and abroad. I think it would cause confusion here at home and I think it might cause untold confusion in other countries. We have had some experiences within, of course, the last 7 or 8 years: for example, the Board of Economic Warfare and the Foreign Economic Administration.

I can assure you that in a great many instances the lack of clear definition of jurisdiction and of authority has caused incalculable trouble for our own Government.

Mrs. BOLTON. We have asked a good many times for a definition of "foreign policy." Where does that stop and where does business begin?

Is it not going to be necessary to have a better definition of those two fields?

Ambassador DOUGLAS. I think it would be highly desirable to have a more clear definition of where one begins and the other ends, and if there is any difference as to where one does begin and the other one ends, a court of appeals should make decisions as to where the limitations of one would be found and where the limitations of the other would be located and found.

Mrs. BOLTON. I am sure you are familiar with both bills before us, 4840 and the so-called Herter bill?

Ambassador DOUGLAS. Yes.

Mrs. BOLTON. Do you feel there might be a way of compromising the two, in order to have the business ability of the country represented, and also to have the people of the country represented through Members of Congress?

Does it seem an insuperable thing to you to contemplate a compromise measure?

Ambassador DOUGLAS. I think, Mrs. Bolton, there are certain provisions of the Herter bill which might confuse the function of the legislative body with the function of the executive body, though I am confident that a proper and wise administrator, whatever his title may be, could make arrangements so that the Congress was adequately and fully informed of what was transpiring.

Mrs. BOLTON. Would you consider at all such a set-up as is now functioning in the Atomic Energy Committee as a way of keeping Congress very vitally informed—not necessarily exactly the same pattern, but something of that nature, and have the congressional group not in the sphere of administration but in the area of something greater than top echelon?

Ambassador DOUGLAS. Mrs. Bolton, I am sorry to say I have not examined the legislation establishing the Atomic Energy Commission with sufficient care. Indeed, I have never read it.

Mrs. BOLTON. Would you mind doing it, and then perhaps sometime you can whisper in my ear what your feeling of it is, as one who used to be among us.

Ambassador DOUGLAS. Certainly.

Mr. CHIPERFIELD (presiding). Mr. Kee?

Mr. KEE. Mr. Ambassador, I am very glad Mrs. Bolton brought up the question of the administration of this legislation. I think as a matter of fact that is one of the most important parts of the legislation. We can resolve our difficulties as to whether or not we are going into this program at all, and again we can settle our difficulties over an authorization of a certain amount of money to effectuate the purposes of the program, although I might remark that this committee has found by experience that we might work for weeks and days, sweat blood and shed tears, wrack our hearts, souls and brains over fixing a definite minimum we are going to recommend be appropriated, and then along comes the gentleman with the meat ax and an inspiration, and all of our work goes out the window. We have had that experience frequently, so I think we can do something perhaps more worth while, by discussing a subject that we can really determine without inviting the operation of the meat ax.

I would like to discuss the administration of the program for just a moment. I presume you have studied the Herter bill to some extent?

Ambassador DOUGLAS. I have, sir.

Mr. KEE. I note in section 11, paragraph (b) of the Herter bill where it makes the chairman of the board of directors of the foreign reconstruction authority ex officio executive director of the council, and provides that his duties will include the responsibility of formulating "for consideration of the council" proposed programs of United States aid to such countries and proposed policies in connection therewith. As I understand it, he formulates the policies in connection with the aid, some of which no doubt will affect our entire foreign policy, or our policy with reference to different countries, and as to that particular function the Herter bill does not provide that he consult anybody; and although he may present his views and his policies to the council, they only have authority under the bill to act in an advisory capacity.

What is your thought about the provision of the Herter bill I have just outlined?

Ambassador DOUGLAS. I think the general provision of the Herter bill, in addition to the one you have just referred to, permits the administration of the European recovery program to be almost completely divorced not only from obligation to the foreign policy of the United States but from various functions exercised by other departments of the Government which are related to our own internal economic position.

Mr. KEE. Is it not your idea that that provision of the bill is, if not unconstitutional, certainly approaching it?

Ambassador DOUGLAS. Mr. Kee, I am not a lawyer, and I would hesitate to express an opinion as to the constitutionality of the provisions of this legislation.

Mr. KEE. I was interested very much the other day in a Washington Post editorial. The writer discussed that section of the bill, as well as other sections, and announced the opinion that, to the extent of that section, it was unconstitutional.

I noted a day or two ago that Mr. Herter sent a communication to the Post which was published, and in which he endeavored to point out that that section of the bill was not unconstitutional, that it was not taking away the powers given to the President by the Constitution, and arguing at great length upon his position.

The Washington Post then said:

Mr. Herter refers to the proposed foreign aid council including the Secretaries of State, Treasury, National Defense, Agriculture, and Commerce which would consult with the President on the recovery programs to be set up abroad. But this council could give advice only. The real power "to determine, prescribe and conclude the arrangements" under which the program would operate would be given to the bipartisan board of the "independent agency." As a practical matter, the President can control foreign policy only through his Secretary of State, who under the Herter bill would appear to be little more than a cipher in the determination of policy in this most vital aspect of foreign relations. If, therefore, the Herter bill escapes the charge of unconstitutionality by recognizing the power of the President to direct our foreign relations, it impales itself on the other horn of the dilemma by providing an unworkable means of achieving its aim.

What is your view with reference to the question of whether or not so far as the section mentioned is concerned, the bill is either unconstitutional or does provide a workable set-up?

Ambassador DOUGLAS. As I say, I am not a lawyer and would hesitate to express an opinion as to the constitutionality of the provisions of the Herter bill.

From the administrative aspects of the Herter bill, as I have indicated, I think it first of all divorces the administration of the European recovery program to too great an extent from the foreign policy of the United States on the one hand, and from the functions and responsibilities vested in other agencies of the Government, the Department of Commerce, the Department of Agriculture, and the National Advisory Council for example, which are charged with responsibilities having to do with our own internal economic estate.

Mr. KEE. Is it not your view, Mr. Ambassador, that whatever agency is set up here, whether this program is administered, or the bill provides for its administration under the control and direction of the Secretary of State by independent departments of the Government now existing, or whether the administration is placed in the hands of an independent agency, either one, there should be a plain provision in the law that all questions arising in the adminis-

tration of this act which affect in any way the foreign policy of this country should be submitted to and resolved by the President of the United States, speaking through the Secretary of State.

Ambassador DOUGLAS. I think that applies not only to the Secretary of State but I think it applies equally to other departments of Government. I am not quite clear as to whether in respect to all departments of Government there is to be a clear provision of the bill but the legislation should provide for a clear definition of the lines of authority.

Mr. BLOOM. Would the gentleman yield there?

Mr. KEE. Certainly.

Mr. BLOOM. Mr. Ambassador, is it not a fact that the Supreme Court in its decisions irrespective of the Constitution, has laid down the rights, the powers of the United States on foreign affairs, and it has been broader than anything in this legislation here. That policy is established by the decision of the Supreme Court. Not only does the Constitution set it out, but the legality or illegality of any of those provisions as regard the rights in the policy of foreign affairs is laid specifically with the President of the United States.

Ambassador DOUGLAS. I am informed that is the case.

Mr. BLOOM. There is no question about it.

Mr. JONKMAN. Will the gentleman yield to me?

Mr. KEE. I yield.

Mr. JONKMAN. Was that before we had the residual relief and interim aid, or the Marshall plan or anything we had in recent years?

Mr. BLOOM. It would not make any difference, Mr. Jonkman, the decision is there and the power of the President of the United States in international or foreign affairs is the only power. He is the only person who has the right, irrespective of what other departments or different branches of the Government come in. With foreign affairs the Supreme Court has held that the President of the United States is supreme in that field and there is no question about it.

Mr. JONKMAN. There is just one distinction I want to make. Is the question whether or not this distribution of goods and moneys is going to be foreign policy, or a business operation apart from foreign policy which, of course, on certain occasions there might be some relation.

Mr. KEE. It is not foreign policy, if the gentleman will pardon me, but the method of distribution and the questions arising in connection with it may have an effect on our foreign relations very harmful to the United States. It may seriously affect the foreign policy of our Government.

Now if you will pardon me, I will proceed for a moment longer, and conclude.

I think, Mr. Ambassador; that we all understand where the decisions with reference to foreign policy in this country are to be made, but what I want to make clear is that we want to avoid as far as possible in this bill any confliotions with provisions of the Constitution and we do not want to fail to insert in this legislation all precautions we possibly can to prevent foreign policies being made by either the Director or the Administrator or anyone else connected with the administration of the act other than those vested with constitutional authority to do so.

That is my view of it. I thank you very much.

Ambassador DOUGLAS. That is my view.

Mr. CHIPERFIELD. I believe Mr. Mundt has not had an opportunity to cross-examine yet.

Mr. MUNDT. Mr. Chairman and Mr. Ambassador, I do not care to go into the matters of the administrative set-up in any program of this kind in any great detail, although that is certainly a very important part of the bill. I would not quarrel with Mr. Kee or any other Member of Congress over the fact that under our Constitution the matters of foreign policy per se are handled by the President through the State Department. However, once that has been determined, as it will be, when this legislation is adopted, if it is adopted, and our foreign policy has been made clear, as an effort to brace up the friendly countries of Europe who feel as we do about matters of economic politics, and to resist the aggression and totalitarianism abroad, then we come to this administrative set-up and administrative problem. It is there where I depart from those who say that the administration of a bipartisan foreign policy should be strictly a one-partisan administration. That does not just make sense to me.

I do not believe that all the economic brains, administrative brains, or agricultural brains in the country are segregated in either political party, and I think that this program has enough magnitude and enough significance so if we go into it at all we want to go into it so that we can emerge victoriously, whereupon we must call upon the resources of America regardless of politics, so for that reason it seems to me it just makes good sense some place in legislation of this type to recruit the capacity of America regardless of party, and some kind of bipartisan arrangement, working through some independent administrative agency, which will implement the foreign policy of the United States as determined upon by the President and the State Department and as authorized by Congress, but which will implement it from the standpoint of its maximum strength.

If it develops that the country has more confidence in an independent agency of Government as an administrative agency I see no conflict between that and the success of a program of this scope and I wondered if you think it has some inevitable conflict which means that you either have to do it all through an established institution of Government or not at all.

Ambassador DOUGLAS. I could not agree more heartily or enthusiastically with your observation that the foreign policy of the United States should be a bipartisan matter.

Mr. MUNDT. In fact, as well as in name.

Ambassador DOUGLAS. When I say bipartisan, I mean that it takes on the form and shape and continuity. One thing we have learned, I hope, is that foreign policy must be something which can be projected forward and is not subject to the whims and vacillations of changing personalities and even parties.

Mr. MUNDT. As your predecessor on the stand said this morning, it would be ruinous if you were to get the idea or America either that anything we agree upon in the nature of foreign policy in this Congress is subject to an entire upset, next November, if America decides it should have another party in control of the Government.

When we finally have hammered out a decision it should be one, it seems to me, that will continue through the designated time, regardless of which party wins the election next November.

Ambassador DOUGLAS. I agree.

Mr. MUNDT. That should not be an issue, not so much from our standpoint, perhaps, as that of the European fellow who is trying to make his plan and tie his program to the American kite. He wants to know what that kite is going to do and whether that kite is going to be flying next December in that direction.

Ambassador DOUGLAS. I agree.

Mr. MUNDT. I asked you the other day a question which you said you would like to have some time to consider. I asked the question on Tuesday. I wonder if you would answer it?

Ambassador DOUGLAS. Yes; I will.

I have given consideration to the question which you asked. It was, as I recollect, whether guaranties contemplated under the act could be extended for the purposes you had in mind.

Mr. MUNDT. Yes; or economic enterprises involving immediate information.

Ambassador DOUGLAS. Yes.

The guaranties can be made under the provisions of the legislation which you are considering, or one of the pieces of legislation, for the purpose of furthering the fundamental ends of the act itself.

Now the purposes of the act are to restore economic and political stability in western Europe. I doubt very much whether the purposes which you have in mind fall within the definition of the fundamental purposes of the legislation. I am not saying that what the Congressman had in mind may not be a very worthy thing, but I doubt that the guaranties contemplated or intended under the provisions of the act should be extended for purposes which you had in mind in this legislation and under the administration of this legislation.

Mr. MUNDT. I am very happy to have your analysis of that, because I am one of those stubborn fellows who believes that it should be included in the act and that consequently either the purposes of the act should be amended or else it should be spelled out some place in the legislation so that whatever agency does administer it will find, if desirable, that it can extend those guaranties for those purposes.

Frankly, I am a little bit disappointed in reading the purposes of the act, as far as that goes.

I think the big purpose of this act is to preserve peace, which finds no place at all in the enunciated purposes of the act, as written down "1," "2," and "3."

I know a lot of Americans who are disappointed in that.

After all, there is a pure economic thing that might be demonstrated—that we could build better buildings, for instance, for rehabilitation of the Navajo Indians, to meet the purpose of the act, but that goes far beyond the rather materialistic and short-sighted purpose set up by whoever wrote this bill.

I would like to see the purposes of the act include the preservation of peace, certainly giving guaranties to me of information working in the direction of securing the peace, and it would then become a legitimate enterprise.

Mr. CHIPERFIELD. Will the gentleman yield?

Ambassador DOUGLAS. You would like to have the establishment of peace and preservation of freedom included?

Mr. MUNDT. Yes; that is correct. I would like to see that listed as a fourth purpose instead of putting in the preamble and then promptly forgetting it.

I yield.

Mr. CHIPERFIELD. I am wondering if you could not, by bipartisan agreement, set up an arrangement so that you could use local funds of these various countries, as suggested by Mr. Mundt. I say "bipartisan." Possibly I should have said "bilateral."

Ambassador DOUGLAS. I think, Congressman, it is not at all impossible to provide arrangements for the use of the local currency counterpart of dollar grants for that purpose.

Mr. CHIPERFIELD. Thank you very much, Mr. Mundt. You may proceed.

Mr. MUNDT. Getting back to this point, which I do not like to belabor so much, except for the fact that we are engaging in a \$6,800,000,000 program which, in my opinion, is directed altogether too much to the stomachs and the creature comforts of Europe and not enough to those basic ideas which are essential if peace is to be observed, I take it that you would see no objection to including in the purposes of this act some way the clear-cut statement that one of the big objectives is to defend the national interest of the United States, or our national defense, or the permanent peace, or something of that nature which would broaden its scope enough to include some such program as I have in mind.

Ambassador DOUGLAS. Section 2 (a) of the act refers to the attainment of the objectives of the United Nations, and the Charter of the United Nations refers to the preservation of peace and other things which we have mentioned.

By implication the present language of the act does embrace and contemplate the purposes which you have properly in mind.

Mr. MUNDT. I think it is there by implication; but when we gear it into the scope of activity of the United Nations, we have to decide whether it is before or after a possible veto of some measure.

I think we should not be ashamed at all of the fact we are engaging in this, because of our interest in peace. It is not purely a commercial proposition with us.

Ambassador DOUGLAS. No. This is essentially an undertaking to establish the peace and to preserve the freedom and to protect the integrity of the community of nations of which we are a part.

Mr. MUNDT. Commercially it will be a good investment if it secures the peace, and a bad investment if war eventuates, is that not right?

Ambassador DOUGLAS. Yes, sir. Well, it might still have been a good investment.

Mr. MUNDT. Not nearly as good certainly as if it gets the peace.

Ambassador DOUGLAS. It would be a perfect investment if it preserved the peace. It would, I think, still be a good investment, even though unhappily the world might again be plunged into a devastating war.

Mr. MUNDT. I do not want to draw you too far into a discussion of the genesis of the difficulties which we face, but some thought should be given to that, and to me primarily we are in trouble, because one ideology in the world, communism, per se, has an international organism through which it functions and through which it brings to

bear upon a certain problem the resources and the activities of people in a number of countries.

On our side of the contest in upholding freedom, at the moment, we have no such international working organism, because the United Nations, which is set up to do that, is subject to a veto block and because we have no international party of freedom or Americanism or liberty or private enterprise—call it what you will. So it becomes increasingly important to me that in this program and in working through these 16 countries with whom we are cooperating, there flows a stream of educational publicity and information which helps to bring about a common effort in dealing which will help to resist the unity of effort on the part of the people who come to that proposition. Do you agree with that?

Ambassador DOUGLAS. Yes.

Mr. MUNDT. Now, I notice in this legislation there is left out some of the measures we incorporated in Public Law 389 to bring that about. For example, in paragraph 5 (c) of Public Law 389, Congress wrote in—

to give full and continuous publicity by all available media, including press and radio, within such country so as to inform the ultimate consumer as to the purpose, source, character, and amounts of commodities made available under the authorities of this Act—

and section 7 in toto of Public Law 389 deals with the same subject of labeling such materielistic aid as coming from the United States, which is susceptible to labeling.

None of that is found in H. R. 4840, as proposed. What do you have in mind in lieu thereof, as an educational program to become part and parcel of this economic program, so that in aiding these 16 countries we not only help to correct bodily ailments but mental attitudes as well?

Ambassador DOUGLAS. This recovery program is aimed at recovery, not relief.

Mr. MUNDT. In my opinion, so was the international interim aid program. It was aid as well as recovery.

Ambassador DOUGLAS. The number of commodities necessarily covered or included in a recovery program is very much broader and larger than the number of commodities included in a relief program.

Mr. MUNDT. I am not holding a brief for labeling commodities under this act. I want to know what you will put in in lieu thereof.

Ambassador DOUGLAS. It is the hope, as I understand it, that the legislation to which the Congressman's name is attached would become the law; and it would become, as a result, a very powerful supplementary of the foreign policy of the United States.

Mr. MUNDT. In that connection, in view of the fact that 15 of the 16 countries—in fact, all of them, excluding Luxemburg—maintain state-owned radio systems, would you see any reason why there should not be included in the return flow of considerations which the United States is to receive, some free time over those radio stations for use in connection with this information program which we hope the Senate is going to approve tomorrow afternoon?

Ambassador DOUGLAS. Well, I should hope that there would be time over the radio stations.

Mr. MUNDT. Would that not be a legitimate request? It looks that way to me, and if it is wrong, I want to know why because we are contributing into this joint effort \$6,800,000,000 or a fractional

part thereof and one thing that they can throw into the pool which costs them nothing is some free radio time on the Government stations.

To me it looks so plausible and logical. I want to know from a diplomat what he thinks about that.

Ambassador DOUGLAS. Well, I would be very glad indeed to discuss that matter with you and tell you what is already being contemplated, at least in respect of one country of which I have knowledge on precisely that point.

Mr. BLOOM. Will the gentleman yield?

Mr. MUNDT. There is not anything in black and white in support of that proposal?

Ambassador DOUGLAS. It is a delicate question, Congressman, to discuss publicly.

Mr. MUNDT. I do not want to press for it.

Ambassador DOUGLAS. For reasons which I am sure you will understand.

Mr. MUNDT. I yield to Mr. Bloom. He wants to say something at this point.

Mr. BLOOM. I will ask you and the Ambassador at the same time, is it your intention, Mr. Mundt, to put a clause like that in the act to make it a law, that this must be confirmed and approved by the different parliaments and the different legislatures of the 16 different participating countries, or would you suggest that it be in the arrangement made to these people, or to put it in in fact and make it law?

Mr. MUNDT. It would be either way, if you talk about these bilateral contracts, just so it gets done, and I want to be sure it is done. The intent of Congress should be written in there somewhere.

Mr. BLOOM. But if you put it in the arrangement between the different countries that participate, where it is a loan, you would not want it in the act. You would not want it in the arrangement either. They are paying what they get, but if you put it in the act itself, they must accept that through their parliaments and that is where the objection has been, as you know, by certain people, by making it a law that they are compelled to do this thing and accept it through their parliaments. Their parliaments would not accept it. But in the arrangement it would be just as strong and still would not be as obnoxious as if you had it in the act.

Ambassador DOUGLAS. I think this is true, and I am sure the Congressman will agree with me that there prevails throughout parts of the world a misunderstanding of the intentions of the United States; that our aspirations are being distorted in the minds of men. One reads about them almost very day in the press. This volume of misrepresentation that comes flying out of the eastern part of Europe is included.

We all know that a lie repeated often enough soon is accepted as the truth. How countries like our own, which appreciate the truth by objective standards can compete with others who measure truth by wholly false standards, can engage successfully in that sort of verbal warfare, is a very perplexing question. But the Congressman's fundamental view that an appropriate dissemination of the truth is an essential arm of foreign policy is an accepted fact as far as I am concerned. I think it is true as far as Secretary Marshall is concerned.

Mr. MUNDT. Getting down to the question which Mr. Bloom raises as to whether it should be written out per se as a specific quid pro quo

in this act, or be negotiated by bilateral or unilateral contracts, I have in mind that some place in these eight so-called conditions precedent there should be a ninth condition precedent which at least conveys the idea in general terms that one thing we consider essential as a condition precedent is some kind of cooperation to help get the truth, not only about America, but about this program of aid, because coming out of Belgrade from the Cominform today and every day they are going to get contortions and lies, beamed to these countries.

Somebody has to straighten them out, and the least we can expect in return for our financial assistance it would seem to me is a cooperative understanding which as a very minor part could be free use of such radio time as we need.

It possibly need not be put in the bill, but there should be some recognition of it, it seems to me, instead of an utter and eloquent vacuum which is here now.

Ambassador DOUGLAS. I would like very much to discuss that suggestion with you.

Mr. MUNDT. Thank you. That is enough for that point.

Now would you be able to give us any figures as to what was decided at these conferences among the 16 nations as to the contribution which each is to make for the benefit of all? I do not know as my question is clear. Our gross contribution, if the State Department has its way, is \$6,800,000,000. That is not a net contribution. That is gross. From that we get part back in strategic materials, and so forth.

Is there similarly some place a figure to show what gross contribution Denmark is throwing in, what Sweden is throwing in, what if anything France is throwing in? They may be deficient in 99 of the 100 products, which countries need, but they may have one of which they have a surplus.

Are there any such figures available?

Ambassador DOUGLAS. There are figures available, Congressman, which show the deficiencies, and the balance of payments among those countries which might give a reflection.

It might be a reflection of the amount of export.

Mr. MUNDT. I have seen the deficiencies. I wonder if there are similar figures on the surpluses or contributions? As I understand this is a mutual, self-help program. In other words, to take a hypothetical case, suppose Denmark is long on a hundred thousand tons of butter, and is willing to throw that into the hopper and make that available to these 16 countries. Is that included in there some place?

Ambassador DOUGLAS. Some of the countries have surpluses expressed in terms of their trade balances and others have deficiencies among themselves.

It is contemplated that those deficiencies and surpluses will be cleared through a clearing arrangement, so to that extent those that have surpluses are extending support to those that have deficiencies.

What I have just said refers of course to their respective surpluses, and deficiencies, expressed in terms of their merchandise balances or the balance of trade between each country.

Mr. MUNDT. That is the theory, as I understand it. That is the theory as I have had it explained and as I have explained it in talks which I have given.

I wonder if there are tables any place which would start out on this basis? These 16 countries require \$100,000,000 worth of fuel. Of

the \$100,000,000 worth of fuel, \$80,000,000 comes from the United States of America, \$10,000,000 comes from Great Britain, \$5,000,000 comes from Norway, and so much from some place else, and on each of the items in regard to the countries that could be available so we could find out specifically in terms of quantities and products which countries are contributing to the general over-all needs of all.

I would like for each country, if we could get it, the picture as a whole, specifically what we are trying to do in the United States.

We take this \$6,800,000,000, and we say so much will be for this kind of products, so much for fuel, so much more for fertilizer.

Well, now, there are other needs, I presume, for fertilizer which we are not supplying. Somebody else is going to supply them. Who is going to supply them and to what extent?

Ambassador DOUGLAS. There is a list of commodities, a limited list, which will be exported from one country to another. For example, Britain by 1952 estimates she will be able to export I think it is 36,000,000 tons to the Continent of Europe, and there is an item of coal from western Germany and from France.

Mr. MUNDT. That is the type of thing I have in mind.

Ambassador DOUGLAS. There is timber from the Scandinavian countries. There are a number of items of that sort. I don't think it is possible to give a complete analysis because there are literally so many. We have made available to the committee information covering 28 selected commodities. It would be impossible to provide a list for all of the commodities because I presume there are something like 2,000 commodities which are necessary for the operation of an integrated industrial system.

Mr. MUNDT. You do have it, I take it, for the major commodities?

Ambassador DOUGLAS. On the selected commodities of about 28.

Mr. MUNDT. Is timber one of those major commodities?

Ambassador DOUGLAS. Yes, sir.

Mr. MUNDT. As to timber which the Scandinavian countries will supply for the neighbors to the south and to England, in this working agreement which was arrived at, in each of the countries of the 16, did they agree to the same kind of formula we are following? We send the materials and you make them available. We transfer. If they can pay cash readily, we accept the cash. If it is a matter of a loan, we accept the loan. If they have some strategic materials, we accept them. If they have nothing, we extend them on credit.

Do each of those countries agree similarly with all of their neighbors to make extensions on credit or do each of the other countries insist on getting their pound of flesh in one form or another?

Ambassador DOUGLAS. No. It would take the form of a commercial transaction for these countries have been devastated by the war. They have very few resources, most of them, which they can call their own which they can extend, and the great requirement of all the countries is dollars and not local currency.

Mr. MUNDT. Could not Norway transfer timber to England on a credit basis under that sort of arrangement? We are under an arrangement whereby it looks to me we are underwriting all the balance of payments anyhow. It would seem to me they would not have to insist on a strictly commercial transaction.

Ambassador DOUGLAS. Actually many of the commercial transactions are extended on credit or will be extended on credit, and that, of course, is basic and fundamental to the clearing arrangements.

Mr. MUNDT. Then to the purpose of getting the truth out before us, this mutual self-help program is arranged on the basis that it is a commercial transaction as far as the 16 countries are involved among themselves, and a program of hopeful generosity as far as we are concerned in dealing with Europe?

Ambassador DOUGLAS. The difficulty with this area is that it is shy of dollars.

Mr. MUNDT. I do not completely understand this international monetary business, but I do not see how dollars are involved in transactions among themselves.

Ambassador DOUGLAS. In one country there is a deficiency of one kind of currency and in another country there is a surplus of that kind of currency, and they have agreed to a clearing arrangement through which the deficiencies and surpluses will be cleared out. But that helps them of course as among themselves. It doesn't help them in respect of purchases from the United States or the Western Hemisphere.

Mr. MUNDT. I understand that perfectly and that is why we have to pay this extension of credit for loans. But thinking in terms of those people alone, I want to intensify and step up and accelerate mutual self-help that they give each other, not thinking about our part, but that which they give each other.

Ambassador DOUGLAS. They do that through this clearing arrangement. It involves the extension of credit.

Mr. MUNDT. Is that a continuing clearing house arrangement which is set up specifically as a result of the Paris Conference?

Ambassador DOUGLAS. Yes, sir.

Mr. MUNDT. And that is to continue?

Ambassador DOUGLAS. Yes, sir.

Mr. MUNDT. And it applies just to those 16 participating countries?

Ambassador DOUGLAS. Yes, sir. Now as I said the other day, I don't think the Congressman was here, not all of these 16 countries are yet members of that particular clearing arrangement, but a good many are.

I can give you the list of those that are parties to that clearing arrangement.

Mr. MUNDT. That is helpful.

(The information is as follows:)

On November 18, 1947, an agreement for multilateral clearing was signed by Belgium-Luxembourg, France, Italy, and the Netherlands. Denmark, Norway, Sweden, the United Kingdom, and Austria have signified their intention of joining this arrangement as occasional members.

Ambassador DOUGLAS. That arose definitely out of and as a result of the Paris Conference.

Mr. MUNDT. That is definitely a step in the direction of what I was trying to lead to.

Thank you very much, Mr. Ambassador.

That is all, Mr. Chairman.

Mr. CHIPERFIELD. Mr. Bloom

Mr. BLOOM. Mr. Ambassador, returning to the questions of the other members of the committee, supposing you should write into this act a section or provision whereby that one provision should be declared invalid by the Supreme Court, and that is, the right of the President of the United States through the Secretary of State to have

complete control over the foreign affairs and foreign relations of the other countries.

If that provision should be declared invalid by the Supreme Court, which I take it will be held invalid, then your whole act would fall.

Mr. LODGE. Will the gentleman yield?

Mr. BLOOM. I will be glad to.

Mr. LODGE. If the gentleman will turn to section 15 of the bill he will see that the whole act will not fall.

Mr. BLOOM. But if the gentleman will allow the Ambassador to answer that question.

Mr. LODGE. I thought you yielded to me.

Mr. BLOOM. Of course I yielded, and I will answer you. You are saying what I am saying. That is, if this one provision in the act should be declared invalid, then there would not be any organization at all. Then what is going to happen to the balance? The balance of your act would not be effective.

That would go on, but the handle and the operation of the act is destroyed completely so that you have no act at all. All of the other parts of the sections of the act would have no alteration, but the fact is when you destroy your administration of the act, then there is nothing left and the Supreme Court has already held that in the case of the *United States v. Curtiss-Wright*, and that decision was made in 1936.

I have just sent to the Supreme Court to try to get a little analysis of what the decision was but I think I know what the decision was. Therefore, Mr. Ambassador, and Mr. Lodge, you would not have any act because you have taken away the handle. It could not become operative. You would not have any organization to operate the act.

Mr. LODGE. I was trying to make the point that the entire act would not be automatically out.

Mr. BLOOM. I agree with you. The entire act would continue on, but what is the use of the act? You have no administration. You have just taken the handle away. It does not become operative at all. Do you wish to answer that question, Mr. Ambassador?

Ambassador DOUGLAS. As I understand your question it was this: That if the Supreme Court should declare the basic administrative provisions of the so-called Herter legislation to be unconstitutional—

Mr. BLOOM. Or of any other.

Ambassador DOUGLAS. Or any other piece of legislation, then there would be no administration of the act and the purposes of the act would not be carried out.

Mr. BLOOM. That is right. That is the question I am asking.

I am not a lawyer and I understand the Ambassador is not a lawyer, so you and I can decide this case very easily.

Ambassador DOUGLAS. I presume under the hypothetical circumstances which you have put forward that the result of your indicated hypothesis would necessarily follow.

Mr. BLOOM. Yes. So therefore with that thought in mind, is it not necessary for us to be very careful and not write anything into the act that would destroy the act itself? If any citizen could apply to the Supreme Court to hold this act invalid, the Supreme Court under former decisions would have to do so. That is my contention. I think you agree?

Ambassador DOUGLAS. I think it would.

Mr. BLOOM. Mr. Ambassador, yesterday I believe the question was asked if Rumania and Great Britain would want to make an agreement whereby Rumania would send wheat into England and England would sell coal to Rumania; would that be possible according to the procedure of things over there now?

Ambassador DOUGLAS. Yes; but that is a hypothetical question and my reply was that that would be an appropriate thing to do.

Actually it is very unlikely that Rumania would be importing coal from the United Kingdom. She would derive her coal from some nearer source.

Mr. BLOOM. Would that be possible at the present time or under the agreement between satellite countries in western Europe?

Ambassador DOUGLAS. I don't know that any existing agreements would interfere with that sort of transaction, but the natural economic forces would interfere with it because Rumania would doubtless derive her coal from a source nearer than the United Kingdom.

Mr. BLOOM. Would you say that that same thing would apply to the coal mines in Poland and any of the participating countries?

Ambassador DOUGLAS. Well, it is contemplated Poland will ship into western Europe between 23 and 24 million tons of coal during the year 1949, so that there will be as between Poland and western Europe a certain amount of trade.

Mr. BLOOM. I think I asked you the other day whether that provision as regards the shipment of coal from Poland to western Europe was not conditioned on the loan to be given by someone for the development and so forth of the coal mines in Silesia?

Ambassador DOUGLAS. No. I think not, Congressman. In 1947 it was estimated, as I recollect, the total exports of coal from Poland would approximate 18,000,000 tons, of which, according to my recollection, about 7 million tons went into western Europe.

Mr. BLOOM. Yes.

Ambassador DOUGLAS. Poland is increasing its production of coal.

Mr. BLOOM. At that time was there not a promise made by a government that there would be a loan of around \$60,000,000 and there was \$50,000,000 withheld from Poland?

Ambassador DOUGLAS. If there was, I am not informed about it.

Mr. BLOOM. I think if my recollection is correct we were to make a loan to Poland of \$60,000,000. We gave them \$10,000,000, and then we stopped further payments of that.

Ambassador DOUGLAS. Mr. Thorp tells me there has never been any promise from this Government. Poland, according to my information, has been seeking a loan from the International Bank.

Mr. BLOOM. No; I am not talking about the International Bank because that would be outside of this country. We did stop payment on the loan we promised to make to Poland.

Ambassador DOUGLAS. I am told we made an Export-Import Bank loan of about 40 millions to Poland some 2 years ago for the purpose of purchasing coal-mining equipment, freight cars, machinery, and so forth. Almost \$11 millions were utilized.

Mr. BLOOM. The balance of it was never given.

Ambassador DOUGLAS. That is right.

Mr. BLOOM. Mr. Ambassador, I would like to ask you this question: When you advance payments for raw materials to any of the participating countries, for raw materials, and when the raw material is

fabricated and made into goods and those goods are sold, are we repaid for the raw material, and just for the raw material, that we give to these different countries, or are they permitted to sell the goods or whatever it may be, a pair of shoes or clothing, and they take all of the return for the sale of these goods and do they pay us for the raw materials that we give to them?

Ambassador DOUGLAS. If the support takes the form of a loan, and the loan is used for the purchase of raw materials, then we would be repaid in the amount of the loan out of such proceeds and income as the debtor country might derive. It is just as in any commercial transaction.

Mr. BLOOM. Yes, but there are certain countries that you give raw materials to, but you do not give the materials through a loan. Is that right?

Ambassador DOUGLAS. That is right, in the case of a grant.

Mr. BLOOM. Well, that is a grant. Now you give your raw materials. Are we repaid for the raw materials when the merchandise is made and sold and they get payment for our raw material, besides their costs of manufacturing?

Ambassador DOUGLAS. In the case of the grants there would be no repayment. In the case of the loan, there would be a repayment to the full amount of the loan.

Mr. MUNDT. Would the gentleman yield?

Mr. BLOOM. Delighted.

Mr. MUNDT. In the case of the grant is it not true that the country makes the payments in its local currency? At the time you get this monetary ledgerdemon where they make the payment in local currency which they cannot spend and we cannot spend and it stays there in frozen form?

Ambassador DOUGLAS. Yes. There is a local currency in the case of a grant. There is a local currency counterpart equal to the shipside cost at the point of delivery, and that local currency under the terms of one of the pieces of legislation, which is before this committee, would be placed in a special account.

Mr. MUNDT. Nobody could spend that local currency?

Ambassador DOUGLAS. Nobody can spend that, and it cannot get back into the monetary stream of a country except upon mutual agreement.

Mr. BLOOM. But the local currency is spent within that country?

Ambassador DOUGLAS. No, sir.

Mr. BLOOM. It is spent outside?

Ambassador DOUGLAS. No; it is not spent at all. It is placed in a special account.

Mr. BLOOM. You mean deposit is made in the bank?

Ambassador DOUGLAS. In the Central Bank of the local country.

Mr. BLOOM. That is the credit of the participating country and the United States?

Ambassador DOUGLAS. It is placed in a special account in the Central Bank of the recipient country.

Mr. BLOOM. Only the participating country?

Ambassador DOUGLAS. Of the recipient country, and there the local currency remains until it is withdrawn for some purpose, agreed to by both countries.

Mr. MUNDT. But then it has to be spent in the local country?

Ambassador DOUGLAS. Even then it has to be expended in the local country, or one of its dependent territories.

Mr. JONKMAN. Will the gentleman yield?

Mr. BLOOM. Yes.

Mr. JONKMAN. Is there anything to prevent the receiving country from printing an equal amount of currency to put it in circulation?

Ambassador DOUGLAS. Except the financial commitment they make to bring their budgets into balance.

Mr. BLOOM. Does that same procedure apply?

Ambassador DOUGLAS. The important thing is to withdraw this amount of local currency from the monetary stream so as to avoid additional inflationary pressure.

If a local recipient country continues to have to borrow for some period of time, it is better that it be an open transaction than it be a concealed transaction through the use of the local currency equivalent of any grant which the United States might make.

Mr. JONKMAN. It does, except there is an implied promise they would not print additional currency without something behind it. It is merely an implied promise.

Ambassador DOUGLAS. It is an express promise, Congressman. The question of fulfilling the promise is another matter.

Mr. JONKMAN. Is it like the promise in the Atlantic Charter?

Ambassador DOUGLAS. No. I think it is a firmer promise than the Atlantic Charter.

Mr. JONKMAN. That is all; thank you.

Mr. CHIPERFIELD. Mr. Bloom has yielded to me for a question.

When these local currencies are put in a special fund, is this special fund in the name of both countries or in the case of the recipient countries, or how is that handled?

Ambassador DOUGLAS. As to the title of the account, I cannot answer. But it would be in the name of the recipient country. The recipient country agrees that there shall be no withdrawal or use of that currency except upon mutual agreement.

Mr. CHIPERFIELD. There have been discussions as to whether that should not be in joint account, not only to the account of the beneficiary country but to the United States.

Ambassador DOUGLAS. As I indicated the other day this matter of local currency is a very perplexing one.

The magnitude of the local currency counterparts in certain countries, depending upon percentage of loans or grants, can be tremendous. In one country, for example, under a certain set of hypotheses, as to what percentage of the support would be extended in extent of grants, what in the form of loans the amount in the special fund would be four times the deposits, other than governmental, in the central bank, and would be greater than the total currency in circulation.

That gives one an idea of the magnitude of the fund, even during a period of 15 months, under those hypotheses and therefore of the extraordinary power over the financial system of a country, which the fund might exercise.

Mr. CHIPERFIELD. Would not the fact that you have the special funds be deflationary in character and help to stabilize their country?

Ambassador DOUGLAS. The withdrawal of the funds from the monetary stream is in the deflationary category.

Mr. CHIPERFIELD. Thank you very much.

Mr. MUNDT. Mr. Bloom, do you yield?

Mr. BLOOM. I believe I do.

Mr. MUNDT. I think Mr. Bloom has raised a very interesting point, and that is the possibility of reducing the net cost of this program to the United States without materially hindering the recipient countries by working out the arrangement, if I understood his suggestion, so that the actual costs of the raw materials come back to the United States and the recipient country would retain its profits that are made in the processing and distribution of them.

Now under this arrangement of a special account with a very slight amendment in the bill, or written into the bilateral contracts that would be provided, some sort of wording to the effect that "However, this joint agreement is understood to be mandatory from the standpoint of reimbursing the United States in terms of local currency for the cost of the raw materials."

We in turn then use those local currencies to pay our cost of the diplomatic missions, the Voice of America programs, and other things, and I wonder if that would not be a way in which we could reduce our over-all cost and not injure the other countries?

What would you think about that?

Ambassador DOUGLAS. That is one of the purposes which might be mutually agreed upon by the respective countries; that is to say, the use of the local currencies, among other things, for the purpose of defraying the cost of local administration of the European recovery program, and for other purposes.

Mr. MUNDT. But if we wanted to write it in the bill, we could do that?

Ambassador DOUGLAS. Well, it goes to a question of balance of payments in terms of dollars, which is, of course, the essential monetary problem. That is the external monetary problem of these participating countries.

Mr. MUNDT. May I ask this question for information? It is directed to a man who may be a somewhat reluctant and unwilling candidate for the job of administrator of the act. I would like to know whether you think it is contemplated we are going to try to get that kind of agreement, wherever possible, in our bilateral contracts?

Ambassador DOUGLAS. It is contemplated insofar as the cost of administering the program with the local currency is concerned.

Mr. MUNDT. I mean the theory that Mr. Bloom worked out, the return for the costs of raw materials being made to us in local currencies for our use in paying not only the administrative costs of this act, but our general diplomatic mission costs, information service costs, and so forth.

Ambassador DOUGLAS. As I understand it, that has not been contemplated to that extent; for the purpose of defraying costs of administering the European recovery program within a country, yes; but for the purpose of defraying other expenditures within the country; no. It has not so far been contemplated.

Mrs. BOLTON. Would there be a danger in that?

Ambassador DOUGLAS. The local currency problem is a very perplexing one, and it gives us tremendous power.

If we are repaid in the value of the raw material in the local currency, that fund in certain countries would reach tremendous proportions

As a consequence they finally got their debt paid back to the Government. They repaid the raw material and the foundation stock stayed where it was.

I think the policy in your line of reasoning, Mr. Ambassador, is that you assume the whole economic process stops after one transaction, but it does not because the foreign government retains that \$2,000,000 worth of raw materials with which the shoes are made.

They again make a \$3,000,000 profit, and then they pay that back to us.

They again make it a third time, and over and over again. They retain that \$2,000,000 foundation stock, and go back to the Indian analogy which we gave them. They do not pay that back.

Mr. BLOOM. No; but they ask for the raw material. They could undersell us on anything they want to manufacture over there. We give them the raw material.

Well, I am glad you agree with me. I am in sympathy with what Mr. Mundt wants to do with reference to the idea of letting the people of the participating countries understand where this help is coming from, and it reminded me, Mr. Ambassador, of a case of my own, and that was when I was a little boy in San Francisco.

I started to go to school 70 years ago.

My folks were not able to buy the books, so the school board contributed these books to the pupil. But in the book there was a stamp that said, "This book is loaned to the scholar because the scholar's parents were not able to buy the book."

I was a little boy then. I read that and I threw the book on the floor and I walked out of the school and I never went back since, because to me it was a repulsive thing to think that I had to advertise the poverty of my folks.

Now, I think it is wrong if anyone should suggest putting into the legislation that the United States Government is doing so and so and so and contributing to the success of the prosperity of these countries.

They contribute to the help of these countries and to the aid of these countries to the rehabilitation, or whatever you want to call it. I object to putting that into legislation so that their parliament must accept it. It would be letting their people know that we are doing this for one purpose: We are doing it as much for ourselves as we are doing it for them, and maybe more.

Mr. Mundt said that to have peace, we must first secure peace.

We have no peace in the world today. If we can secure the peace of the world by this piece of legislation, then we can have permanent peace throughout the world.

I think it is wrong to ask the other legislatures or the other parliaments of the participating countries to take our legislation and say, "This is what you have got to agree to," and their people would naturally resent it.

Mr. MUNDT. Will the gentleman yield?

Mr. CHIPERFIELD. Dr. Judd has to take a train. I wonder if we could have a few minutes of cross-examination and then return to you?

Mr. BLOOM. Go ahead. Whatever you say is very enlightening.

Mr. JUDD. Mr. Ambassador, again and again in this testimony it has been stated by every witness that the key factor will be the caliber of the people who administer it.

I have grave doubts that under the set-up proposed here it will be possible to get the kind of top-flight administrator that is necessary

because as I see that diagram, he would not be directly under the President. He would be a sort of assistant secretary to each of the various Cabinet officers involved. If you look at section 7 on page 10, second paragraph:

That the Administrator can utilize the services and facilities of any department, agency, or establishment of the Government as he shall direct with the consent of the head of such department, agency, or establishment.

Now, of course, that means that he is subject to the will of the head of every department or agency or establishment of the Government. If you get a stubborn man at the head of one of those, he could force it clear back to his own removal, could he not, by showing that he had the legal authority to block any action on the part of this Administrator?

Ambassador DOUGLAS. What section are you referring to?

Mr. JUDD. Page 10, paragraph 2.

Ambassador DOUGLAS. Subsection (b), section 7?

Mr. JUDD. It begins on line 10, page 10. The part I am concerned about are lines 12 and 13 [reading]:

with the consent of the head of such department, agency, or establishment.

I think it ought to be as we had it in the other acts not as the head of any agency but as the President directs. Then you have a proper chain of command.

Ambassador DOUGLAS. I am sorry I can't identify the language to which you refer.

Mr. JUDD. Page 10, line 10.

Ambassador DOUGLAS (reading):

By utilizing the services—

and so forth?

Mr. JUDD (reading):

By utilizing the services or facilities of any department, agency, or establishment of the Government as he—

that is the Administrator—

shall direct with the consent of the head of such department, agency, or establishment.

That makes him subordinate to the head of every department, agency or establishment from which he might want to get something or which he might want to do business with, does it not?

Ambassador DOUGLAS. I think not, sir. If the Congressman will refer to page 9 (b), the language reads as follows [reading]:

The Administrator may provide—

It does not say he shall provide. It says:

He may provide for the performance of any of the functions described in subsection (a) of this section, one, by utilizing the services.

Mr. JUDD. That is correct.

Ambassador DOUGLAS. And if that sort of an arrangement is not satisfactory to him, he may then make arrangements for the services which have to be rendered by establishing his own.

Mr. JUDD. You mean then that if the head of the Department of Agriculture refuses to cooperate the Administration may set up a rival department of agriculture?

Ambassador DOUGLAS. Well, one is caught on the horns of a dilemma. Either one directs him to do it in the first instance, or one makes it permissible for him to avoid doing it in the other.

Mr. JUDD. I do not think it need be limited to the two horns. For example, in the three, or at least two of the bills we have passed in the last year, we have avoided that kind of thing by saying, for example in section 3 of Public Law 389 "The President."

We do not say "The Administrator."

We say "The President, acting through such departments, agencies, or independent establishments of the Government as he shall direct," whether the head of the agency consents or not.

This bill puts the Administrator under the head of every agency, as a sort of Assistant Secretary.

I do not think you can get top-flight men to come into such a set-up where they have the responsibility for the success of the program, but they do not have the authority.

Ambassador DOUGLAS. I don't think that follows, sir. I think permission is given to him to use any department or agency of the Government, to discharge the responsibilities of his office, but I think it is not required of him that he shall do so.

Mr. JUDD. No, but it is impossible for him to achieve the things that you want to have him achieve unless he has that authority, or unless the chain of command comes from the President, as we have it in these other acts, 84 and 389.

In them we said, "He shall use such other agencies," or, "He may use such other agencies as the President shall direct."

It seems to me that is the way that it has to be.

Ambassador DOUGLAS. Well, the Administrator is appointed by the President upon the confirmation by the Senate. The Administrator's jurisdiction is defined by the legislation which the Congress enacts and he operates under the President of the United States.

He may in the exercise of his authority use any agency or department of the Government which is necessary to discharge his responsibilities.

If the head of that department resists, then he may be forced to establish his own agency to do it.

I understand that the Herter bill contains almost identical language.

Mr. KEE. Will the gentleman yield?

Mr. JUDD. Just a moment, please, until I finish this. Then I will be glad to yield to you, because I think I am working along the same line you have, that the chain of command ought to come from the President and not the various secretaries.

For example, over on page 13 of the bill, beginning on line 10: [reading]

The Administrator in the exercise of any authority conferred under section 7 of this act may procure, 1, commodities owned by any department, agency, or establishment of the Government, if the owning agency determines that such commodities are available for such procurement.

There again the head of that agency may come in and say, "No matter what you say the law says I can block this," and the only thing the President could do would be to remove the head of that agency; whereas we wrote a bill here and passed it just before Christmas in which it says, dealing with the same problem, [reading]

Any commodity heretofore or hereafter acquired by any agency of the Government under any price-support program shall to the extent that such commodity is determined by the President to be appropriate for such purpose and in excess of domestic requirements, be utilized * * *."

determined by the President, not by the head of the CCC or some other agency.

It keeps the command where it ought to be, in the President, and does not make the Administrator Assistant Secretary to each of the Cabinet officers.

Mr. MUNDT. Will the gentleman yield?

Mr. JUDD. Yes.

Mr. MUNDT. I think if you will look on page 3 you will find that the Administrator does have that power under this set-up.

On line 16 it says the Administration shall be headed by an Administrator for Economic Cooperation, and it continues—

as hereinafter referred to as the Administrator, appointed by the President, with the advice and consent of the Senate,

and it concludes—

except as otherwise provided in this Act.

The other says, "hereby vested in the Administrator."

That does not limit the Administrator. No. That gives the right to these departmental heads to refuse to cooperate in the program. .

It is obtaining for them the authority they now have, giving them the responsibility with the authority you are talking about.

Mr. JUDD. You are not retaining for them, but putting into their hands authority under law for them to block any action by anybody in the Government, short of the President himself, by removing them from office.

In the other bills I am talking about, we carefully avoided that by saying each time—

as the President shall direct.

Now I yield to Judge Kee.

Mr. KEE. I want to call your attention to the fact that on page 9 of the Herter bill as to the same provision:

authorized to use facilities, services of any personnel or department or agency of the Government, with the consent of the head of the department.

You use the same language. I agree with you that this does not give him any power at all.

Mr. JUDD. That is correct. You would not get a high-grade person unless he is willing to sacrifice himself. The kind of people we want we cannot get. I do not care whether in the Herter bill, or here, it is bad administration. It puts the Administrator right in the middle of the interagency fights and without any authority whatsoever.

Mr. MUNDT. The alternative would be to make it more powerful?

Mr. JUDD. No. Under the President, not under the heads of the agencies is where the man should be placed. It should be the same as in the other bills we have passed. "The President shall direct," not "The head of the agency shall block."

Now take, for example, over on page 6, in section 6. It seems to me that there again much of the personnel provided for will have two bosses. [Reading]

For the purpose of performing functions under this Act outside of the United States, the Secretary of State may appoint or assign certain persons—

and then down below, in line 25 it says:

and by regulations prescribed by him the Secretary of State—
and so forth.

That is, the Secretary of State is the one who appoints these persons to work with the Administrator and they work under regulations prescribed by him.

Ambassador DOUGLAS. I think, Congressman, you were not here when yesterday morning I referred to these sections and to the reasons for vesting the appointing power in the Secretary of State.

Moreover, it was explained then that the recruiting of the personnel serving overseas, except for the recruiting that may be undertaken within the very, very small group of Foreign Service inactive officers and Foreign Service officers, would be undertaken by the Administrator.

It is the intention that he shall nominate to the Secretary of State and that the Secretary of State shall do the appointing.

The reason for the vesting of the power to appoint in the Secretary of State was that this overseas personnel, should, we believe, be in the Foreign Service Reserve.

First, because their emoluments are higher, unless Congress, of course, waives certain very express provisions of existing law in regard to employment, and secondly because they will as members of the Foreign Service Reserve have a status or title.

For example, in the United Kingdom, it is contemplated that the overseas person in charge of ECA would have the title of Minister. That title provides the person with a status.

Mr. JUDD. I see advantages, but still he would be under two bosses, one the Administrator and one the Secretary of State.

Ambassador DOUGLAS. As presently contemplated he would be a part of the Embassy. He would be perfectly free to communicate to the Administrator in Washington, but a similar communication goes to the Secretary of State.

If the Minister disagreed with the Ambassador, he would be perfectly free to express his views to the Administrator and to the Secretary of State.

The Ambassador would likewise enjoy the same privilege.

There are reasons for not having two separate people representing the United States Government in a foreign country.

One is conversations in the name of the United States Government, with, for example, Prime Ministers, Ministers of State for Foreign Affairs, presidents of boards of trade, Chancellors of the Exchequer.

Mr. JUDD. If the Administrator and Secretary of State were in disagreement, this man would obey the Secretary of State because the latter prescribes the rules and regulations.

Ambassador DOUGLAS. The Administrator can always appeal to the President.

Mr. BLOOM. Now I refuse to yield further.

Mr. Chairman, I would like to have the clerk read the decision that I referred to with reference to the legality of the President of the United States on Foreign Affairs.

Will the clerk kindly read that?

Mr. CRAWFORD (reading):

Opinion of the Supreme Court of the United States in the case of *United States v. Curtiss Wright Corporation*, volume 299, United States Supreme Court decisions, page 304, decision No. 98, October 1936.

Not only as we have shown is the Federal power over external affairs in origin and essential character different from that over internal affairs, but participation in the exercise of the power is significantly limited. In this vast external realm, with its important, complicated, delicate, and manifold problems the President alone has the power to speak or listen as a representative of the Nation. He makes treaties with the advice and consent of the Senate, but he alone negotiates. Into the field of negotiation the Senate cannot intrude, and Congress itself is powerless to invade it.

As Marshall said in his great argument of March 7, 1800, in the House of Representatives "The President is the sole organ of the Nation in its external relations and its sole representative with foreign nations."

Mr. VORYS. It might be well to point out that the Marshall referred to was the late Chief Justice.

Mr. BLOOM. Well, that was 1800.

Now, Mr. Ambassador, in referring to the discussion of the Supreme Court I will contend that if we should write anything into this act that is different from the decisions of the Supreme Court on this one important point, we will be destroying this bill.

We would not have a handle to the legislation, and it will be of no use at all. You might as well have that in mind when you are writing this bill.

That is all I have to say.

Mr. CHIPERFIELD. Dr. Judd?

Mr. JUDD. Will you turn to page 17, Mr. Ambassador?

I am trying to find out what some of this means. I am not a lawyer, either.

Ambassador DOUGLAS. I would like to make this observation about the section to which you have just referred. The language does not quite carry out the intention which I have just stated. There is a confusion between the language and the intention.

Mr. JUDD. Well, I thought there was. I wish you and your experts would submit something to help clarify this because I cannot make out what the individual would do under two bosses if he were trying to follow out his duty.

On page 17, section 10, it reads:

The Secretary of State after consultation with the Administrator is authorized to conclude with individual participating countries or any number of such countries, or with an organization representing any such countries agreements in furtherance of the purposes of this Act.

Now, I understood all along that these agreements were to be bilateral agreements. This apparently includes multilateral agreements. What does it mean in line 11, "With an organization representing any such countries"?

Does that mean representing any number of such countries?

Ambassador DOUGLAS. That is purely permissive language. It is the intention to make bilateral agreements, which among other things will make reference to or contain a reaffirmation of the pledges and undertakings made by the participating countries.

Mr. JUDD. Under this the Secretary of State can enter into agreement with an organization representing 2 or more of the 16 countries, if they constitute or voluntarily organize such an organization?

x Ambassador DOUGLAS. That is the way I would construe the language.

Mr. JUDD. I am glad to get that.

Now, a little while ago Mr. Mundt referred to some of the requirements that we have put in previous legislation as to the agreements between the United States and recipient countries. He mentioned some that were omitted.

There are one or two more omitted that I would like to call attention to. They are in Public Law 389, for example, and I am curious to know why they were omitted here. I assume there is good reason. For example, in Public Law 389, one of the conditions was that—

the country must agree not to export or permit removal from such country while need therefor continues of commodities made available under the authority of this Act, or commodities of similar character produced locally, or imported from outside sources except to the extent agreed upon by the Government of the United States.

I recognize certain conditions where it would be advantageous to us and them for them to reexport part of the commodities or something constructed out of the commodities, but in general it seems to me there is real point in having that condition in there. There is an escape clause whereby it can be done where we believe it advisable.

I will tell you why I feel it ought to be in there. For most of the countries involved in the 16, probably it would not be necessary; but there might be one or two or three of these countries, and there might be other countries with which we later would have agreements on a similar program, where the government, for whatever reason, ought to have a certain amount of close observation—put it that way—to make sure that merchandise was not reexported and channeled elsewhere than we had in mind.

Now, since there is an escape clause in it, why is it not proper to have this item in all of them? Then there is no stigma. In most of them you would not need to apply it. Where you did not need to apply it, you would have the authority. Why should we not have it in this act?

Ambassador DOUGLAS. If I understand the question correctly, I am not certain that there is any serious objection to the right of the United States to prohibit reexport.

Mr. JUDD. They would agree not to reexport except where it is mutually agreed upon.

Ambassador DOUGLAS. There is a fundamental distinction, Congressman, between the legislation we are now considering and the purpose of the legislation.

Mr. JUDD. I realize that.

Ambassador DOUGLAS. The purpose of the previous legislation has been to provide relief. They were just straight relief bills. This legislation is designed to support and encourage recovery and the restoration of stability.

One of the fundamental things most of the participating 16 countries must achieve is a higher level of exports.

Unless they achieve a higher level of exports, then they cannot achieve recovery and stability.

Mr. JUDD. That is right; but not of the commodities that we made available under this act, except in unusual circumstances.

Ambassador DOUGLAS. In some cases it might well be, and perhaps in a good many. There are some 2,000, or a thousand to 2,000, commodities embraced in the recovery program for this great industrial area.

Mr. JUDD. But there may come a time when it is very important to have certain—I would not call them “restraints,” because I do not like that word—but some mutually agreed upon conditions under which the program is to be carried out; and if they are needed in the cases of certain countries, they ought to be in the general legislation.

Then there is no stigma for any country; there is no discrimination, no loss of face, or whatever it may be, and it would be so much easier to administer.

Ambassador DOUGLAS. There is one phase of the matter I would like to consider and discuss with you as to the reservation of a right. This is not a considered judgment. Perhaps the reservation of a right on our part might be a wise thing.

As I understood, Congressman, you were referring to the reexports of the imported commodities in substantially the same form; is that right?

Mr. JUDD. That is right; of commodities made available in accordance with this act or commodities of the same character produced locally or imported from outside.

Mr. VORYS. Will the gentleman yield?

Mr. JUDD. Yes.

Mr. VORYS. The comment has been made that this bill last fall was solely a relief bill. I think it will be found that a little over \$400,000,000 of the entire authorization was programed for food, fuel, and medicine, and the rest was materials to prevent economic retrogression, precisely the same type of materials that will be involved here; so that the provision that the gentleman from Minnesota is referring to applied to nearly half of the supplies to be furnished under the interim aid bill.

Mr. JUDD. And the same sort of aid that is contemplated here.

Mr. VORYS. That is correct.

Ambassador DOUGLAS. I think there would be very few cases in which an identical commodity or a commodity in the form in which it was delivered would be reexported.

I do not want to engage in discussion to any great length, but I think there is a difference between the language to prevent economic retrogression and to support recovery. One is the negative statement, and the other is a positive statement.

Moreover, actually as a practical matter, while the interim program embraces a larger number of commodities than those specifically identified by language, the number of commodities in the interim aid program were relatively few; whereas the number of commodities, though they may not be supplied by the United States resources, embraced in the export-import programs of these countries and which form the basis of the measure of the external support required, ranges somewhere between a thousand and 2,000, for this is a highly intricate industrial community.

Mr. JUDD. That is all the more reason why there ought to be significant restrictions. I hope you will have your experts work on this and help us devise something, if we can, that will give assurance on this point.

Ambassador DOUGLAS. We will be very glad to.

Mr. JUDD. There is another one of the same sort. In other legislation we have had requirements that the governments agree to have representatives of the United States Government observe—and we put in the bill, “advise and report”—on how the program was being carried out; whether it was being carried out in accord with the agreements that had been entered into.

It is conceivable that some country here or there might not carry out its agreements; and it would be bad for that country, bad for the people of the United States, and for the Congress of the United States, the taxpayers, and so forth—to find that there was nothing we could do about it.

Therefore, I think it is advisable to put in language of that sort, but saying that they have to agree that American representatives would be permitted to observe—advise, if you like—but observe and report. There is an escape clause in the very beginning of the whole section.

It says that “the country must agree to these things, where applicable.”

In most of them it would not be applicable, but in some it would be applicable, and it should be in the general legislation.

If it is a blanket requirement, there is no insult. If it is singled out and applied to certain countries and not to others, then it is an insult, and we would not have their cooperation.

Mr. KEE. I think if you look on page 9, section 7, you will find a provision for the report to be made of the operations under this contract from each country, but I do not think the provision is quite broad enough.

Mr. JUDD. That is a report of the President pretty much as to how he administered it?

Mr. KEE. No. In such country transmitting to the United States not less frequently than every calendar quarter after date of agreement of full statement, operating under the agreement, including the report of the funds received under this act.

Mr. VOYTS. Will the gentleman yield again?

Mr. KEE. I do not think that is quite as broad.

Mr. JUDD. I agree with you.

I yield to the gentleman.

Mr. VOYTS. I have been wondering whether the distinction should not be made between the supervision and the control of the grant funds and funds that are loaned.

No such distinction is provided in the draft legislation before us. It has seemed to me that the provisions of the interim aid bill were quite appropriate when we were not expecting repayment in any way, shape, or form. They might be quite inappropriate if we were making a loan of any kind whatsoever, and it would seem to me that a very easy way to handle that might be a reference back to the provisions of the interim aid bill in this legislation to cover such amounts as are covered or as are furnished by way of grants.

Mr. JUDD. That is a good suggestion.

Now, may I ask another question along the same line

On page 9 of the bill, if the Ambassador will look, please, line 22.

This is a thing that has come up in three previous bills, and I would like to have some light on it. It says [reading]:

The Administrator may provide for the performance of any of the functions described in subsection (a) of this section—(1) by making funds available in the form of advances or reimbursements to any participating country, or to any agency or organization representing a participating country.

In each of the three bills we have had previously within a year it has come down in that manner. Each time the Congress has changed it in line with the last bill. [Reading:]

The President may by allocation of funds herein authorized to any such existing departments, agencies, or independent establishments or by establishing in this country credits subject to the control of the President.

I would think that having made that change three times, it would be taken by somebody in the State Department that the Congress was not in favor of turning over funds to any foreign country.

I do not think there are any more reasons in favor of it in this bill than in previous bills.

Why cannot that be handled as we handled the three previous ones, by allocating the funds to the purchasing agencies here or establishing in this country credits for those countries, with the credits under the control of the President?

What objection is there to that?

There must be some, because each time they come back modified.

I asked Mr. Lovett when he was here, and he said he did not see any objection. He thought it was an advantage to have only credits established. Yet the next bill comes in with the same old language—turning over funds. Certainly that is psychologically inadvisable in this country.

Ambassador DOUGLAS. I cannot answer the question.

Mr. JUDD. Would there be objection to our putting in this as we have in these previous bills, that he may carry it out by allocating funds to the agencies, establishments, the departments of our Government or by establishing credits in this country, subject to the control of the President?

Ambassador DOUGLAS. I do not know what the language of the previous legislation is.

Mr. JUDD. That is practically the language I offered in all these other bills.

Ambassador DOUGLAS. What about offshore purchases? That would have to be covered.

Mr. JUDD. They could be handled through credits in the United States, could they not?

Ambassador DOUGLAS. Yes.

Mr. JUDD. That is the way we have done it previously. I would like to know if there is any objection to that; because if that can be accepted without harm, I know it gives a greater sense of assurance to our own people who put up the money.

Ambassador DOUGLAS. Offhand, I would not think there was any objection to it. I do not know the history of the previous legislation.

Mr. JUDD. We do.

Now, on this question of merchant vessels, if our merchant vessels should be transferred by charter to England, for example, would she

be compelled or required to cut down her use of steel for construction of ships by a commensurate amount?

Ambassador DOUGLAS. That question was put to me here yesterday.

Mr. JUDD. You said Cripps had announced they were having to do it because of shortage of steel?

Ambassador DOUGLAS. That is right.

Mr. JUDD. Would it be part of the understanding that if they got extra merchant shipping through charter from us, of our surplus ships, they would agree to reduce their drain on steel for the construction of ships in order to save some of this short-supply commodity steel for other purposes?

Ambassador DOUGLAS. On page 93 of the explanation of the bill the language reads:

While it is recognized that a large proportion of the shipbuilding program projected by the participating countries is concentrated upon types of vessels in short supply, it is believed that some of the energy and materials planned for this program could be used to better advantage for other more urgent construction tasks, if additional tonnage is made available from the United States.

Mr. JUDD. That is our objective, but would it be part of the agreement? It is one thing to say that it is contemplated, expected, what we hope for, but it is very difficult to get legislation through unless it is firmly agreed upon.

Ambassador DOUGLAS. Well, I call your attention to the next sentence, which reads:

Transfer of such additional tonnage to participating countries should be linked insofar as practical with the reduction of building of similar types abroad as a steel conservation measure.

I would assume in the administration of the act, Congressman, that the programming—actually, for each country—actually agreed to by the administrator, regardless of what his title may be or the type of agency over which he might preside, the administrator, in approving the program, would have that in mind.

Mr. JUDD. I am glad to have that in the record, because your statement should help guide him.

Ambassador DOUGLAS. I cannot prejudge the action of the administrator. However, he may.

Mr. JUDD. But to make clear that some of us agree with you perhaps will guide him a little. Perhaps that is a little optimistic.

Yesterday when we had the question of the 16 countries, together with the break-down of amounts for each, you said, and it was understandable, you had not had the opportunity to examine into the internal affairs of each of these individual countries. But we have to approve or disapprove funds for each individual country.

Now you have not done that. Who has done it? Who has reviewed them? I wonder if it would not be possible or advisable to put on the stand some of the men in the State Department who do review these so we can go back and say, not "The State Department said so," but "This person in the State Department says so."

Ambassador DOUGLAS. What we are preparing now, and I think it may throw light upon the problem which you have in mind, is a tabulation of the distribution of the selected commodities and the other imports, by country, and the source from which those commodities will be paid, whether through United States funds or whether in the form of loans from other sources.

I think that may provide the Congressman with the information which he seeks.

Mr. JUDD. We have had an unfortunate experience or two where estimates or requirements were prepared by individual persons, employees, whose names nobody knew and we took it on the say-so of the State Department.

Later it turned out there were some ulterior motives on the part of these persons.

That is pretty hard to defend. If you personally had screened the estimates in a given case I would have confidence in it. I would probably have confidence in someone else if I knew him, but for me to say, "I vote for this because the State Department reviewed it," is not enough.

When we vote for or against specific sums, we want to know who determined the amounts, what sort of background they have, and what their qualifications are. They are the men who do the screening and who present the figures. We have to defend the figures, and how can we until they have been defended to us?

Ambassador DOUGLAS. In a hearing before a committee of another body it was agreed that a list of personnel who made these various commodity studies would be inserted in the record.

Mr. JUDD. A short biography of each, including training and background?

Ambassador DOUGLAS. They did not ask for the curriculum vita of each person but we will try to furnish it. It is quite a task.

These commodity studies were made by interdepartmental committees, on which as I understand it, are representatives from the various interested departments.

It was quite a complex and difficult problem and the committees, as I say, were recruited from representatives of the various departments.

There was a great deal of work done on them.

Mr. JUDD. I know that. You see our difficulty?

Ambassador DOUGLAS. I can insert the names. We can put them in the record at the moment. We can put the list in the record now.

Mr. JUDD. I think it ought to be done.

Ambassador DOUGLAS. We do not have the curriculum vita of each one.

Mr. JUDD. I think it makes a good deal of difference. It does not have to be in detail. You can defend a provision a great deal better if you have some idea of the background of the man who presented it, and presumably have weeded out the unworthy and kept in the worthy.

I wish that could be done, if there is no objection.

(The information is as follows:)

ORGANIZATION OF THE EXECUTIVE BRANCH AND PERSONNEL RESPONSIBLE FOR DEVELOPMENT OF THE PROGRAM OF UNITED STATES ASSISTANCE TO EUROPEAN RECOVERY

Organization of the Executive Branch of the United States Government for Preparation of the Program of the United States Assistance to European Recovery

Details of organization

The report of the Committee for European Economic Cooperation was transmitted to the Secretary of State on September 22, 1947. During the summer of 1947 the executive branch had undertaken a comprehensive examination of the

availability of United States resources and problems of foreign aid. Primary responsibility for organizing the preparation of the ERP for presentation to Congress was undertaken by the Secretary of State under the President. The work, however, was so complex and touched so many aspects of both the American as well as the European economic situation that nearly all departments of the executive branch were involved.

The work of analyzing the European economic situation, of appraising the CEEC report, and of developing the present proposals with regard to United States support to a European recovery program was undertaken by the executive branch under the general leadership of Under Secretaries of State Robert A. Lovett and William L. Clayton, and Ambassador Lewis W. Douglas. Mr. Clayton spent much of the summer in Europe and during this time conferred informally in Paris, together with Ambassadors Caffery and Douglas, with representatives of the participating countries in the Committee for European Economic Cooperation. After Mr. Clayton's return to the United States, he aided in the direction of work under way in Washington until his resignation as Under Secretary of State for Economic Affairs.

In Washington Mr. Lovett participated actively in organizing the work of analysis and screening of the CEEC program and the formulation of the program of United States assistance recommended by the executive branch. The first study of the problem of European recovery and the approach to its solution was undertaken by the policy planning staff of the Department of State, under the direction of Mr. George Kennan. With the report of the policy planning staff as a basic document, the standing top level executive branch policy committees on international financial and economic matters were brought into the picture. The National Advisory Council on International Monetary and Financial Problems (the NAC, see appendix), under the chairmanship of Secretary of the Treasury Mr. Snyder, was asked to examine the financial problems involved and to develop the policies to be applied in their solution. The Executive Committee for Economic Foreign Policy (see appendix), under the chairmanship first of Under Secretary Mr. Clayton, and subsequently of Mr. Willard L. Thorp, Assistant Secretary, was asked to develop the economic and trade policies involved.

In order that the manifold other elements in the task could be handled by the best experts available in the Government and to assure that the interests of all appropriate agencies of the Government concerned with particular domestic or foreign aspects of the program were taken into account, an interdepartmental Advisory Steering Committee was formed. Mr. Lovett was chairman of the committee, and his special assistant, Col. C. H. Bonesteel, of the Department of State, was vice chairman and executive secretary (see appendix). This committee directed the work of analysis and appraisal of the CEEC report and the formulation of the detailed program for United States support of European recovery. The committee was made up of top-level technical representatives from each of the interested departments and agencies of the executive branch. These included the Departments of Agriculture, Army, Commerce, Interior, Labor, Navy, and Treasury and the Board of Governors of the Federal Reserve. Observers from the Bureau of the Budget and White House offices also attended most meetings, and other agencies were represented on some occasions.

Under the Advisory Steering Committee an organization was built up which pooled the appropriate experts from each interested area of Government into functional working teams. The Steering Committee appointed a Correlation Committee, under the chairmanship of Colonel Bonesteel and consisting of four members representing the Departments of State, Treasury, and Commerce. This committee acted as the executive group of the Advisory Steering Committee. An Objectives Committee, with Mr. George Kennan, of the Department of State, as chairman, was established to review the broad aspects of the program as it developed. Seven major areas of functional responsibility were established. These areas and the persons with primary responsibility for each area were as follows: Economic policy, Mr. Thomas Blaisdell, Department of Commerce; financial policy, Mr. Frank Southard, Treasury Department; organization and administration, Mr. Lincoln Gordon, Department of State; legislative drafting, Mr. Ernest Gross, Department of State; functional and commodity analysis, Mr. Paul H. Nitze, Department of State; labor and manpower, Mr. Philip Kaiser, Department of Labor; and country analysis, Mr. Henry Labouisse, Department of State.

A major task of the Government groups working on the recovery program was to interrogate European representatives from the Committee of European Economic Cooperation who came to Washington to assist in the explanation and further

clarification of the Paris report. These conversations lasted for several weeks and permitted both the policy formulating groups and the technical analysis groups to determine in further detail the intent of the CEEC and to examine the detailed justifications of the requirements submitted by the European countries. During the technical conversations with the Europeans, the staff members, and in some cases principals of the President's Committee on Foreign Aid (the Harriman committee), participated, and there was full and free discussion of European requirements and potential United States assistance. Staff members of certain of the interested committees of the Congress also observed, and to some extent participated in, these conversations with the representatives of the CEEC.

In the course of the conversations with representatives of the CEEC many requests were made of them to furnish additional detailed information to enable the United States working groups to make better judgments in connection with their work.

After completion of conversations with the representatives of the CEEC, the work in formulating a United States program of assistance proceeded. The methods and sources used in developing the proposed United States program of assistance are explained below.

METHODS AND SOURCES OF ESTIMATES FOR COST OF EUROPEAN RECOVERY PROGRAM

Selected commodities

The first step taken by the executive branch of the Government in preparing estimates of the cost of the European economic recovery program was to study intensively certain commodities to be imported by the participating countries from the Western Hemisphere. The choice of the particular commodities studied in this fashion was dictated primarily by the fact that the Committee on European Economic Cooperation established technical subcommittees which prepared detailed reports on requirements and production in the fields of food and agriculture, energy, iron and steel, and transport (timber was later added to the list) because of the central importance of these commodities to European recovery. These commodities are referred to by the CEEC report as "Technical Committee goods." The list of "selected commodities" for which detailed estimates were prepared by the executive branch corresponds closely to the list of Technical Committee goods, for two main reasons: The goods are those of primary importance to European recovery and the most important supply problems will be encountered by the United States with respect to them. Cotton and trucks, both important items of United States exports, were added to the list. Petroleum equipment was not treated as a selected item, since it was impossible to obtain in the time available a detailed statement of the American company requirements.

(a) *Requirements.*—In the selected commodities, careful studies were first made of requirements to assure that, apart from supply considerations, the program would not be based on unwarranted levels of consumption. The standard used was the minimum required for genuine recovery, not that of a relief program.

In food, requirements included calories needed by the urban worker both to sustain life and to provide sufficient energy to enable him to work effectively. Extra allowances for special classes of consumers—miners, heavy workers, children, pregnant and nursing mothers, etc.—were taken into account. In addition to calories, attention was paid to the minimum basic needs for protein and fats and oils. And finally, the historic differences between standards of living among the countries of Europe, as well as the practical limitations on increasing consumption standards, rapidly were taken into account. As indicated below, availabilities, especially at the start of the program, are far short of the screened requirements.

In items other than food, requirements were derived in part from the physical requirements of reconstruction and in part from the interrelations of production programs. The need for steel, for example, was determined so far as possible in relation to the need for steel for rails, railroad equipment, coal-mining machinery, agricultural equipment, etc., as well as to the reconstruction and housing need. The requirements in coal, coke, freight cars, etc., were determined in turn in relation to the need for steel and other products.

If it was impossible to demonstrate that the country concerned needed a commodity for its economic recovery and could not dispense with it on any reasonable standard of consumption such as is required to maintain a tolerable standard of living for its people, the requirements was regarded as unjustified. Some projects, such as that for a small steel plant in Greece, were considered to be uneconomic and therefore as unjustified. The stated need for certain types of heavy agri-

cultural machinery were disregarded on the ground that European farms were not large enough to accommodate them on an economic scale and European agricultural labor not sufficiently skilled in their use to make it desirable to incur the large capital expenditures required. Requirements which appeared to be reasonable in the light of European needs and capacities in recovery were then regarded as initially justified. To the extent that requirements as set out by the Committee on European Economic Cooperation were not justified and they involved the import of goods, such imports were reduced or eliminated.

(b) *Availabilities.*—Against the initial calculation of requirements as justified it was necessary to set initial estimates of availabilities. The primary figure in an estimate of availabilities was domestic production in each country in Europe. Thereafter, an examination was made to see to what extent deficiencies which remained between domestic production and requirements could be met from surpluses available in the other participating countries themselves. Only finally, after the net deficits of the participating countries as a group were determined, was an examination made of the world supply, including supplies normally exported to the area from eastern Europe, Asia and Africa, the other Western Hemisphere countries, and the United States.

If requirements could not be met from world availabilities (including the supply available for export to the participating countries from the United States, after taking into account other United States commitments or demands for export) showed that the requirements could not be met, a reexamination of requirements was made to ascertain whether these could be readjusted or substitutes found to conform with availabilities without destroying the validity of the recovery program. In food, there was no choice but to cut requirements from the desirable level of food intake to the practical level dictated by supply considerations. In other items, it was frequently possible to adjust requirements so that the greatest possible protection could be given to the recovery program despite the fact that availabilities were insufficient to meet the requirements as initially calculated. Particular attention was given in this connection to providing supplies and equipment needed to remove bottlenecks holding back production in a wider area of the economy. The most important such bottlenecks have been coal, transport, fertilizer, and steel. The tight supply situation led the executive branch to eliminate from the program the imports of scrap steel which the participating countries sought from the United States, and to reduce the level of desired imports of crude and semifinished steel. A smaller amount of finished steel was added in order to prevent lack of steel from crippling the productive effort. Steel is likely to be insufficient in western Europe to enable the participating countries to reconstruct housing and commercial structures on the scale hoped for. But a readjustment of the anticipated uses of steel will make it possible, on the basis of the executive branch estimates, to protect the main steel-consuming industries on which economic recovery depends.

Sources of information

All available sources of information were used by the interdepartmental commodity committees established by the executive branch to examine the justification of requirements and the state of supply availabilities. A major source of information was the CEEC report, including both the general report and the technical reports. The executive branch also had available the individual replies to the questionnaires circulated by the CEEC technical committees and returned by the separate participating countries. In addition, the interdepartmental commodity committees held a series of conversations with technical representatives of the CEEC over a period of several weeks, and in cases where desired information could not be furnished directly by the CEEC representatives, supplementary questionnaires were prepared, circulated to the participating countries, and replies assembled.

Comments were sought by the United States Government on the country replies to the CEEC questionnaires from the United States representatives in the participating countries, and were furnished through the chief of mission by the economic staffs thereof, with assistance from the agricultural, commercial, and labor attachés. In the case of Greece, additional detailed information was obtained from the American Mission in Greece. From Germany, information on points not completely clear from the answers to the CEEC questionnaires furnished by the bizonal area was obtained from the Office of Military Government (U. S.) through the Department of the Army.

In the final preparation of the estimates, economic officers attached to missions of the most important countries involved were brought back from their posts

abroad for consultation with the Department of State and to contribute their knowledge of economic conditions and needs in various of the participating countries directly to the formulation of the program estimates.

In addition to the information furnished through official sources of the CEEC and American organizations abroad, valuable material was obtained from the organizations of the United Nations—in particular from the Statistical Office of the United Nations at Lake Success; from the findings of the Devastated Areas Subcommission for Europe of the Economic and Social Council; from the Economic Commission for Europe; and from the predecessor organizations of the ECE—the European Coal Organization, the European Central Inland Transport Organization, and the Emergency Economic Committee for Europe. In certain cases, special collections of basic material were obtained from United Nations sources—for example, the material accumulated by the Public Utilities Panel of the Emergency Economic Committee for Europe on the electricity network of Europe.

Heavy reliance was placed upon the reports of the committees headed by Secretary of the Interior Krug; Mr. Nourse, Chairman of the Council of Economic Advisers; and Secretary of Commerce Harriman. The Harriman committee enlisted the active participation of competent businessmen and other experts who contributed to the large body of valuable information available in their report.

Further information on requirements and availabilities was obtained from private United States citizens and business firms on one or more aspects of European economic conditions and prospects.

Frequent use was also made of information gathered by the daily press, both American and foreign, to statistical publications of central and commercial banks, private and quasi-public organizations and institutions, and to the official statistics of the countries concerned.

Balance-of-payments estimates

On the basis of the requirements and availabilities thus derived, an estimate of the pattern of trade was developed by the commodity committees. These covered the 28 commodity classifications or groups set forth in the tables on pages 115–118 of the Outline of European Recovery Program (Senate committee print) and dealt with the trade of the 16 participating countries, western Germany, the dependent areas of Belgium, France, the Netherlands, Portugal, and the United Kingdom. Exports and imports were calculated not only between these countries and the United States, but also with Canada, the rest of the Western Hemisphere outside the United States and Canada, the participating countries themselves, and other nonparticipating countries outside the Western Hemisphere. Figures for physical quantities of trade were converted to value equivalents at the prices of July 1, 1947, which date was also used by the CEEC and the Harriman committee as the price basis for their original computations. Following this step, which was performed by the interdepartmental commodity committees in consultation with the country committees, the estimates were turned over to the Balance-of-Payments Committee (National Advisory Staff Committee working group), also organized on an interdepartmental basis, with the assistance of the country committees.

From the work of the commodity committees, the Balance-of-Payments Committee received a series of tabulations for each participating country and each group of dependent areas showing exports and imports of scheduled commodities for the 3 months April to June 1948 and for each four 12-month periods thereafter. On the basis of these figures, the Balance-of-Payments Committee prepared estimates of exports and imports of other commodities, invisible items such as shipping, insurance, remittances, tourist expenditures, interest and dividends, etc. From these estimates, schedules of the over-all balance-of-payments positions of the participating countries and their dependent areas were derived on the basis of July 1, 1947, prices. An adjustment for changes in commodity prices and freight rates was finally applied, as indicated in Outline of European Recovery Program (Senate committee print), pages 93 and following.

The process of deriving the estimate of the cost to the United States in newly appropriated funds from the estimated balance-of-payments deficits of the participating countries and their dependent areas—subtracting what the participating countries are expected to pay in cash, what is estimated will be contributed by other countries in the Western Hemisphere, by loans from the International Bank, expenditures from existing loans of the Export-Import Bank, etc. Further explanation is to be found on pages 102–110 of the committee print of Outline of European Recovery Program.

APPENDIX

LIST OF UNITED STATES PERSONNEL PARTICIPATING IN THE PREPARATION OF THE EUROPEAN RECOVERY PROGRAM

A. ADVISORY STEERING COMMITTEE ON EUROPEAN RECOVERY PROGRAM

Chairman: Robert A. Lovett, Department of State.

Vice Chairman: Willard L. Thorp, Department of State.

Executive secretary: Charles H. Bonesteel, Department of State.

Secretary: Melvin L. Manfull, Department of State.

Members:

Charles Murphy, the White House.

Thomas C. Blaisdell, Jr., Department of Commerce.

Frank A. Southard, Treasury Department.

N. E. Dodd, Department of Agriculture.

James Boyd, Department of the Interior.

Col. R. M. Cheseldine, Department of the Army.

Admiral E. T. Wooldridge, Department of the Navy.

J. Burke Knapp, Federal Reserve.

Phillip M. Kaiser, Department of Labor.

Alternates:

Paul H. Nitze, Department of State.

Lincoln Gordon, Department of State.

Henry Labouisse, Department of State.

Thomas J. Lynch, Treasury Department.

L. M. Pumphrey, Treasury Department.

Jease Gilmer, Department of Agriculture.

Fred D. Northrup, Department of Agriculture.

Capt. Nathan H. Collisson, Department of the Interior.

Lt. Col. Philip Shepley, Department of the Army.

Capt. M. J. Tichenor, Department of the Navy.

Alexander Gerschenkron, Federal Reserve.

Lewis Demblitz, Federal Reserve.

Observer: Charles Murphy, the White House.

B. EXECUTIVE COMMITTEE ON ECONOMIC FOREIGN POLICY

Chairman: Willard L. Thorp, Department of State.

Executive secretary: Eleanor E. Dennison, Department of State.

Members:

Frank A. Southard, Jr., Treasury Department.

Clinton P. Anderson, Department of Agriculture.

Thomas C. Blaisdell, Jr., Department of Commerce.

Phillip Kaiser, Department of Labor.

C. Girard Davidson, Department of the Interior.

Thomas J. Hargrave, Munitions Board, National Military Establishment.

Oscar B. Ryder, United States Tariff Commission.

J. Burke Knapp, Federal Reserve Board.¹

Alternates:

Morris J. Fields, Treasury Department.

Charles Brannan, Department of Agriculture.

Frank Shields, Department of Commerce.

Faith M. Williams, Department of Labor.

Arthur S. Barrows, National Military Establishment.

Lynn R. Edminster, United States Tariff Commission.

C. NATIONAL ADVISORY COUNCIL

Chairman: John W. Snyder, Treasury Department.

Secretary: John W. Gunter, Treasury Department.

Members:

George C. Marshall, Department of State.

W. Averell Harriman, Department of Commerce.

Marriner S. Eccles, Board of Governors, Federal Reserve System.

William McC. Martin, Jr., Export-Import Bank.

¹ Has liaison representation on ECEFP; for European Recovery Program discussions considered full member.

Alternates:

Frank A. Southard, Jr., Treasury Department.
 Willard L. Thorp, Department of State.
 Thomas C. Blaisdell, Jr., Department of Commerce.
 J. Burke Knapp, Federal Reserve System.
 Herbert E. Gaston, Export-Import Bank.

D. POLICY PLANNING STAFF OF THE DEPARTMENT OF STATE

Director: George F. Kennan, Department of State.
Executive secretary: Carlton Savage, Department of State.

Members:

Jacques J. Reinstein, Department of State.
 Joseph E. Johnson, Department of State.
 Ware Adams, Department of State.

Consultant: Edward S. Mason, Harvard University.

E. SUBSTRUCTURE OF THE MAJOR COMMITTEES*(1) Advisory Steering Committee***a. Objectives Subcommittee:**

Chairman: George F. Kennan, Department of State.
Executive secretary: Bromley K. Smith, Department of State.
Members:

Charles H. Bonesteel, Department of State.
 Willard Thorp, Department of State.
 Thomas C. Blaisdell, Jr., Department of Commerce.
 Frank A. Southard, Treasury Department.

Consultants:

Jacques J. Reinstein, Department of State.
 John D. Hickerson, Department of State.
 Samuel Reber, Department of State.
 Loy W. Henderson, Department of State.
 W. Walton Butterworth, Department of State.

b. Correlation Committee:

Chairman: Charles H. Bonesteel, Department of State.
Executive Secretary: Col. Sidney Giffen, Department of the Army.
Secretary: Stanley Phraner, Department of Commerce.

Members:

Paul H. Nitze, Department of State.
 Frank A. Southard, Treasury Department.
 Thomas Blaisdell, Department of Commerce.

Alternates:

Lincoln Gordon, Department of State.
 John M. Cassels, Department of Commerce.

Staff group for Correlation Committee:

Chief: Charles P. Kindleberger, Department of State.

Members:

Harold R. Spiegel, Department of State.
 William T. Phillips, Department of State.
 William H. Bray, Jr., Department of State.
 Wilfred Malenbaum, Department of State.
 Ben T. Moore, Department of State.
 Robert W. Tufts, Department of State.
 Harlan P. Bramble, Department of State.

c. Organization and Administration Committee:

Chairman: Lincoln Gordon, Department of State.
Executive secretary: Herman Pollack, Department of State.
Secretary: John L. Kuhn, Department of State.

Vice chairman: Arthur A. Kimball, Department of State.

Members:

Thomas J. Lynch, Treasury Department.
 Nathan Ostroff, Department of Commerce.
 Thatcher Winslow, Labor Department.
 Dan Wheeler, Department of the Interior.
 J. Burke Knapp, Federal Reserve Board.
 W. Carroll Hunter, Department of Agriculture.
 Lt. Col. John P. Buehler, Department of the Army.

Alternates:

Joseph A. Frank, Department of State.
 Arthur G. Stevens, Department of State.
 Wayne G. Jackson, Department of State.
 Walter S. Surrey, Department of State.
 Joseph B. Friedman, Treasury Department.
 Daniel L. Goldy, Department of the Interior.

d. Legislative Drafting Committee:

Chairman: Ernest A. Gross, Department of State.

Members:

Thomas J. Lynch, Treasury Department.
 Adrian Fisher, Department of Commerce.
 Martin G. White, Department of the Interior.
 W. Carroll Hunter, Department of Agriculture.
 Jeter S. Ray, Department of Labor.
 Maj. Gen. Thomas H. Green, Department of the Army.
 Hudson B. Cox, Department of the Navy.
 George B. Vest, Board of Governors, Federal Reserve System.
 Wade H. Skinner, Maritime Commission.
 Hawthorne Arey, Export-Import Bank of Washington.

Alternates:

Walter S. Surrey, Department of State.
 Michael H. Cardozo, Department of State.
 Robert B. Eicholz, Department of State.
 Joseph B. Friedman, Treasury Department.
 Elting Arnold, Treasury Department.
 Clifford Hynning, Treasury Department.
 Nathan Ostroff, Department of Commerce.
 J. P. Brown, Department of Commerce.
 Felix S. Cohen, Department of the Interior.
 George E. Cooper, Department of Agriculture.
 Edward M. Shulman, Department of Agriculture.
 Kenneth Meiklejohn, Department of Labor.
 Brig. Gen. E. M. Brannon, Department of the Army.
 Col. James F. Hanley, Department of the Army.
 Lt. Col. Ray K. Smathers, Department of the Army.
 Col. W. H. Peters, Jr., Department of the Army.
 Harold B. Gross, Department of the Navy.
 Fred Solomon, Board of Governors, Federal Reserve System.

Functional and Commodity Committee:

Chairman: Paul H. Nitze, Department of State.

Executive secretary: Glenn H. Craig, Department of State.

Secretary: Ronald M. Ayer, Department of State.

Members: Chairman of individual commodity committees on attached lists.

1. Food and Agriculture:

Chairman: Fred Northrup, Department of Agriculture.

Secretary: Murray Thompson, Department of Agriculture.

Members:

W. J. Garvin, Department of the Army.
 Lewis Bassie, Department of Commerce.
 Albert Viton, International Emergency Food Council.
 Francis Linville, Department of State.
 C. K. Lewis, Tariff Commission.

Observer: Robert Oshins, the White House.

Alternates:

J. A. Becker, Department of Agriculture.
 J. T. Cavin, Department of Agriculture.
 Joseph L. Orr, Department of Agriculture.
 F. M. Rhodes, Department of Agriculture.
 L. B. Taylor, Department of Agriculture.
 C. E. Lund, Department of Commerce.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Karl A. Fox, Harriman committee staff.

John Kerr Rose, House Select Committee on Foreign Aid staff.

2. Fertilizer:

Chairman: William G. Finn, Department of Agriculture.

Secretary: William F. Watkins, Department of Agriculture.

Members:

Kenneth D. Jacob, Department of Agriculture.

C. K. Horner, Department of Commerce.

Henry M. Pauley, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Karl A. Fox, Harriman committee staff.

Maynard Jenkins, Harriman committee consultant (chemical company).

John Kerr Rose, House Select Committee on Foreign Aid staff.

3. Agricultural machinery:

Chairman: William L. Beck, Department of Commerce.

Secretary: Martin R. Cooper, Department of Agriculture.

Members:

Thomas J. Murphy, Department of Commerce.

Karl L. Anderson, Department of State.

Alternates:

A. P. Brodell, Department of Agriculture.

R. B. Gray, Department of Agriculture.

Erling Hole, Department of Agriculture.

Leon B. Taylor, Department of Agriculture.

Arthur W. Turner, Department of Agriculture.

G. J. Rothwell, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Karl A. Fox, Harriman committee staff.

H. H. Hughes, Harriman committee staff.

S. Morris Livingston, Harriman committee staff.

Willard Morrison, Harriman committee consultant, Agricultural Machinery Co.

John Kerr Rose, House Select Committee on Foreign Aid staff.

Francis O. Wilcox, Senate Committee on Foreign Relations staff.

4. Coal:

Chairman: John Havener, Department of Commerce.

Secretary: Louis Lister, Department of State.

Assistant secretary: Fred Sanderson, Department of State.

Members:

C. M. Stull, Department of Commerce.

Thomas Hunter, Department of the Interior.

R. M. Preisman, Office of Coordinator.

Alternates:

Ralph Trisko, Department of Commerce.

Daniel Wheeler, Department of the Interior.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

C. W. de Forest, Harriman committee consultant (now with gas and electric company.)

Richard H. Mote, Harriman committee staff.

Hector Prud'homme, Harriman committee staff.

Theodore Geiger, House Select Committee on Foreign Aid staff.

5. Mining machinery:

Chairman: William L. Beck, Department of Commerce.

Secretary: Everett Wilcox, Department of Commerce.

Members:

William H. Myer, Department of Commerce.

John W. Buch, Department of the Interior.

Karl L. Anderson, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Harold Von Thaden, Department of Commerce.
 Albert M. Keenan, Harriman committee consultants.
 S. Morris Livingston, Harriman committee staff.
 Richard H. Mote, Harriman committee staff.
 H. R. Wheeler, Harriman committee consultant.
 Theodore Geiger, House Select Committee on Foreign Aid staff.

6. Electric power:

Chairman: Thomas Hibben, Department of Commerce.
 Secretary: Wilfred Malenbaum, Department of State.
 Assistant Secretary: M. G. Tiger, Department of State.

Members:

Lt. Col. A. L. Jorgenson, Department of the Army.
 E. Robert de Lucci, Federal Power Commission.
 Arthur Goldschmidt, Department of the Interior.

Alternates:

Howard Wav, Department of Commerce.
 Ellsworth Hand, Federal Power Commission.
 C. E. Bennett, Federal Power Commission.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Walker L. Cisler, Harriman committee consultant.
 C. W. de Forest, Harriman committee consultant.
 George Hamilton, Harriman committee consultant.
 R. M. Landreth, Harriman committee consultant.
 J. A. H. Torry, Harriman committee consultant.
 V. M. White, Harriman committee consultant.
 Edward Falck, House Select Committee on Foreign Aid Staff.

7. Petroleum:

Chairman: John Loftus, Department of State.
 Secretary: David Longanecker, Department of State.

Members:

Gustav Vogel, Army-Navy Petroleum Board.
 Carl Gibboney, Department of Commerce.
 Max Ball, Department of the Interior.
 Walter Levy, Department of State.

Alternates:

Carroll Fentress, Department of the Interior.
 E. B. Swanson, Department of the Interior.
 R. H. S. Eakens, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

John Bauer, Harriman committee consultant.
 Gerald Cogan, Harriman committee consultant.
 A. E. Ernst, Harriman committee consultant.
 Robert Koenig, Harriman committee member.
 Richard Mote, Harriman committee staff.
 Arthur Stewart, Harriman committee consultant.
 John Fry, House Select Committee on Foreign Aid Staff.

8. Iron and Steel:

Chairman: J. Joseph Palmer, Department of Commerce.
 Secretary: Isaiah Frank, Department of State.
 Assistant secretary: Virginia McClung, Department of State.

Members:

Robert Simpson, Department of Commerce.
 Harold Wein, Department of Justice.
 Paul Hoover, Department of State.
 Carlyle H. Strand, Tariff Commission.

Alternates:

Robert M. Weidenhammer, Department of Commerce.
 Leon Goldenberg, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November, 1947:

Hiland Bachellor, Harriman committee member.
 Richard Bissell, Harriman committee staff.
 Otis Brubaker, Harriman committee consultant.
 S. Morris Livingston, Harriman committee staff.
 William S. Morrison, Harriman committee consultant.
 Hector Prudhomme, Harriman committee staff.
 William Remington, Harriman committee staff.
 Edwin B. George, House Select Committee on Foreign Aid staff.
 Robert Landry, House Select Committee on Foreign Aid staff.

9. Inland transport:

Chairman: John M. Tuthill, Department of State.

Secretary: Doris Whitnack, Department of State.

Members:

T. E. Anderson, Department of Agriculture.
 J. C. Winter, Department of Agriculture.
 Paul Brown, Department of the Army.
 James Glynn, Department of Commerce.
 Gerald Gallagher, Office of Defense Transportation.
 H. H. Kelly, Department of State.

Alternates:

J. J. Kaplan, Department of State.
 Gustav Pollaczek, Department of State.
 Robert Swain, Department of State.
 Clarence S. Gunther, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

William Flexner, Harriman committee consultant.
 Max Milliken, Harriman committee staff.

10. Maritime Transport:²

Chairman: Walter Radius, Department of State.

Secretary: Lehman P. Nickell, Department of State.

Members:

Serge Kushnarev, Department of Commerce.
 Huntington T. Morse, Maritime Commission.
 J. E. Saugstad, Department of State.

Alternate: Harvey Klemmer, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

Capt. Granville Conway, Harriman Committee member.
 James McCullough, Harriman Committee consultant (National Federation of Shipping).
 Max Milliken, Harriman Committee staff.

² The report submitted on Maritime Transport was reviewed by the Shipping Coordinating Committee (SHC). Its formal membership is as follows:

Chairman: Garrison Norton, Department of State.

Vice chairman: W. W. Smith, United States Maritime Commission.

Executive secretary: L. James Falck, United States Maritime Commission.

Assistant executive secretary: John W. Mann, United States Maritime Commission.

Secretary: G. Curtis Murrell, United States Maritime Commission.

Members:

Maj. Gen. Edward H. Leavey, Department of the Army.
 Thomas C. Blaisdell, Department of Commerce.
 Rear Adm. W. M. Callaghan, Department of the Navy.
 Edward H. Foley, Treasury Department.

Alternates:

Brig. Gen. Paul Yount, Department of the Army.
 Thomas Hibben, Department of Commerce.
 James C. Nelson, Department of Commerce.
 Huntington T. Morse, United States Maritime Commission.
 Richard Parkhurst, United States Maritime Commission.
 Capt. W. N. Mansfield, USNR, Department of the Navy.
 Admiral J. F. Farley, USCG, Treasury Department.
 Capt. H. C. Moore, USCG, Treasury Department.

11. Timber:

Chairman: Edward I. Kotok, Department of Agriculture.

Secretary: W. H. Sparhawk, Department of Agriculture.

Members:

Edward C. Crafts, Department of Agriculture.

Joseph L. Muller, Department of Commerce.

Jacob Crane, Federal Housing Agency.

J. S. Shanklin, Department of the Interior.

Frank H. Whitehouse, Department of State.

J. M. P. Donahoe, Tariff Commission.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November 1947:

A. C. Cline, Harriman committee consultant.

Kenneth R. Davis, Harriman committee staff.

Theodore Geiger, House Select Committee on Foreign Aid staff.

Thomas Gill, Pack Forestry Foundation.

12. Manpower:

Chairman: Faith Williams, Department of Labor.

Secretary: Jean Flexner, Department of Labor.

Members:

Ralph Hetzel, Department of Commerce.

Val R. Lorwin, Department of State.

Alternates:

David Lasser, Department of Commerce.

Herbert A. Fierst, Department of State.

Observers and consultants at conversations with representatives of Technical Committee of CEEC in Washington during October and November, 1947:

Ford Hinrichs, Harriman committee staff.

Gustav Peck, House Select Committee on Foreign Aid staff.

f. Country Committees:

Coordinating Group for Country Studies:

Chairman: Henry Labouisse, Department of State.

Executive secretary, Leonard Unger, Department of State.

Members:

Fred Straus, Department of Commerce.

Val Lorwin, Department of State.

Wayne Jackson, Department of State.

William Koren, Department of State.

1. Austria:

Chairman: Harold Vedeler, Department of State.

Executive secretary: Charles Rogers, Department of State.

Members:

Karl Koranyi, Department of Commerce.

J. Herbert Furth, Federal Reserve Board.

James Wood, Treasury Department.

Staff:

Joseph Rosa, Department of State.

Gerti Landauer, Department of State.

Everett Walk, Department of State.

Erwin Strauss, Department of State.

Myrtle Brickman, Department of Commerce.

Margaret Bell, Treasury Department.

2. Belgium-Netherlands-Luxemburg:

Chairman: Ray Miller, Department of State.

Executive secretary: Richard Breithut, Department of State.

Members:

Taylor Musser, Department of Commerce.

Robert Bean, Federal Reserve Board.

George Willis, Treasury Department.

Staff:

Clinton Knox, Department of State.
 Paul Hoover, Department of State.
 Marcia Harrison, Department of State.
 Elizabeth Otey, Department of State.
 Walter Buchdahl, Department of Commerce.
 Clarence Seigel, Department of Commerce.
 Frances Miller, Treasury Department.
 Ellen Maloney, Treasury Department.
 Paul Parker, Treasury Department.

3. France:

Chairman: Woodruff Wallner, Department of State.
 Executive secretary: Ivan White, Department of State.
 Executive secretary: ¹ Maurice Levy-Hawes, Department of State.
 Members:

Taylor Musser, Department of Commerce.
 Albert Hirschman, Federal Reserve Board.
 Frances Miller, Treasury Department.

Staff:

Alfred Reifman, Department of State.
 Val Lorwin, Department of State.
 William Koren, Department of State.
 Leon Goldenberg, Department of State.
 John Kean, Department of Commerce.
 Clarence Seigel, Department of Commerce.

4. Greece:

Chairman: William Rountree, Department of State.
 Executive secretary: John Lindeman, Department of State.
 Members:

Samuel Goldberg, Department of Commerce.
 J. Herbert Furth, Federal Reserve Board.
 George Willis, Treasury Department.

Staff:

Arthur Beach, Department of State.
 Charles Glendinning, Department of State.
 John Kennedy, Department of State.
 Beatrice S. Baum, Treasury Department.

5. Italy:

Chairman: Walter Dowling, Department of State.
 Executive secretary: William Stibravy, Department of State.
 Members:

Katherine Jacobson, Department of Commerce.
 Albert Hirschman, Federal Reserve Board.
 George Willis, Treasury Department.

Staff:

Gesualdo Costanzo, Department of State.
 Jacob Kaplan, Department of State.
 George Tesoro, Department of State.
 Clinton Doggett, Department of State.
 Seymour Pollack, Treasury Department.

6. Scandinavia:

Chairman: Robert Hooker, Department of State.
 Executive secretary: Randolph Higgs, Department of State.
 Members:

Grant Olson, Department of Commerce.
 Robert Bean, Federal Reserve Board.
 George Willis, Treasury Department.

Staff:

George Alsberg, Department of State.
 Richard Breithut, Department of State.
 Eleanor Murphy, Department of State.
 Eddie Schodt, Department of State.
 Ellen Maloney, Treasury Department.

¹ Mr. Levy-Hawes succeeded Mr. White on the latter's return to the Paris Embassy.

7. Switzerland-Portugal:

Chairman: Outerbridge Horsey, Department of State.

Executive secretary: William Conklin, Department of State.

Members:

Charles Barrett, Department of Commerce.

Albert Hirschman, Federal Reserve Board.

James Wood, Treasury Department.

Staff:

Edmund Da Silveira, Department of State.

Raymond Fernandez, Department of State.

Maurice Levy-Hawes, Department of State.

Nicholas Milroy, Department of State.

Fred Neter, Treasury Department.

Seymour Pollack, Treasury Department.

8. Turkey:

Chairman: Paul McGuire, Department of State.

Executive secretary: Herbert Cummings, Department of State.

Members:

Samuel Goldberg, Department of Commerce.

J. Herbert Furth, Federal Reserve Board.

William L. Hebbard, Treasury Department.

Staff:

Francis Boardman, Department of State.

Charles Glendinning, Department of State.

Gideon Hadary, Department of State.

Harry S. Weidberg, Treasury Department.

9. United Kingdom and Ireland:

Chairman: Avery Peterson, Department of State.

Chairman: ⁴ Wayne Jackson, Department of State.

Executive secretary: Herbert P. Fales, Department of State.

Members:

John Cassels, Department of Commerce.

Charles Harley, Federal Reserve Board.

William Hebbard, Treasury Department.

Staff:

John Lindeman, Department of State.

Alex Rosenson, Department of State.

James Lewis, Department of State.

David Linebaugh, Department of State.

Edward N. Cooper, Department of State.

Joseph Sweeney, Department of State.

Leocade Leighton, Department of State.

Donald Heatherington, Department of Commerce.

Frances Hall, Department of Commerce.

Cromwell Riches, Department of Commerce.

Lisle Widman, Treasury Department.

10. Western Germany:

Chairman: Edwin Martin, Department of State.

Chairman: ⁵ Daniel Margolies, Department of State.

Executive secretary: Coburn Kidd, Department of State.

Members:

Karl Koranyi, Department of Commerce.

J. Herbert Furth, Federal Reserve.

James Wood, Treasury Department.

Col. Charles Blumenfeld, Department of the Army.

Don D. Humphrey, OMGUS.

Staff:

George Jacobs, Department of State.

William Parker, Department of State.

Fred Sanderson, Department of State.

June Boeckman, Department of State.

Herbert H. Marcuse, Department of State.

Stanley Sommerfield, Treasury Department.

Maj. William Reed, Department of the Army.

Wilfred Garvin, Department of the Army.

Saul Nelson, OMGUS.

⁴ Mr. Jackson succeeded Mr. Peterson on the latter's return to the London Embassy.⁵ Mr. Margolies served as chairman while Mr. Martin attended the meetings of the Council of Foreign Ministers in London.

*(8) Executive Committee on Economic Foreign Policy***Subcommittees for ERP:**

- a. Working group on the relationship between the ERP and the UN and specialized organizations:

Chairman: Leroy D. Stinebower, Department of State.

Members:

Miriam Camp, Department of State.
 Otis E. Mullikin, Department of State.
 Thomas C. Blaisdell, Jr., Department of Commerce.
 Iver Olsen, Treasury Department.
 Robert B. Schwenger, Department of Agriculture.

- b. Working group on the relationship between ERP and ITO:

Chairman: Paul H. Nitze, Department of State.

Members:

Ben T. Moore, Department of State.
 George Bronz, Treasury Department.
 Morris Fields, Treasury Department.
 Oscar Zaglits, Department of Agriculture.
 Henry Chalmers, Department of Commerce.
 Lynn R. Edminster, United States Tariff Commission.

- c. Working group on domestic controls needed to implement the ERP.

Chairman: Donald D. Kennedy, Department of State.

Members:

Charles P. O'Donnell, Department of State.
 John S. Richards, Treasury Department.
 Frank Garfield, Federal Reserve Board.
 Charles W. Bucy, Department of Agriculture.
 Paul Homan, Council of Economic Advisers.
 Walter Seymour, Department of the Interior.
 Mike Meehan, Department of Commerce.

- d. Working group on strategic materials:

Chairman: William T. Phillips, Department of State.

Members:

Karl L. Anderson, Department of State.
 James Boyd, Department of the Interior.
 Carl Rolle, Army and Navy Munitions Board.
 T. D. O'Keefe, Department of Commerce.
 Morris Fields, Treasury Department.
 W. G. Finn, Department of Agriculture.

- e. Working group on manpower report:

Chairman: Faith Williams, Department of Labor.

Members:

Wilbur Cohen, Federal Security Agency.
 Irwin M. Tobin, Department of State.
 George L. Warren, Department of State.
 Val Lorwin, Department of State.
 Collis Stocking, Department of Labor.
 Jean Flexner, Department of Labor.
 Duncan Wall, Department of Agriculture.

(9) National Advisory Council: Staff committee (ERP financial policy group)

Director for ERP: Frank Southard, Treasury Department.

Secretary: Andrew Kamarck, Treasury Department.

Chairman: John W. Gunter, Treasury Department.

Working-group chairman: Andrew M. Kamarck, Treasury Department.

Secretary: Allan J. Fisher, Treasury Department.

Assistant Secretary: Harold Rosen, Treasury Department.

Members:

Norman Ness, Department of State.
 Clarence Blau, Department of Commerce.
 J. Burke Knapp, Board of Governors, Federal Reserve System.
 Hawthorne Arey, Export-Import Bank.
 Walter C. Louchheim, Securities and Exchange Commission.

Liaison: Jerome J. Stenger, Department of State.

Alternates:

Hubert F. Havlik, Department of State.
 Hale T. Shenofield, Department of State.
 Harold R. Spiegel, Department of State.
 Lewis Dembitz, Board of Governors, Federal Reserve System.
 Walter C. Sauer, Export-Import Bank.

Interdepartmental working groups of the staff committee composed of the experts on the particular matter or country are set up as occasion warrants. These groups collect the basic information available to the Government and perform the necessary analysis on the particular problem. The membership of these groups at one time or another would include most of the experts in governmental service working on international financial and economic problems. It appears neither appropriate nor feasible, therefore, to list the membership of such groups.

Mr. JUDD. I have one further question. May I direct this to Mr. Thorp, with your permission?

Ambassador DOUGLAS. Yes.

Mr. JUDD. When Secretary Marshall was before us in November, I asked him about the proposal that he said he was getting ready for submission, dealing with a possible long-term recovery program in China. I asked him if it would be ready for submission before the Council of Foreign Ministers meeting, and he said in the hearings, "I could not answer that right now, sir, I do not think it will be but it will be submitted by the time the Congress reconvenes, or earlier."

I asked, "Reconvenes in January?"

He said, "In the regular session; yes."

We have been in session now 10 days. Could you give us a definite date as to when that is likely to come before us because I think it is very important in estimating the whole European program. It should not come in at the last moment as a tag end, but as a part of the total picture the United States faces.

Mr. THORP. All I can say on that, Mr. Chairman, is we have been very busy at work on the program and had hoped that it already would be before the Congress.

A program has been drafted. It is now being reviewed within the executive branch.

I might also state that I think either today or tomorrow a technical group is arriving from China and we had thought it would be helpful to have some quick discussion with them before we submitted the program, but I think it is a matter of days rather than weeks.

Mr. JUDD. You think it will be this month?

Mr. THORP. Yes. I would feel quite confident that it will be this month.

Mr. JUDD. Can you tell me whether the budget the President submitted the other day for the next fiscal year included the proposed program for China?

Mr. THORP. This program has not been submitted as yet to the Budget Bureau. I think that the Budget Bureau in a miscellaneous item had various possible programs in mind, but I do not think that it was based on specific items.

Mr. JUDD. How much was that miscellaneous item, do you recall?

Mr. THORP. \$440,000,000.

Mr. JUDD. That is to take care of the contingencies. It might conceivably include the program for China, is that right?

Mr. THORP. I think it might well be that part of the program for China and it might have been charged against that. Actually I don't know what the Budget Bureau was including in that.

Mr. JUDD. But we can expect that we will get this program before the end of this month, surely?

Mr. THORP. As a matter of fact our goal has been to get it before you much earlier than that.

Mr. JUDD. I was just getting a progress report.

Mr. THORP. It does have to be cleared through various interested agencies within the administration, and I cannot guarantee the length of time that may take.

As far as the State Department is concerned, I think our basic work is completed with respect to the legislation.

Mr. JUDD. Thank you very much.

Thank you, Mr. Ambassador.

Mr. CHIPERFIELD. There are two more members of the committee who want to cross-examine you. I have consulted with them and they are willing to proceed or stop now, just as suits your convenience.

Ambassador DOUGLAS. Whatever would suit your convenience better. If they would like to continue this afternoon, that would be entirely satisfactory with me. If they prefer to wait, that is all right, too.

Mr. LODGE. I have quite a number of questions, Mr. Chairman. It might take some time.

Mr. CHIPERFIELD. I rather suggest, then, if it is agreeable with Mr. Javits and Mr. Lodge that since we have been in session quite a long time that we might meet again next Tuesday at 10 o'clock. That is the suggestion of Dr. Eaton. At that time they will be given plenty of time to cross-examine. They might be hurried tonight.

Mr. JAVITS. Might I ask a preliminary question so we might be prepared on Tuesday? Will you handle questions respecting the international trade organization or will the State Department produce another witness?

Ambassador DOUGLAS. No. I have enough on my hands as it is.

Mr. CHIPERFIELD. Thank you very much.

We will adjourn until 10 o'clock Tuesday.

(Whereupon, at 4:45 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, January 20, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 20, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C..

The committee met at 10 a. m., Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order, and we will proceed. Mr. Ambassador.

STATEMENT OF HON. LEWIS DOUGLAS, UNITED STATES AM- BASSADOR TO GREAT BRITAIN

Mr. DOUGLAS. Mr. Chairman and members of the committee, may I first introduce into the record, if there is no objection, a statement which discloses the compass of the proposed commodities and services from the Western Hemisphere during a period of 15 months, which we are discussing?

This, I would like to emphasize, is purely illustrative. It is no more than illustrative, for a number of different reasons. First, no calculation should prejudice the determinations of the Administrator, whoever he may be, when, as, and if he is appointed and confirmed by the Senate. Secondly, because, by the time the Administrator takes office, there may be a great many changes. I would like to emphasize that this is not and does not represent itself to be a final and definitive calculation.

Chairman EATON. Will you furnish each member of the committee with a copy?

Mr. DOUGLAS. Yes. It shows the possible sources by which these imports will be paid for; that is to say, from the resources of each individual country. It shows the other sources from which the imports might be financed, and it shows the commodities that, as an illustration only, might be financed by newly appropriated United States funds.

Together with that statement, I should like to introduce into the record a summary, or a recapitulation, of the longer document.

Chairman EATON. Without objection, it is so ordered.

(The documents referred to follow:)

EUROPEAN RECOVERY PROGRAM

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM
WESTERN HEMISPHERE, APRIL 1, 1948, THROUGH JUNE 30, 1949, AND POSSIBLE
SOURCES AND DISTRIBUTION OF FINANCING

The European Cooperation Administration will have to draw up programs of United States assistance to each participating country covering the commodities and services to be purchased in the Western Hemisphere and the manner in

which these purchases will be financed. Each country program will have to be coordinated with the country's total requirements and estimated imports from areas outside the Western Hemisphere and with the amounts of financing available from sources other than new United States funds.

The programs of United States assistance for each country as they may be developed by the Administrator should not now be prejudged. Therefore, an accurate representation of a program for each country, reflecting its aggregate required imports from the Western Hemisphere and the source of funds which will in fact finance each segment of these imports cannot now be made. A continuing process of adjustment will be necessary in order to take account of such factors as the success of the production effort by the participating countries, changes in world availabilities, price movements, supply and financial arrangements with nonparticipating countries, and the decisions of such agencies as the International Bank.

An illustrative program can, however, be drawn up which will be indicative at least of the country-by-country programs as they might be determined by the Administrator after he has considered all of the relevant factors. An example of such a program is set forth in the attached tabulation.

It needs to be emphasized again that the distribution of commodities by countries and sources of funds indicated in the accompanying tables is only an approximation of the program as it would actually be developed by the Administrator. Particular emphasis should be given to the fact that the amounts shown in table 1, column 4, and in the corresponding columns of the individual country tables do not necessarily represent the amount which each country would receive in the form of direct assistance from the United States, nor do they indicate the terms on which such appropriated funds would be advanced. Rather, they indicate the dollar balance required to fill each country's total estimated required import program from the Western Hemisphere (column 1), after deducting the dollars obtained from exports of goods and services (column 2) and after deducting sources of financing other than new United States funds (column 3). This balance of a particular country's dollar needs (shown in column 4) might in some instances be obtained indirectly through another participating country rather than directly from the United States. Various arrangements for indirect financing of this character could be made and might provide a feasible way to assist the participating countries in overcoming some of the obstacles to increased trade among themselves.

For example, bizonal Germany is expected to have a substantial surplus of exports over imports in its trade with some participating countries, and the latter must settle in dollars for a large part of their debit balances with the bizon. In this way the dollar requirements of these participating countries are increased (because they must pay dollars not only for their imports from the Western Hemisphere but also to settle their German accounts). On the other hand, the bizon's need for direct dollar assistance would be correspondingly reduced (because it would receive dollars in addition to those obtained from its exports to the Western Hemisphere shown in column 2). In circumstances like these the Administrator might find it desirable to allocate funds appropriated for European recovery in such a way as to increase the direct assistance in the form of loans or grants to one participating country over the amount of its Western Hemisphere deficit and correspondingly reduce the direct assistance given to another participating country. Alternatively, the Administrator might find it desirable to purchase goods in one country for delivery to another, the transaction being recorded as additional direct assistance to the receiving country. The exporting country's need for direct dollar assistance would be correspondingly reduced. In general, adjustments of this kind would be considered by the Administrator in the light of recommendations by the participating countries as a group acting through their continuing organization. Such adjustments would not increase the total amount of assistance required but would only affect its distribution between countries.

The country tables which are appended present for each participating country an illustrative composition of its imports of goods from the Western Hemisphere and its net dollar payments, if any, for freight and other invisible items, for the period from April 5, 1948, through June 30, 1949. All values are expressed in terms of July 1, 1947, prices as the adjustment for higher prices is covered in the table on page 5. A distribution of the financing of these imports and payments among the following sources of dollar funds is shown:

Column 2: Dollars earned by each country from exports to the Western Hemisphere and net dollar receipts, if any, for shipping and other invisibles. In

the case of Portugal, the amount shown in column 1 includes an expenditure of Portuguese gold and foreign exchange holdings in an amount necessary to offset its deficit on current account.

Column 3: Dollars obtained from such sources as International Bank loans, private investment, existing credits of the Export-Import Bank, and credits extended by participating countries having net dollar earnings on current account to other participating countries. Credits or other assistance by other Western Hemisphere countries are also included in column 3.

Column 4: New United States funds for European recovery and for prevention of disease and unrest in Germany (GARIOA) for which appropriations are being requested. As pointed out above, the amounts in column 4 represent the deficit computed on July 1, 1947, prices with the Western Hemisphere which it is necessary to finance directly or indirectly with new United States funds and do not necessarily represent the direct assistance in the form of grants and loans which will be extended to individual countries. The adjustments for increased prices and savings on shipping mentioned in the table on page 5 will also have to be taken into account on a country-by-country basis.

The table following recapitulates the country tables and presents a possible distribution, by sources, of the financing of the total Western Hemisphere import program:

TABLE 1.—Recapitulation of tables showing illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947 prices)

[In millions of dollars]

	Total imports ¹	Possible sources of financing		
		Dollar earnings ²	Sources other than new United States funds	New United States funds ³
Austria.....	238	39	12	182
Belgium-Luxemburg.....	853	334	196	323
Denmark.....	237	46	28	164
France.....	1,931	399	128	1,434
Greece.....	262	67	9	186
Iceland.....	23	10	.....	13
Ireland.....	192	40	.....	152
Italy.....	1,190	183	108	899
Netherlands.....	1,130	271	180	706
Norway.....	253	163	50	34
Portugal.....	144	144	.....	.....
Sweden.....	499	423	43	33
Switzerland.....	536	536	.....	.....
Turkey.....	69	69	.....	.....
United Kingdom.....	4,311	2,133	418	1,760
Germany:				
Bilzone.....	1,014	100	.....	914
French zone.....	93	13	.....	80
Saar.....	14	3	.....	11
Total.....	12,959	4,941	1,158	* 6,860

¹ Including net dollar payments for freight and other invisibles.

² Including drawings of \$72,000,000 by Portugal on its gold and foreign-exchange resources.

³ This column includes funds being requested by the Department of the Army for prevention of disease and unrest in Germany. A reconciliation with the \$6,800,000,000 being requested for the European recovery program is to be found on p. 8.

Column 1 indicates that the required imports of the participating countries of goods and services from the Western Hemisphere during the 15 months, April 1, 1948, through June 30, 1949, are expected to amount to \$12,959,000,000 (in terms of July 1, 1947, prices). This total, after deducting \$1,146,000,000 of payments for net freight and net other invisibles, equals the total commodity imports of \$11,813,000,000 shown in the summary balance of payments table on page 97 of the committee print of the Outline of a European Recovery Program.

Of this total, it is estimated that the participating countries will finance \$4,941,000,000 from their dollar earnings from exports to the Western Hemi-

sphere and other dollar receipts (and, in the case of Portugal by drawing down gold and foreign-exchange holdings).¹

Sources other than new United States funds are expected to finance, in terms of July 1, 1947, prices, \$1,158,000,000 of the total.² It is proposed that the balance of \$6,860,000,000 be financed by new United States funds appropriated for European recovery and to the Department of the Army for prevention of disease and unrest in Germany (GARIOA). The following table presents a reconciliation of this balance with the authorization of \$6,800,000,000 requested for European recovery:

Goods to be purchased in Western Hemisphere with new United States funds (at July 1, 1947, prices) (column 4 of recapitulation).....	\$6, 860
Adjustments:	
Add adjustment for price increases ¹	\$482
Deduct savings on shipping ²	100
	<hr/> 382
Adjusted cost of commodities and shipping services to be purchased in Western Hemisphere with new United States funds ³	7, 242
Authority to obligate funds for procurement of items to be delivered in subsequent years.....	200
Uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere ⁴	200
	<hr/>
Total being requested for European recovery program and by Department of Army for Germany (GARIOA).....	7, 642
Deduct appropriations being requested by Department of Army for prevention of disease and unrest in Germany (GARIOA).....	822
	<hr/>
Total requirement for first 15 months, European recovery program.....	6, 820
Authorization requested for European recovery program (preceding line in rounded amount).....	6, 800

¹ This figure is equivalent to the adjustment for higher prices of \$665,000,000 shown in the summary balance of payments table, page 97 of the Outline, after eliminating that portion of the increase attributable to "Sources other than new United States funds," such as the International Bank, and to Portuguese cash purchase.

² See p. 92 of the Outline. These are savings possible if additional temporary transfers of bulk-cargo carriers are made.

³ This entry and the following entries in the reconciliation are shown in the tables on pages 106 and 109 of the Outline and explained in the accompanying text, pp. 107-109.

⁴ See footnote 2, table 17.

The distribution by sources of financing in the following country tables has been made according to the following principles:

1. Financing which might be forthcoming from sources other than new United States funds has been spread over commodities for the purchase of which it is thought most likely that loans and credits might be granted. Much is assigned to the category "Other imports," which includes heavy and specialized equipment and important industrial raw materials, and additional large sums are allocated to bread and coarse grains, fats and oils, sugar, meat, and coffee, for which other Western Hemisphere countries might extend commodity credits or make other arrangements to assist the participating countries.

2. It is assumed that new United States funds will be used, in the first instance, for "selected" commodities.

3. Dollar earnings of the participating countries are assigned to the remaining Western Hemisphere requirements.

In this connection, it should be pointed out that the category "Other imports" is made up principally of important raw materials and manufactured goods, which in almost all cases are as important to economic recovery as the selected commodities. On many of these commodities studies of requirements and availabilities are being prepared, but a miscellaneous category will always

¹ See The European Recovery Program—Country Studies, Table II A. The sum of total exports to the Western Hemisphere and, where positive, of "Net freight" and "Net other invisibles" is the figure shown in column 2 of the attached country tables.

² International Bank, private investment, existing Export-Import Bank credits, dollar credits by participating countries, and credits or other assistance by other Western Hemisphere countries. These sources are expected to finance \$1,228,000,000 in current prices. This figure is equivalent to the figure of \$1,285,000,000 shown in the committee print of the Outline of European Recovery Program, p. 106, after deducting the item of \$85,000,000 representing purchases on cash basis (here included in column 2) and adding credits of \$28,000,000 by participating countries to participating countries.

be necessary, since trade between advanced industrial countries involves thousands of individual products. Preliminary indications of the values of some of the most important items in the category are given in footnotes to the tables.

It is recognized and, indeed, emphasized that the following tabulation is only illustrative and that the actual pattern determined by the Administrator might vary markedly from the one outlined here. It may, however, be useful in clarifying and delineating the problems which will be encountered in initiating the program and in adjusting it continuously to changing conditions.

TABLE 2.—*Austria—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing ^a		
		Austrian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	36.3	.....	.....	36.3
Coarse grains.....	4.4	.....	.....	4.4
Fats and oils.....	12.5	.....	.....	12.5
Oil cake.....	1.6	.....	.....	1.6
Sugar.....	5.4	.....	.....	5.4
Meat.....	8.8	.....	.....	8.8
Dairy products.....	4.1	.....	.....	4.1
Dried fruit.....	1.5	.....	.....	1.5
Coffee.....	4.0	.....	.....	4.0
Other foods.....	6.3	.....	.....	6.3
Subtotal.....	84.9	.....	.....	84.9
Tobacco.....	2.9	.....	.....	2.9
Cotton.....	21.6	.....	4.7	16.9
Agricultural machinery.....	1.6	.....	.....	1.6
Mining machinery.....	.5	.....	.....	.5
Iron and steel: Scrap iron.....	2.0	.....	.....	2.0
Trucks.....	3.8	.....	.....	3.8
Steel equipment.....	4.2	.....	.....	4.2
Timber equipment.....	4.0	.....	.....	4.0
Electrical equipment.....	.7	.....	.....	.7
Other imports ¹	67.0	39.0	7.5	20.5
Total commodity imports.....	193.2	39.0	12.2	142.0
Net freight.....	40.0	.....	.....	40.0
Other dollar payments.....	.....	.....	.....	.....
Total ²	233.2	39.0	12.2	182.0

¹ Includes (in millions) copper, \$6; chemicals, \$16; hides and skins and leather, \$1; wool, \$1.

² In the case of Austria and all other countries (except Portugal), the deficit on current account with the Western Hemisphere equals column 1 minus column 2 or, alternatively, column 3 plus column 4.

TABLE 3.—*Belgium-Luxemburg and dependencies—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Belgium-Luxemburg dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	78.1		19.0	59.1
Coarse grains.....	64.9		9.5	55.4
Fats and oils.....	22.2			22.2
Oil cake.....	28.1			28.1
Sugar.....	15.8		4.8	10.5
Meat.....	13.3			13.3
Dairy products.....	26.0			26.0
Dried fruit.....	.8			.8
Rice.....	.8			.8
Coffee.....	15.3		4.8	10.5
Other foods.....	16.8			16.8
Subtotal.....	281.6		28.1	263.5
Tobacco.....	21.5			21.5
Cotton.....	48.0		27.9	18.1
Nitrogen.....	.4			.4
Phosphates.....	.4			.4
Agricultural machinery.....	5.0		5.0	
Coal.....	20.5			20.5
Mining machinery.....	2.9		2.9	
Petroleum products.....	35.2	24.3		10.9
Timber.....	23.3	23.3		
Iron and steel:				
Finished.....	19.8		18.7	3.6
Crude and semifinished.....	9.4	5.2		4.2
Trucks.....	21.8		21.8	
Steel equipment.....	9.1		9.1	
Electrical equipment.....	6.0		6.0	
Other imports ¹	263.0	223.2	60.8	
Total commodity imports.....	795.4	276.0	196.3	323.1
Net freight.....	16.0	16.0		
Other dollar payments.....	42.0	42.0		
Total.....	853.4	334.0	196.3	323.1

¹ Includes (in millions) machinery and transportation equipment and technical apparatus, \$115; chemicals, \$29; lead, \$13; zinc, \$7; wool, \$15.

TABLE 4.—Denmark—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Danish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	0.5			0.5
Coarse grains.....	33.0			33.0
Fats and oils.....	8.8			8.8
Oil cake.....	42.2		4.8	37.4
Dried fruit.....	.4			.4
Rice.....	.2			.2
Coffee.....	20.0		4.8	15.2
Other foods.....	2.1			2.1
Subtotal.....	107.2		9.6	97.6
Tobacco.....	7.5			7.5
Cotton.....	6.9			6.9
Nitrogen.....	1.6			1.6
Potash.....				
Agricultural machinery.....	7.9		7.9	
Coal.....	10.9			10.9
Mining machinery.....				
Petroleum products.....	29.2	15.8		13.4
Timber.....	3.7			3.7
Iron and steel:				
Finished.....	15.8		6.0	9.8
Crude and semifinished.....				
Pig iron.....	.5			.5
Iron ore.....				
Trucks.....	11.2			11.2
Steel equipment.....	.5			.5
Electrical equipment.....	.5			.5
Other imports.....	13.5	8.8	4.7	
Total commodity imports.....	216.9	24.6	28.2	164.1
Net freight.....				
Other dollar payments.....	20.0	20.0		
Total.....	236.9	44.6	28.2	164.1

TABLE 5.—*France and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		French dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	115.7		11.8	103.9
Coarse grains.....	65.1		9.5	55.6
Fats and oils.....	78.9		23.6	55.3
Oil cake.....	20.8			20.8
Sugar.....	19.8			19.8
Meat.....	8			8
Dairy products.....	26.7			26.7
Eggs.....	1.8			1.8
Dried fruit.....	2.0			2.0
Rice.....	4.6			4.6
Coffee.....	7.6			7.6
Other foods.....	7.4			7.4
Subtotal.....	350.2		49.9	300.3
Tobacco.....	18.1			18.1
Cotton.....	165.8		9.5	156.3
Nitrogen.....	11.8			11.8
Agricultural machinery.....	59.7			59.7
Coal.....	205.2			205.2
Mining machinery.....	10.7			10.7
Petroleum products.....	146.5			146.5
Timber.....	35.6		16.0	19.6
Iron and steel:				
Finished.....	17.5			17.5
Crude and semifinished.....	10.0			10.0
Trucks.....	5.5			5.5
Steel equipment.....	13.8			13.8
Timber equipment.....	8.9			8.9
Electrical equipment.....	10.0			10.0
Other imports ¹	504.2	275.7	52.2	176.3
Total commodity imports.....	1,574.5	275.7	127.6	1,171.2
Net freight.....	263.0			263.0
Other dollar payments.....	93.9	93.0		
Total.....	1,930.5	368.7	127.6	1,434.2

¹ Includes (in millions) machinery, transportation equipment, and business machines, \$173; chemicals, \$43; copper, \$19; lead, \$9; zinc, \$11; hides and skins, \$32; wool, \$26; cotton textiles, \$31.

TABLE 6.—Greece—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Greek dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	47.4	.....	.....	47.4
Coarse grains.....	4.8	.....	.....	4.8
Fats and oils.....	.8	.....	.....	.8
Oil cake.....	.6	.....	.....	.6
Sugar.....	16.6	.....	.....	16.6
Meat.....	8.8	.....	.....	8.8
Dairy products.....	35.4	.....	.....	35.4
Eggs.....	.9	.....	.....	.9
Rice.....	.6	.....	.....	.6
Coffee.....	2.7	.....	.....	2.7
Other foods.....	.7	.....	.....	.7
Subtotal.....	119.3	.....	.....	119.3
Cotton.....	6.5	.....	.....	6.5
Nitrogen.....	2.4	.....	.....	2.4
Agricultural machinery.....	7.9	.....	.....	7.9
Coal.....	.2	.....	.....	.2
Petroleum products.....	8.3	.....	.....	8.3
Timber.....	4.5	.....	.....	4.5
Iron and steel: Finished.....	7.0	.....	.....	7.0
Trucks.....	7.3	.....	.....	7.3
Timber equipment.....	1.0	.....	.....	1.0
Electrical equipment.....	1.0	.....	.....	1.0
Other imports ¹	47.0	37.7	9.3	.....
Total commodity imports.....	212.4	37.7	9.3	165.4
Net freight.....	49.9	29.4	.....	20.5
Total.....	262.3	67.1	9.3	185.9

¹ Includes (in millions) machinery, parts, and accessories, \$18; clothing, \$12; chemicals, \$7.

TABLE 7.—Iceland—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Icelandic dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	1.5	.....	.....	1.5
Coarse grains.....	.5	.....	.....	.5
Fats and oils.....	1.4	.....	.....	1.4
Sugar.....	1.2	.....	.....	1.2
Dried fruit.....	.2	.....	.....	.2
Coffee.....	.7	.....	.....	.7
Other foods.....	.2	.....	.....	.2
Subtotal.....	6.7	.....	.....	6.7
Tobacco.....	.1	.....	.....	.1
Nitrogen.....	.2	.....	.....	.2
Agricultural machinery.....	.8	.....	.....	.8
Coal.....	.9	.....	.....	.9
Petroleum products.....	1.7	.....	.....	1.7
Timber.....	1.3	.....	.....	1.3
Trucks.....	1.0	.....	.....	1.0
Other imports ¹	11.0	10.0	.....	1.0
Total commodity imports.....	22.7	10.0	.....	12.7

¹ Includes (in millions) fishing and industrial equipment, \$9.

TABLE 8.—Ireland—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949, (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Irish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	26.5	-----	-----	26.5
Coarse grains.....	37.2	-----	-----	37.2
Fats and oils.....	3.1	-----	-----	3.1
Oil cake.....	1.4	-----	-----	1.4
Sugar.....	7.2	-----	-----	7.2
Dried fruit.....	.7	-----	-----	.7
Coffee.....	.6	-----	-----	.6
Other foods.....	1.3	-----	-----	1.3
Subtotal.....	78.0	-----	-----	78.0
Tobacco.....	8.3	-----	-----	8.3
Cotton.....	2.0	-----	-----	2.0
Nitrogen.....	.4	-----	-----	.5
Agricultural machinery.....	1.6	-----	-----	1.6
Coal.....	11.2	-----	-----	11.2
Petroleum products.....	13.0	-----	-----	13.0
Timber.....	7.1	-----	-----	7.1
Iron and steel: Finished.....	1.6	-----	-----	1.6
Trucks.....	1.9	-----	-----	1.9
Steel equipment.....	.4	-----	-----	.4
Electrical equipment.....	1.0	-----	-----	1.0
Other imports ¹	64.1	38.8	-----	25.3
Total commodity imports.....	190.6	38.8	-----	151.8
Net freight.....	1.7	1.7	-----	-----
Total.....	192.3	40.5	-----	151.8

¹ Includes (in millions) chemicals, \$5; machinery and transportation equipment, \$12.

TABLE 9.—*Italy—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

(In millions of dollars)

Import	Total imports	Possible sources and distribution of financing		
		Italian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	267.1	-----	23.8	243.3
Coarse grains.....	26.7	-----	9.5	17.2
Fats and oils.....	30.2	-----	9.5	20.7
Oil cake.....	4.1	-----	-----	4.1
Sugar.....	2.8	-----	-----	2.8
Meat.....	7.0	-----	-----	7.0
Dairy products.....	7.2	-----	-----	7.2
Coffee.....	14.3	-----	4.8	9.5
Other foods.....	10.2	-----	-----	10.2
Subtotal.....	369.6	-----	47.6	\$22.0
Tobacco.....	4.5	-----	-----	4.5
Cotton.....	149.5	-----	-----	149.5
Nitrogen.....	1.2	-----	-----	1.2
Agricultural machinery.....	5.0	-----	-----	5.0
Coal.....	88.0	-----	-----	88.0
Petroleum products.....	61.2	-----	-----	61.2
Timber.....	13.8	-----	-----	13.8
Iron and steel:				
Finished.....	6.9	-----	-----	6.9
Crude and semifinished.....	8.0	-----	-----	8.0
Pig iron.....	.9	-----	-----	.9
Steel equipment.....	4.5	-----	-----	4.5
Electrical equipment.....	7.0	-----	-----	7.0
Other imports ¹	306.8	183.0	60.5	62.3
Total commodity imports.....	1,025.9	183.0	108.1	734.8
Net freight.....	124.0	-----	-----	124.0
Total.....	1,150.9	183.0	108.1	\$858.8

¹ Includes (in millions) copper, lead, and zinc, \$18; wool, \$15; hides and skins and leather, \$18; machinery, \$7; fish, \$6; naval stores, \$3.

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TABLE 10.—*Netherlands and dependencies—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Dutch dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	111.0		39.2	71.8
Coarse grains.....	70.3			70.3
Fats and oils.....	40.5			40.5
Oil cake.....	31.4		9.5	21.9
Sugar.....	6.6			6.6
Meat.....	4.2			4.2
Dairy products.....	1.7			1.7
Dried fruit.....	3.3			3.3
Rice.....	.6			.6
Coffee.....	17.7			17.7
Other foods.....	14.6			14.6
Subtotal.....	301.9		48.7	253.2
Tobacco.....	23.4			23.4
Cotton.....	32.9			32.9
Nitrogen.....	6.2			6.2
Phosphates.....	.6			.6
Agricultural machinery.....	8.8			8.8
Coal.....	25.8			25.8
Mining machinery.....	2.3			2.3
Petroleum products.....	32.2			32.2
Timber.....	25.2			25.2
Iron and steel: Finished.....	53.8			53.8
Trucks.....	23.2			23.2
Steel equipment.....	4.6			4.6
Electrical equipment.....	6.3			6.3
Other imports ¹	491.3	174.1	110.7	206.5
Total commodity imports.....	1,038.5	174.1	159.4	705.0
Net freight.....	6.0	6.0		
Other dollar payments.....	91.0	91.0		
Total.....	1,135.5	271.1	159.4	705.0

¹ Includes (in millions) industrial machinery and transportation equipment, \$193; chemicals, \$26; hides and skins, \$13; copper, lead, and zinc, \$15; cotton textiles, \$54.

TABLE 11.—*Norway—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Norwegian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	35.9	35.9	-----	-----
Coarse grains.....	11.0	11.0	-----	-----
Fats and oils.....	9.9	9.9	-----	-----
Oil cake.....	3.4	3.4	-----	-----
Sugar.....	9.9	5.1	4.8	-----
Dried fruit.....	.9	.9	-----	-----
Rice.....	.6	.6	-----	-----
Coffee.....	10.6	5.8	4.8	-----
Other foods.....	2.9	2.9	-----	-----
Subtotal.....	85.1	75.5	9.6	-----
Tobacco.....	6.2	6.2	-----	-----
Cotton.....	3.6	3.6	-----	-----
Agricultural machinery.....	4.8	-----	-----	4.8
Mining machinery.....	-----	-----	-----	-----
Petroleum products.....	15.0	15.0	-----	-----
Iron and steel:				
Finished.....	24.5	5.6	-----	18.9
Crude and semifinished.....	1.4	-----	-----	1.4
Trucks.....	2.5	-----	-----	2.5
Steel equipment.....	2.5	-----	-----	2.5
Electrical equipment.....	4.0	-----	-----	4.0
Other imports ¹	98.0	51.4	46.6	-----
Total commodity imports.....	247.6	157.3	56.2	34.1
Other dollar payments.....	6.0	6.0	-----	-----
Total.....	253.6	163.3	56.2	34.1

¹ Includes (in millions) machinery and transportation equipment, \$46.

TABLE 12.—*Portugal and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Portuguese dollar earnings ¹	Sources other than new United States funds	New United States funds
Bread grains.....	33.4	33.4		
Coarse grains.....	7.3	7.3		
Fats and oils.....	3.1	3.1		
Oil cake.....				
Sugar.....	6.1	6.1		
Meat.....	1.9	1.9		
Eggs.....	.6	.6		
Coffee.....	.7	.7		
Subtotal.....	53.1	53.1		
Tobacco.....	4.1	4.1		
Cotton.....	2.0	2.0		
Nitrogen.....	3.4	3.4		
Agricultural machinery.....	3.1	3.1		
Coal.....	9.5	9.5		
Petroleum products.....	10.0	10.0		
Timber.....	4.5	4.5		
Iron and steel: Finished.....	6.4	6.4		
Trucks.....	7.0	7.0		
Electrical equipment.....	2.0	2.0		
Other imports ²	31.8	31.8		
Total commodity imports.....	136.9	136.9		
Net freight.....	7.4	7.4		
Total.....	144.3	144.3		

¹ Including drawings of \$72,000,000 on gold and foreign-exchange resources.² Includes (in millions) fish, \$6; machinery and transportation equipment, \$7; textiles and bagging, \$1.

TABLE 13.—Sweden—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Swedish dollar earnings	Sources other than new United States funds	New United States funds
Wheat grains.....	19.1	14.3	4.8	-----
Coarse grains.....	5.9	5.9	-----	-----
Fats and oils.....	7.7	7.7	-----	-----
Oil cake.....	11.8	11.8	-----	-----
Sugar.....	7.3	2.5	4.8	-----
Meat.....	5.1	5.1	-----	-----
Dried fruit.....	1.7	1.7	-----	-----
Rice.....	1.1	1.1	-----	-----
Coffee.....	30.4	16.1	14.3	-----
Other foods.....	11.1	11.1	-----	-----
Subtotal.....	101.2	77.3	23.9	-----
Tobacco.....	9.6	9.6	-----	-----
Cotton.....	29.4	29.4	-----	-----
Nitrogen.....	1.2	1.2	-----	-----
Phosphates.....	.5	.5	-----	-----
Agricultural machinery.....	12.7	-----	-----	12.7
Petroleum products.....	58.3	58.3	-----	-----
Iron and steel: Finished.....	27.1	27.1	-----	-----
Trucks.....	12.2	-----	-----	12.2
Electrical equipment.....	8.0	-----	-----	8.0
Other imports ¹	238.2	219.5	18.8	-----
Total commodity imports.....	496.5	422.9	42.7	32.9

¹Includes (in millions) copper, \$16; lead, \$6; chemicals, \$53; machinery and transportation equipment, \$58.

TABLE 14.—*Switzerland—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Swiss dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	55.2	55.2	-----	-----
Coarse grains.....	43.8	43.8	-----	-----
Fats and oils.....	8.5	8.5	-----	-----
Oil cake.....	2.2	2.2	-----	-----
Sugar.....	20.4	20.4	-----	-----
Meat.....	6.7	6.7	-----	-----
Eggs.....	6.1	6.1	-----	-----
Dried fruit.....	.2	.2	-----	-----
Rice.....	1.4	1.4	-----	-----
Coffee.....	11.2	11.2	-----	-----
Other foods.....	9.5	9.5	-----	-----
Subtotal.....	165.2	165.2	-----	-----
Tobacco.....	8.4	8.4	-----	-----
Cotton.....	14.0	14.0	-----	-----
Agricultural machinery.....	1.6	1.6	-----	-----
Coal.....	4.0	4.0	-----	-----
Petroleum products.....	12.0	12.0	-----	-----
Timber.....	1.6	1.6	-----	-----
Iron and steel:				
Finished.....	27.5	27.5	-----	-----
Crude and semifinished.....	1.4	1.4	-----	-----
Pig iron.....	.2	.2	-----	-----
Trucks.....	1.0	1.0	-----	-----
Electrical equipment.....	1.0	1.0	-----	-----
Other imports ¹	187.0	187.0	-----	-----
Total commodity imports.....	424.9	424.9	-----	-----
Net freight.....	110.0	110.0	-----	-----
Total ²	534.9	534.9	-----	-----

¹ Includes (in millions) machinery and transportation equipment, \$44; chemicals, \$30; copper, \$11; instruments and apparatus, \$11.² Switzerland has net dollar earnings on current account.

TABLE 15.—Turkey—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Turkish dollar earnings	Sources other than new United States funds	New United States funds
Coffee.....	0.3	0.3	-----	-----
Nitrogen.....	.6	.6	-----	-----
Agricultural machinery.....	7.9	7.9	-----	-----
Mining machinery.....	1.0	1.0	-----	-----
Petroleum products.....	7.5	7.5	-----	-----
Iron and steel, finished.....	5.0	5.0	-----	-----
Trucks.....	9.0	9.0	-----	-----
Timber equipment.....	.4	.4	-----	-----
Electrical equipment.....	2.0	2.0	-----	-----
Other imports ¹	25.2	25.2	-----	-----
Total commodity imports.....	58.9	58.9	-----	-----
Net freight.....	4.7	4.7	-----	-----
Other dollar payments.....	5.4	5.4	-----	-----
Total ²	69.0	69.0	-----	-----

¹ Includes (in millions) chemicals, \$6; machinery and precision instruments, \$4.² Turkey has small net dollar earnings on current account.

TABLE 16.—United Kingdom and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		United Kingdom dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	430.4	-----	238.1	192.3
Coarse grains.....	121.7	-----	38.1	83.6
Fats and oils.....	128.3	-----	38.1	90.2
Oil cake.....	43.1	-----	19.0	24.1
Sugar.....	147.1	-----	19.0	128.1
Meat.....	329.5	-----	32.3	297.2
Dairy products.....	164.2	-----	-----	164.2
Eggs.....	75.9	-----	-----	75.9
Dried fruit.....	17.1	-----	-----	17.1
Rice.....	37.9	-----	-----	37.9
Coffee.....	18.0	-----	4.8	13.2
Other foods.....	61.0	-----	-----	61.0
Subtotal.....	1,580.2	-----	300.4	1,289.8
Tobacco.....	160.4	-----	-----	160.4
Cotton.....	226.6	-----	-----	226.6
Nitrogen.....	1.4	-----	-----	1.4
Phosphates.....	.5	-----	-----	.5
Agricultural machinery.....	20.8	-----	-----	20.8
Coal.....	12.1	-----	-----	12.1
Mining machinery.....	32.6	-----	-----	32.6
Petroleum products.....	190.6	190.6	-----	-----
Timber.....	212.8	156.3	-----	56.5
Iron and steel:				
Finished.....	14.3	14.3	-----	-----
Crude and semifinished.....	56.0	56.0	-----	-----
Iron ore.....	8.8	-----	-----	8.8
Steel equipment.....	8.5	-----	-----	8.5
Timber equipment.....	1.7	-----	-----	1.7
Electrical equipment.....	40.5	-----	-----	40.5
Other imports ¹	1,622.4	1,594.5	27.9	-----
Total commodity imports.....	4,190.2	2,011.7	418.3	1,760.2
Net freight.....	59.0	59.0	-----	-----
Other dollar payments.....	62.0	62.0	-----	-----
Total.....	4,311.2	2,132.7	418.3	1,760.2

¹ Includes (in millions) chemicals, \$109; copper, \$80; tin, \$44; lead, \$37; zinc, \$35; aluminum, \$75; wood pulp, \$48; newsprint, \$24; hides and skins and leather, \$87; machinery and equipment, \$371; fish, \$28; wool, \$33.

TABLE 17.—*Western Germany, Bizone—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Bizonal dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	284.6	-----	-----	284.6
Coarse grains.....	54.1	-----	-----	54.1
Fats and oils.....	24.5	-----	-----	24.5
Sugar.....	27.5	-----	-----	27.5
Meat.....	6.2	-----	-----	6.2
Dairy products.....	9.9	-----	-----	9.9
Dried fruit.....	5.5	-----	-----	5.5
Coffee.....	2.2	-----	-----	2.2
Other foods.....	23.9	-----	-----	23.9
Subtotal.....	438.4	-----	-----	438.4
Tobacco.....	16.1	-----	-----	16.1
Cotton.....	66.5	-----	-----	66.5
Nitrogen.....	12.0	-----	-----	12.0
Phosphates.....	1.1	-----	-----	1.1
Agricultural machinery.....	8.4	-----	-----	8.4
Mining machinery.....	28.0	-----	-----	28.0
Petroleum products.....	22.5	-----	-----	22.5
Trucks.....	9.4	-----	-----	9.4
Freight cars.....	60.0	-----	-----	60.0
Timber equipment.....	.3	-----	-----	.3
Electrical equipment.....	5.0	-----	-----	5.0
Other imports ¹	212.4	99.6	-----	112.8
Total commodity imports.....	880.1	99.6	-----	780.5
Net freight.....	134.0	-----	-----	134.0
Total ²	1,014.1	99.6	-----	914.5

¹ Includes (in millions) copper, lead, and zinc, \$18; hides and skins, \$9; seeds, \$22.² In addition to its dollar requirements for imports from the Western Hemisphere, bizonal Germany will have an uncovered dollar deficit of \$200 millions with nonparticipating countries outside the Western Hemisphere. This deficit is made up of the following items (in millions): Wool, \$71; hemp, \$6.5; lead, \$10; coarse grains, \$28.5; cotton, \$16.6; other raw materials, \$26.6; freight, \$26.8.

Mr. DOUGLAS. At the last meeting of the committee, I think on Thursday, Congressman Javits asked whether there would be someone here this morning who would be able to answer certain questions which he might put in regard to the ITO. And, accordingly, Mr. Chairman, may I suggest that Mr. Clayton appear before the committee to answer the questions which Congressman Javits may have in mind, so that it will not be necessary to hold him before the committee throughout the entire session this morning?

Chairman EATON. Is it agreeable to the committee to have Mr. Clayton answer questions of Mr. Javits? All agreed, say "aye." Mr. Clayton, we are delighted to welcome you back.

Mr. William L. Clayton, Adviser to the Secretary of State: Thank you, sir.

Chairman EATON. Mr. Javits, of New York. I will present Mr. Clayton, Mr. Javits. He is now open for engagements with you.

STATEMENT OF HON. WILLIAM L. CLAYTON, ADVISER TO THE SECRETARY OF STATE

Mr. JAVITS. Mr. Clayton, you are the head of our delegation to the Habana United Nations Conference on Trade and Employment; are you not?

Mr. CLAYTON. Yes, sir.

Mr. JAVITS. Do you consider the work being done there as having any effect on our consideration of the European recovery program?

Mr. CLAYTON. Yes. I do, Mr. Javits. I think that the two programs are very complementary and very interdependent and closely related. The purpose of the European recovery program is to assist these countries of western Europe to stand on their feet until they are able to stand alone. And, at the end of that time, in order to continue to stand alone, they must, of course, increase their production greatly, and increase their international trade considerably, as compared with prewar.

It is the purpose of the ITO to bring about among the nations of the world a more liberal international trade policy than has heretofore been pursued, and in doing that, all these countries will be greatly assisted in increasing their production and in increasing their trade and making possible their own economic independence.

Mr. JAVITS. Mr. Clayton, there are certain disquiets with respect to the European recovery program, on which I think you can enlighten us considerably. One of those disquiets is that if we restore the European countries to their 1938 status, we will restore them to what was an uncertain economic life, and that, even if we restore them to their 1938 status, they are bad investments.

Can you tell us what effect the barriers to trade have on the economies of the 16 countries in question, in a general way, as you see it, and how the International Trade Organization will change the situation, assuming it comes into being?

Mr. CLAYTON. Well, obviously, barriers to international trade in the form of excessive tariffs and quotas and other restrictions on the movement of goods between countries, limit the possibility of the countries to reach a high standard of living, and to reach conditions of economic independence. The countries that we are considering in the ERP, the 16 countries of western Europe, are peculiarly in the posi-

tion where international economic relationships should be liberalized, for the reason that those countries had before the war, as this committee knows, about \$2,000,000,000 annually of invisible income, invisible exports, in the form of earnings on banking and insurance, but principally in the form of receipts of dividends and interest on foreign investments. Those foreign investments were almost used up, or disposed of, in order to fight the war, and they no longer pay dividends to the participating countries.

As you know, much of the shipping of these countries was destroyed during the war. Therefore, these countries must either have postwar a lower standard of living than they had before the war, or they must considerably increase their production, not only the production of the things that they consume themselves, like food, coal, and things of that kind, but the production of their industrial products and manufactured goods which they can export to pay for imports, which formerly were paid for by these invisible exports of which I have spoken.

It is estimated, as you know, that those invisible exports before the war paid for about one-fourth of the total imports of these 16 countries.

Now, it is highly desirable that in the years to come, those countries should follow a much more liberal policy in respect of their national economic relationships, their trade policies, their tariffs, their quotas, and all those sorts of things. And, indeed, the rest of the world should do the same, in order to put them in position to get back to their prewar standard of living as soon as possible, which can only be done by greatly increasing their production and distribution of goods as compared with prewar.

Mr. JAVITS. Mr. Chairman, may I invite any member who desires to do so, to join in the discussion?

Chairman EATON. The chairman would like to ask Mr. Clayton one question. Is the ultimate objective of the great institution which you represent here this morning, universal free trade?

Mr. CLAYTON. Well, Mr. Chairman, if we ever have free trade in the world, and probably we will, it is a long time in the future. The way the present world is set up, I do not think any of us would expect that we would have free trade soon.

What we are seeking, Mr. Chairman, is freer trade, not free trade. We are not trying to put the world on a free-trade basis in the foreseeable future. What we are trying to do is to liberalize the rules of international trade, and obtain freer trade, in order that we may have an increase in the production, the distribution, and the consumption of goods around the world, so as to increase the standard of living, raise the standard of living.

Mr. JAVITS. Mr. Clayton, could you give us some specific differences between the barriers to international trade as they stood in 1938, and the situation which you expect will succeed the European recovery program period, if we go through with the ITO?

Mr. CLAYTON. Well, Mr. Javits, that would bring us into a description of the great change that took place in the world trade pattern between the two world wars, as compared with pre-World War I, and, as you all know, that was a radical change.

The countries of the world during World War I learned many bad tricks in international trade. They learned to use quotas. They learned to use embargoes. They learned to discriminate between

nations. They learned so many and indulged in so many practices having to do with a limitation and restriction on the production and the movement of goods in the world that I think that had a great deal to do, certainly, with deepening and widening and prolonging the depression which started in 1930. We ourselves took, as I think we all recognize, our full part in that changed pattern, and contributed a good deal, I think, to what happened.

It is our hope that through the ITO, not immediately, but gradually, we will be able to get the world back to a multilateral form of trade, pretty much on the basis of pre-World War I. And, if we can do that, we think that the world will go forward much quicker in getting back to economic order and stability, and in raising the standard of living around the world, than if it were allowed to proceed on the basis of the pattern that existed between the two world wars.

Indeed, there are only two roads we can take. If we do not go forward with the objectives of the ITO, we are almost certain to go backward to the development of nationalism, such as we saw carried to extreme lengths in the First World War and between the two world wars, and then carried much farther, of course, during the Second World War.

I am not saying those things are not necessary during wartime, and it is true that they are. Nearly everything has to be controlled in a modern war, and it is difficult to turn loose and to get back to liberal methods and liberal terms of international relationships, but that is what we are trying to do in the ITO. I think it is highly important, as I said a moment ago, in connection with the ERP, because what the ERP attempts to do is a short-range program for one part of the world. And, if that program is successful, and those countries are enabled, by their own self-help and mutual help to get back on their feet, they will certainly be greatly helped in that policy, and in that direction, not only to get on their feet, but stay on their feet by the adoption of the policies that we are trying to get adopted in the ITO.

Mr. VORYS. If I may interpose, you mentioned that the ERP is a short-range program. Where do you get that idea? Is that what it is supposed to be?

Mr. CLAYTON. It is supposed to end, as I understand it, in the summer of 1952. I call that short range, and the object is, as I have said, as I understand it, to help these countries help themselves stand on their feet until they are able to stand alone without any special outside assistance.

Mr. VORYS. Are all of the 16 nations which are under consideration in the ERP, members of the ITO?

Mr. CLAYTON. I believe that every one of them is at Havana, yes.

Mr. VORYS. Is ITO a short range, as well as a long range program?

Mr. CLAYTON. Yes. It is a program that is supposed to become effective in many respects as soon as adopted, and to last from this time on out.

Mr. VORYS. What is the quickest time that ITO could go into effect?

Mr. CLAYTON. Of course, it has to be approved by our Congress and the legislatures of the other countries. This would probably take until the end of 1949.

Mr. VORYS. How does the International Bank tie in with this program?

Mr. CLAYTON. It has made some loans. As you know, the United States Government is committed for something over \$3,000,000,000, but not much of that was furnished in cash. And, as I think we all understand, the International Bank has to get its cash with which it operates by selling debentures to the investing public in the United States.

Obviously, under conditions as we see them in Europe today, the investing public, in my opinion, will not buy those debentures in very large amounts at present, under conditions as we see them in Europe. If through the enactment of ERP, a firm economic foundation is placed under Europe, then I think the directors of the International Bank will have courage to go forward with credits for reconstruction and development, as it was intended they should do. And I think also that the investing public in the United States will buy the bonds. But under present conditions I do not believe the bank can operate to any very substantial extent.

Now, answering your question about tying in the ITO with this program, it is automatically tied in. The ITO deals with questions of trade barriers, tariffs, quotas, subsidies. It deals with the question of cartels. It has a very important chapter on cartels, the object of which is to do away with international cartels, which are a form of private restriction on trade between nations. It would obviously not be of much purpose to prevent governmental restrictions on trade, if you are going to allow private people to do it. So they have a very important chapter on cartels.

They have an important chapter on international commodity agreements, or arrangements. And in matters of that kind, the charter is a very comprehensive document, and in many respects the provisions of the charter would come into force immediately upon the charter being adopted and the organization set up and starting to function.

There are chapters on technical matters, on administration of customs laws, and matters of that kind, that would come into effect at once.

There was a trade agreement made between the 23 nations there represented, while they were working on this charter, as the result of which restrictions on trade and impediments to international trade were greatly lowered, or were withdrawn, as, for example, in many cases, discriminations, preferences, and things of that kind.

So that I think I can assure you that the ITO when it is adopted and set up will begin to function immediately in the direction which I have mentioned before. Obviously, it cannot come into full bloom until its member nations reach a condition where they can stand on their own feet economically, and they cannot do that today. That is the reason for ERP. As soon as they are assisted to stand on their own feet alone, without special outside assistance, then the ITO will come into full bloom and operation.

Mr. JAVITS. Mr. Clayton, I would like to revert to the question asked by the chairman, and ask you whether it is not fair to characterize the present status of ITO as follows: That what it seeks to do is to reduce barriers to international trade now, or proximate to now, like quantitative restrictions, preferential arrangements, discriminatory practices, discriminatory treatment of imports as against domestic production; cartels, which you referred to, inter-governmental commodity arrangements, and so forth, leaving intact, however, the struc-

ture of tariffs as a means for trade protection, except for the obligation to negotiate for their progressive reduction. Is that a fair statement, looking at the matter from an over-all viewpoint?

Mr. CLAYTON. Mr. Javits, that is not only a fair statement, but, if I may say so, a very intelligent and brief summary of what the ITO seeks to do.

Mr. JAVITS. So that there is no peril to our tariff system in the ITO?

Mr. CLAYTON. There is no peril. There is not. We have, of course, as we all know, the Trade Agreement Act, under which we operate, and all that the ITO has to say on that subject is that the members are obligated to negotiate for the reduction of tariffs, and the elimination of preferences and discriminations. And, negotiate, as we, of course, all know, means sitting across a table from somebody, and, if you can agree, that you get a quid pro quo for what you give, perhaps you reach an agreement, but that is all the ITO involves in the matter of tariffs, to negotiate for lower tariffs and for the elimination of restrictions.

Mr. JAVITS. Could you give us an idea of the magnitude in which the exports of the western European countries participating in the ERP must be increased before they can be said to be standing on their own feet?

Mr. CLAYTON. I cannot give you that in exact figures, but I do want to emphasize that the production of these countries and their exports must be raised in volume—I am not talking about dollars—but in actual volume, considerably above prewar, for the reason to which I have referred, that they have lost so much of their means of payment of imports because of the destruction of these foreign investments, and so on.

Mr. JAVITS. Is it a fact that these nations cannot stand on their own feet unless they realize a material increase in export volume?

Mr. CLAYTON. That is my judgment. Yes, sir.

Mr. JAVITS. Foreign trade, therefore, is essential to any permanent European recovery?

Mr. CLAYTON. Absolutely. It is much more essential to these particular countries than it is to most other parts of the world, because they are older, and they are more highly industrialized, more highly specialized in their countries, and they have built up on the basis of industrialization, in many cases. Take Belgium, for example, it has the highest density of population of any country in the world, five or six hundred to the square mile. Obviously, they cannot produce their food. They produce almost no raw materials, except coal. They have to import, and they manufacture and export in order to pay for those things.

Mr. JAVITS. It is argued, Mr. Clayton, that if we create conditions of high production in the 16 western European countries, and give them machinery, and give them technical help, that we are creating a Frankenstein which in turn will push us out of the competitive markets of the world. What do you say to that argument?

Mr. CLAYTON. Oh, Mr. Javits, I do not believe that that argument has any merit. We have recognized for a long time in the United States that it is in our interest to see the rest of the world develop as long as it can do so on sound lines. We do not want to see any unsound development. We have assisted, by loans, Latin-American countries in the development of their resources, and other countries, and the history of our foreign trade shows that we have always had

the largest trade with the highly developed countries. That is perfectly natural, because they have a higher standard of living, they have greater buying power, they have greater wants.

Take Canada, for example, the UK, and so on. Our greatest trade in exports has always been to those countries, and it will always be, for the reasons I have named. By helping these countries to get on their feet and increase their production, I think we not only do not hurt ourselves in the markets of the world, we help ourselves in the markets of the world.

Mr. VORYS. Right on that point, as I understand it, it is about a two-billion-dollar increase in dollar requirements for these 16 countries that is involved in this 25-percent loss of invisible exports. That is a rough estimate.

Mr. CLAYTON. That is the figure, roughly, that we have been furnished, and I believe it to be approximately correct.

Mr. VORYS. I mean, roughly speaking.

Mr. CLAYTON. That is right. Yes, sir.

Mr. VORYS. That would mean that the western European countries, just to get on their feet, should be exporting, primarily to the United States, \$2,000,000,000 more in materials than they did before, or should be exporting it some place else, so that \$2,000,000,000 more of imports coming into the United States would create the dollar resources to take up the deficit. That is approximately right, is it not?

Mr. CLAYTON. I do not think it is quite right, Mr. Vorys, because that assumes that all those \$2,000,000,000 of imports into these countries would come from the United States. I do not think that is right. It would come from many other parts of the world. And, also, there is an element there which I think you do not take into account, and that is, in the way you have stated the question, you assume that the standard of living in these countries would immediately, or very soon, be up to prewar, and I do not know, I just do not know, whether that would be the case or not.

It may be that they would have to make this adjustment for this loss of 2 billions of invisible exports by two processes, one, for a few years having the standard in certain respects not quite up to prewar, and, on the other hand, increase of production.

Mr. VORYS. That is true, but, in general, this long-term picture, it seems to me, involves the bringing into the United States of at least \$2,000,000,000 more in imports than we ever had before. I was going to ask you if you could give us some examples of the type of imports that we could bring in in such very large quantities which would be helpful, and not harmful, to our economy, which, of course, is the goal we are seeking.

Mr. CLAYTON. Well, Mr. Vorys, I do not believe it means anything like 2 billions of imports coming into the United States from these particular countries. I do not think so. But, I will say that I do think that we have to contemplate in the future a very substantial increase in imports into the United States, and I think we can do so with value to our standard of life, and to our whole economy.

The wants of our people are increasing all the time. Their buying power is increasing. Their standard of life is rising, and there are any quantity of things that we can import that will contribute to that, that should not materially affect our own producers.

Of course, in that connection, as you know, we are in the position of having to import many more things than we did before the war,

to sustain our own economy, principally metals and minerals, copper, lead, zinc, and all kinds of things, our resources of which we depleted during the war, and which have to come in now in much larger quantities.

Also, I should like to mention in that connection that in the last 10 years, we have had a substantial increase in population, we have had a substantial increase in the needs and desires of our people, a rising standard of life, a greater buying power. And, during that same period, we have increased in the United States our facilities for production of consumer goods comparatively little. We have the market here, we have the demand here, and we can absorb in this country a good deal of consumer goods of one kind and another, without any serious injury to our own producers. In other words, our own producers can continue to have, perhaps, a greater market than they had before the war.

Mr. BLOOM. May I ask a question?

Mr. VORYS. Before we get off of this, I am quite familiar with the general situation as you describe it, but I was wondering if you could give us some more specific examples of the materials we could bring in in quantities of billions of dollars excess in imports over what we ever had before, which would benefit our economy. You mention certain strategic materials, such as minerals, and that is one which I think we all appreciate. I wondered if it would be possible for you to give us a somewhat specific list of such imports.

Mr. CLAYTON. I do not think that I could, Mr. Vorys. There are a variety of things.

Mr. BLOOM. Woolen cloth.

Mr. CLAYTON. Well, we know, Mr. Bloom, that for the last 2½ years since the war ended, we are still unable to get as much as we need, consumers are still unable to get as much as they want.

Mr. BLOOM. That would be manufactured goods. Of course, you are just mentioning raw materials. Of course, Mr. Vorys spoke of manufactured goods. Woolen material would be one.

Mr. CLAYTON. That is right.

Mrs. BOLTON. May I interpose at that point?

Mr. CLAYTON. Textiles of different kinds could be brought in.

Mr. BLOOM. Without any serious damage to our own manufacturers?

Mr. CLAYTON. I think so.

Mrs. BOLTON. Would the gentleman yield?

Mr. BLOOM. I yield to Mrs. Bolton.

Mrs. BOLTON. Do we not have a considerable supply of raw wool stored away?

Mr. CLAYTON. Yes. The Commodity Credit Corporation has a large supply, which they purchased during and just after the war in order to hold prices.

Mrs. BOLTON. Does that not deteriorate if it is kept in the raw form?

Mr. CLAYTON. I do not know, Mrs. Bolton. But we are, of course, consuming wool in this country—the last figure I saw, at the rate of about 900,000,000 pounds a year. It would be very easy to work off that wool and keep it rotating, in order to prevent any deterioration. I do not think that that is a problem.

Mrs. BOLTON. Is anything being done with that? I have been told nothing was done. That is why I asked the question.

Mr. CLAYTON. I am not currently informed on it, because I have not discussed it with the Department of Agriculture, but I understand that was the purpose, and that that was being done during the war, and it is easy to do. I don't believe they would have any difficulty with that. As a matter of fact, under the bill passed by Congress in June, the Department of Agriculture now has, as I remember it—I think I am right in saying that the Department of Agriculture now has full authority to dispose of that wool in the market. So that there is no reason why they cannot work it off.

Mr. BLOOM. May I ask, Mr. Clayton—have you finished, Mrs. Bolton?

Mrs. BOLTON. On that subject. I will wait until later for any more questions I may have.

Mr. BLOOM. Is it not a fact that we cannot expect to keep on selling export goods to these countries without purchasing something from them? It is a question of buying and selling. But if we expect to export to these countries, our goods and not buy goods from them, of course they will not be able to get the dollars to pay.

Mr. CLAYTON. That is right.

Mr. BLOOM. Is it not a matter of business all the way through?

Mr. CLAYTON. That is right. We have three things we can do. One is to lop off the exports, bring them down to the volume of imports. The other is to give away the surplus every year, and then we could buy more goods to take payment for those surplus exports, by taking goods.

Mr. BLOOM. Is it not a further fact that if we do not have an export trade, so as to keep our manufacturing up to the peak load, that the manufactured goods in this country would cost us more, because we would not be manufacturing to peak load?

Mr. CLAYTON. That is right.

Mr. BLOOM. It is the idea of being able to export a certain amount of goods to X country that allows us to manufacture the goods at a price, on account of running to capacity. If we did not do that, and if we only manufactured up to 75 or 80 percent of capacity, then that 75 or 80 percent would cost us more money in this country to manufacture?

Mr. CLAYTON. Yes, sir. it would. And there is certainly that factor in it which you mention, and then there is the other factor that has to do with our raw materials, agricultural products, principal among them being wheat, tobacco and cotton, those three. We export a substantial part of our production of those commodities, and if we had to curtail very substantially those exports, we would have to do something with the surplus, or we would have to make arrangements with the producers to produce less, and divert their energies into other activities.

Mr. BLOOM. Following up Mrs. Bolton's question as to wool, Mrs. Bolton mentioned the stock pile we have here. Was that not imported from other countries, Argentina and other countries, at the time?

Mr. CLAYTON. No, sir. I think that has been disposed of. I think the stock pile, which we bought in largely from Australia, has been sold. What Mrs. Bolton refers to is domestically produced wool, purchased by the Department of Agriculture during and following the war. They now have congressional authority to dispose of it at the market.

Mrs. BOLTON. And I had in mind also, Mr. Secretary, the wool bought from other countries, if we had bought it in the raw stage.

Mr. CLAYTON. That was all disposed of, Mrs. Bolton. I think perhaps the United Kingdom still has considerable wool in storage in the United States, but it belongs to them, and the wool we bought from Australia, which was 300,000,000 pounds, if I remember correctly, has all been sold.

Mr. JAVITS. Mr. Chairman, I have a few other questions.

Chairman EATON. The chairman understands that at our last meeting, it was agreed that Mr. Javits and Mr. Lodge should finish up the questions that they wanted to ask at that meeting. Mr. Javits, how much more have you?

Mr. JAVITS. I have a very few questions, but Mr. Lodge has one. I will be glad to yield to him.

Mr. LODGE. I was going to ask Mr. Clayton this. In answering Mr. Bloom's question, am I correct in understanding you to say that these exports contribute to lower prices in this country?

Mr. CLAYTON. I do not know whether they do to lower prices or not, but they certainly do to lower costs of production, which in turn contributes to lower prices. For example, take agricultural implements. We export in normal times, as you know, 20 to 25 percent of our production of agricultural implements, 20 percent, I think, of trucks and automobiles. Now, obviously, if you can continue that large a volume as against only the domestically sold and distributed goods, if you were confined to that, that would contribute to a lower unit cost of production of those particular things. I think that is what Mr. Bloom meant.

Mr. LODGE. But is it not possible that the producers of such articles in this country would, nevertheless, produce the same amount, in order to keep on satisfying an increasing demand in the United States and that that would contribute to lower prices, on the basic theory of supply and demand?

Mr. CLAYTON. If we lose our exports, Mr. Lodge, you will have less demand in the United States for those things.

Mr. LODGE. I am talking about today, not the long-range future. Would you say that these demands are being more than satisfied in this country as of today? That is the point I am trying to get at.

Mr. CLAYTON. The demand for those two things I have mentioned is certainly not satisfied at present in this country.

Mr. LODGE. That is what I was thinking of.

Mr. CLAYTON. That is certainly true.

Mr. LODGE. In other words, as of today, what Mr. Bloom says would not be true. It would be true in the long-range future.

Mr. BLOOM. Everything Mr. Bloom says is true.

Mr. LODGE. Mr. Bloom can always be sure of one good opinion.

Mr. CLAYTON. As of today, we have very little exports of agricultural implements and automobiles, the two things of which I have spoken, because of the fact of the shortages here in this country. We have had a greater demand for those two things than the manufacturers can supply.

Mr. LODGE. That is what I was trying to get at.

Mr. CLAYTON. In normal times, we would export around 20 percent of the production of each of those things.

Mr. LODGE. I have no quarrel with the principle you have advanced, but as of today, we might as well face the facts, and not pretend that

this is going to be a painless matter. Although as of today, we may be justified in doing these things, are we in fact contributing to lower prices and lower costs in a market which is far from being satisfied?

Mr. CLAYTON. I would think not in those particular cases. However, I think the most serious aspect of what would happen if we lost our exports, or had to reduce them materially, lies in the agricultural field, and that is where you would have to make the most radical adjustment. We produced last year a billion, four hundred million bushels of wheat. The human beings in this country cannot use over half of that, to save their lives, they do not eat over half of that. Of course, we feed a certain amount to animals, which is unfortunate, and you have a lot of wheat you have to export.

Mr. LODGE. Yet the price of wheat goes up.

Mr. CLAYTON. And yet the price of wheat goes up, because there is such an enormous demand over the world for it. The production of wheat in other countries has declined so much that they have to have our wheat.

Mr. LODGE. It is true that this demand from outside this country has had quite an effect on raising the price of wheat for Americans. I do not mean to question the desirability or necessity of it, but I think it is well not to hoodwink people as to what the results will be.

Mr. CLAYTON. I do not want any of us to hoodwink anybody. But, if you suddenly lost all your exports of wheat, you would have deflation to deal with, and not inflation.

Mr. JAVITS. The other side of the medallion is that certain imports into the United States will have a very material impact on the cost of living in the United States, without interfering with our basic economy, will they not?

Mr. CLAYTON. Indeed, yes.

Mr. JAVITS. And would reduce scarcities?

Mr. CLAYTON. Indeed, yes.

Mr. JAVITS. And keep prices down?

Mr. CLAYTON. That is right.

Mr. VORYS. Would the gentlemen permit an interruption?

Mr. JAVITS. Certainly.

Mr. VORYS. I wonder if there is anybody in the Government who can give me a list of increased imports that would obviously be increased to the United States. I had thought that of all the people connected with the Government, you would be the one who could just reel off the answer immediately, that we need so many million or billion pounds of this or that mineral, and so forth. I hope somebody is thinking profoundly on that, because, otherwise, we are building toward a long-term policy where we merely suffer imports. I do not think that is the case. I think there are a lot of things we want to increase in quantity, and I would like to get hold of the list. Can you tell me where I can get such a list?

Mr. CLAYTON. I do not believe it is possible for anyone to give it. It is constantly changing, with changing prices and changing demands, and I do not believe it is possible to furnish such a list. As you know, in our tariff policy, under the Trade Agreements Act, we have an escape clause, which protects any producer in this country who is injured, or is threatened with serious injury by reason of reduction in the tariffs and an extraordinary increase in imports. That is a protective clause that is to protect them in case we should go too far in reducing this protection.

I think all we have to do is to look at the figures and know that with \$15,000,000,000 of exports and five or six billions of imports, that that is a situation that cannot go on very long. You are either going to have to cut way down on exports, or build up your imports, one or the other.

Mr. JAVITS. Mr. Clayton, one of the arguments made against the ERP is that by our efforts to create a leveling of customs barriers within Europe, or even a customs union of the 16 nations, or many of them, we are erecting a closed Europe, in which we will not be able to trade adequately. What effect upon that danger does the ITO have, as you see it?

Mr. CLAYTON. Well, I just cannot see the basis for the argument, Mr. Javits. That assumes it is not in our interest to see other parts of the world make customs unions. I think every intelligent person who will examine into the question is bound to see that it is in our interest.

As a matter of fact, when the union was formed between Belgium, Luxemburg, and the Netherlands, so far as you could tell, it met with almost universal approval in the United States. Everybody thought it was a step in the right direction. I certainly think so.

Why? Just take our own history in the United States. The Constitutional Convention had to decide whether it would have tariffs between our States, as is the case in some countries, or whether we would have free trade between our States. I do not believe anybody would deny that in having made the latter decision, that we made a fundamental decision that contributed perhaps more than any other single thing to the great expansion that took place in the United States, and the development that took place here, and we made a great market here.

Now, you have customs unions which eliminate the barriers of trade between the countries that are involved, and make the same tariffs on the periphery of all other countries. What do you do? You set up a situation there that increases the production and consumption of goods, raises the standard of living in those areas, just as we did in our country, and you make a greater market for other people's goods, because they cannot produce everything they need.

Mr. JAVITS. Is it not a fact that the ITO will protect us against that larger area enforcing new barriers to trade?

Mr. CLAYTON. Indeed yes.

Mr. JAVITS. So it is valuable to us from that point of view?

Mr. CLAYTON. Yes and it is logical. That set-up should not only eliminate the barriers to trade within the areas, but also lower the barriers to trade with the countries outside the areas.

Mr. JAVITS. Mr. Clayton, do you believe there is any necessity for conditioning the ERP upon the nations benefited joining in the International Trade Organization?

Mr. CLAYTON. I am just reacting to that. I have not heard that suggestion before. My reaction is that I would very much dislike to see that done. I would like to see us arrive at agreement in Havana, and set up the ITO on its own merits, without any compulsion on the part of any country, and I believe we are going to be able to do it.

Mr. JAVITS. I might say I join with you in that. One final question sir: Do you consider the solvency of the European recovery program, that is, its hope for success, being materially influenced by the consummation of the International Trade Organization effort?

Mr. CLAYTON. I do indeed. The two things are highly complementary and interdependent, and it is a little difficult for me to conceive how these countries in western Europe could attain economic independence again—that is, could reach it and maintain it—if they did not adopt the liberal principles of international trade which the International Trade Organization is seeking to establish.

Mr. RICHARDS. Mr. Clayton, I was interested in your reference to the ITO seeking to solve the situation brought about on account of preferences. Are you referring to both unilateral preferences and Empire preferences?

Mr. CLAYTON. Well, I am not aware of the creation of unilateral preferences.

Mr. RICHARDS. I meant bilateral preferences.

Mr. CLAYTON. Certainly. That is right. Yes, I am referring to those.

Mr. RICHARDS. You are referring to both?

Mr. CLAYTON. Yes.

Mr. RICHARDS. In that connection, I believe ITO is going to run head-on with ERP.

You take Great Britain, for instance. She is one of the prime movers in this new organization of the 16 nations in Europe. Yet, at the same time, she continues to insist upon certain Empire preferences in trade. If she continues to hold that position the natural result is going to be that some nations in the 16-nation group, in self defense, are going to have to combine among themselves, and the seed of discord is right there in regard to trade.

What do you think about that?

Mr. CLAYTON. The ITO provides that no existing preferences shall be increased or added to. It does not seek immediately, or provide immediately, that all existing preferences shall be abolished. You cannot suddenly reform the world. It has to be done a little at a time, and it recognizes that there are certain preferences in existence which it hopes and believes will be traded out and eliminated, but it provides very clearly that additional preferences, or preference area assistance, shall not be established.

As you know, I am sure, at Geneva in our trade agreement with the United Kingdom, many of the United Kingdom preferences were eliminated and many others were reduced.

We hope, in time—and I do not know how long it will take—but we hope that that whole system will give way to a much more liberal one.

Mr. RICHARDS. It is a long-range objective, just as it is to gradually do away with the customs difficulties.

Mr. CLAYTON. It is a long-range objective; that is right. One of the prime obligations that a member of the ITO takes is that he is to be willing to negotiate with his fellow members for the reduction of tariffs and the elimination of preferences.

Mr. RICHARDS. I fully recognize that Great Britain's economy, for instance, is built up on trade preferences with the dominions. That is what I understand it has been throughout for years. It will take them a long time to get away from that. I see the Ambassador shaking his head.

Ambassador DOUGLAS. It is a fairly recent development.

Mr. CLAYTON. Most of it was adopted at the Ottawa Conference in 1932. The British have always said it was a result of our high-tariff policy in the United States which culminated in the Smoot-Hawley bill in 1930 and which was followed by retaliatory action on the part of over 30 nations in the world in raising their tariffs and putting on embargoes and quotas.

So we tied the international trade situation, in that period, in a pretty tight knot, and the British built a tight Empire of their own by using preferences. But I am optimistic that if we get the ITO and the ERP one of the things we will do will be to further reduce and, in time, eliminate that preference.

Mr. RICHARDS. The British were traditionally free traders?

Mr. CLAYTON. Yes.

Mr. JAVITS. I just want to clarify this: The British have agreed, have they not, to a step-by-step reduction of these preferences?

Mr. CLAYTON. They have agreed to negotiate the matter, Mr. Javits, and they have negotiated at Geneva. We achieved a certain measurable success in getting some of the preferences eliminated and others reduced.

Mr. JAVITS. By the acceptance of the ITO charter the members have accepted the British situation as it is?

Mr. CLAYTON. That is right.

Mr. JAVITS. There will be no situation of coalition. So if it is not going to be increased, and they accept it as it is, they are satisfied with freezing it and going down from there.

Mr. CLAYTON. That is right.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. You brought out the fact that at the present time there is a great preponderance of exports from this country over imports from other countries, and you also stated that if the situation was not clarified the net result in this country would be deflation because these countries which are now importing into the United States are doing so for the purpose of acquiring dollars to buy our goods. Is that correct?

Mr. CLAYTON. Did you say importing into the United States?

Mr. MANSFIELD. Yes.

Mr. CLAYTON. We furnish a market for them and for those particular goods, and, obviously, whatever dollars they get from that are available for payment for our exports.

Mr. MANSFIELD. And is that not one of the reasons why Europe is being unable to rehabilitate itself, from an economic point of view, at the present time, due to the fact that there is an extreme shortage of dollars which they have to conserve but which they would like to spend, if they had more of them, to buy goods in this country?

Mr. CLAYTON. Yes.

Mr. MANSFIELD. It would appear to me that one of the basic elements in the consideration of the European recovery program would be the fact that over the long term we would benefit tremendously, from an economic point of view; and if we don't we will have deflation in this country. We will have surpluses. Nobody will have anything to buy our goods with, and then where will we be?

Mr. CLAYTON. Mr. Mansfield, I think that is exactly right. We cannot, in the United States, be the only prosperous country in the world. We cannot be the only free enterprise country in the world.

If we want to keep free and prosperous we had better have some company.

If we leave these countries of western Europe to shift for themselves and say "We are sorry; we can't help you any more," I think conditions will quickly ensue there which will, in effect, bring about a substantial blackout of that market for our goods and for goods of the rest of the world—for Latin America, for example. If Latin America loses its markets in Western Europe we lose ours in Latin America, and the thing is a change that goes around the circle.

I think that it is highly important that we do what we reasonably can to help these countries to get again to a position where they can stand alone, because if we do not we are going to have to make such radical changes, I am afraid, in our own economy in this country that it would be very difficult for a democratic, free-enterprise system to make.

Mr. MANSFIELD. Would it be safe to assume that if a proposal somewhat along the lines of ERP is not adopted we will see an emphasizing of state-controlled economies in all of Europe?

Mr. CLAYTON. Undoubtedly. And, as I said a moment ago, we cannot expect, in this country, to be the only free-enterprise country in the world if the rest of the world substantially goes on a state-enterprise or state-controlled basis. I think you will see the drift in that direction here very strongly.

Mr. MANSFIELD. Now, coming from an area which is the raw material production area of the United States—and, as such, vitally interested in the tariff question—I would like to make some statements and you can either refute or corroborate them on the basis of three of our outstanding products.

One is wool. Is it not true that in this country the American wool producer, under the most favorable circumstances, cannot produce more than 50 percent of the wool needed for domestic consumption?

Mr. CLAYTON. That is right. It is about 35 or 40 percent, now, of what we are consuming.

Mr. MANSFIELD. And you say the stock piles which we brought in from Australia during the war are gradually diminishing, and, as far as the domestic crop is concerned, the Agriculture Department now has the right to buy and sell it on the market?

Mr. CLAYTON. That is right.

Mr. MANSFIELD. Now, in the matter of minerals, copper is very important out there. We passed a bill last year lifting the excise tax on copper of 4 cents a pound, or \$80 a ton, for a 3-year period. We did that because of the fact that we were suffering from an extreme shortage of copper and other minerals, and we have to have copper for our industrial machinery to function and manufacture the goods which we need.

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. So that takes care of two or three of the main products.

The other one is cattle. There is always a great deal of fear in my country about the effect of the importation of cattle from abroad. But is it not a fact, is it not true that, aside from the feeder cows coming in from Mexico and Canada today, that there is no possibility for cattle coming in from, say, the Argentine because of the Sanitary Embargo Act of 1917?

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. And is it not true, also, that, as far as future competition from Argentina cattle is concerned, the answer to that is the restoration, in part at least, of the European markets which used to take a large part of the Argentine supply and perhaps spread it—have a meat economy throughout Latin America to replace the cereal economy which is in operation throughout that area?

Mr. CLAYTON. I think that is right. Of course, as Europe gets back on its feet it would import, I would think, more beef from Argentina. England, as you know, takes the bulk of her exports now, and as Europe gets back on her feet other countries, I would think, would take a share also.

Mr. MANSFIELD. Those are the historical markets of Argentina.

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. The sooner we get Europe back on its feet, the sooner we will allay any idea—I say “idea”—of a threat from Argentina or that part of the world insofar as our American cattlemen are concerned.

Mr. CLAYTON. I would think it ought to be a very substantial aspect of it.

Mr. MANSFIELD. Thank you, Mr. Clayton.

Mr. LODGE. Mr. Clayton, I was interested in the parallel which you drew between this country and Europe in connection with the free trade areas which existed in America because of the lack of trade barriers between the States.

I assume that you agree that one of the chief factors in that situation is the fact that we have a reasonably stable currency which is uniform all over the country.

Mr. CLAYTON. Oh, yes.

Mr. LODGE. And, therefore, that you would feel perhaps that one of the reasons that the French, for instance, are not selling more to us is because their currency is overvalued and we cannot afford to buy.

Mr. CLAYTON. That is right.

Mr. LODGE. Under those circumstances, I was wondering how you would feel about the position which Great Britain is reported to have taken this morning in the paper as opposing the devaluation of the French franc because of her fears with respect to the devaluation of the pound.

Does not that seem to you to be in contravention to what we are trying to do with the recovery program?

Mr. CLAYTON. I am not informed. I just saw the headlines, Mr. Lodge, of that statement, and I do not know how true it is or just what the particulars are of it.

I think that if the ERP is adopted as we have in mind, that one of the conditions, of course, that will be asked of these countries will be with respect to the measures that they should take to put their financial and monetary houses in order, and restore confidence in their money. That is one of the most important things in connection with the restoration of production in Europe.

Mr. LODGE. But surely if we want to stabilize these currencies and devalue them. It could be said that a great part of the Marshall plan is an attempt to fill in the gap between the legal and the real value of money in Europe. Could it not?

Mr. CLAYTON. One of the principal objects, I would think, of the Marshall plan, is to restore confidence in the moneys of these countries, and they of course would have to take the necessary steps to do that.

I believe they would only be able to take it with our assistance such as is provided in ERP.

Mr. LODGE. Would you agree, sir, that it would diminish the load on the American taxpayers if these currencies were to go closer to their real values?

Mr. CLAYTON. Certainly, if they go closer to their real value it should serve to make more attractive the exports of these countries.

Mr. LODGE. And therefore diminish their dollar needs?

Mr. CLAYTON. That is right.

Mr. LODGE. Therefore would it not be desirable for us to have some agreements with, let's say, the British, that we are interested in diminishing the load on the American taxpayer and adding to the economical effectiveness of ERP, by somehow persuading these countries to devalue their currencies.

Mr. CLAYTON. Well, Mr. Lodge, I am sure that that matter will all be taken care of in the agreements that would be made. The plan, as you know, contemplates a multilateral agreement between these countries and that contemplates a bilateral agreement between the United States and each recipient country, the two to be tied in together, and I am sure that it is contemplated that what you are just now saying should be fully covered in those two agreements.

Mr. LODGE. You would agree that it would be very desirable, in fact, it would be essential, for us and these participating countries to agree on an over-all policy in this connection especially since it constitutes a burden on the American taxpayer?

Mr. CLAYTON. Indeed.

Mr. LODGE. Thank you very much.

I assume in connection with the point which Mr. Vorys brought out with respect to tying in the ERP with ITO that you would feel that until the ITO gets going it would be desirable to implement the purposes of ITO within the framework of the ERP?

Mr. CLAYTON. Yes. I think that is being done or would be done in the condition relating to the lowering of trade barriers and taking other steps to liberalize trade and increase trade between these countries and between them and other parts of the world.

Mr. LODGE. That would necessarily mean attempting to bring about a situation where there would be uniformity in currency exchange value reforms in the tax structures of these participating countries, and also devaluation of currencies?

Mr. CLAYTON. I do not know about uniformity in their tax structures, Mr. Lodge, but certainly one of the most important elements, as of course you know, in any reform relating to money and budgets and that sort of thing, is the tax structure of a country.

Mr. LODGE. That is right.

Mr. CLAYTON. That would certainly be involved in the condition relating to the taking of the necessary measures to put their financial and monetary house in order.

The tax structure would certainly be a large part of that.

Mr. LODGE. Do you feel, sir, that it is desirable that the price-control structure within these various countries be kept intact, or be increased, or be diminished?

Mr. CLAYTON. That is something that I have thought about very little and I think that so far as the contract or agreement with these countries is concerned, that we should be careful not to go into details as to how they are to do things or what particular steps they are to take.

I think it should be phrased in terms of the end result of what is expected to be done, where you are going to arrive, rather than in saying how it has to be done.

Mr. LODGE. Do you think they will do these things without even a suggestion from us?

Mr. CLAYTON. I think, Mr. Lodge, it is going to be highly desirable that when the program gets under way and after these agreements are made, that we have a very competent organization sitting in Europe and working with these countries almost from day to day to be of any assistance to them that we can, with administrative assistance, technical assistance, and follow the performance under the agreement.

Mr. LODGE. Do you think it would be desirable for any of these countries to change their price-control structure?

Mr. CLAYTON. I would not be able to express an opinion on that at the present time.

I am not sufficiently familiar with that. That is something that is pretty hard for us to say in the United States. There is a great deal of difference of opinion on what we should do.

Mr. LODGE. It seems to me that that is a very vital matter on which I personally would like to obtain the views of some member of the Government, because after all, it has a direct bearing on the reciprocal self-help contemplated under this program.

Mr. CLAYTON. Yes.

Mr. LODGE. The reasons will probably be more obvious to you than me.

Mr. CLAYTON. I am sorry, I would not be able to express an opinion on that.

Mr. JONKMAN. Mr. Chairman, I think Mr. Lodge has laid his finger right on the crux of this whole situation, when he spoke about the managed currency.

I would like to see if I can illustrate that. What is the legal exchange rate of the franc in France today?

Mr. CLAYTON. Around 119 francs to the dollar.

Mr. JONKMAN. What is the free-market rate or black-market rate?

Mr. CLAYTON. I have not heard recently. During the summer and early fall when I was there it was around 250.

Mr. JONKMAN. That is at least twice the legal rate, is it not?

Mr. CLAYTON. Yes.

Mr. JONKMAN. Now, if you have a double standard of that kind is it not true that it is going to double the cost of their exports so that the producer will seek a local market over the price of a foreign market? Is that true or is it not true?

Mr. CLAYTON. It is generally true.

Mr. JONKMAN. That is all I wanted to know.

Now, in the second place, they are halving the cost of their imports.

Mr. CLAYTON. I beg your pardon?

Mr. JONKMAN. They are halving the cost of their imports?

Mr. CLAYTON. When they can import, yes. That is cutting in half the cost to the private buyer in France. Imports are purchased at world market prices, usually in dollars.

Mr. JONKMAN. Absolutely.

Mr. CLAYTON. Not to the Government.

Mr. JONKMAN. The only way the Government can stop it is by restriction on imports?

Mr. CLAYTON. That is right. That is the way they do stop it.

Mr. JONKMAN. So the inevitable result of that double standard of currency is to discourage exports and encourage imports.

Mr. CLAYTON. It does not encourage imports because the existence of the double standard forces the Government to take measures to prevent imports and they do that.

Mr. JONKMAN. You are in the free market but in the free market that is the inevitable result.

Mr. CLAYTON. There is no free market in a country like that.

Mr. JONKMAN. But you would have the same results. You are simply trying to get imports and you are not exporting.

Mr. CLAYTON. That is right.

Mr. JONKMAN. If we furnish them the money to buy imports, we are increasing the malady or disease, are we not?

Mr. CLAYTON. I do not think so.

Mr. JONKMAN. Let me ask you this: We say, for instance here, in the bill, "Accordingly it is declared to be the policy of the United States that assistance be given to those countries of Europe participating, not which promise to participate," but "participating in a joint European recovery program based on self-help and mutual cooperation."

You, for instance, objected to making the joining in the ITO a condition precedent to our help. Are we going to make any conditions precedent before we give this money?

Mr. CLAYTON. Of course I am not making the conditions and I do not know, but I would think that the bilateral agreement of which I have spoken, between the United States and these participating or recipient countries should be very precise in stating certain conditions under which the help would be extended.

Mr. JONKMAN. You mean conditions precedent or conditions that they are to work up to sometime?

Mr. CLAYTON. They would have to be of both kinds, because obviously there are many conditions that they cannot perform under before they get the aid, as for example restoration of production of coal and food. They cannot do all that before they get the money.

But they can do it concurrently with receiving the aid.

Mr. JONKMAN. But some countries have done that, have they not?

Mr. CLAYTON. What?

Mr. JONKMAN. Restored their currency at considerable difficulty.

Mr. CLAYTON. Yes. They have. They had an easier situation than some of the countries.

Some of the countries have restored their currency situation.

Mr. LODGE. Italy?

Mr. CLAYTON. Well, Italy has practically abolished the control; practically, and has restored the free market. As I understand it, that is about what has taken place in Italy.

Mr. JONKMAN. The point I am making is, that we can go forever pouring money in there and until they get their house in order as far as currency and price control is concerned, you are not going to get the production that you say they need in order to recover.

Mr. CLAYTON. Mr. Lodge, I could not fully agree with that. The principles of the ITO are the reduction of trade barriers between countries, and elimination of the quotas system in trade between countries, elimination in time of the preferential system, and things of that kind, and those things can be done, I think.

Mr. LODGE. Without those internal changes?

Mr. CLAYTON. Yes. I think they can. They can substantially be done. Of course, I think that an economic federation is highly desirable in Western Europe.

Mr. LODGE. I am glad to hear you say that.

Mr. CLAYTON. I agree fully with that. That is a big order.

Mr. LODGE. I realize that.

Mr. CLAYTON. It takes some time to work it out. You cannot expect that to come quickly. That it will come in time I fully believe. But it will take time to work it out.

Mr. LODGE. We have variations in the tax structures of our several States. I do not believe complete uniformity is necessary.

But certainly in the instance which I gave, an enlargement of the free trade area in that particular commodity would be an impossibility, would it not?

Mr. CLAYTON. It would be, unless the countries worked very closely together in respect of these other matters.

Of course, to have a real customs union you almost have to have a uniform currency. You almost have to have the same system, as you say, of an economic federation which involves the same currency, tax system, and so forth.

To have a real customs union you almost have to have that. We have practically that in the United States.

Mrs. BOLTON. But there are other unions in addition to customs unions, and is there not a very real need for the joining together of the western powers of Europe in order to be any force against the intrusion of the Eastern pressures?

Mr. CLAYTON. That gets into the political field which is out of my general knowledge and experience. But I believe that, too, Mrs. Bolton. But that is something, perhaps, a long time in the future.

Mrs. BOLTON. But Mr. Clayton, the point is that unless they get strength now there would not be any future.

Mr. CLAYTON. Well, I think this on that point—

Mrs. BOLTON. I will put it this way: there may not be any future.

Mr. CLAYTON. I think that the thing that we are all concerned about now is the preservation of the integrity and the independence of these countries, and if we help them get on their feet economically, it is my belief for whatever it may be worth, that they will be able to do that, to preserve their integrity and their independence.

Chairman EATON. Thank you, Mr. Clayton, We are delighted to have you back.

FURTHER STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES AMBASSADOR TO UNITED KINGDOM

Chairman EATON. Now, we will return to our distinguished friend and visitor, the Ambassador. We would like to finish with the Ambassador by 12 o'clock, if it is possible.

Mr. Lodge, you may proceed.

Mr. LODGE. Am I limited to 20 minutes?

Chairman EATON. I think so. Could you contain yourself within that time?

Mr. LODGE. If you request me to limit myself to 20 minutes, I shall do so.

Chairman EATON. Yes. We will ask the Ambassador to use one word instead of 12, if possible.

Mr. JAVITS. I have had no opportunity to question the Ambassador. I am perfectly willing to forego that.

Chairman EATON. I thought you were requesting Mr. Clayton in lieu of Mr. Lodge.

Mr. JAVITS. I will yield to Mr. Lodge.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Ambassador, since it is obvious that unless every section of the United States is functioning at its highest efficiency the country cannot meet the great demands which are going to be imposed upon us by conditions abroad.

It is important that enough petroleum be set aside to care for our vital needs. I understand the Middle East will not be in mass production prior to 1951 when the program expires, and therefore I should like to ask you this, sir: Will the plan contain agreements providing for repayment to the United States in subsequent years of whatever petroleum is necessary to reimburse us for our outlay between now and then?

Ambassador DOUGLAS. The plan, of course, contemplates a very substantial increase in the production of petroleum products in the Middle East, and in other areas outside of the continental limits of the United States.

I am not quite clear as to what you mean by "repayment."

Mr. LODGE. I mean that since these oil fields will not be in large production, as I understand it, until 1951, in view of our dwindling petroleum supplies and the extremely acute shortage we are now suffering in certain regions, notably in New England, I would like assurance that when this area in the Middle East is in large production we will be reimbursed.

Ambassador DOUGLAS. You mean by making available to us a larger supply of oil from that area?

Mr. LODGE. Yes; because we are spending more than our income. we are spending our capital.

Ambassador DOUGLAS. I understand that.

Mr. LODGE. My question is simply an expression of my concern over our dwindling oil resources and the hope that we can do this job provided these agreements look forward to repayment in kind.

Ambassador DOUGLAS. Certainly, Congressman, it would be contemplated that a larger volume of petroleum products be made available in these areas for the United States, as they came more and more into production.

On that particular point I would like to point out that if any adverse development should occur in western Europe, and the sort of difficulty developed there which some of us have envisaged as possibilities, should the United States fail to come to the support of the western European countries, then that source of supply of petroleum products might very well be cut off from us entirely, so that in order to achieve the very admirable purpose, which you have in mind, we must be assured of fundamental recovery in western Europe.

Mr. LODGE. I think that is a very important point to bring out. I take it, then, that the answer to my question is that these agreements will contain provisions looking toward the situation I have cited.

Ambassador DOUGLAS. The making available of additional petroleum products to the United States.

Mr. LODGE. Now, Mr. Ambassador, the 16 nations, as I understand it, largely ignored western Germany's potential contribution to the Marshall plan. It was drawn up before the break-down of the London conference, when it was still necessary for the western nations to assume that the Allied reparations agreement including the dismantling program would be carried out.

Is that not correct?

Ambassador DOUGLAS. Well, I do not have the figures in front of me on reparations, but no plants in Germany, as I understand it, have been dismantled in addition to the plants contemplated and indicated for dismantling under the agreement of August 1947.

The deliveries under them have been very substantially smaller than the dismantling that has been undertaken.

Mr. LODGE. My point is that since the 16-nation report was made prior to the London conference, it was based on certain assumptions in connection with western Germany and the Allied reparations agreement in particular, which assumptions can be said no longer to prevail because of the intervening circumstances and that by thus reducing the steel products which could be produced in Germany the 16 nations were compelled to make demands for United States steel, which it would be impossible for us to meet without increasing inflation and bottlenecks in vital areas of American production; such as freight cars, automobiles, and farm machinery.

Ambassador DOUGLAS. Well, I think the contributions possible to be made by Germany to European recovery were calculated by bizonal authorities and submitted to the Paris Conference.

Mr. LODGE. But they were calculated on the basis of dismantling?

Ambassador DOUGLAS. They were calculated upon the level of industry to which the commanders-in-chief of the bizonal area in August 1947 had agreed.

That level of industry, as I recollect it, provided for retaining in the bizonal area of Germany enough in steel productive capacity to produce 10,700,000 ingot tons of steel a year.

Mr. LODGE. Was not that based, sir, on the assumption of dismantling in accordance with the Allied reparations agreement?

Ambassador DOUGLAS. No. You see, the original level of industry in Germany contemplated the retention of productive capacity in the amount of some 7,000,000 tons, and the actual production of that retained production capacity of about 5,800,000 ingot tons a year.

Mr. LODGE. In other words, not a full capacity?

Ambassador DOUGLAS. Well, there always is, or very frequently is, a difference between total absolute productive capacity and the actual production.

Now, the new level of industry that was agreed to between the British and United States authorities in August 1947 raised very substantially the amount of productive capacity that would be retained in Germany in order that the production of steel in the western zone might rise to a level of 10,700,000 tons, as compared with the 5,800,000 ingot tons we agreed to in 1946.

Mr. LODGE. Would you say it could rise still higher if the dismantling were to stop as of today?

Ambassador DOUGLAS. Now, I am not thoroughly acquainted with all of the details of dismantling, Congressman. Under certain conditions, of course I assume the production of steel in Germany could be increased.

Whether it would be economic is another question.

Mr. LODGE. I think your point of view on this is particularly important, because of your familiarity with the coal situation: If Europe required less steel from us, we could manufacture more freight cars to permit increased transportation and export of coal to produce more steel in France and Germany. Therefore a moratorium on dismantling plus a slight increase in coal imports might have very beneficial results.

Ambassador DOUGLAS. I doubt very much, Congressman, whether that would be the result within the course of the next several years.

The actual production of steel in western Germany today is running at the rate of somewhere in the vicinity of 3,600,000 tons.

There is then a very great margin between the actual production of steel in western Germany today, and the amount of steel that can be produced under the retained productive facilities.

It would take several years.

Mr. LODGE. Was not that due principally to lack of coal?

Ambassador DOUGLAS. It was due to a variety of things—lack of coal among other things, the dilapidated state of their plants, disruption of transportation, and a variety of factors of that order.

So that even if, to assume an exaggerated situation, if the productive facilities were retained in Germany to the extent of, let us say, 17,000,000 tons of steel, it would not affect in any way the production of steel within Germany during the course of the next 15 months, the course of the next 24 months, the course of the next 36 months.

Mr. LODGE. You mean that even if we allowed them to do it they could not do it?

Ambassador DOUGLAS. It could not be done. The Paris report indicates that even if the productive capacity in Germany to be retained were very much higher than that contemplated in the new level of industry, no effect would be felt upon the demand for steel from the United States.

Mr. LODGE. It would be on paper and would not be accurate?

Ambassador DOUGLAS. That is right.

Mr. LODGE. Would it be proper for me to ask you if you could furnish this committee with a written statement to the effect that if the dismantling were to cease completely it would not relieve the demand on United States steel, in order that we may have that in the record?

Ambassador DOUGLAS. Yes, sir.

(The information referred to is as follows:)

RELATION BETWEEN SELECTIVE DISMANTLING OF A PART OF THE STEEL CAPACITY IN THE BIZONAL AREA OF GERMANY AND POSSIBLE INCREASED STEEL PRODUCTION

The cessation of the dismantling of that part of the steel capacity scheduled for removal from the bizonal area of Germany would not provide a basis for a significant increase in steel output during the period of the European recovery

program. The basic problem of raising steel production in the bizonal area from the present level of 3.6 million tons a year to a level of approximately 10 million tons in the 1951-52 fiscal year concerns the effective utilization of retained capacity of about 12 million ingot tons. The provision of larger quantities of coal in the area, however, would not in itself be sufficient at this time to induce a significant increase in production.

The problems of reactivating the steel industry in the bizonal area involve determined and carefully coordinated actions to break a long succession of bottlenecks which will arise as steel output gradually increases. In the final analysis the problem of increasing steel production in the bizonal area is intimately related to the larger and more complex tasks of restoring a balanced and orderly expansion of industrial activity throughout all the important sectors of the economy of that area.

In recent months the provision of metallurgical coke to the steel plants in the bizonal area has not been a factor limiting production, although coke shortages might again reappear when steel output reaches a higher level, or, of course, if coal production in the Ruhr should decline from present levels. At this time inadequate transport impedes the movement of available supplies of coal and coke from the mine pitheads to the steel mills. Other factors which will probably retard the rate of expansion of bizonal steel production are electric power supplies, housing, adequacy of food supplies for the steel workers, provision of other incentives to reward increased labor productivity, effectiveness of management, the maintenance of a steady flow of scrap, iron ore and alloying materials to the steel mills, and the availability of replacement parts and materials for the repair of equipment.

In view of the many factors involved in the expansion of steel production together with the fact that they ramify throughout the economy which the bizonal steel industry serves and on which it is based, the problem of raising steel production to the target levels cannot be solved by adopting a single expedient such as the provision of larger quantities of coal.

Progress is being made toward the realization of steel production targets in the bizonal area. It is probable, moreover, that steel production in the bizonal area can be raised this year to levels above those forecast in the CEEC report for 1948. If the present favorable trends in bizonal steel production can be maintained, output might reach a level of about 5 million ingot tons. Achievement of this production goal, however, would not diminish the requirements of the participating countries for steel from the United States. It is anticipated that the economy of the bizonal area will utilize the full amount of steel which might be realized from production in excess of target estimates.

Since the economy of the bizonal area will not be capable in the next 4 years of supporting and maintaining steel production in excess of 10 million tons a year, consideration should be given to the ability of other countries to utilize the steel capacity scheduled for dismantling and removal from the bizonal area. The estimates of the executive branch regarding steel production in the participating countries are based on the assumption that a part of the steel capacity scheduled for removal from the bizonal area will in fact be utilized and that the removed capacity will contribute toward the achievement of the steel production targets of the participating countries. It is to be expected therefore that the steel requirements of the participating countries from the United States will be increased if the dismantling of German steel plants scheduled for removal were terminated, and also the steel making equipment requirements of the participating countries from the United States will be increased.

Mr. LODGE. As I understand it, coal is \$10 per ton and steel \$100 a ton f. o. b.; and if we could diminish the demand on United States steel by exporting a little coal and stop the dismantling, we would be reducing the over-all cost of the ERP program over a 4-year period by a very substantial figure.

Ambassador DOUGLAS. I will be very glad to furnish you a detailed or complete statement confirming what I have said this morning.

Mr. LODGE. Thank you very much, sir.

Now I would like to ask you this: Is one of the main hopes of the FRP that as Europe produces surplus capital goods through the surplus of British coal, or by any other means and by a concatenation of other circumstances we can reasonably expect that the agricultural

surpluses in eastern Europe will come and get those capital goods, iron curtain or no iron curtain?

Ambassador DOUGLAS. The calculations that were made at the Paris Conference and those that have been made here presuppose a restoration of reasonably normal trade relations between eastern Europe and western Europe during the period of which we are speaking.

I think it is an objective, certainly, which is admirable.

Mr. LODGE. In other words, the reason there is not much trade now is not so much the iron curtain as it is the lack of agricultural surpluses in eastern Europe and the lack of capital surpluses in western Europe?

Ambassador DOUGLAS. Well, it may be a combination of both, sir, at the moment.

Mr. LODGE. But do you have faith that the sheer trade momentum to be set up by surpluses in both those areas will to some extent break down the iron curtain and contribute to the recovery of Europe?

Ambassador DOUGLAS. I think I indicated if the western European countries recover stability in their productive capacity that the draw of certain of the eastern countries to western countries, will be irresistible.

Mr. LODGE. I think that is very important. Mr. Ambassador, one of the interesting things you stated to us was that the population of Europe had increased by 20,000,000.

Ambassador DOUGLAS. Yes.

Mr. LODGE. That is the western and eastern Europe?

Ambassador DOUGLAS. No. That increase in population occurred only in the 16 western countries, plus western Germany.

Mr. LODGE. In the 16 western countries. Well, now, does this program look forward to attempting to find some solution for the overpopulation of Europe, such as attempting to induce people in areas that are particularly overpopulated to move elsewhere and try to precipitate a situation where some relief can be found for that particular distress?

Ambassador DOUGLAS. There are two respects in which the ERP would operate to relieve the distribution of population. In the first place, the 16 European countries committed themselves progressively to remove barriers to the movement of people.

In the second place, the European countries have independent territories overseas.

They do contemplate development within those colonial possessions, with the result that insofar as this particular group of countries is concerned there would be a draw from the colonial areas upon the population of these 16 countries.

Mr. LODGE. Am I to understand, with respect to the first part of your answer, which is very interesting to me, that under the terms of that part of your answer the surplus population in Italy,* for instance, would be allowed freely to move to France, where there is a lack of manpower?

Ambassador DOUGLAS. That is right, sir; and the French and the Italians are now—if they have not already concluded—discussing an agreement.

Mr. LODGE. That could create a very healthy situation.

Ambassador DOUGLAS. Yes.

Mr. LODGE. For both countries?

Ambassador DOUGLAS. For the entire area.

Mr. LODGE. Would that also apply to Turkey, for instance, where I believe the population is only about 18,000,000 people, and Turkey is definitely an underpopulated rather than an overpopulated country?

Ambassador DOUGLAS. Turkey is a participating country, and they participate therefore in the undertakings.

Mr. LODGE. Now, Mr. Ambassador, I return to this question of strategic materials.

One of the main thoughts I get from you is that your objection to strengthening that clause is that then these countries will not be able to export these strategic materials for additional dollars, and that seems to me to presuppose that if we do not get strategic materials in sufficient quantities under this program, we will therefore spend additional sums getting them on our own.

Do you believe that to be the case?

Ambassador DOUGLAS. Well, the calculations of the exports for which these countries will receive dollars was based upon their exporting strategic raw materials to the United States.

Mr. LODGE. I was talking about the long-term future, sir.

Ambassador DOUGLAS. Yes. You mean after the 4½ years, or whatever the period may be?

Mr. LODGE. Yes; when we may no longer have this acute situation.

Ambassador DOUGLAS. Your question is, I take it, whether they should commit themselves to repay us, x years in advance, with strategic raw materials for which we pay nothing; was that the question?

Mr. LODGE. I would not say we paid nothing, since we have been asked to appropriate \$6,800,000,000.

Ambassador DOUGLAS. Then I am sorry; I am not quite clear.

Mr. LODGE. My point is that it seemed to me that your objection both to the handing over of strategic materials in the immediate future and to the long-term handling of strategic materials was based on the assumption that if they were not handed over as a quid pro quo under this program, we would nevertheless buy them, thereby adding to the dollars these countries would hold; it does not seem to me that it necessarily follows that we would be in a position to purchase all of the strategic materials we might need unless we get them under this program, on a long-term basis.

Ambassador DOUGLAS. Oh, well, the program does not contemplate that at the expiration of 4½ years conditions in regard to strategic materials, would terminate. Indeed, it is expressly provided that the agreements in regard to the undertakings in regard to strategic materials will continue for such term as may be agreed upon in the bilateral arrangements which this country makes with the participating countries, and those agreements may stand for a period of 20 or 25 years.

Mr. LODGE. In that case we will be paying for those strategic materials only what we are paying under the program, and not additional sums.

Ambassador DOUGLAS. We will pay whatever the prevailing price might be. It would depend upon the terms of the contract.

Mr. LODGE. In other words, you would agree that we could accept delivery of strategic materials in the long-term future in reimbursement for what we make available under this program?

Ambassador DOUGLAS. I think that is a question that no one can now answer, Congressman

Mr. LODGE. Suppose it was provided?

Ambassador DOUGLAS. Nobody can now foresee what the ability of any one of these countries may be to forego dollar earnings 7, 8, 9, or 10 years from now.

Mr. LODGE. Suppose it were provided that if there were a dollar deficit they would be allowed to sell these strategic materials; and if not, then we would get them by way of a quid pro quo for part of what we have turned over under the Marshall plan.

Ambassador DOUGLAS. Let me make this point clear in this discussion we are having: We are not presumably referring to the repayment, by delivery to us of strategic materials, of any loan to be made. We are referring now only to the grant.

Mr. LODGE. Of course, in that sense it would constitute a loan, since there would be repayment. But I think I understand what you mean.

Ambassador DOUGLAS. You see, there is very express provision for the extension of loans to be repaid in terms of strategic raw materials.

Mr. LODGE. Yes. I think this would be a loan in that sense, Mr. Ambassador. After all, it would be repayment, and if we prefer to obtain repayment in strategic materials rather than in dollars, that, after all, is all right.

Ambassador DOUGLAS. Express provision is made for an arrangement of that kind.

Mr. LODGE. The question is whether enough provision was made and as whether the contemplated amount is sufficient or whether we could not raise that figure a bit.

Ambassador DOUGLAS. Perhaps you can, Congressman. I do not believe that anybody can foresee the future with sufficient clarity to make any categorical statement on that particular subject.

Mr. LODGE. I didn't believe that there should be a categorical provision. I thought it should be a provision which would depend upon certain circumstances which would be outlined in any agreement that was made with any interested countries so that we would not be defeating the purposes of the plan. We would be perhaps helping the plan and also helping to fill serious shortages which we suffer from.

Ambassador DOUGLAS. It might conceivably be done. I am not giving you a satisfactory answer, I know, but I repeat that it is my honest belief that one cannot now foresee what the situation may be in each one of the 16 countries.

Mr. LODGE. You would not want to alter section 5, on page 18, where it simply states that these countries shall facilitate the sale? You do not want to make that clause any stronger than it now is?

Ambassador DOUGLAS. I would be very doubtful about the wisdom of doing it, Congressman. I think it might be done, and your purpose might be achieved, by increasing the amount of loans that could be repaid in terms of strategic raw materials; but I should be reluctant to state that that could wisely and prudently be done in our own interests.

Mr. LODGE. However, if the clause was so written that it would not operate against our interests, don't you believe that it might safely be done?

Ambassador DOUGLAS. Well, our interests, Congressman, as you are so well aware, are vitally concerned with the restoration of stability in this area and the maintenance of that stability.

. Mr. LODGE. I agree with that 100 percent.

Ambassador DOUGLAS. To the extent to which we exact a condition which increases the risks implicit in the venture, to the same extent we may be damaging our own long-term national interests.

Mr. LODGE. How do you believe that increases the risk?

Ambassador DOUGLAS. If we exact a condition which drains them of dollars to a greater extent than they would otherwise be drained of dollars—

Mr. LODGE. I do not assume that they are draining vitally needed dollars. No, Mr. Ambassador, I do not see how it would be draining necessary dollars, if it were based on a long-term future, when we make the assumption that if there is a dollar deficit they can sell the strategic materials, and if there is not, then we get them by way of a quid pro quo. I do not see how that would drain them of necessary dollars on a long-term basis.

Ambassador DOUGLAS. Well, it might not.

Mr. LODGE. I would contemplate such a clause. I have not yet completed my thinking on this, but I wanted to get the benefit of your view because it would seem to me that that clause is a very weak clause in respect to strategic materials in which we are of such great need.

Ambassador DOUGLAS. Well, of course, this particular clause was written precisely for the purpose of requiring the appropriate participating countries—and I say “appropriate” because I mean by that those who have overseas possessions or have, within the areas in which they have jurisdiction, the strategic raw materials or the possibility of developing such raw materials—that clause was inserted for the purpose of doing just what it says: facilitating the sale to us of raw materials that are strategic, on which these countries rely for dollars.

Mr. LODGE. That would be a sale which would have nothing to do with the program, particularly. I mean, they agreed to facilitate it; is that not right?

Ambassador DOUGLAS. Yes. Of course there are doubtless better words. Each person has his own vocabulary. I do not know what better words to use.

You know the provisions in the act and the intentions in respect of the administration of the act in regard to the development of the strategic raw materials and the purchase by us. You know that some of the local currency counterpart may be used for the purpose of exploration for and development of strategic raw materials. Loans may be extended which may be repaid, if not in dollars in some other way, including, among the other ways, strategic raw materials. But, in addition to those measures, there is the provision that they must facilitate the sale of strategic raw materials.

Mr. LODGE. You are satisfied, then, Mr. Ambassador, that the act contains everything that it can reasonably contain with respect to strategic materials?

Ambassador DOUGLAS. Without looking too far into the future.

Chairman EATON. The time of the gentleman has expired.

Ambassador DOUGLAS. There were a number of questions you raised this morning.

Chairman EATON. I wonder if the Ambassador would not submit a brief to us covering this very important, controversial question of

strategic materials? I have been listening with what little intelligence I have and I cannot find out yet why we put billions of dollars over there and cannot get some of their strategic materials back, when we need them, in payment of our investment.

If you can clear that up you will perform a miracle.

(The information is as follows:)

EUROPEAN RECOVERY PROGRAM COMMITTEE STATEMENT ON STRATEGIC MATERIALS

The primary consideration in connection with obtaining strategic materials is an increase in their production, since production at current levels is generally not adequate to meet existing needs. It is the considered judgment of the executive branch that the method of obtaining strategic materials proposed in connection with European recovery program legislation is more likely to result in our obtaining a larger quantity of such materials than alternative plans which have been suggested.

Under the proposed legislation it is contemplated that, (1) part of the funds appropriated may be used by the Administrator of ECA to finance development of increased sources of supply (sec. 8 (c) (2) technical information and assistance may be provided to aid in increasing production (sec. 7 (a) (3)), (3) under the bilateral agreements with participating countries, local currency proceeds may be used to foster exploration development for production (sec. 10 (b) (5)), and (4) the bilateral agreements will provide for the recipient countries' facilitating the sale to us in quantities, on terms, and for time periods to be agreed, of strategic materials beyond their requirements for domestic use and commercial export (sec. 10 (b) (5)). The time period may extend for a considerable number of years.

Furthermore the legislation authorizes the Administrator under certain circumstances to require the repayment of loans under the program in the form of delivery of strategic materials. Ordinarily, however, it is contemplated that such materials will be purchased by us with dollars separately appropriated. It is believed that the incentive furnished by our purchasing such materials for dollars will result in a greater production and a larger procurement by us than would be the case if the countries were required to furnish such materials without dollar payment as a condition of our assistance. Moreover, this procedure will permit the transactions to be handled directly with private producers and distributors rather than confining them to Government channels.

For the reasons stated above the Munitions Board representative on the Inter-departmental Subcommittee which prepared the policy recommendations on strategic materials summarized in the Outline of the European Recovery Program strongly favored the proposal in the form presented to the Congress.

The ultimate monetary cost to us should be approximately the same regardless of whether we pay for such commodities in the future or whether we require the countries to furnish them to us without dollar payment. This may be explained as follows:

It is contemplated in any case that assistance under the European recovery program should be in the form of loans rather than grants up to the estimated capacity of each participating country to repay without jeopardizing the objective of sustained economic stability. In calculating the capacity of a country to repay, its receipts from future exports of all types including strategic materials which might be sold to us, would be taken into consideration. If we require the delivery of strategic materials as a consideration for a "grant" the capacity of the country to repay any loans would correspondingly be diminished. We would to that extent have to reduce the amount of any loan which might otherwise have been made to the country and to increase the amount of our grant. Any "grant" furnished on such terms would in fact become a loan.

It makes little difference to us financially therefore whether (a) we make a smaller percentage of our assistance in the form of loans and a larger percentage in form of grants requiring repayment of part of the grant in strategic materials (the grant thereby in fact becoming a loan), or (b) make a larger percentage of our assistance in the form of loans getting repayment of them normally in dollars (part of which would be supplied by our purchases of strategic materials) or in special cases in the form of strategic materials.

The suggestion that grants might be repaid by delivery of strategic materials by any country which at any time in the future might have a dollar surplus con-

templates the making of contingent loans. It involves for many years a constant scrutiny of the ability of any country to repay. Such loans would decrease the incentive of the European countries to set their financial houses in order and achieve balance in their external accounts. Such loans would add to the uncertainty of private and other lending institutions and thereby tend to postpone the achievement of the objectives of the program. What is more important this procedure might not encourage to the fullest extent the exploration for and development of increased production of strategic material.

In view of the great importance to the United States of increasing its supplies of strategic materials, we believe that the program which has been recommended by the executive branch offers the greatest prospect of obtaining them in the largest quantities.

Ambassador DOUGLAS. Well, I can't walk upon the waters.

Chairman EATON. If you keep on you will be able to walk on most anything.

Ambassador DOUGLAS. There is a matter that I think should be cleared up in the record.

Mr. LODGE. That question I asked of Mr. Clayton—I would be glad if the chairman would permit you to comment on it.

Ambassador DOUGLAS. That is about the report in the newspapers that the British had resisted the French proposal for the devaluation of the franc?

In the first place, the French proposals for the devaluation of the franc were not made public. Devaluation of a currency, particularly in a complex situation like the one in western Europe, can be undertaken in a complicated way but create a whole series of adverse effects upon other countries.

The question is not only the relationship of a particular currency to the dollar. It is a much more complicated one than that. The question also involves the relationship of that particular currency to the cross rates; for example, to the Belgium franc, to the pound sterling, to the lira. And, while I think that no one opposes the devaluation of the franc vis-à-vis the dollar and vis-à-vis the other currencies, the question of how the devaluation shall be undertaken in relation to all the currencies is a very, very complicated one.

Mr. LODGE. I think that is very interesting, and I would like to ask you, there, whether the devaluation effected in Italy by Finance Minister Einaudi did have repercussions because it was not properly synchronized with the devaluation in other countries.

Ambassador DOUGLAS. That proposal in Italy was not submitted to the International Monetary Fund.

Mr. LODGE. Did that have bad effects?

Ambassador DOUGLAS. I cannot answer your question. It was a relatively recent development.

It was a mixture of free rate and fixed rate.

Mr. LODGE. It was devalued down to a certain level, but not completely devalued?

Ambassador DOUGLAS. Yes. There were certain dollars received on account of exports that were blocked and a certain proportion were free.

Even though the Italian action may not have had any adverse effects upon other currencies, one might not be able to have the same view about a proposed devaluation of another currency.

Mr. LODGE. It is a matter of detail?

Ambassador DOUGLAS. Yes.

Mr. LODGE. Would you say that it would be preferable if all the 16 nations were to get together and devalue their currency at the same rate, simultaneously instead of separately, as now?

Ambassador DOUGLAS. Whether that is practically possible, I do not know.

Mr. LODGE. Would that involve the devaluation of the pound sterling?

Ambassador DOUGLAS. I would like to talk to you about that at another time, for reasons that you can understand. I did want to get in the record about the French.

Mr. LODGE. I would like, if I might, to thank the Ambassador for his answers to my questions and for the intelligent, courteous way in which he has conducted himself throughout this gruelling ordeal.

Chairman EATON. Mr. Ambassador, you were asked a question. You have not answered it and you have wandered all over God's half acre.

The question was: Did England object to the devaluation of the franc—yes or no?

Ambassador DOUGLAS. I do not think that was the question.

Chairman EATON. As I understand the English language, that was the question.

Mr. LODGE. I thought the British had objected to it, judging by the papers. I was interested in precipitating a coordination of intentions under the ERP because the witnesses we have had, including yourself, sir, have testified to the fact that the devaluation of currencies is vital, and that, to a considerable extent, the American taxpayer is going to carry the load of the gap between the legal and real value of currencies in Europe.

I simply wanted to make sure that our friends in Britain were going to go along with us on this and it was not a question of going off in different directions.

Ambassador DOUGLAS. I think there is no question of the British going along in principle. I think you have to examine each proposal for devaluation in terms of its details.

Chairman EATON. Before we penetrate further into the fog, the meeting of the Committee will be recessed until 2 o'clock, when Secretary Royall will appear before us.

We want to express our thanks and gratitude for the very remarkable contribution that our friend the Ambassador has made.

I hope he will stay within reach.

Speaking simply as a citizen, and viewing the discussions here as a revelation of civilization, I have personally decided to seek a lodge in some vast wilderness as soon as possible.

Ambassador DOUGLAS. Retaining me?

Chairman EATON. I will ask the members of the committee to remain for just a moment in executive session, which will take just a moment, on a very interesting and personal matter.

(Whereupon, at 12:05 p. m., the committee adjourned until 2 p. m. the same day.)

AFTERNOON SESSION

Chairman EATON. We will proceed.

We have our distinguished Secretary of the Army, Mr. Royall, who will proceed to make his statement.

STATEMENT OF HON. KENNETH C. ROYALL, SECRETARY OF THE ARMY

Secretary ROYALL. Mr. Chairman, I am glad to respond to the request of your committee and to outline the position of the Department of the Army on the ERP, particularly to discuss the relation of the plan to the American and British occupation zones of Germany which are at this time our responsibility.

Last Wednesday and Thursday, in response to a similar request from the Senate Foreign Relations Committee, I stated to that committee rather fully the views of our Department, as well as my personal views, on the same subject.

I would like to file with your committee, if I might, a copy of my statement prepared for the Senate committee, and then make a somewhat shorter initial statement here today.

Chairman EATON. We would like very much to have you do that, sir. (The statement referred to is as follows:)

STATEMENT BY SECRETARY OF THE ARMY KENNETH C. ROYALL BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

Mr. Chairman, The major responsibility of the Army is the defense of the Nation. When there is economic difficulty, shortage of food and general unrest in the world and an economic and political situation which is unstable, that responsibility becomes acute and the cost to the Nation increases. When the essential elements for economic stability and for peaceful development exist among nations, the Army's immediate responsibility becomes correspondingly lessened. I firmly believe that enlightened cooperative economic endeavor as visualized in the European recovery program can go a long way toward reducing the necessity for large scale national armaments, and that without some such effort the Army and its budget should be immediately and measurably increased.

Germany, occupied by four major powers, two of which are participating nations in the proposed European recovery program, presents a special problem in this cooperative endeavor. The importance of Germany was clearly emphasized by Secretary Marshall in an address delivered in Chicago on November 18, in which he said: "The problem of restoring the European community inevitably raises in acute form the problem of Germany. The restoration of Europe involves the restoration of Germany. Without a revival of German production there can be no revival of Europe's economy. But we must be very careful to see that a revived Germany could not again threaten the European community."

For more than 2½ years the Army has been responsible for the occupation and government of one zone of Germany and for the prevention of disease and unrest in that zone. During this period the economic rehabilitation of Germany has become increasingly important both because it will contribute to the political stability of Germany and also because it offers the only reasonable opportunity of relieving the United States of the financial burden of food and other necessities.

The extension of economic aid to other countries of western Europe economy is of particular interest to the Department of the Army because of the relation of German economy to that of the rest of Europe.

Conversely we recognize that the rehabilitation of Europe would be difficult to achieve without increased German production of coal, steel, and other items.

For many years prior to World War II, Germany was the industrial hub of the European economy. Around her the industry and trade of European states were geared. And the physical and moral collapse of Germany during and after World War II created an industrial vacuum within the European Continent which helped render the entire economic machine inoperative.

The report of the Committee of European Economic Cooperation prepared as a result of the Paris conference of 16 European nations last summer, states that the German "economy has been, in the past, and by the nature of things will remain, closely tied up with the economic system of other European countries * * *. Other western European countries cannot be prosperous as long as the economy of the western zone is paralyzed, and a substantial increase of output there will be required if Europe is to become independent of outside support."

To date German recovery has lagged so far behind that of the other countries of Europe as to retard the whole effort for European recovery. One important—perhaps the most important—factor has been the food situation.

For the last half a century Germany as a whole has had a substantial food deficit. This condition is now accentuated in the United States and United Kingdom zones of occupation by the fact that the part of Germany allotted to Russia and placed under Polish administration comprised 25 percent of prewar Germany's food-producing areas. Other factors are the loss of large numbers of the producing age groups and an increased population in the western zone of about 6,000,000 people, many of which are nonproducers.

The German situation differs in many respects from that of the 16 countries which participated in the Paris Conference. It is an occupied country, under control of four powers that have not been—and are not now—in agreement as to the basic principles under the Potsdam Agreement to be applied in the administration of the country. The Soviets have prevented economic and political unity with the western zones and in their zones they have imposed a radically different and highly centralized organization of the economy with all basic industries under public or direct Soviet ownership.

The main fact about the German economy at present is that it is not yet quite a going concern. In addition to the lack of food there is a coal shortage, an inadequate transportation system and insufficient supply of raw materials. The discrepancy between the volume of currency and the quantity of available goods is so great that purchasing power and the incentive of money earnings are extremely low.

The economy of the merged United States and United Kingdom zones, is characterized by a low level of production but, on the other hand, a surprisingly high level of employment. Total employment is less than 10 percent below the prewar level and unemployment is less than 5 percent of the registered labor force.

Yet industrial production in November 1947 in the bizonal area as a whole was estimated roughly at 44 percent of the 1936 level, with the index standing at 56 in the United States zone and 40 in the industrially more important United Kingdom zone.

This anomalous situation is largely accounted for by high rates of absenteeism and low productivity per man-hour. Plants often carry a full working force on their pay rolls in order to keep the labor force intact and to permit the workers to qualify for supplementary rations.

This over-all decline in hours and effectiveness of work is due to several factors, including: the larger proportion of older men in the work force, a smaller proportion of skilled labor, and inadequate and varying nourishment. Other contributing factors are the interruptions—as well as the industrial inefficiency—arising from under maintenance of plant equipment, shortages, and uneven flows of raw materials and transportation and fuel difficulties.

The food and housing shortages are the greatest factors. These shortages have led employees to supplement their inadequate rations by black-market purchases from farmers and this in turn has resulted not only in absenteeism but in widespread labor unrest.

In the matter of housing, the war damage, especially in the larger western cities and towns, is well known to members of this committee.

Next to the shortage of food, the lack of coal has been the most serious obstacle to recovery. Daily production of hard coal in the Ruhr, which was around 400,000 metric tons in 1936, has risen from a low of less than 100,000 tons at the time of surrender to a high of 234,398 tons per day on November 29, 1947. Coal production has varied up and down as food availability varied during this postwar period. The coal consumption situation is greatly aggravated by the current, seriously reduced efficiency of coal utilization.

Finally, industrial production has suffered seriously from the lack of a completely satisfactory currency, which means a lack of normal economic incentives. The reichsmark has, it is true, retained most of its value for the purchase of rationed items, especially food, and for such other items as rents, services, and transportation. On the other hand, the value of the reichsmark for the purchase of nonrationed products has been greatly impaired, and there is general uncertainty with respect to its future value. Under the circumstances, the normal incentives to labor to increase its take-home pay and to management to produce for profit are far too weak to provide a basis for sustained effort on the part of either labor or management.

But for bomb damage the war would have left bizonal Germany in most industries with a potentially operable industrial plant greater than that of 1936.

However, there was great bomb damage to industrial plants—a large part of which are still unrepaired, and some equipment has deteriorated further since VE-day.

The railway system suffered much heavier war damage than industry in general. The most immediate essential repairs to right-of-way have been made. Nevertheless, the general disorganization and the existence of zonal boundaries have caused an increase in the average length of haul and in the turn-around time of railroad cars. Furthermore, the condition of the rolling stock has deteriorated in spite of a well developed repair program.

Industrial construction in Germany has been negligible since VE-day. It has been confined to essential repairs to transport and a minimum of repair and maintenance of plants.

The volume of currency and bank deposits in Germany has been estimated at more than six times the prewar level. This expansion in the face of greatly reduced supplies of goods, seriously threatens the stability of the price and wage structure. And no foreign exchange rate for the mark has been or can soon be established. Instead, exports are priced at world-market prices in dollars.

Although within Germany there is formal compliance with the official prices, which are substantially identical with the 1936 and wartime prices, inflationary pressures continue. Official prices and wages have risen only moderately, but money has to a considerable extent lost its functions as the medium of exchange and store of value. Owners and producers of goods and services increasingly exchange them only for other goods rather than for money.

This affects labor and agriculture as well as industry. Workers are apt to stay on the job only long enough to earn money needed to purchase their authorized rations at legal prices because money has negligible value for other purchases. The remainder of their time is often spent in scouring the countryside for additional goods obtained in exchange for personal belongings or for labor services. This tempts the farmers to hold grain from collection, to feed it to livestock, or to barter it outside official channels of distribution. Only increased production together with financial reform to reduce the amount of money in circulation can remedy this situation.

These, in brief, are the difficulties and complexities with which the German economy has been and is faced. Both the Military Governor of Germany, General Clay, and the Department of the Army—and formerly the War Department—have exerted every effort to meet and remedy this situation. I share the general admiration for General Clay and for the splendid work that he and his staff have done under most unfavorable circumstances. I will outline to you some of the steps that have been taken.

The pooling of the economic activities of the British and American zones was an organizational step in the interest of improving the general economy. This bizonal economy merger was effective on January 1, 1947, and has, we believe, resulted in considerable progress. This arrangement has been continued into 1948 under an agreement signed last month, and the fact that a large part of the British contribution for relief funds has been necessarily eliminated does not affect the administrative arrangement, although it gives to the United States greater financial and economic control.

The United States-United Kingdom bizonal organization includes the Bipartite Board. The German bizonal agencies, established by United States-United Kingdom proclamation, include an Economic Council which has been given broad powers to direct the economic reconstruction of the combined area, subject to the approval of the United States-United Kingdom Bipartite Board.

The American and British Military Governors are currently discussing with bizonal German leaders proposals to double the size of the economic council to make it more representative and to establish a second economic body with two direct representatives from each of the eight land governments.

At the beginning of the occupation the foreign exchange and trade of the United States and United Kingdom zones were conducted entirely by and for the account of the occupation authorities. Since that time there has been a progressive relaxation of trade controls to prepare for the reestablishment of private trade. Foreign trade operations have been partially decentralized and returned to German hands, to the extent considered compatible with the requirement to maintain full supervision and control over German imports and exports financed by the United States and United Kingdom Governments.

In the first 9 months of 1947, the combined United States and British zones imports consisted of approximately 95 percent category A goods, financed by England and ourselves and mainly consisting of foodstuffs, fertilizer, and petroleum. Only about 5 percent were category B goods, including various consumer goods and raw materials, which were principally financed by proceeds of exports.

For the reasons previously stated, imports of foodstuffs are greater in volume and in value than before the war. Coal exports are about one-third of prewar in terms of volume, but the average of all other exports is estimated as 5 percent of their prewar levels. The exportation of finished industrial goods, which before the war formed the backbone of German foreign trade, has hardly been resumed.

Under the new bizonal agreement it is estimated that the 1948 United States relief expenditures in Germany will be in the vicinity of \$700,000,000; an increase of about \$300,000,000 due to the British dollar shortage. The United Kingdom undertook to provide a contribution in value of some 8½ million pounds (approximately 34 million) in 1947. They also undertook to provide goods and services in 1948 from sterling area sources valued at 17½ million pounds sterling (approximately 70 to 87 million dollars).

The agreement does not relate to expenditures by either Government for the maintenance of forces of occupation and control staffs in Germany. Those remain the responsibility of each Government.

In an effort to demilitarize Germany and also to provide reparations for the Allies, a program for dismantling certain German plants began shortly after occupation. The reparations program for removal of capital equipment was decided upon in the Potsdam agreement on August 2, 1945.

In March 1946 a level of industry was established. This level was based upon treating Germany as a single economic unit, but Russia failed to agree to those terms of the Potsdam agreement. In August, 1947, a new and higher level of industry was fixed which resulted in greater productive capacity in the critical industries such as metals, machinery, and chemicals. There was a corresponding decrease in the plants available for reparations.

Prior to the establishment of the new levels, shipment had been made of a few plants obviously excess to any normal German peacetime requirements plus some general-purpose equipment from war plants. In the case of war plants, I want to emphasize that only the general-purpose equipment has been made available. No entire war plants have been allocated to any nation, and the special-purpose war machinery has been destroyed.

Under the original quadripartite allocation of plants from all zones, 75 percent was to go to the western nations and 25 percent to the U. S. S. R. and Poland. But, when it became apparent in 1946 that Russia was preventing economic unification of Germany, deliveries of new plants—nonwar plants—to the Soviet Union were stopped pending further developments. The only shipments, therefore, now going to the U. S. S. R. are the tag ends of early allocations consisting principally of machinery.

It should be made clear that, because of shortage of fuel, transportation, raw materials and inefficient labor, the plants now declared excess could probably not be placed in operation in Germany within the next 4 or 5 years, even with aid from the recovery program.

If left in place, and unused this equipment will deteriorate and lose its value. At the same time much of it is needed and desired by the western nations who participate in the inter-Allied reparations program and to whom it has been promised. They can use it where Germany cannot, and its use by them can help economic recovery and reduce the demands on the United States for dollar aid.

It is evident that if possible financial reform should be carried out on a German-wide basis. Negotiations have been in progress for some time in an effort to reach quadripartite agreement on a currency and financial reform for Germany as a whole. The major problems to be solved in such a program have to do with the printing of the currency, the terms on which the old currency will be withdrawn and new issued, price adjustments, organization, and similar questions.

Faced with the possible failure of currency negotiations on a quadripartite basis, the problem of alternative action is being studied. Numerous technical and policy problems are bound to face any program for currency reform—particularly for bizonal or trizonal. But, the basic economic fact is simple. The gap between supply of money and supply of goods must be closed if incentives to work and produce are to be restored.

I have tried to make clear the present situation and the existing obstacles to economic rehabilitation in Germany. The present low levels of production constitute a drag not only upon German recovery but also upon the recovery of the rest of Europe. I am convinced that no plan for economic aid to Europe can be a success unless it fully comprehends such assistance to Germany as will permit that country not only to help herself but also to be of assistance to the other participants in that aid program.

The relationship of bizonal Germany to the European recovery program rests upon a reasonable restoration of the prewar German trade pattern with recogni-

tion of and opportunity for a greater freedom of intercountry exchange of goods and services by reduction of trade barriers and exchange of local currencies.

German economic improvement—and the raw materials and incentive goods needed therefor—have heretofore come almost entirely from the limited German exports. Food has been sent to Germany, but there has been no contribution to building up German industry—no “pump priming.” So the progress has been slow, much slower than in other nations. To attain full economic recovery Germany needs more outside help than any country of western Europe.

In anticipation of a possible European recovery program, the bizonal military government officials first prepared a 4-year economic recovery program based upon an immediate rise in total imports and a change in their composition. The program was an attempt to get away from the present relief program, the disease and unrest formula on which Army appropriations have been based, and to present a reasonable economic rehabilitation effort. It was proposed on the theory that our taxpayers are entitled to relief from the German economic burdens as rapidly as possible.

This program, if accepted in total, would have necessitated large appropriations in the early years, and would have required a priority for special type imports of items in critical world supply. These demands would doubtless have subjected this country to criticism that we were attempting to rehabilitate Germany ahead of the recovery of our World War allies.

The requirements of bizonal Germany had, of course, to be fitted into the 16-nation European economic recovery program. Our original estimates had to be reduced. For the world availabilities of supply did not permit the allocation to bizonal Germany of the total of the estimated requirements. In many cases, too, the sources of imports had to be changed, because Germany is expected under the new program to receive considerably more of her requirements from other European countries than the bizonal authorities had considered possible under their previous plans.

After figures and requirements for the bizonal area had been screened and a reasonably accurate total obtained, it was decided that the Army would request appropriations for that portion of the total German requirements which represents the Army's responsibility under the disease and unrest formula, the so-called GARIOA funds (government and relief in occupied areas). This leaves only the German rehabilitation requirements in the European recovery budget.

This plan recognizes those Army responsibilities which existed prior to the development of the European recovery program, and at the same time provides the necessary flexibility for the operation of the purely rehabilitation phases of the new program. This will permit the recovery activities for bizonal Germany to be handled in relation to those of the other European countries.

Germany will become a partner in the European recovery program. The military government authorities will receive and handle the recovery funds or commodities allocated to it as well as the relief funds, and the administration of the German recovery funds will be subject to a general supervision by the Recovery Administration similar to that in other European nations—although less supervision would doubtless be required because the American Government will already be largely controlling the economic program in Germany.

The administration of the European recovery program in Germany should be relatively simple. United States military government authorities, in consultation with those of Britain and with German economic agencies, will prepare and submit the bizonal requirements to the Department of the Army until that Department is relieved of occupation responsibility. When the United States military government receives its allocation of recovery funds, it will then carry out instructions it receives through the Department of the Army in connection with the importation of raw materials, their manufacture and distribution, and other related matters.

The military government authorities will, like any other European country, designate a representative of bizonal Germany on the continuing European recovery organization. In the United States, the Department of the Army will represent bizonal Germany in its contact with the Recovery Administrator. It will receive the German recovery requirements, assist in screening them, and then present them to—and defend them before—the Administrator.

Of course, when the State Department assumes the responsibility for civil and economic administration in the occupied area of Germany, the Army will be relieved of the above duties. But even then the Army's military staff here and in Germany will be available to assist the Administrator in other phases of his work, particularly where it can be of service as a procurement and shipping agency for supplies.

While Germany will be a partner in the European program, it must not be assumed that, because of her prewar economic strength in Europe, she will be able to lead the way out of Europe's present difficulties. The war left German industry too prostrate, and after more than two postwar years of bare existence her people are too weak to become such leaders.

The current level of industrial production is too low and the obstacles of inadequate power, transportation, and raw materials and low labor productivity are too great to be immediately overcome. The Army believes, however, that bizonal Germany is ready to respond if given assistance.

The successful execution of the entire program, of course, depends on many assumptions. One assumption is a substantial increase in labor productivity by 1952, as a result of the improved standard of living and the morale of the German worker. Another is that requisite financial and administrative reforms will be vigorously pursued and that policies providing an incentive to exports will be adopted and implemented.

Much will depend on the efforts of the German people themselves. The effect on production of the feeling of hopelessness of the German population has been profound. It is reasonable to expect that the recovery program by holding out the prospect of relieving the existing physical misery and of permitting the German people to stand once more on their own feet, will act as a far-reaching psychological incentive for labor, management and the German administration.

The recovery of German foreign trade is, of course, closely linked to the success of the European recovery program as a whole. Germany must be able to turn to the other European countries as a market for her growing production and as a source of her imports. An increase in the production and purchasing power of these countries is, therefore, vital to Germany, just as German recovery is vital to the rest of Europe.

Under favorable conditions, the trade deficit of Germany should be reduced to a manageable figure by 1952. While some deficit may still be evident at that time, Germany's economic prospects may well have improved to such an extent that private capital will again be attracted to Germany and assist measurably in balancing Germany's international accounts.

In my opinion the United States is now faced with three alternatives with respect to Germany:

1. The most drastic course would be to stop all economic assistance and withdraw our limited armed forces and military government personnel from the occupation of Germany. This course, seems to me unthinkable and absolutely counter to our national objectives.

2. Continue the present program of sustaining the German people on the basis of prevention of disease and unrest, and let Germany's meager exports gradually build up the country's rehabilitation. This approach presages a long, difficult struggle to raise the economic levels, and would require continuing very substantial annual relief appropriations. This course will be hard on the American taxpayers.

3. Provide financial assistance to western Germany, as a participant with the 16 other European nations as proposed by this cooperative endeavor, in an attempt to raise her economic level towards self-support in the shortest possible time. This is the alternative that I most earnestly recommend.

While no one can say with certainty what the results of the proposed recovery program will be, I am convinced that without adequate economic assistance to the nations of western Europe, including western Germany, we may well expect at least political aggression by totalitarian nations with ideas diametrically opposed to those of a free democracy.

Germany has become the focal point of the two divergent economic and political ideologies of the postwar period. Our interest lies in encouraging Germany and the other nations of Europe to have systems of free, competitive enterprise which recognizes the dignity of the individual—and to show them that such systems point the way to prosperity and peace.

The European cooperative recovery program now before you, I believe, is the blueprint for an enduring structure. I therefore strongly recommend approval of the program proposed by the President and so sincerely presented for your consideration by Secretary Marshall and the others who have preceded me.

Secretary ROYALL. All of us, I am sure, feel that the United States Government must do everything within its reasonable power to preserve peace for our country.

Under the uncertain conditions which prevail in the world today we must preserve an adequate national defense, which will convince any potential enemy that an attack on us would be unsuccessful, and that the disruption of the peace of the world on the part of any nation would be an unwise step.

We must continue our support of the UN with diligence and with fairness and in the most critical overseas areas we must seek to prevent the fundamental causes of war, hunger, cold, economic dislocation, national unrest and instability, and discouragement.

These are three separate efforts for peace, and all three of them in my opinion and the opinion of my Department, can be and should be pursued simultaneously.

While I believe that today strong military preparedness is the most effective of the three, I also recognize that it is at the same time the most expensive in dollars and in men and the national effort.

I assure you that as for myself, the time cannot come too soon when the strength of the UN or the improvement in world conditions can justify a radical reduction in the military men and matériel needed for national security.

I believe that the ERP is a definite step in that direction, and the plan has a reasonable chance of accomplishing its end.

The Army, together with the rest of the National Military Establishment, can properly give weight to the probability of some successful plan to reestablish the European economy.

It therefore can recognize and has already recognized that expenditures for recovery purposes justify lower expenditures for national defense than would be required if there were no effort for the European recovery.

The occupation of conquered countries has up to this time been the responsibility of the Department of the Army.

Among the most cogent reasons for such occupation are the prevention of unrest and disorder and the building of free and self-supporting states.

These two purposes, particularly as applied to Germany, closely parallel the purposes of the ERP as applied to Europe.

So our Department feels keenly the need of the broader program, and also realizes the necessity of closely integrating the rebuilding and reestablishment of Germany, with the rebuilding and reestablishment of the economy of western Europe as a whole.

Unless in this entire area of western Europe, including Germany, there can be an economy which is sound enough to preserve and rebuild the nations devastated by war, it is almost certain, it seems to me, that these nations will be an easy prey to political aggression of our totalitarian neighbors, aggression which must inevitably, in my opinion, threaten the peace of the world.

In Germany, the Army's task has been complicated by a factor which does not arise in the other countries of western Europe.

With the end of World War II, the people of our country, and that undoubtedly includes all of us here today, were determined that Germany would never again have the military ability to bring a world war on as she did twice in a decade, and three times in two decades.

Therefore, certain of her heavy industries had to be destroyed, and their rebuilding prevented.

It has been necessary to reconcile this destructive process with the obvious fact that for Germany to survive, her general industrial level must be raised, that the nation cannot be self-supporting, either as an agricultural nation or a nation of small shopkeepers, or artists.

Historically, Germany as a whole does not have sufficient native food for her own support. And this situation has been greatly aggravated since VE-day by the fact that the area ceded to Russia and the territory placed under Polish administration has taken away 25 percent of Germany's prewar food-producing areas and has done so at a time when the population of the United States and United Kingdom zones has been increased by 8,000,000 people.

It was increased by infiltration from other zones and otherwise. So the present population of the American and British zones is now a total of about 41,000,000.

These facts, and the resulting fact of our country pouring hundreds of millions of dollars each year into Germany for relief purposes, have emphasized the necessity of rebuilding German production as soon as possible, and expanding German exports with a view both to making the United States and United Kingdom zones self-supporting, and capable of preserving a free and democratic form of government, as determined against the spread of totalitarianism and also with a view to enabling those countries to pay their way as soon as possible and relieve us of the financial burden of relief funds.

The situation in Germany under which these purposes have to be accomplished has been complicated by a number of factors.

One of the principal factors is the division of the country into four zones of occupation—four zones with a political and economic concept in one of the zones differing radically from that of the other zones, and with the serious interference to the free flow of finished goods or raw materials between these zones as well as interference with the free flow of communications and personnel.

When it became apparent that the four occupying powers could not agree upon treating Germany as one economic unit, and that was sufficiently clear to General Clay and to the Department of the Army and the War Department, we offered economic integration of our zones.

Great Britain accepted and an economic merger was effected between the British and American zones on January 1, 1947.

That was over a year ago. Now, as of January 1 this year, the British dollar shortage made it necessary to amend this agreement by transferring to the United States the major part of the costs for food, fertilizer and fuel and other relief necessities, while at the same time increasing the United States authority over economic and financial matters.

The estimated 1948 cost to the United States for relief in Germany, relief expenditures, will be about \$700,000,000 for the calendar year as compared with an equivalent of from \$70,000,000 to \$87,000,000 to be contributed by Britain, that differential depending upon how much sterling they can reasonably spend and goods they can buy with sterling for relief.

They will furnish \$70,000,000 as a minimum, and \$87,000,000 as a maximum.

Of course, that is relief expenditures. Britain will support their occupation forces and their military government staff, the cost of which they estimate in excess of \$300,000,000.

Through necessity, our zones of Germany, the British and American zones, have up to this time been operated almost entirely on the limited theory of what we call disease and unrest.

We have had to spend hundreds of millions of dollars to import food and the bare exigencies of existence, and even after this importation, the German minimum ration for the normal consumer has averaged well below the 1,550-calorie theoretical ration, and has been lower than the minimum ration of any other European nation.

As I said recently, in making a talk, 1,550 calories is not much more than a good North Carolina breakfast.

While food is of course an absolute prerequisite for the ability to work, and therefore a prerequisite for production, yet such production also requires raw materials and the rehabilitation of plants and the repair and restoration of transportation facilities and other material aids.

No direct help along these lines has been given to Germany in American funds.

Since that has been the case and because of the terrific war damage that occurred there, as many of you gentlemen have seen, the progress toward recovery in Germany has been slow.

That is economic recovery. We have just given them the food. We have not contributed anything to the upbuilding of their industry and they have moved slowly.

The average production in neighboring nations has reached 90 percent of prewar and some of them have gone up above 100 percent; such production in Germany stands at only about 44 percent of the basic figure which is taken as 1936.

One of the important contributing factors, in addition to those I have already named for this condition, is lack of confidence in the value of money in Germany.

That lessens the incentive of both labor and management, and also of farmers to produce the maximum.

Labor and agriculture further suffer because workers leave their work to trade personal possessions for food. This in turn causes the farmer to withhold his produce from the legal markets so that he can barter it for labor or other articles.

After all, while we tend to think in terms of a nation as a whole, we are dealing in the last analysis with individuals and the incentive to produce of the particular individual is an important factor in any sort of recovery.

Another phase of our occupation problem is that of reparation. There has been a lot of talk about it in conjunction with the plan to demilitarize Germany; it was also initially provided and in the Potsdam agreement, that Germany should pay for some part of the damage she had done to other nations by giving up to them plants and equipment which were determined by the four powers to be in excess of her peacetime needs.

Eighteen nations were promised, in an agreement signed in Paris in 1946, that they would receive 75 percent of such industrial reparations from the western zone.

Under the Potsdam agreement Russia was to receive 25 percent of the plants and equipment, partly for compensation and partly as an exchange, rather than pure reparation.

To fix this level above which plants would be dismantled and paid in reparations, what was called a level of industry was set in March

1946. The excess at that time was estimated on the basis that Germany would be treated as an economic unit. Since Russia was to receive for herself 25 percent of the excess from the three western zones, 10 percent without repayment and 15 percent for which she would pay principally in raw materials, and from which she was to satisfy all Polish claims, she was allocated in 1945 as advance delivery, that was the term used for it, a few obviously excess plants and later some items of general purpose equipment from war plants.

Let me make it clear that the special purpose or war machinery from those plants were destroyed and not delivered to anybody.

In May 1946 when it became increasingly and finally clearly apparent that Russia would not treat Germany as an economic unit, General Clay announced that he would make no further deliveries to Russia of additional plants unless and until the Soviet Union accepted her full responsibilities under the Potsdam agreement.

Accordingly, the only shipments now going from the United States zone to Russia are the remnants or tag ends of one industrial plant, most of which had previously been delivered, and some general-purpose machinery from two war plants which would not have been retained in Germany under any circumstances because they were to be destroyed.

With the continued failure of Russia to agree to economic unity, and with the necessity for general industrial recovery in Germany becoming more and more apparent, the United States and United Kingdom military governors recommended that the level of industry fixed in 1946 for the merged zones be increased, and the number of industrial plants available for reparations be reduced.

One of the first acts I took as then Secretary of War, in August 1947 was to fix the new bizonal level of industry, and to approve the recommendations that had been made from the governors there, with the concurrence of the other necessary government departments.

It was agreed in August 1947 and announced that the plants to be dismantled were to be reduced to 682, leaving therefore a greater productive capacity in the critical industries of metals, machinery, and chemicals. Under the first level established 1,218 plants were listed by name and location but some 600 or slightly more were to be listed when definite selections had been made. These additional were not named before the new level was determined. The new list of 682, therefore, is about one-third of the original estimate.

Of these 682 plants, 186 are in the American zone, and 486 are in the British zone.

It is not believed—and I think this is a factor that sometimes is not fully recognized—it is not believed that the dismantling of these plants would adversely affect the German industrial recovery.

The reason is that the remaining plants will require all the fuel and raw materials that are likely to be available now or in the reasonably near future.

Because of the shortage of fuels and raw materials and labor, and transportation, these reparation plants could not be effectively utilized for Germany, in our opinion, within 4 or 5 years under any circumstances.

During this time the plants would depreciate, deteriorate, be subject to sabotage and theft, and would lose much of their value.

In the meantime allied nations of the West—and I am speaking now of nations in the West principally—are asking for these plants

which we have agreed to give them to use in increasing their own production.

In spite of the many adverse factors in Germany—I do not want to paint too blue a picture—some progress is being made.

The current 44 percent production of the 1936 level compares with a low of 20 percent at the beginning of the occupation period. It is a little over double.

Coal production, an essential for industrial recovery, has increased from a low of something less than 100,000 tons per day to a high of 285,000 tons.

Steel is about 25 percent of the prewar level; lumber is above the prewar level; transportation systems have been partially rehabilitated and a large number of cars repaired.

In the question of financial reform, there has been an earnest effort to effect that on a quadripartite basis.

Germany has had a single currency. It is all-important to us that every effort be made to do that in the new currency.

Now, alternative action is being studied, for the gap between the supply of money and the supply of goods must be closed if incentive to work is to be restored.

The joining of the two zones has resulted in a more efficient operation of the economic activities with more and more responsibility being given to the Germans who are encouraged and required to work for their own salvation.

Foreign trade has been decentralized and returned to Germans under Allied supervision, and these steps have produced some results.

Much more remains to bring Germany up to even the current level of Europe, and the European recovery program, as far as Germany is concerned, contemplates exactly the kind of assistance that Germany requires in order to speed her economic recovery.

But German recovery is not only important to Germany. The other nations of Europe need German industry and exports for their own rehabilitation and progress. Historically it was the central and principal industrial nation of Europe.

Their economies were to a considerable extent built around German production.

The 16 European nations who would participate in the proposed recovery program stated in their Paris meeting, and I will quote:

The German economy has been in the past and by the nature of things will remain closely tied up with the economic system of other European countries.

A substantial increase of output there will be required if Europe is to become independent of outside support.

Secretary Marshall in his recent Chicago speech stated that without a revival of German production there can be no revival of Europe's economy. But at the same time he also warned against any revival which would be a threat to peace by permitting Germany to become such a threat.

There is one means of assuring against Germany becoming such a threat. You will recall that the United States has suggested to European nations for their consideration a joint treaty to extend for as long as 45 years, to prevent Germany from again becoming an aggressor nation.

Since the Army still has the responsibility for the military and nonmilitary phases of the operation, we are at this time asking appropriations, as in the past, for the sums required for disease and unrest.

That is purely a relief fund. We are again asking for that in our budget. Included in the European recovery budget would be the additional funds needed for German economic rehabilitation.

This additional amount is estimated at around \$318,000,000 for 15 months, as a part of the recovery program.

This system, asking for the relief money and recovery budget, including the recovery money, would permit the rehabilitation activities for bizonal Germany to be handled by the military government authorities.

We handle both funds. The recovery money would be handled in relation to those of the other European countries.

We would handle the funds; if commodities were furnished in lieu of funds, as the plan would permit, we would handle those; but we would handle the rehabilitation part of the funds under the general supervision of the recovery administration, somewhat like other countries would handle it under that supervision.

In America the Department of the Army would represent the bizonal authorities, to receive the requests from Germany, and would defend those requests before the Recovery Administrator.

I am speaking of the Army handling that. You have seen an announcement that the State Department is going to take over occupation. We have been urging them for several years to take over the nonmilitary phases of occupation, which is principally what we are talking about.

They would take it over on June 30 or July 1. The State Department would relieve the Army for the responsibility of the nonmilitary activities in Germany. We hope the date will be the date named.

The Army's facilities in Germany will again be available to assist the Administrator wherever it can be of service. We would keep our troops there in the purely military form even if the State Department took over the occupation functions.

The problems confronting the United States today in relation to Germany must be approached realistically. We have three courses that we can follow, as I see it.

We will ask ourselves, "Should we withdraw all our forces from Germany and thereby abandon all our objectives of occupation?" The second question is, "Shall we continue to send into the bizonal area hundreds of millions of dollars for maintenance of law and order, and only for that, with hope indefinitely deferred to a German economy sufficiently rehabilitated to relieve us of the occupation costs; or shall we expend aid for recovery to Germany and to those European nations who have volunteered to cooperate with us to accomplish the rehabilitation of the European economy as a whole, as a foundation for peace and prosperity throughout the world."

In my judgment, the third alternative is to be desired above the others.

I feel confident that if followed it will extend its influence far beyond the borders of the participating nations; that it will eventually substitute, at least in part, the defensive armament, and that it will offer a prospect for lasting peace.

That concludes my statement, Mr. Chairman.

Chairman EATON. We have had a question based upon newspaper reports today that a strike in the Ruhr mines is imminent. How would our military authorities handle such a strike?

Secretary ROYALL. That happens to be in the British zone, but the military authorities would, of course, take all steps—all feasible steps—to prevent disorders.

Chairman EATON. How about preventing the absence of workers from work?

Secretary ROYALL. I think we would not go as far as enforced work or conscription, but we would make every effort, as we have had to do sporadically before, to render assistance under any justified situations, try to remove the causes, one of which is usually lack of food, which leads to the strike, and provide incentives for work, if they are justified, and negotiate with the workers for their return to work.

As I say, that is the British zone. But the situation would be handled, I think, substantially the same way in either zone.

The great difficulty there, of course, is the lack of incentive, as well as lack of food.

A man gets paid in currency which he can really use for the purpose of purchasing rationed articles.

When he gets an amount, with the maximum he can buy, his money is of very little value.

Chairman EATON. Are they interested in restoring the country?

Secretary ROYALL. I think a great many Germans are. But, as would be true even in America, you are dealing there with individuals who vary in their patriotism and in their understanding of the situation, and many of them look at it purely from a selfish, personal interest: "How much am I myself going to get out of it?"

We cannot hope to avoid that sort of personal approach in a great many cases.

Chairman EATON. The method furnished by Mr. Hitler and certain autocratic forces was a bayonet.

Secretary ROYALL. That is right, sir.

Chairman EATON. Are we going to furnish a little pious observation on the theory of the work because of that contrition, or what are we going to do? Most people do not know anything apparently but brute force.

Secretary ROYALL. I am sure some do not. We hope they are growing out of that attitude. Certainly we cannot afford to have slave labor in Germany.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Would you yield there for a question?

Chairman EATON. Yes.

Mr. LODGE. I was interested, Mr. Secretary, in your statement that you thought it perhaps was the lack of incentive goods.

I was wondering whether this protocol might not have something to do with the strikes and whether there might not be a concerted attempt on the part of the Cominform to bring about economic disruption, and in that case how much good will it do for us to provide the incentive?

Secretary ROYALL. I am sorry I am not quite up to date enough to answer how far the Communists' inspiration has been responsible for this strike. General Clay will be here tomorrow night and that is one of the important matters we will discuss with him.

I have seen conflicting newspaper reports. Some say it is Communist-inspired entirely and some say it is partially Communist-inspired, and some say it is merely lack of food and incentive.

I do not think I am in position to give you that opinion.

General Clay will, of course, give us his diagnosis of the situation. My guess would be, and it is purely a guess, that all of those elements may in part enter into it, because communism and Communist agitators, faced with a condition of unrest, may possibly capitalize on it.

There are some Communists in the Ruhr.

Chairman EATON. The thing I would like to know, if I could, is whether the German people in our zones, for instance, have as an incentive the desire to rebuild a whole nation and make it a part again of the world.

Secretary ROYALL. I think a very substantial part of them do.

Chairman EATON. What are they doing about it?

Secretary ROYALL. Well, it varies. Some of them are working very hard. Some of them are producing the maximum they can. And some of them are loafing on the job.

Chairman EATON. I was wondering if we were not substituting the eleemosynary motive for patriotism. We are locating the incentive from the brain and the conscience to the alimentary canal.

Secretary ROYALL. Well, sir, I suppose we are running a slight risk on substituting aid for necessity but I think we have got to take that risk with our eyes open. The alternative is the starving or semistarving nation, and that would certainly create more unrest and more danger to us and to the world than it would maybe in some individual instances to err on the side of generosity. You cannot draw a straight line, I do not think, either way.

Chairman EATON. I cannot find myself deeply moved with sympathy or anxiety for these people who have wrecked the world. Let them go to work and help rehabilitate, without being waited on by a wet nurse all the time and fed like a lot of stalled cattle. Let them take their own medicine now a little.

Secretary ROYALL. Well, sir, I have great sympathy with your feeling that Germany or the German people deserve almost any fate that should come to them. But I do not think we have to place this on grounds of humanitarianism entirely—or at all, if you do not wish to. The truth is that a semistarving Germany would be a menace to our own security. Of course, we do have some obligations under international law to look after occupied countries. But I base the principal reason on the fact that we do not want chaos in Germany.

Chairman EATON. Mr. Kee.

Mr. KEE. I have no questions.

Chairman EATON. Mr. Vorys.

Mr. VORYS. Mr. Secretary, I am reading question 11 from a resolution of inquiry directed to the Secretary of Defense, among others, and no doubt you would be speaking for him. This resolution was directed on December 18. I am reading question 11:

Has the Government of the United States taken appropriate steps to delay temporarily the further dismantling of plants in western Germany so as to permit further study by the appropriate committees of Congress in order to determine whether such transfers are prejudicial to any general recovery program for western Europe?

Secretary ROYALL. No, sir; we have not stopped the dismantling of plants. We are continuing the dismantling down to the level of industry which was prescribed in August 1947. As I stated a few moments ago, it is the opinion of the military government authorities

in Europe—and we see no reason to differ with that opinion, and they have approved it—that the plants which we are dismantling down to this level will not be usable in Germany for a period of 5 years. That is our best estimate. And that, therefore, their dismantling does not either affect the present or the immediate prospects of Germany to recover and rehabilitate, nor to those prospects of the reasonably near future. We have done this: We have stopped the delivery to Russia and to Poland of any additional plants, except a small percentage of one plant, most of which has already been delivered, and some general-purpose machinery from two war plants which had to be destroyed anyhow to prevent Germany's war-making powers from being feasible in the future.

Incidentally, I have not seen these questions, but I think I can answer some of them anyhow.

Mr. VORYS. As you see, the questions arose because the committees of Congress and individual Members of Congress in studying the thing did not agree with the conclusions that you just stated, as to the dismantling of these plants. Going back to your text here:

It is not believed that the dismantling of these plants will adversely affect German industrial recovery, since the remaining plant will require all available coal and raw material—

there was considerable evidence that the further dismantling of these plants would adversely affect German industrial recovery, and a number of us were informed in Germany by both German and American officials that the dismantling was not merely to furnish plants to Russia, not merely as a matter of reparations, not merely to remove Germany's war potential, but to reduce Germany's competitive peace potential, and in view of the fact that since the dismantling order was made, 13 of the 18 nations have been directly or indirectly involved in the Marshall plan, three are now Soviet satellites, and two, India and Egypt, account for only 3.10 percent of the proposed reparations, it seemed to the House of Representatives that dismantling might be held up until they could get a little more information about it.

Secretary ROYALL. Yes. I realize that that was a question about which there could be and was some difference of opinion. At the hearings, principally, I believe, at the appropriation hearings, this question was raised and we did not at that time say that we would suspend the dismantling, but after the hearings we considered whether we should. Of course, if we were going by strict rules of administration, we had to make a decision to the best of our ability, but we respected the opinions expressed in Congress, and, therefore, on the 24th of December I addressed a letter to this committee, to the House Appropriations Committee, and the corresponding committees of the Senate, in which we stated that we were not stopping the dismantling. I did that because I did not want anybody to be under the impression from the discussion that we thought it advisable to do so. This letter was marked "Confidential," but I see no reason now, in view of the wide discussion that has been had in the press since that time, that it be any further confidential.

Chairman EATON. Did it not appear in the newspapers the next day?

Secretary ROYALL. I did not give it to the newspapers. I do not know who would be responsible. It was written by one person and sent to four. There are five possibilities. I will eliminate one of them

personally. I do not know whether it is in the paper or not. I would like to put this in the record, and strike out the confidential classification, if I might.

We said substantially in this letter what we said before and what I said today. General Clay thought it unwise not to dismantle these plants. We do not think they are necessary for German production, and as for the countries who are sharing or designated for sharing in the recovery plan approved by Congress, as you say, 13 countries are included in our reparations agreement.

At least a substantial number of these countries are taking the position that that machinery in those plants, since it would be useful to them in their recovery programs, if that is a fact, it would tend to speed recovery in those countries.

Now, certainly there is no economic way in moving an operating plant from one place to another, and the recipient does not get the value that the plant in place would have. But if the plant in place cannot be used for a considerable period of time, then, the chances are that there is not an over-all economic waste, but an economic value to the recipient. That fact, in addition to the fact that these were promised to these nations, has led General Clay to continue the dismantling.

(The letter referred to is as follows:)

DECEMBER 24, 1947.

HON. CHARLES A. EATON,
*Chairman, Committee on Foreign Affairs,
House of Representatives.*

DEAR MR. EATON: In view of the discussion concerning the dismantling of German plants for reparations, we wish to advise you of the present status of this problem.

General Clay has just cabled us that in order to carry out the program announced to the Landerrat at its meeting on the 4th of November of completing the dismantling of reparations plants in the American zone by next spring and so to dispose of this troublesome problem once and for all, he had given instructions last month to the reparations section to proceed as quickly as possible with the dismantling of all the reparations plants on the new list.

The Inter-Allied Reparations Agency in Brussels has been provided lists of the plants and has been invited to send in inspection teams of representatives of interested nations to view the equipment even before allocation by the Allied Control Council.

This program is now under way and General Clay states that he would consider it extremely unwise to defer dismantling in the American Zone during the proposed congressional hearings and investigation as it would become a serious political problem, particularly if dismantlings were subsequently carried out. I assume that by the political problem he means unrest and dissatisfaction which would arise in Germany, although his cable does not specifically so state.

You are doubtless familiar with the press release given out by the State Department a few days ago, which read as follows: "The State Department confirmed that it is seeking adequate arrangements with the British regarding any further shipment of dismantled plants to the East. The Secretary of State had a preliminary talk on this subject with Mr. Bevin before leaving London."

We have discussed this matter with representatives of the State Department who have advised us that they are considering this whole question in the light of the present circumstances.

While the dismantling program announced to the Landerrat early in November was a matter of public record and appeared in the press at the time, I would ask that this letter be considered as confidential in view of the policy questions now under consideration by the State Department.

Sincerely yours,

KENNETH C. ROYALL,
Secretary of the Army.

Mr. VORYS. Mr. Secretary, this series of questions I called to your attention was not from any committee but was a resolution of inquiry passed by the House of Representatives over a month ago, and the House has had no answers to the questions and since they are very important in our consideration of the recovery program, I was hoping that we might get some answers to them.

Secretary ROYALL. I think I can answer a good many of them, but whether they are answered today or not, the information will be in soon. Both the State and Army have been working together on answers to these.

Mr. VORYS. I do not intend to go through the list of the questions, but I was particularly interested in the last one, which is in some ways the \$64 question. You have now answered that, showing that there is apparently no intention to delay temporarily the dismantling so that the appropriate committees of Congress may study it.

Let me call this to your attention: This recovery program is a cooperative one, and cooperation is a two-way street that works not only between the Congress and the administrative agencies both ways, but between the nations which may be the recipients of billions of dollars of American commodities. I must confess my great disappointment if it has already been found out that it is impossible to hold this up until we can get a look at it. Meanwhile we are supposed to speed action on making the money available over there.

Secretary ROYALL. I agree with your general sentiments entirely but I want to say this, sir: That this matter of stopping reparations, as you may or may not know, was proposed in connection with the appropriation bill in December, and was stricken from the bill during its progress through Congress, and there has been no formal action by Congress on the matter, that being the only indication. There has been no formal action by resolution or otherwise, except by inquiry. I mean there has been no formal action requesting that this be done or directing this be done. The only action that would be definitive that was taken, if that is definitive, is that it was proposed to Congress the provision that it not be done and that was stricken out.

Mr. VORYS. Let me remind you that a resolution of inquiry by the House is about the most formal and peremptory action that the House can take, and the answer to such an inquiry is supposed, under our rules, to come through in a short time. Therefore, you are in error if you think there has been no formal action on this matter taken by the House.

Secretary ROYALL. I did not mean that, sir, if I left that impression. I said there had been no formal action requesting us to stop dismantling, and there has been none as far as I know. Now, I do not personally know just why there has been so much delay, and I think it has been a pretty long time, with this exception: Some of this information perhaps had to come from the theater, and the other factor is that this is a matter of policy as to dismantling which has to be determined by, primarily, the State Department, but in practice jointly by the Department of the Army and the State Department, and determined after the full facts are obtained. I suppose that is the explanation for the fact that the two departments have not yet answered this inquiry.

I agree entirely that it should be answered promptly, and if it has been unduly delayed, that it should not have been unduly delayed.

But I repeat that there has been no action by Congress directing or requesting the Department of the Army or the State Department to stop dismantling these plants. If such action were taken, I assure you it would certainly carry great weight and might well be entirely determinative of the course we would follow.

Mr. VORYS. I wonder if you could give us a break-down of the \$822,000,000, as to how much of it is for military occupation and how much of it is for military government? I found out over in Germany that by "military government," they did not mean military government, they meant just the opposite. One official said, "It is not very military and not much government." I think that was exaggeration, but certainly, as far as the military is concerned, it is a civilian government. How much of it is for civil affairs?

Secretary ROYALL. Well, first let me say I think it is pretty military over there. I have watched those boys and I think they are pretty good. I think they are remarkably military, considering all the circumstances. And I further think that General Clay has done an exceptionally fine job in government of Germany under very difficult circumstances.

Mr. VORYS. Understand, I do, too. I am not raising any criticism, but on this terminology, when you say "military government," you do not mean military government.

All I wanted to know is what part is military occupation for security troops, I forget the initials they headed that up with, but they had it at Frankfurt, and what is the civilian end of it?

Secretary ROYALL. The \$882,000,000 includes none of the military expenses. It is solely what is called category A items, which are principally food, fuel, and fertilizer. That is all that is included in that.

Mr. VORYS. What is the expense of the military?

Secretary ROYALL. That is for a 15-month period, as you know.

Mr. VORYS. Yes. What is the expense for the military occupation, and by "military" in this question I mean military.

Secretary ROYALL. I would say, sir, that that question I do not think can be dogmatically answered because it includes the pay of troops, supply of troops, housing, their dependents' allotments, their quarters, and the personnel in the United States that is engaged in their supply and management, and there has never been any absolute break-down.

Mr. VORYS. That was what I want to get.

Secretary ROYALL. To give you our best estimate, I must qualify by saying it cannot be with exactness, but it is our estimate that occupation is roughly responsible for \$2,000,000,000 of the Army's \$2,900,000,000 expenditures. That of that \$2,000,000,000, approximately one-half, or \$1,000,000,000, would have to be spent on those troops wherever they were located, and that, therefore, the net cost of operation for military in all areas, which would include Germany, Japan, and Korea, would be a billion dollars for the extra cost of being over there, the organization, civil personnel and other personnel that would not otherwise be required, and for supply lines, and so forth.

Now, that billion dollars must be divided between Japan and Korea, on the one hand, and Germany, on the other.

I would say the German part of it would be a little less than one-half perhaps. That, again, is an estimate. They have more troops in Japan and Korea jointly than Germany, but that is offset to some extent by the fact that we have a more complicated situation in Germany than in Japan and Korea. I would say roughly one-half. The best you can say—and this is purely an approximation—is that military and occupation and the governmental functions we perform in Germany, exclusive of the relief funds, is something under a half billion dollars.

Mr. VORYS. Then, to find out what the total costs of our activities in Germany would be, you would add, for instance, \$822,000,000 and let us say \$400,000,000?

Secretary ROYALL. Let us say \$450,000,000 if we have to guess.

Mr. VORYS. All right, \$450,000,000. Then, there was an uncovered deficit of \$200,000,000 that was presented to us. Where would that come in?

Secretary ROYALL. You would be duplicating if you put that in. The \$822,000,000 is for a 15-month period.

Mr. VORYS. Yes.

Secretary ROYALL. There is something around \$700,000,000 for a year, and if you add the \$450,000,000, it would be \$1,150,000,000. That is for relief and occupation and military functions over there on an annual basis.

That does not include the recovery part of the program, which would be under the plan you are now considering, which is about \$320,000,000 for a 15-month period, or about \$250,000,000 for a 12-month period.

Now, the deficit is part of that. This is an inclusive figure for everything.

Mr. VORYS. I always get mixed up on this deficit. Is that a deficit in the \$822,000,000, or in the Marshall plan figures?

Secretary ROYALL. Which deficit are you talking about?

Mr. VORYS. The so-called uncovered deficit.

Secretary ROYALL. That is part of the \$322,000,000. That is in the Marshall plan.

Mr. VORYS. Part of the \$322,000,000?

Secretary ROYALL. Yes. Which is the 15-month period. If you just throw the deficit out, which would be, as I said, a duplication of figures, you have, for a 1-year period, the best we can estimate, \$700,000,000, plus \$450,000,000 plus \$250,000,000, which makes about \$1,400,000,000 for all purposes in Germany for a 12-month period if the European recovery program is adopted.

Mr. VORYS. Thank you.

Chairman EATON. Mr. Richards.

Mr. RICHARDS. Mr. Secretary, you mentioned about the British zone and American zone being brought together in one economic unit. As I understand it, the French zone is still operating separately. Would it be in your opinion any economic advantage for the French zone to be incorporated with these three now? That is, economically?

Secretary ROYALL. It depends on the terms under which that is done. It could have certain advantages. It would, of course, have additional administrative difficulties. It always would, when you have three people to do it instead of two. That is a matter which is receiving and will receive active consideration.

Mr. RICHARDS. Some have taken the position that it would be better to let the French Zone remain connected with the French economic set-up because it would work advantageously to both, as is. I did not know whether it would save the United States money or not to bring the French Zone in with the other two zones.

Secretary ROYALL. There have been conflicting opinions on it. I think the dogmatic answer is difficult. The matter has been considered to see if arrangements can be made on a sufficiently fair basis under our terms of what is right to make it advantageous to both the French and ourselves. I do not believe I can be any more specific in that because the matter is now under consideration. On balance, we are committed to try to get that done on a fair basis.

Mr. RICHARDS. You mentioned that the United States Government had taken over certain financial obligations in the merger of the American Zone with the British Zone.

Secretary ROYALL. Yes. Well, we originally had a 50-50 agreement with the British on the relief supplies. They notified us during the fall that on account of the dollar shortage, and the dollar is the only thing that will buy much outside of some of the British areas, on account of the dollar shortage they would be unable to continue that 50-50 agreement, and that they might be unable to continue any participation either during the year 1948 or for part of the remaining period of 1947, whereupon we arranged a series of meetings with the British over here in which the matter was fully discussed. The State Department and the Department of the Army, General Draper representing the Department of the Army, made the best agreement we could make. The Treasury Department was also in on the conferences. Under that new agreement, for the year 1948, Britain will contribute to the relief funds, as I said in my manuscript, somewhere between 70 and 80 million dollars. We will contribute the \$700,000,000, which I previously mentioned. In other words, it will be 8 or 10 to 1.

In compensation for that, in a way, or recognition, it would be better to say, the authority on economic and financial matters is in somewhat the same proportion as the contribution which gives us, in effect, control over the economic and financial dealings in Germany.

Chairman EATON. That is, both zones?

Secretary ROYALL. Yes, sir. We have some qualifications. We would be glad to furnish you a copy of the agreement. That, in general, is an accurate statement.

Mr. RICHARDS. In addition to that, we have also taken over some of the military responsibility?

Secretary ROYALL. No, sir, we have taken over none of that and none of the responsibility for the actual governmental operations. England is still paying its people and we are paying ours.

Mr. RICHARDS. Has the British military force been reduced in the British Zone?

Secretary ROYALL. It has been reduced in both zones. As a matter of fact, the British have considerably more civilian personnel over there than we do.

Mr. LODGE. Will the gentleman yield?

Mr. RICHARDS. Yes.

Mr. LODGE. Since we have this 10 to 1 authority in both zones, Mr. Secretary, do we propose to do anything to stop the dismantling of

plants in the British Zone and sending those plants to Russia, as I understand is now being done?

Secretary ROYALL. This agreement does not specifically give us any authority over the reparations program, and we have not any right today to tell the English to stop delivering plants to Russia. That matter will be discussed and is being discussed with the British. I would prefer not to say anything more about that, if I might. I understand your problem. We understand it thoroughly.

Mr. RICHARDS. In the final analysis, Mr. Secretary, to what extent is the United States able to make decisions when it comes to the administration of the British Zone?

Secretary ROYALL. Political administration at the present time, we have no authority in. It is in the export and the economic side and the financial side.

Chairman EATON. Where it requires American money, in other words?

Secretary ROYALL. That is the best way to put it, where American money is actually involved.

Now, as you have seen from the press, there has been some discussion and some form of action—I will have to leave it that way—as to the political unity of the two zones. But that has not become entirely finalized at this time.

Mr. RICHARDS. Let me go back to the question that our chairman brought up just now about the German people working. Now, Germany is a conquered country. No peace treaty has been signed with Germany. Germany is occupied by our forces, or at least certain parts of Germany are occupied by our forces. We are obligated under international law to see that the German people do not starve. And we are fulfilling that obligation as we always have. But the German people are obligated to work. Now, I know of no obligation on our part by treaty or international law or anything else not to compel the German people to work to get their daily bread. I think they should be made to work at the point of a bayonet, provided we provide them with food to work. Why is it not the policy of the United States to make them work?

Secretary ROYALL. No, we do not make that policy, and maybe I do not have to state my view, but I would like to state my view.

Chairman EATON. Yes.

Secretary ROYALL. I do not think that the American Government wants to make anybody work at the point of a bayonet, after actual hostilities are over.

Mr. RICHARDS. Even though they are the conquered enemy and we are feeding them?

Secretary ROYALL. Well, we might accomplish the same result by prescribing certain conditions to their being fed, and there might be other things we could do. I am sure that General Clay thinks that feasible, and I am not sure that anything has been suggested, but I would not, under any circumstances, myself, feel we should make them work at the point of a bayonet. We might exert other forms of compulsion by withholding food.

As a matter of fact, the principal interest in Germany from my standpoint is to prevent Germany from becoming a disorganized or totally disorganized country seething with unrest and starvation and disease, which would be a prey to any sort of ideology. I think if

that should happen that it would be prejudicial to the interests of the United States.

Mr. RICHARDS. But if that is not going to come about, there are two things that must come about, one is that the German people must be fed and the other is that the German people must work.

Secretary ROYALL. I agree with both of those objectives. You deal with an individual, though, and you cannot generalize too greatly. Just as in any nation there are citizens whom no one can compel to look at a matter other than selfishly. I think this is repetition.

We have got to have, short of force with a bayonet, incentive for them to work. A great many individuals will work only from the standpoint of force.

Chairman EATON. You would not preclude the United States from acting selfishly on that basis?

Secretary ROYALL. I certainly would not. That is right. I would not preclude it. I agree with you.

Mrs. BOLTON. You just commented that eating might be an incentive, that if one did not work, one did not eat. That has been on the docket of a good many nations for a good many thousands of years, has it not?

Secretary ROYALL. Yes.

Mr. RICHARDS. Some people want to eat and not work.

Mrs. BOLTON. Are we not doing a great deal of that in our country?

Mr. RICHARDS. We are not under military government and we are not a conquered enemy. That is the difference.

I have one other question.

You mentioned as one of the alternatives, if we do not go ahead and feed these people and help to restore the economy of Europe, to get out. What do you think would happen if we took our military forces out of Germany today?

Secretary ROYALL. If we took our military forces out of Germany and stopped our relief expenditures to them, my own guess is that they would go communistic promptly.

Mr. RICHARDS. If we keep our military forces in Germany and appropriate money to keep them there and do not do something to restore the economy of Europe behind those forces, what do you think will happen?

Secretary ROYALL. Unless the European nations can have a stable and self-supporting economy they too, would—in varying degrees, of course—be most susceptible to the same fate that I outlined in Germany.

Mr. RICHARDS. So, in the final analysis, it is: Get in there and spend more money or get out entirely with your armed forces.

Secretary ROYALL. I think this: I think there are three courses. Either get out or let it run along like it is now, which is not improving much. We are just spending more and more. Or you can put some more money in to build up the recovery and hope that in a reasonably short time we can make the nation self-supporting.

Within the 4- or 5-year portion of this plan we can make the nations self-supporting.

Mr. RICHARDS. And, whatever course we follow, we had better keep our powder dry at home?

Secretary ROYALL. I think we should.

Chairman EATON. And plenty of it?

Secretary ROYALL. I think we should.

Chairman EATON. Mr. Mundt.

Mr. MUNDT. Mr. Secretary, this committee is considering not only this particular legislation but the whole world picture, from the standpoint of what Congress and the country can do to facilitate peace.

Up to now we have had a very fine galaxy of distinguished visitors, including the gentleman I am addressing, and one of the features of the whole testimony has been that the effort is behind one particular approach to the world problem: And that is the expenditure of American money and American materials in an effort to win or buy or secure peace and security abroad.

I think we are going to have to do something along that line. I do not think we are ever going to get the job done however if we simply go out hunting with a single-barreled shotgun with one shell, no matter how expensive or how far we reach.

I am gratified by a statement you made on page 2:

I assure you that as for myself the time cannot come too soon when the strength of the United Nations or the improvement in world conditions can justify a radical reduction in the military men and material needed for our national security.

I want to address myself to the first part of that, to the strengthening of the UN, which, I think, must be done.

It must be done by American leadership, and I think it should be done concurrently with this program, if not ahead of it.

I wonder if you would dilate on that aspect of the question a little bit?

Secretary ROYALL. I think it ought to be concurrent. We have to do two or three things at the same time. We have to push the UN with every iota of our leadership and make it successful, and we have to rehabilitate the European Continent to the extent that we are capable of doing. And we have got to keep an armed force that will convince the rest of the world that we can take care of ourselves.

Now, those are three large orders, and we are faced with the situation that of course we know that there is a dollar limit beyond which this country cannot go. Everybody has to realize that. We have to weigh these things.

The UN costs the least of the three. And I think that our conduct in the UN, while it is not at all within my jurisdiction, has been remarkably fine.

The difficulty that has been met is the recalcitrance of one nation and that of its satellites. I think, in view of the difficulty of that situation, that to hold the UN organization together and to accomplish even the limited things that it has accomplished is well worth while. And I think the greatest mistake—perhaps as great a mistake as we could make—would be to either lose faith or confidence in the UN or diminish our efforts to make it succeed.

Mr. MUNDT. I agree 100 percent.

Now, having met this road block which you have so aptly described it seems mandatory to us to do something about removing it. Now do not let the fact that you are Secretary of the Army deter you from talking about the UN because everything is getting balled up these days.

The Army is busy mining coal over in Germany and the State Department wants to become the economic administrator of a program which some people think should be done by financial people.

The Department of Commerce is over telling Congress how to write a tax law, and Congress is supposed to be an authority on spending the people's money to feed the people abroad. We are all balled up.

Secretary ROYALL. Please get back to the money and let us run the military side.

Mr. MUNDT. That is the trouble with the hearings up to now. We have been getting an overdose of evidence on one aspect of a program which we must meet with a concerted front.

You have come out very hopefully with a recognition of the UN segment of that. I want to congratulate you for that and urge that you bring supporters from the citadel down here to talk to us in those terms. It is not enough to say that we are going to spend X billions of dollars and then hope, after a while, that we are going to face up to the fact that the UN is not functioning to help freedom because some recalcitrant nation has got us blocked. We have got to do something about that. I am happy to hear you say it should be done concurrently and not in the sweet afterwhile.

Secretary ROYALL. That is right.

Mr. MUNDT. Now, to get back to your bailiwick, on page 6 you speak about the excess plants. Who determines whether a plant is excess? The British, the Russians, the French, the Americans, or one of the four, with one able to veto the decision?

Secretary ROYALL. This particular determination was made in August 1947, the last level of the instrument, and was determined by the British and Americans for their two zones after a careful study and expert advice as to what the probable needs of German industry were at the present and over the reasonably near future. And they identified specifically those plants which by name and description could be removed and dismantled without an adverse effect upon the German economy.

Mr. MUNDT. When you refer to "general-purpose equipment" being taken out of war plants for shipment to Russia and say "this special-purpose war machinery from these plants was destroyed," can you be sure, sir, that the general-purpose equipment removed from the plants in Germany and transplanted in some other country cannot also become a war potential?

Secretary ROYALL. No, sir. If we expanded the term "war potential" to its ultimate meaning, as we know so well in our country, and we were going to destroy every plant with a war potential, we would have destroyed almost everything they had in Germany.

It is a question of degree, and we have to draw what we consider a reasonable line between those plants that are so plainly and clearly and readily adaptable to war that we should not permit them—like aircraft plants, for instance and the other plants not so adaptable to war. But there is a question of degree there, and in everything that is dismantled and moved out of Germany—or almost everything—and it is hard to think of something that would not contribute, possibly, to war.

Mr. MUNDT. I remember one day on the floor of the House when most of the members of the committee took the opportunity to disassociate themselves with my good friend from Columbus, Ohio, and I would like to associate myself with him this afternoon on the point that he makes on the dismantling of plants.

Now, going to page 7 of your testimony:

It is not believed that the dismantling of these plants will adversely affect German industrial recovery.

I join him in his skepticism about that, but I would like to pursue that a little further to know what happens to the material when the plant has been dismantled. What happens to the dynamos and machine tools?

Secretary ROYALL. They are supposed to be paid in reparations. Seventy-five percent of them go to the western nations as a whole, generally, while some are not western. Equipment is included. And 25 percent goes to Russia, and Poland.

Mr. MUNDT. Is that 25 percent still being shipped behind the iron curtain?

Secretary ROYALL. The only thing we are shipping from the American zone now is the small remnants of one plant, most of which we had already sent, and the general purpose tools from two war plants. Those are items we had marked for advance reparations and which were definitely agreed to be delivered, and we are just completing the small end of a job.

From the British zone, as I said a moment ago, I think the probability is—and maybe we know that—but I think the probability is that they are continuing to make shipments.

That matter, as I said a moment ago, is under discussion.

Mr. MUNDT. I do not know what the War Department feels, but I know that a lot of members feel—and most of us who were abroad last summer feel—that it is a doubtful maneuver for securing the peace if we dismantle the war potential of a defeated enemy and use it to increase the war potential of a possible enemy in the future, whoever it is.

Secretary ROYALL. Well, sir, I am not going to say no to you.

Mr. MUNDT. That is adequate.

Could you translate your figures on page 7, when you talk about coal, into the same category when you talk about steel? You say you have restored steel to about 25 percent of the prewar level and you have restored coal to 285,000 tons.

What percentage of the prewar coal production is represented by 285,000 tons?

Secretary ROYALL. I will have to get that for you.

Mr. MUNDT. Then we can have some basis for comparison.

Secretary ROYALL. If I gave you the figures, strike it out because I really do not know. They tell me that it is between 60 and 70 percent of the prewar.

Mr. MUNDT. There is that much—60 to 70 percent?

Secretary ROYALL. That is about right.

(Secretary Royall has since verified this figure of 70 percent.)

Mr. MUNDT. I have one other question which I am sure you cannot answer today, unless one of these gentlemen have the answer. It is something I want for another purpose.

I observed in Austria and in Germany a very extensive and enlarged and rather successful information program being administered under the direction of General Clay in the War Department. I wish you would supply information on the record in answer to a question we asked there and failed to get: How much, this year, are you spend-

ing for purposes of dissemination of American information in Germany and how much in your information service in Austria?

Secretary ROYALL. We will get that for you. We do not handle it in Austria any more.

Mr. MUNDT. It has been turned over to the State Department?

Secretary ROYALL. I have been told we did not have it in Austria. I will have to check that, too. There are certain functions we handle in Austria, but not nearly as wide as Germany. We will give you those figures.

Mr. MUNDT. Thank you.

(The information is as follows:)

In the fiscal year 1948 the reorientation and reeducation program appropriations were as follows: Germany, \$3,944,437; Austria, \$1,000,520.

Of these amounts, the following is specifically for public information and reorientation: Germany, \$2,222,394; Austria, \$788,135.

The figures include costs only of contractual services, purchase of supplies and materials, interchange of persons and rental of facilities.

The estimates for fiscal year 1949 are still confidential and will be released when presented to the appropriate congressional committees. However, the program is considered essential and funds are designed to support an accelerated information program necessary to expose and counter the all-out communistic propaganda campaign directed against United States foreign policy. This program is not a phase of the one conducted by the State Department, which does not administer this type of activity within the occupied areas, except to use available installations for the beaming of radio broadcasts to European nations to the east of Germany.

Mr. JARMAN. Mr. Secretary, I was very much pleased to hear your expression of confidence in the UN. On the day the San Francisco conference commenced, and, I believe, on the day the UN first met, I expressed the opinion on the floor—and I have expressed it repeatedly at other times—that with the progress of science—and that was before the atomic bomb—since all intelligent people must know that civilization cannot survive another war, that the leadership of the world would finally do whatever is necessary to prevent another war and that the UN would be the instrument through which that would occur.

Regardless of the gloomy outlook from time to time since then, I still believe that and I am glad to hear you are in agreement with that opinion.

I believe the UN will succeed.

Mr. RICHARDS. Will the gentleman yield right there just for an observation?

Mr. JARMAN. Yes.

Mr. RICHARDS. From the crack made by my friend from South Dakota one would come to the conclusion that the idea of the League of Nations and the UN was born in the Republican Party.

Mr. JARMAN. I am mighty glad that the United States is participating in the UN and not sitting on the side lines. I have always believed that had we participated in the League of Nations we might have at least largely contributed towards avoiding this last war.

Mr. MUNDT. Would the gentleman yield so that I can reply to my friend from South Carolina so that we can keep this discussion strictly bipartisan?

One would conclude, by the way the UN was fumbling along and missing the bus, that it was administered exclusively by New Dealers.

Mr. JARMAN. Now, I want to get back to this business which the chairman brought up and my friend Mr. Richards pursued.

As I recall, it was initiated with some such statement as "It is a matter of them working or us paying dollars," or something to that effect.

Mr. Secretary, take the American and British zones combined—are they self-sustaining, from a food standpoint?

Secretary ROYALL. Oh, no. Nowhere near it.

Mr. JARMAN. Is there much prospect of food flowing into that zone from neighboring countries?

Secretary ROYALL. Not until we have exports to buy it with and exports in Germany to pay for it. Even then there can't come enough from neighboring countries.

Mr. JARMAN. That is, over and above the demand from the neighboring countries?

Secretary ROYALL. That is right.

Mr. JARMAN. In other words, it would take dollars to get food in there?

Secretary ROYALL. That is right; dollars or something which is worth dollars.

Mr. JARMAN. And since there is no food available anywhere around without dollars, what difference, after all, does it really make, as far as whether the German people will starve or not, and as far as the dollar situation is concerned, how much they work?

Secretary ROYALL. Well, it does make a difference whether they work.

Mr. JARMAN. I am talking about in relation to American dollars. Of course it makes a difference. We want them to work. But where would they get the food with the proceeds of their labor?

Secretary ROYALL. Well, of course maybe I am not following you, but we are feeding the Germans because they have not the food in Germany and they have not the dollars or exportable commodities to buy it with. The sooner Germany does have exportable surpluses that they can send to other countries, then the sooner we will be relieved, in part or in whole, of our financial responsibility of feeding them.

They cannot reach the productive capacity to have exports unless they work. Furthermore, their working is important because the more they raise on the farms in Germany, the less we will have to supply them. So the work of the German people is a really material factor and an important factor. We want to do everything we can to get them to work, short of actual force.

Mr. JARMAN. I thoroughly agree with that, but I cannot understand why no food is available except in the United States. And they do not produce to export to the United States, so I do not see that how much they work makes any difference.

Secretary ROYALL. You can buy it from some place else. They sell coal, for example, for dollars or equivalent of dollars. They have some exportable steel. They have some exportable cotton goods, and there are a number of other items which they can use, eventually, to pay for their food.

At present they are not doing it because they are using that money to build up their economy, and the more they build it up the sooner we will reach the end of the road.

Mr. JARMAN. Could they sell coal right now for dollars, no matter how much they had?

Secretary ROYALL. Well, they can sell coal to France.

Mr. JARMAN. For dollars?

Secretary ROYALL. For dollars; yes. There is something they could sell and get dollars for. They could realize on their exports. All that they have they could realize on.

They do get a little food from adjoining countries, but it is not enough to support them.

Mr. JARMAN. I would like the clerk, Mr. Chairman, or somebody else, to read the resolution passed by the House—that paragraph of it which was referred to a while ago. It was paragraph 11, I believe.

Mr. CRAWFORD (reading):

Has the Government of the United States taken appropriate steps to delay temporarily the further dismantling of plants in western Germany so as to permit further study by the appropriate Committees of Congress in order to determine whether such transfers are prejudicial to any general recovery program for western Europe?

Mr. JARMAN. I thoroughly agree with you, Mr. Secretary, that that merely asked a question and issued no directive to your Department.

Secretary ROYALL. Yes.

Mr. JARMAN. Now, as to that question of dismantling of these plants, did you say the British and Americans decided which would be dismantled?

Secretary ROYALL. Well, the British and Americans decided in August 1947, in fixing the level of industry—which meant the plants that would be left—that they would fix those that would be taken away. You understand that these questions of dismantling of plants are not matters solely decided by the Department of the Army. These matters are decided jointly by the State and Army Departments, with the foreign policy aspects of it and the diplomatic aspects of it controlled naturally by the State Department, and properly so. But we are very cooperative, and we are working on all these matters jointly. There is the best of spirits between us.

Mr. JARMAN. That was my next question. The decision rests jointly with the State Department and with, I suppose, the commander in chief of the Army on the ground? Is that right?

Secretary ROYALL. Of course, we get the opinion of General Clay but the Department of the Army with the State Department here in Washington make the ultimate decision on these matters. It is the Department of State, after consultation with us, that makes the decision.

Mr. JARMAN. I imagine both the State Department and you pay a good deal of attention to your senior representative on the ground.

Secretary ROYALL. We do. Both of us have the greatest confidence in the ability of General Clay, and his recommendations carry the greatest of weight and are almost always followed.

Mr. JARMAN. How long has he been there?

Secretary ROYALL. May I volunteer an addition to the answer?

Mr. JARMAN. Yes.

Secretary ROYALL. Here is what General Clay says about these plants that are marked for reparations over and above the level of industry:

It is my sincere conviction that we have left to western Germany all of the industrial capacity it can use. Of course, cases can be made for specific plants, and we are prepared to consider recommendations from the Germans for transfers

and other placements to save specific plants when it can be shown that such plants are essential to German industry.

Mr. JARMAN. He has been there about how long?

Secretary ROYALL. He has been there something like over 2½— it will be nearly 3 years in April.

Mr. JARMAN. My recollection is that Ambassador Murphy has been there approximately the same time.

Secretary ROYALL. He came a little before General Clay.

Mr. JARMAN. I thoroughly share your confidence in General Clay, and I entertain similar confidence in Ambassador Murphy. Furthermore, I believe they are very responsible officers of this Government.

I was in Berlin a couple of days in 1945 and a couple of days last year. Some of my colleagues, no doubt, stayed longer. But even those who stayed 4 or 5 days, or a week, are not in my opinion quite as competent as General Clay or Ambassador Murphy to know which of these plants should be dismantled, and, for my part, I give them credit for being good American officers.

Now, getting back to this legislation more directly, as Secretary of the Army what do you think would be the result in your immediate Department in the Army? First, I will say the immediate result of the failure of passage of this legislation?

Secretary ROYALL. As related to Germany, which is really what I should confine myself to in that opinion, if we did not furnish any relief in recovery funds for Germany we would proceed as we have been, slowly rebuilding German industry. If we did not get recovery funds we would move along like we have, providing relief funds with German economic recovery and moving very slowly and therefore the period of time within which we would have to continue relief, unless we would have them starve, would be considerably extended.

If we would get money to stimulate industrial recovery we would shorten the period of time within which the present expenditures of money for relief must be made.

Mr. JARMAN. That is very pertinent and confirms my opinion that a parsimonious attitude in this program would probably in the final analysis prove quite expensive. However, what I had in mind more directly was the defense of this country. You expressed the opinion that Germany would shortly, if we pulled out, fall victim to communism.

Secretary ROYALL. I do not think there is any serious doubt about that.

Mr. JARMAN. I not only thoroughly agree with that, but I think that is equally true of the rest of western Europe in a short while and the rest of Asia. Should that happen by failure of passage of this legislation and the course of other events, what would be our situation from a defense standpoint? Would there not be a great change in the necessity for your organization?

Secretary ROYALL. It would at least move the political frontier from eastern Europe to the eastern coast of the United States or somewhere in the Atlantic Ocean.

Mr. JARMAN. Under those conditions, would not your set-up—the Army side of it—have to be a great deal more expensive than it is now?

Secretary ROYALL. I am sure that that is true for an adequate defense.

Mr. JARMAN. That is all, Mr. Chairman.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. I do not want to pursue my questions very far into Germany as I think we have had quite a good deal on the matter of Germany this afternoon. But I do want to ask you to put in the record whether in making the decision as to the war plants that would be dismantled, it was done on the basis of what Germany herself could consume or on the basis of Germany is playing a part in the rehabilitation of Europe.

Secretary ROYALL. It was on the basis of what Germany could produce.

Mrs. BOLTON. For herself?

Secretary ROYALL. No, not that—what she could produce for herself and export.

Mrs. BOLTON. I would like very much to ask something that will perhaps seem a little more general. You have had, first in your capacity in the War Department and in the Army, a chance to study the general situation in your organization as to its defense against any possible aggression from the East. I assume that is right.

Secretary ROYALL. Well, I have some knowledge of what the possibilities would be; yes.

Mrs. BOLTON. Is it your feeling, as a result of those studies, that western Europe is an important factor in the defense of America?

Secretary ROYALL. I think the strength of western Europe is important first as a deterrent to political aggression from the outside, and when the nations are sufficiently strengthened to become self-supporting in every way they would, of course, be in a better position to resist anyone who should resort to military measures, if anyone should resort to them.

Mrs. BOLTON. That being the case—that you have become convinced that there is a need of western Europe in the general protection of western civilization against the aggression of the nation which set up the Cominform—would it not appear, then, that the U. S. S. R. is finding that the reestablishment of strength in western Europe is very definitely a force against her aggression?

Secretary ROYALL. I would say that the reestablishment of sound and self-supporting governments in the European countries would certainly slow down, and possibly and probably prevent, political aggression by communism or any system of totalitarianism.

Mrs. BOLTON. Only political?

Secretary ROYALL. I say eventually, as the nations become stronger, their military protection would also increase. Of course, I am not indicating, by that, that I think that there is any immediate prospect of anything other than political aggression in Europe. I do not mean to indicate that I think there is immediate prospect of military aggression in Europe.

Mrs. BOLTON. You do not give credit then to what we hear—that the directives issued from Moscow now in such countries as France are military directives?

Secretary ROYALL. I have seen a lot of rumors in the papers, but my own opinion—and it can be nothing but an opinion—is that there is no imminence of military aggression into western Europe from any source.

Mrs. BOLTON. In the matter of the strengthening of western Europe, do you feel that there would be an increase of strength if the

countries of western Europe joined together as much as possible economically and quite definitely in a self-preservation method?

Secretary ROYALL. Certainly. Anything that would tend to increase the freer flow of goods, a more cohesive economy of western Europe would, in my opinion, tend to improve their condition of stability. I am getting a little beyond the field in which I feel that I am competent, but I can express an opinion.

Mrs. BOLTON. May I ask a little further afield, perhaps, Mr. Secretary: On the other hand, in your present capacity, you would of course have to take all phases of European strength and weaknesses into consideration.

Secretary ROYALL. That is right.

Mrs. BOLTON. You may not want to answer this question because there is always a hush-hush attitude connected with any suggestion of Spain.

With Spain in her very strategic position, as far as the Mediterranean is concerned, would you have anything to say as to the benefits that might be derived if Spain were included in the general union of western Europe, inasmuch as she was responsible for the lives of some, I think, 4,000 of our aviators, whom she not only did not intern but whom she sent back to their jobs, and so on? Would you feel that it would be profitable to the future of western Europe to have Spain included in whatever categories were developed?

Secretary ROYALL. The Spanish question is so far out of my field and has so many ramifications that I do not care to discuss it, if you don't mind.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, I believe you were asked in the Senate by the Senate Foreign Relations Committee what would be the alternative if the Marshall proposal did not pass.

I am not certain in my own mind what your answer was. But as I recall it, you felt that you would have to ask for universal military training at once and increase our armed forces at home; is that correct?

Secretary ROYALL. Whether or not the ERP passes, we need universal military training to adequately defend this Nation.

The idea that we can send machines and not men to fight a war does not appeal to me.

We have had scientific research and development for many years. We had more men in this past war than we have ever had in a war or probably any two wars in history, and if we want to fight the war in our own backyard over here in America, we can get along with fewer men.

But if you want to carry the war, if it comes, and fight it in the other man's country, which is what I want to do, we have got to have bases.

We have to man those bases. We have to hold those bases in the face of an enemy, and we have to transport the men to hold them and supply them and we have got to have people to supply them.

So nothing that I said before the Senate indicated that there were any circumstances in sight, in the immediate future, that would dispense with the necessity of universal military training.

What I did say was this: I said if we did not have, and I am not seeking to quote it, but I will tell you the substance of it, if we did

not have a recovery program in Europe, and if it seemed to me there would be disorder and unrest in those countries, dissension, discouragement, that I was sure that if that happened we would need a larger defense force than we would otherwise need.

In response to a question from one of the Senators, he asked me how we would get a larger defense force in view of the fact that the services were unable today by voluntary recruitment to recruit up to the strength they desired, I told him we would seek to make enlistments more attractive. He said, "If that should fail, if you were not able to do that, then what is the alternative? Is the only alternative to resort to selective service?"

I said, "Yes, the only two ways to get the necessary men are those voluntary recruiting or selective service; that is not universal military training."

There is all the difference in the world. I did not mean to intimate we did not need universal military service under any circumstances because I think we do.

Mr. MANSFIELD. Do you think that this country is capable of appropriating the money to carry out this program over the next 4-year period, and at the same time appropriate enough money for universal military training?

Secretary ROYALL. I think so, yes. There again the judgment of Congress must be conclusive, and your economic and financial advisers would be consulted. The information that comes to me is that we could do that and should do it.

Mr. MANSFIELD. Mr. Secretary, at the present time we are still using paper currency in Germany.

It seems to me that there was some sort of an investigation carried on not so many months ago which indicated that in the Russian sector they had plates which we had furnished to them and with which they were turning out currency which was being distributed in our zone. Was that correct?

Secretary ROYALL. That testimony was given and before I knew or had any responsibility for military government. I say that only because it explains my lack of knowledge; I do not think the matter was handled improperly.

I think it was a circumstance that could not have been avoided and I do not think anybody was to blame.

I have investigated those facts since I did come in as Secretary and as I recall them they are: In the early stages of occupation there was a great deal of Russian currency printed. The Russian soldiers were paid in it. They bought from American soldiers principally, sometimes from the people who had bought from American soldiers; large amounts of personal property; watches, and things of that kind.

That money therefore got into the American zone and created an extra supply of money over and above that which we had put into the zones.

The principal beneficiary of that was the American soldier who sold his watch, or other property, because he could take that money and redeem it and a lot of these boys who started home after the war, made something out of that.

It was a violation of regulations, but it is pretty tempting, I suppose, for a young fellow, if he has a watch when he can get a thousand dollars for it. A lot of them did get it. That was the principal cause for

that. The second step was where an American had sold to somebody else and he sold to the Russians.

I believe it is a fact that that surplus is being gradually liquidated by purchases locally and other means. It was testified to by, I believe Assistant Secretary Petersen at that time, that it was expected there would be no financial loss to the United States forces.

Mr. MANSFIELD. But until that counterfeit money—because I think that is what it should be called—is liquidated, the Government of the United States stands the loss?

Secretary ROYALL. It will stand to lose if that is not liquidated through the German economy or some other means. It was not counterfeit. It was money from the Russian zone that came into ours principally.

Mr. MANSFIELD. But the German people in the long run are the ones who are going to have to pay for what the Russians gained in this exchange with the American soldiers?

Secretary ROYALL. If they ever pay that currency out they will. There is a great area of doubt to the extent they will pay their currency out.

Mr. MANSFIELD. Have we changed our currency since that time?

Secretary ROYALL. We have not changed it out of the German currency. But we have put in a military currency, sort of a scrip, in our zone, which is used by American personnel and it has obviated that difficulty for the future.

Mr. MANSFIELD. Am I correct in assuming, then, that the money which the Russians counterfeited or made was not military currency, but German marks?

Secretary ROYALL. It was Allied occupation currency, but in the form of marks, as distinguished from our military scrip that they issue.

Mr. MANSFIELD. I wonder if it would not be possible, and I certainly do not speak from a provincial point of view, to substitute hard money, say silver, for the paper money in our different zones because there would be very little possibility of duplication and if they did duplicate dollars as good as silver dollars no one would be the loser.

Secretary ROYALL. This currency problem is an immensely complicated one. As I said in my prepared statement, the matter is now receiving very careful study. It has received very careful study. I believe it would be unwise and I do not know that I am fully qualified to discuss all the features of a currency reform on currency exchange. The Treasury Department and the State Department and Department of the Army are all studying the matter.

It would be preferable, as I said, if we could have a currency throughout all the zones of Germany, even though there was an economic and political division, because the people are used to it.

It would facilitate trade. That could be done with soundness and controls in a responsible manner. That is preferable.

We have been trying to do that because that would be better for Germany.

Now, we are working on studying an alternative method and I believe that is about all I had better say about it now.

Mr. MANSFIELD. I think, Mr. Secretary, it might be a good idea to give some consideration to the use of silver.

Secretary ROYALL. I will be glad to transmit to the people who know more about the technical details than I do, the suggestion you made. I think it occurs to me offhand that that might present some difficulty.

From my very limited knowledge of the national currency situation, I do know that hard money has had a tendency to disappear in the zone and leave the country without sufficient currency to operate on.

I do not know whether that would be true here or not. I know that was true throughout the Middle East at one time.

Mr. MANSFIELD. It does retain its value though, and I think that is important in eastern Europe. I did not mean to imply—and I want to state for the record that you did not have anything to do with this currency.

Secretary ROYALL. I do not believe I could do any better. I think the people that handled it did a very good job under a difficult situation. You see, in those cases we were four strong allies, that had just defeated the great German Nation. It is right hard now to reconstruct your mind back to that period, in view of the changes that have occurred.

Mr. MANSFIELD. In the paper yesterday or today appeared a statement to the effect that the Russians had upped the price of the oil they were taking out of the fields at Zistendorf in Austria and selling at twice the price we were selling our oil for in that country. Do you know anything about that?

Secretary ROYALL. I do not. I have not even seen that in the paper. But I would be glad to look into it and give you any facts you would find on it.

(The information is as follows:)

The New York Times of January 19, 1948, carried a story to the effect that Russia had doubled the price of oil she supplied Austria "from fields in the Soviet occupation zone." No mention was made of Dusseldorf and since that city is not in a Russian occupation zone, it is assumed that it is in error to refer to that location.

Under date of January 21, 1948, a cable was received by the State Department from the United States Ambassador in Vienna which confirmed the news report and indicated that the Austrian Government was opposing the price increase.

On January 22, another cable to the State Department advised that the Austrian Government would probably have to accept the price rise since it had no other source of petroleum products; appeal, however, would be made to the Allied Council. This latter fact was reported in news dispatches from Austria on January 23.

On January 23 it was further reported by cable that Austria had again protested to the Soviet military government and when faced with practically an ultimatum, had announced to the public that it had been forced to accept price increase. However, that same day the Soviet dramatically announced that there would be no price increase.

On January 27, the State Department received a cable stating that the Russians had been using the Tass news agency to explain the reversal of position. The argument advanced was that while negotiations with the Austrian Government were proceeding, the latter suddenly announced the price increase, thus confronting the Soviet with a fait accompli. United States officials stated that the Tass statement was completely at variance with facts and indicate, as confirmed in a New York Herald Tribune dispatch from Vienna dated January 23, that strong resistance by the Austrian Government, backed by United States authorities, caused Russians to decide that the move was not a good political weapon.

Mr. MANSFIELD. I would appreciate that.

You mentioned the fact that General Clay was due in tomorrow night. Do you know if Col. Lawrence Wilkinson will be with him?

Secretary ROYALL. I do not know whether he will come or not. The notice we have received did not name anybody but Ambassador Murphy. That does not necessarily mean that others will not be with him. Mr. Wilkinson was over here during December when he testified on our deficiency appropriation, and I do not know whether he will return now or not.

Mr. MANSFIELD. The reason I asked, Mr. Secretary, was because of the fact that he also testified before this committee on dismantling the plants.

I thought he would have up-to-date information on it.

Secretary ROYALL. I am sure General Clay will have up-to-date information on it.

Mr. MANSFIELD. It was brought up by one of my colleagues that it might be a good idea to make the Germans work through the use of bayonets. We know, of course, the industrial unrest in Germany at the present time is primarily in the Ruhr area and we know, furthermore, that it is impossible to mine coal with bayonets.

I think that the only thing we can do is, as you have already suggested, and I am in full-hearted accord with what you have to say that we will have to offer incentives to the Germans.

We will have to give them some hope. The next thing they will do will not only be to help themselves and take the burden off us, but will help in the rehabilitation of western Europe because so many people are dependent on the German economy.

Secretary ROYALL. I agree entirely.

I have used the figures 320,000,000 and 318,000,000, as the figure that would be spent over a period of 15 months in Germany for the recovery part of the program.

Please understand that figure is not frozen. There have been discussions back and forth of amounts ranging from somewhat below that up to as high as 340,000,000 or 350,000,000, and even up to 400,000,000.

That was the latest figure that we had. I have had some suggestion since then that maybe it might be raised. That depends on the relative needs of the country. They are supposed to be left flexible. I am sure the committee understood that when I stated it.

Chairman EATON. Are you through, Mr. Mansfield?

Mr. MANSFIELD. Yes.

Chairman EATON. Mr. Javits.

Mr. JAVITS. I will just take a very few minutes. Mr. Secretary, can western Germany stand alone as an economic unit in your opinion?

Secretary ROYALL. Stand alone?

Mr. JAVITS. Yes. Will we always have to pour money into it or can it somehow support itself, in your opinion?

Secretary ROYALL. I think with fair progress and recovery and some assistance it can stand alone and pay its way with its own exports.

Mr. JAVITS. They will always have a food deficiency and a very material one?

Secretary ROYALL. Yes.

Mr. JAVITS. You believe it can be made up by the increased industrial production?

Secretary ROYALL. I do, sir.

Mr. JAVITS. Now, the Secretary of State, according to your statement, said that we must be careful, in rebuilding Germany, to avoid a future—and I quote his words—"threat to the peace."

Now, in your calculations as to what would constitute a threat to the peace on the part of an industrially rebuilt Germany, do you think of Germany alone or have you calculated Germany in combination, let us say, with another power or powers, say the Soviet Union?

Secretary ROYALL. Well, of course these calculations were made and these decisions were made as to the war-making machinery to be eliminated when we were considering Germany alone as a threat. It is impossible to be either dogmatic or entirely inflexible in the matter of when a nation should be a threat.

Anything that you let Germany manufacture may contribute to a war potential, but we must let them manufacture something because they cannot support themselves as shopkeepers and farmers.

Furthermore, the potential in the war-making ability of any country would be enhanced by an alliance with any other country of any strength.

We have looked at it from the standpoint of Germany alone as a threat.

Mr. JAVITS. Does the Secretary feel that it would be advisable also to consider in one's calculations Germany in combination with another power or powers as a threat?

Secretary ROYALL. Well, I do not know what useful purpose would be served by that analysis because if we assume that Germany and the Soviet would join up and some other nations would join them, our condition in Europe would be pretty bad.

I think that looking at the danger of a war threat you would probably still have to have the hope that we are going to save at least western Germany from communism.

Mr. JAVITS. The Secretary has stated that we face a very difficult situation, of course, in leaving any industrial potential in a former enemy country.

Is it not a fact, therefore, that what we can do to keep western Germany from being a threat to the peace, is largely a political question?

Secretary ROYALL. I do not know how broadly you use the term "political" but you cannot have political stability without a stable economy. You cannot have it long.

Mr. JAVITS. What I mean is that in order to avoid western Germany being a threat to the peace, is it not a fact that we have to have some political solution for western Germany?

Secretary ROYALL. Eventually we do.

Mr. JAVITS. We have to have some solution.

Secretary ROYALL. Certainly.

Mr. JAVITS. There are alternatives in that solution; either Germany can be united and operate under the guaranty of a 40-year treaty such as Secretary Byrnes proposed, or of four-power guaranties, or Germany can somehow or other adhere to the other western European nations?

Secretary ROYALL. That is correct. There are a number of alternatives you can follow.

Mr. JAVITS. But a political solution is to be essential if we are to prevent Germany from becoming an aggressor?

Secretary ROYALL. One solution is a bizonal Germany as a separate nation, and one is to continue to strive, as we are continuing to strive still, for some chance of a reunited Germany.

And someone suggested today that maybe a trizonal arrangement would work. There are a lot of variations which you cannot give an answer to now.

Mr. JAVITS. The question now is one of rehabilitating German industry so that it is not a threat to the peace.

Secretary ROYALL. Yes; it is some threat. Any development of any kind is some threat to the peace.

Mr. JAVITS. It is a question of the degree of rehabilitation, first and second, the degree of rehabilitation with respect to the territory under consideration?

Secretary ROYALL. That is right.

Mr. JAVITS. Do I get the intimation of your testimony to lead to this, that under the circumstances in view of the conclusions upon which we both agree, for the present you have to sit it out in western Germany because you are nowhere near a political solution and you have not yet determined the degree of economic rehabilitation as it fits into the ERP and which minimizes the threat to the peace. Is that not a fact?

Secretary ROYALL. I do not think you have to sit it out in the sense that you do not want to have the economy rapidly improved.

As soon as the economy is rapidly improved, then is the time that we could have a political solution. I do not think we have to wait until we get the political solution before we improve the economy. They must work side by side.

As a matter of fact, we will never have a satisfactory political solution in Germany without a stable and self-supporting nation.

Mr. JAVITS. Mr. Secretary, I use the term "sit it out" in the term we have to stay there.

We have to supervise the job.

Secretary ROYALL. That is right. I see no basis even to make an estimate as to how long the occupation would have to last.

Mr. JAVITS. Therefore, as we work up to this degree we have to maintain our position and implement that by trying to bring back the economy so far as we reasonably can and as it fits into the economy of the other western European nations and always bearing in mind the degree, so that it is not a real threat to the peace.

Secretary ROYALL. That is right, sir. I made a talk the other day, I believe it was in Denver, in which I said that the industrial rehabilitation of Germany on the one hand, and the prevention of rearmament in Germany on the other, present continuing dilemmas in which practical decisions have to be made and the line has to be drawn.

Nobody can ever be sure whether they have gone a little too far one way or the other on the line. Those two considerations must be balanced.

Mr. JAVITS. And it is dilemma which we cannot resolve except with a political solution?

Secretary ROYALL. We must have a political solution. We must do that sometimes with trial and error on this.

Chairman EATON. Mr. Lodge. Last but not least.

Mr. LODGE. Mr. Secretary, with respect to the question of dismantling and aside from the lack of sufficient fuel or raw materials,

would you say that we have the right to end the dismantling, regardless of past agreements?

Secretary ROYALL. I do not know. I doubt seriously that we could in good faith and consistent with our agreements stop all dismantling, as far as the 75 percent is concerned, that goes principally to the western nations.

Mr. LODGE. Well now, dismantling was for the purpose of upholding the reparations program, and it was dependent upon the economic unification of Germany.

That was the context of the agreement?

Secretary ROYALL. That is right.

Mr. LODGE. That most certainly has not been accomplished?

Secretary ROYALL. That is right.

Mr. LODGE. I have heard this theory advanced before by eminent members of the administration, and is it your theory, that even if one party to a contract commits substantial breaches of it we are nevertheless bound. Would that be your theory?

Secretary ROYALL. I do not subscribe to that theory. However, the western nations who are the beneficiaries in large part of the 75 percent have not breached anything.

Mr. LODGE. Russia has breached in not allowing an economic unification of Germany which was made a part of the reparations agreement?

Secretary ROYALL. We have suspended deliveries to Russia with minor exceptions.

Mr. LODGE. In other words, the agreement would be principally with Great Britain and France?

Secretary ROYALL. Well, the 18 countries that get 75 percent of it.

Mr. LODGE. These countries being interested in the economic recovery program would doubtless also be interested in helping us to achieve that objective, if it were pointed out to them that the conversion recovery of western Germany was an important part of that program. So it would seem to me that you could not base the continuing dismantling on any question of past agreements.

Secretary ROYALL. I am not certain about that. I think a good argument might well be made that these 18 countries have a right to our carrying out the reparations agreement. I do not base my position on that, certainly not entirely, because I think the possibility of utilization by Germany and the benefit for the recovery program are the most important elements.

If General Clay is right, and I have no reason to doubt it, these plants would be of no value to Germany within 5 years.

Mr. LODGE. I have the highest regard for General Clay; I happen to know him and I think he is a very distinguished soldier, but as I understood you, the argument is based largely on two points: First, that there would be inadequate labor to run these plants, and, second, that there would be inadequate coal.

Secretary ROYALL. Inadequate transportation, inadequate raw materials.

Mr. LODGE. Let us take the first two first: As far as labor is concerned, Ambassador Douglas showed us today that part of the ERP would be a free movement of people across frontiers.

Now, there are places in Europe where there is an excess of population, where there are large numbers of unemployed—in Italy, for

instance—so that the population and labor problem would therefore be solved by the program itself.

Now, on the question of coal, surely it would be more advantageous to us and cheaper to ship coal to western Germany than to ship steel under the Marshall plan, would it not?

Why would it not be a good idea, then, to stop the dismantling at least of a large part of these plants, the steel mills, for instance, steel rolling mills, in view of the great lack of steel? We cannot produce enough for demand, and we have an excess amount of coal. Why should we not ship some coal to assist these French and German steel plants to function, and thereby save ourselves the shipment of a great deal of steel and use that steel to manufacture freight cars to carry the coal in this country where it is intended to be shipped?

Secretary ROYALL. You see, we are continually examining the industrial capacity of the dismantling, equivalent to what that industrial capacity was in 1936, approximately, not in every commodity, but over-all. There is not quite that much in steel. But over-all, we are returning the equivalent of their prewar industrial capacity.

Mr. LODGE. That does not quite answer my question.

Secretary ROYALL. No; but the point is this: To pick out a single factor or even one or two factors, General Clay's judgment is that under favorable conditions it will be at least 4 or 5 years before German labor, German raw materials, German transportation, German plant rehabilitation of the damaged plants and repairs, and the other factors will be able to raise the productive level of Germany above its prewar level. It is now 44 percent of it. It has 56 percent more to run.

Mr. LODGE. Is that not due in large measure to lack of an adequate supply of labor, to lack of coal, and to lack of adequate incentives?

Secretary ROYALL. Well, it is due to all those factors, but assuming a favorable solution of those, the judgment of General Clay is that still it will be at least 4 or 5 years before we can reach the prewar level. In the case of steel, to give you a good illustration, today they are producing about 3,000,000 tons annually of steel in Germany. This level of industry that we have prescribed is the stuff that will be left after dismantling, and 10½ million tons is authorized. Therefore, we can increase the present steel capacity by 200 and more percent or threefold or more under our present plan without utilizing any of the plants that are being dismantled. It is his opinion that within a 4- or 5-year period we cannot increase under even favorable conditions steel production in Germany more than threefold.

Mr. LODGE. Nevertheless there is a shortage of steel.

Secretary ROYALL. Yes; there is.

Mr. LODGE. I would like to point out to you that the Herter committee, with which you are perhaps familiar, made certain recommendations. I would like to ask you if you will be so kind as to give me your comment on the recommendations. The Herter committee recommended, among other things, (a) added production of German ingot steel.

Secretary ROYALL. We urge that, too. But taking the steel as a whole we have produced only 3 million. We want to raise it to 10½.

Mr. LODGE. There are steel plants marked in it by zone earmarked for dismantling. The steel-producing plants are 5 in the United

States zone, 49 in the British zone, and the steel-rolling mills are 31 in the British zone.

If you agree with that recommendation, would you also agree that these plants that I have mentioned should be dismantled?

Secretary ROYALL. Yes, sir. I have not got in mind the figures of those that would be dismantled, but those that are marked for dismantling still leaves enough to increase the steel production threefold.

Mr. LODGE. It also increases the drain on the United States steel.

Secretary ROYALL. Well, it would if Germany were capable of increasing its steel production more than threefold. But it does not increase it.

Mr. LODGE. You say General Clay has taken into consideration the possibility of getting more coal into Germany from us, and the possibility of getting additional labor into Germany.

Secretary ROYALL. I do not think he has taken into consideration getting additional labor and I do not know whether he has specifically considered importing coal from this country. But there are a lot of limiting factors. I do not know how much labor you could get.

Mr. LODGE. You have a tremendous excess of labor from many parts of Europe. As the Ambassador told us, the population has increased in western Europe by 20,000,000 in the 16 countries.

Secretary ROYALL. I suppose part of that surplus will disappear if the economic recovery in the different countries moves forward.

Mr. LODGE. That might be one way.

The second recommendation of the Herter committee was—

Some diversion of European semifinished steel from presently planned use to increase sheet production in idle or underutilized German sheet or strip mills.

Would you agree to that?

Secretary ROYALL. I do not know enough technically about that to know, sir. It sounds reasonable, and I think that could be done under the dismantling plan.

Mr. LODGE. Would it be possible to have an answer on that?

Secretary ROYALL. I do not know if we have anybody here on that. We would be glad to furnish it.

(The information referred to is as follows:)

Under the bizonal level of industry a total production of 10.7 million ingot tons of steel per annum was agreed upon. This is almost twice as much as under the old level of 5.8 million tons per year for all Potsdam Germany. In order to obtain this production an actual steel production capacity of almost 13,000,000 tons has been retained in the bizonal area.

Production in the bizonal area at the present time is running at about $3\frac{1}{4}$ to 4 million tons per year or at approximately one-third of the permitted production. It has also been estimated that about one-third of the retained sheet and strip mills are being utilized at the present time.

One of the bottlenecks that would be difficult to overcome in carrying out a diversion program would be in the transportation field. All available transportation is now being utilized for taking care of the essential requirements of the German economy, such as transport requirements for steel mills, power and gas works, fertilizer, food, lumber, etc., and while top priority has been given to the locomotive and car repair program it will be the end of the year before any appreciable improvement can be expected. Therefore, semi-finished steel diversion should not take place until the transport situation can be improved.

Labor and the housing of labor is another bottleneck and another problem that must be considered carefully before a change or diversion can be made effectively and in the interest of the European economy. It must be recognized that housing in the Ruhr area and in other industrial centers is at a premium. With the exception of miners housing little attempt has been made to improve the present housing situation due to the dire need for the same materials in essential industries.

Also, during the period subsequent to the capitulation there has been no appreciable increase in the supply of skilled labor. Efforts are being made to train skilled labor to meet the anticipated increase in production. In this connection female labor is being encouraged and an effort made to integrate it into the industrial organization wherever practicable.

In conclusion, therefore, it is our considered opinion that under existing conditions, no useful purpose would be accomplished by diverting semi-finished steel from other European countries to the idle or under-utilized German sheet and strip mills.

Mr. LODGE. The third recommendation is—

Suspension of all plants to dismantle or otherwise render inoperable such utilities until it is known that they will be unable to relieve the pinch in sheet and strip.

Would you agree to that?

Secretary ROYALL. I would think that might be correct in general. I think you have to weigh that against other production.

Mr. LODGE. Then, to what extent, if you think that correct?

Secretary ROYALL. I am not sure whether that would require a change in dismantling, because naturally if you paramount one particular item of production, you might have to reduce others, which could move ahead more economically, so I would not want to express an opinion as to any particular industry with my lack of technical knowledge.

Mr. LODGE. Could we have an answer on that?

Secretary ROYALL. Yes; we can. I think we will have to get these answers from General Clay probably.

(The information referred to is as follows:)

The bizonal level of industry as established was designed as a balanced industrial effort. It provides for a level of industry that was designed to leave those plants required for internal needs and to make the best contribution to Europe as a whole. We are advised that ample facilities will still be available for this purpose within the retained level and, therefore, there would not seem to be any necessity to suspend dismantling. In arriving at this level for the bizonal area it was realized that in the other two zones of Germany it was probable that much capital equipment was being removed and that conceivable, in some industries, the level was approaching the level of industry agreed upon quadripartitely in March 1946. This situation, therefore, was taken into consideration as well as questions involving export of finished products, the unusual repair and maintenance requirements for the industrial recovery and the problem of meeting a minimum standard of living for Germany.

Mr. LODGE. Then (d)—

Stoppage of any reduction in German capacity for pipe production and instead supplying adequate amounts of large tube rounds and wide plates for the pipe mills proper.

In that connection, I would like to call your attention to the fact that—

Among the doomed pipe-producing plants are some of the most modern and most efficient units in Europe; that is, four large units of Mannesmann, in Gelsenkirchen, Duisberg, Dusseldorf, and Witten. These plants are specially equipped for the welding of large-diameter pipe.

That was given top priority by the Herter committee as essential to eliminate the delivery of essential oil and gas in the United States as well as to provide Europe with critical oil products from the Middle East. I can hardly point out what a vital matter that is. We are threatened with a serious oil shortage not only now but in the long-term future. Offhand it seems very hard to understand that we

should be demolishing this plant. I wonder if you would comment on that.

Secretary ROYALL. I can only say, sir, I am sure the report of the Herter committee has been sent to General Clay. We will be glad to get you an answer to any of those questions, but unfortunately information on those must come from General Clay. I do not think anyone here is familiar with them. The Under Secretary is directly responsible for military government. I do not think he would know the detailed answers to those.

Mr. LODGE. I should like to get answers on an authoritative basis.

Secretary ROYALL. Yes.

(The information referred to is as follows:)

We are advised that during the past summer American interests were in Germany for the express purpose of investigating the manufacture of pipe. It is understood that production facilities in the capacity of these plants were not sufficient to warrant considering this industry supplying the needs of the Middle East. From an over-all balanced industry point of view it is not considered that the removal of these plants will have a serious effect on the German economy. It is interesting to note also in this connection that in the case of the Mannesmann plants while 4 units are being taken there are two of this firm's plants being retained at Huchingen and Grossenbaum located in the British zone. All of this type of industry scheduled for removal is located within the British zone and if it can be shown that a shift in the type of plant left in Germany would materially assist a European recovery program we would not anticipate any difficulty getting the British to exchange plants now on the list for others of a less critical type.

Mr. LODGE. I would like to touch on the question of nitrogen. I need hardly point out the vast importance of nitrogen. Under average weather conditions, it is my understanding that 1 ton of nitrogen produces 600 bushels of additional grain crop. Therefore 500,000 tons of nitrogen production in Germany lost in the consequence of dismantling and red tape in each of the years of 1946 and 1947 correspond to an approximate loss of 300,000,000 bushels a year in western Europe's food production, which, incidentally, is three times the amount the American consumer was called upon to save in the Luckman food-conservation program.

Secretary ROYALL. I understand we are not dismantling any plants that produce fertilizer.

Mr. LODGE. In the French zone, sir? In the French zone I am informed that the dismantling of Europe's largest nitrogen-producing plant is contemplated.

Secretary ROYALL. We did not do that.

Mr. LODGE. You do not believe that under the European recovery program we should make recommendations to the French with respect to the dismantling of a plant which could relieve the shortage of wheat in the world?

Secretary ROYALL. No. I would think, based on our experience in Germany, that everything in the world should be done to foster the production of fertilizer. We have done that in the American and British zone.

Mr. LODGE. Do you think it would be appropriate to look into this matter with the appropriate authorities in order to find out if something could not be done?

Secretary ROYALL. I would think someone should look into that, yes; not the Army, but I think it should be looked into. I do not know the facts about it.

Mr. LODGE. Both the Herter and Harriman reports stress the importance of nitrogen and that coal and industrial equipment shipments for nitrogen industrial use should be given high priority. That is why I think that we cannot simply say, "This thing is happening in the French zone; we will not do anything about it. We are going to have to ship wheat into France." I strongly believe that we should; but if what we are after is kind of an economic federation, if what we are after is reciprocity among these nations—and General Marshall has said that is essential to the success of his plan—we cannot very well take such a formal view as that, it seems to me.

Secretary ROYALL. Of course, that is beyond my field; but I would not suggest that that view be taken. We have even gone up to Austria to get fertilizer plants restored. We think we must produce as much fertilizer as possible. I do not know anything about that plant, sir.

Mr. LODGE. Would it be possible to have something on that?

Secretary ROYALL. We will get that information from some source. (The information referred to is as follows:)

The above comment referred not only to the broad problem of fertilizer requirements in western Germany, but also to the specific statement made earlier by Mr. Lodge that "in the French zone the dismantling of Europe's largest nitrogen-producing plant took place."

In the first place, no nitrogen fertilizer plant has been dismantled in the United States or United Kingdom zones of Germany, nor is it intended that any will be dismantled.

In regard to the French zone, the Department of the Army has been advised by General Clay's office in reply to a direct question that on January 30, 1948, "the French today categorically repeat denial of any removals" from their zone. This, of course, is a denial of the removal of the plant "at Oppau" which has so frequently been mentioned. OMGUS further stated, "We repeat that no nitrogen fertilizer capacity has been removed from western Germany."

This Department has been informed that the French Embassy has made inquiries of the French Government on this point because of the frequency of the statement that the large "plant at Oppau" has been dismantled.

In considering the fertilizer production capacity in Germany in relation to the European recovery program, the capacity of the Oppau plant was included as available for use. However, information received from OMGUS is to the effect that one part of the plant cannot be repaired and placed in operation in less than 6 months, while another section will require 18 months to repair and place in operation.

Mr. DRAPER. I would say that for a period of 2 years we made every possible effort to get ammonia water, which is the basis of fertilizer, from the French zone, made special allocations of coal, and did get some, but it has never worked out to a large degree.

Mr. LODGE. It does not seem to me it would be advantageous to the French to destroy a nitrogen plant.

Mr. DRAPER. I would agree with you and would be glad to give attention to it. I would also say that we have made every effort over the period of the 2 years, sometimes more and sometimes less, to give a very high priority in the allocation of coal to the nitrogen plant for just that purpose.

Mr. LODGE. I am very glad to hear that.

Mr. DRAPER. That has had more success in the recent months when the coal shortage was terrific.

Mr. LODGE. Thank you very much.

Mr. DRAPER. I could add one other thought, which is not conclusive at all, on your other question about the rolled products and the pipe. So far as the rolled products go, my own experience, which is now 6 months old, and also the comment that we got back when this question was being considered sometime ago from the theater, was that there was sufficient rolling capacity to take care of any volume of ingot that was being rolled that could be expected. However, we will go into the matter further.

Mr. LODGE. Does that apply to pipe?

Mr. DRAPER. I believe there is very little pipe capacity in our own zone. It is largely in the British zone. I do not have that before me. But we were stressing pipe to the extent possible and were not in a position 6 months ago, or maybe 9 months ago, when I last got into the pipe question over there, of producing anything like the amount of pipe that either we needed or that seemed to be possible under the steel and coal allocations. That does not fully answer your question.

Mr. LODGE. It would be better than nothing. I also would like to point out this view that, according to the information I have, the value of a plant after dismantling is roughly 8 percent of the value of the plant prior to dismantling. Therefore, it would seem to me that it might be discrete to postpone it until the matter can be fully explored because, after all, we take great care of our investments and we should take an equal amount of care in our divestments. The total value of these plants had been estimated, as I understand it, to be one billion dollars, which even today seems like a lot of money.

Mr. DRAPER. I am sure you are not speaking of the American zone because the remaining plants in the American zone are comparatively small both in number and in average size and do not approximate that.

Mr. LODGE. Of course, the European recovery program is not confined to the American zone.

Mr. DRAPER. Yes.

Mr. VORYS. As I understand it, under the January 1 new bizonal agreement, we furnish about 10 to 1.

Secretary ROYALL. Eight to ten to one.

Mr. VORYS. Eight to ten to one of the dollar needs of the two zones. That is about correct, is it not?

Secretary ROYALL. That is correct. That is for relief funds.

Mr. VORYS. But the relief funds are category A, and so forth. That is all for the civilian economy of Germany.

Secretary ROYALL. That is right. There is civilian feeding, too.

Mr. VORYS. Do I understand you correctly that we have reserved no voice at all as to what the British do with the plants in their zones so that we have no right under the new agreement even to raise the question of dismantling?

Secretary ROYALL. No. We can raise the question, but not control it.

Mr. VORYS. In other matters, we have a new degree of authority or of management somewhat approximating our contribution. That is true, is it not?

Secretary ROYALL. That is right. You see we agreed on this level of industry last August, with the British, on the basis that that would restore or enable us to restore German industrial production from an over-all standpoint of approximately its 1936 level. General Clay

thinks that that is a sound decision. Now, the difference between us and the British in the question is not in dismantling. We have continued to dismantle, but the difference is in the delivery to Russia, if it is a difference. That is now under discussion with them. That is by the State Department. That is a matter we do not handle. The State Department is discussing that with them. Of course, I do not want to get into a lot of details on this, but some supplies do come in from the Russian zone.

Mr. LODGE. Mr. Secretary, in that connection, and in connection with the Herter committee recommendations, I understand from certain sources that—

According to reports from German papers, the doomed rolling mills represent 55 percent of the total capacity for strip and tinplate and as much as 65 percent of the capacity for medium and heavier sheet. There can be no doubt that the dismantling of these factories will defeat the constructive proposals of the Herter committee to increase sheet production in idle or under-utilized German sheet or strip mills. It will, therefore, create an unnecessarily inflationary impact on the Marshall plan on the American economy by aggravating and prolonging our scarcity of steel products.

I would like in addition to have those figures verified as to whether that is true, and, if not, if those figures are not right, if the correct percentages could be submitted to the committee.

Mr. MANSFIELD. Will the gentleman yield?

Secretary ROYALL. That will be done.

(The information referred to is as follows:)

Comparative list of plants available for reparations under old and new level of industry by category of industry in each of the three western zones of occupation:

	United States zone	United Kingdom zone	French zone	Total
Number of plants listed for reparations under new level of industry established August 1947				
War plants.....	104	196	33	335
Ferrous metals.....	5	87	2	94
Nonferrous metals.....	5	6	10	21
Chemicals.....	18	24	26	68
Mechanical engineering.....	149	175	1104	1332
Electrical engineering.....	4	4		
Shipbuilding.....	1	2		3
Power plants.....	4		1	4
Cement plants.....			1	1
Total.....	186	496	176	858
Number of plants estimated surplus under old level of industry established March 1946				
War plants.....	186	229		
Ferrous plants.....	5	93		
Nonferrous plants.....	15			
Chemicals.....	33	41		
Mechanical engineering.....	182	455		
Electrical engineering.....				
Shipbuilding.....	3	29		
Power plants.....	4			
Building materials.....	8	24		
Unspecified.....	142	271	322	
Total.....	478	1,152	322	1,952

¹ Consolidated figure for mechanical and electrical engineering.

² This is a consolidated figure of plants listed under aircraft and armament under the old level of industry.

³ British computation gives a consolidated figure for ferrous and nonferrous industries.

⁴ No category break-down available.

Mr. MANSFIELD. Mr. Secretary, do I understand you correctly when I say that you estimate the cost of American occupation of our zone at roughly \$1,000,000 a year?

Secretary ROYALL. Well, no. I estimate that the occupation costs, exclusive of relief feeding, exclusive of any contribution under the European recovery program—I say it is hard to estimate—is about \$450,000,000. The relief program is about \$700,000,000. The European recovery program would involve a 12-month expenditure in Germany of approximately \$250,000,000.

Mr. MANSFIELD. Exclusive of the European recovery program, and taking in the cost of occupation and the relief program, it would be roughly \$1,150,000,000?

Secretary ROYALL. Yes.

Mr. MANSFIELD. Now, if there is no European recovery program, are we to assume that in the next 4-year period, which is the life of this plan, if it goes through, that it will cost you roughly \$1,000,000,000 a year to take care of the occupation and the relief costs of Germany?

Secretary ROYALL. We think that will gradually come down, but very gradually.

Mr. MANSFIELD. I am saying a billion dollars a year.

Secretary ROYALL. I do not know whether it will overreach that.

Mr. MANSFIELD. Then, it is safe to assume that \$4,000,000,000 will go into Germany during the next 4 years?

Secretary ROYALL. No, the European recovery program will bring a more rapid recovery.

Mr. MANSFIELD. Without the European recovery program?

Secretary ROYALL. I think that is a pretty good estimate.

Mr. MANSFIELD. The point is that under this \$17,000,000,000 proposal, the total is done away with, but no matter what the total is, you say that \$4,000,000,000 approximately would have to go into our occupation costs from Germany, anyway, so that would knock down the total from, let us say, \$15,000,000,000 down to \$11,000,000,000 for the rest of Europe?

Secretary ROYALL. I do not think that is quite right. You see even if you have the European recovery program, there will be some contribution to Germany, and, therefore, the duplication should be eliminated, and you cannot say that we would have to spend the four billion under that. In other words, under the recovery program, you would have to spend something. I have not figured it out. Without the recovery program, on your figures, we would spend \$4,000,000,000. The saving is only part of the four billion.

Mr. JAVITS. Will the gentleman yield to me?

Mr. LODGE. If I can go beyond 5 o'clock.

Chairman EATON. I hope you do not go beyond 5 o'clock.

Mr. JAVITS. Would you include in the information you are going to give Mr. Lodge an analysis of what it means to take these plants and rebuild them in one of the countries getting reparations and the economic effect of that as counterbalancing the economic deduction from Germany?

Secretary ROYALL. I am not sure how accurate that would be.

Mr. JAVITS. They are not being destroyed, they are being rebuilt.

Chairman EATON. Do you want to go on beyond 5 o'clock?

Mr. LODGE. I am afraid my questions will take longer than that.

Chairman EATON. Then, I will have to ask Mr. Vorys to take the chair. I would like to announce that we will meet tomorrow at 10

o'clock with Secretary Snyder and at 2 o'clock in the afternoon in this room.

Before I go, I want to thank the distinguished Secretary for a very, very competent and exhaustive statement.

Secretary ROYALL. Thank you, Mr. Chairman. I want to thank the committee before you leave for their very intelligent and courteous treatment.

Chairman EATON. We have a very intelligent committee and we are just anxious to find some way to lay a foundation for the toughest job that has ever faced us.

Secretary ROYALL. It is a very tough job.

Chairman EATON. Mr. Vorys is the chairman now.

Mr. LODGE. Mr. Secretary, to leave this question of dismantling, I heard a rumor that we have purchased some rather obsolete British planes and given them to the Greek Government under the Greco-Turkish bill, whereas we had acres of 1945 undamaged planes lying wing to wing and nose to tail in Nuremburg and other places in the heads of which we had placed charges of dynamite and exploded them. I wonder if you would care to comment on that.

Secretary ROYALL. I did not hear the rumor. I do know that shortly after the war, there was destruction of some planes, but I do not know much about it because I did not have anything to do with it at that time. I know some planes were destroyed.

Mr. LODGE. Would it be possible to get the information?

Secretary ROYALL. I can get you the information.

(The information referred to is as follows:)

British Spitfire aircraft are being purchased for the Government of Greece using American dollars appropriated by Congress for aid to Greece. Informal information received from the RAF delegation at Athens indicates that the total cost, delivered, for 20 Spitfire planes with accessories and 1-year supply of spares amounts to \$281,335. Negotiations with the British for the purchase of the aircraft are being handled by the Department of the Army. At this writing none of the aircraft have yet been delivered.

The decision to utilize Spitfires was based on several considerations. For one thing, the Greek Air Force already had Spitfires obtained from the British and the additional aircraft were to supplement those already in use. Secondly, the introduction of a different type of aircraft into the Greek Air Force would complicate problems of supply, maintenance, and training. Thirdly, the British were willing to sell Spitfires plus a year's supply of maintenance parts for a fraction of the original purchase price. The United States could furnish a comparable fighter (P-51) but only at a higher cost, and spares could not be furnished for the most part without procurement.

With reference to the destruction of United States planes in Germany, it is true that aircraft were destroyed by use of demolition charges.

At the end of the war we had a vast quantity of aircraft surplus to foreseeable peacetime requirements and the maintenance or storage of all of these surplus aircraft, a great number of which were B-17 bombers, was neither feasible nor desirable.

The cost of preparing aircraft for storage is appreciable, and storage life is not indefinite. The number of aircraft which could be economically and practically stored was carefully calculated on the basis of foreseeable requirements and available funds, and only the newer and improved types were marked for storage. With certain exceptions, the types of aircraft destroyed were obsolescent, and storage of these could be accomplished only at the expense of development of improved types.

The surplus aircraft could not be economically returned to the United States for disposal, neither funds nor manpower were available at the time for orderly salvage, and it was essential that the aircraft be made unfit for use as combat aircraft. The only recourse was the action taken—sufficient demolition to render them inoperable and unrepairable.

Mr. LODGE. As a matter of fact, I asked the Secretary of National Defense this question. He had no aides when he appeared before us, and I know that he has a lot of other things to think about. I was wondering if it would be possible to get some information on that. It does seem that it would be better to give the Greeks 1945 American planes instead of demolishing them as in excess of current needs.

Secretary ROYALL. I have never heard of any demolition of planes after the Greek program came along. I never heard that. I would be very surprised if any planes had been demolished since the Greek program.

Mr. LODGE. If we could have the information on that I would appreciate it.

Secretary ROYALL. I will not say it is not true. Of course, we demolished war equipment in a number of places immediately after the war.

Mrs. BOLTON. The ATC does not have any spare parts.

Secretary ROYALL. These planes were not transport planes. They would not have done any good on ATC spare parts.

Mrs. BOLTON. Some of them were fighter planes.

Secretary ROYALL. If we had kept all the fighter planes and all the bombing planes and all the other planes we had at the end of the war, we would have spent billions of dollars keeping them.

Mr. LODGE. However, I think you will agree with me that we can be certain of two things: that push-button warfare is not here today, and, secondly, that it will be with us some day, and since it is not with us today, we might keep some obsolete planes until it is with us.

Secretary ROYALL. I do not know, sir. I would say there is no doubt about the fact that the Army and the Air Force, and I imagine the Navy, I am sure the Navy, has had to abandon equipment for which they had neither the men nor the money even to guard.

Mr. LODGE. Of course, the Navy has been able to mothball a lot of it.

Secretary ROYALL. I also know that the hysterical demand for return of men from overseas caused an enormous financial loss in the abandonment of items that should have been saved.

Mr. LODGE. That is right.

Mr. Secretary, in your opinion even with the European recovery program, should we have an Air Force composed of less than 70 air groups?

Secretary ROYALL. I have no opinion on that. I am not qualified to give you an answer.

Mr. LODGE. I would be glad if I could have an answer on that.

Secretary ROYALL. I do not know that I can become qualified to give you an answer on that. It is not in my scope of duties, and I think the answer should probably come from someone else.

Mr. LODGE. All right, sir.

Now, Mr. Baruch is reported in the papers to have testified that it would be a good idea to have some military alliances with all the 16 participating nations. How do you feel about that, Mr. Secretary?

Secretary ROYALL. Well, I have not given any consideration to it and I have not read Mr. Baruch's statement. I believe in the UN.

Mr. LODGE. But this program is not being done through the UN. This program is not being implemented through the UN.

Secretary ROYALL. I would not want to take any step that is inconsistent with either the theory or announced principles of the UN.

Mr. LODGE. May I suggest, that under article 51, it would not be inconsistent.

Secretary ROYALL. It could and could not. It depends on what it does and what the scope of the alliance is. I am not an authority on the UN, but I am sure that the purposes and the extent of the alliance and what it involves in obligation is a consideration of that. I did not mean to say that some form of alliance could not be had.

Mr. LODGE. I will put the question differently. I assume—and I realize I am treading on delicate ground here, and I shall quite understand if you refuse to answer—but there is no question that the military establishments of the several countries constitute a burden on these countries, a necessary burden; but a burden. Now, to the same extent that a quasi economic federation will diminish the economic burdens, to the same extent, it seems to me, a sort of military alliance would diminish the military burden and thereby diminish the necessities of these countries under their military programs. In other words, if you were to look at the map of western Europe, strategically, and I take it that you agree with me that this measure is at least to a considerable extent a strategical measure, you would be bound to consider the disposition of forces over that part of the world, and if you considered it as an entity rather than as a conglomeration of nations, it might result not only in a much more strategical disposition of these forces, but in considerable savings to the American taxpayer. Would you care to comment on that approach to the problem?

Secretary ROYALL. I do not believe I would, largely because of the fact that the question of alliances and agreements with other nations is primarily the scope of the State Department, and I, of course, realize that the military aspects are considerations. There are so many other considerations that I believe it would be unwise for me to discuss it.

Mr. LODGE. I quite understand that. However, I would like to get your assurance that your Department is doing a lot of heavy thinking on that problem.

Secretary ROYALL. Well, we have considered every possible military aspect of it, I think.

Mr. LODGE. Would you care to comment on this, Mr. Secretary: It is my understanding—and I gained this understanding from conversations with the highest military authorities in France and Italy—that there is absolutely no liaison at all, at this time, between the French and Italian armed forces.

Does that seem to you to be realistic, or does that seem to you to be proper at this particular juncture in human affairs?

Secretary ROYALL. Well, I do not know enough about the facts on that. I do not believe I know enough about the facts and considerations—to comment on that.

I have seen some items in the press about it, but I do not care to comment. If I get into the discussion of alliances and agreements and covenants and treaties, not only in which we are involved but in which other nations are involved, I am way beyond my jurisdiction, and you know the poor old defense forces are accused of trying to run the country. I do not want to add any additional evidence.

Mr. LODGE. May I say as to that, Mr. Secretary, that I am in the position of having to consider those matters because, insofar as the

ERP is a strategical measure, it is but one aspect of strategy, as doubtless you realize. We have other aspects. At the moment we have the interim-aid bill. We have the cultural and information program and we have the disposition of forces as they may affect our position throughout the world.

Therefore, naturally, in thinking of this as a strategical measure I think of it as a component part of the larger picture and not simply as piece-meal legislation. Accordingly I am attempting to document myself as much as possible on the full picture and the full implications of the picture.

Secretary ROYALL. It is not military strategy but a strategy in the broader sense, I am sure. That involves a lot of things, in which the military certainly cannot speak alone, and probably should not prejudice any other department by their discussion.

Mr. LODGE. It is my belief, Mr. Secretary, that the immediate threat is not war but internal force, particularly in France and Italy. I believe that the anti-American and anti-freedom campaign by the Communists has gone out of the realm of attempts to capture governments by constitutional means and into the second stage, which is the attempt to capture them by internal force—the third stage being war.

Do you believe that the ERP, if it is passed, as General Marshall requested it, promptly, adequately and effectively and cooperatively, will be sufficient to protect the governments of France and Italy from seizure by internal force?

Secretary ROYALL. From the information that I have, which involves statements of General Marshall and others, I am inclined to think that that is the more probable result. I do not think any one can say dogmatically or with certainty exactly what the ERP will produce. I think all we can do is to give our best judgment, with the full realization that no one can really know completely.

It is the same thing with the UN. It is the same thing, to some extent, with the defense establishment. Absolute security is a non-existent thing, with certainty. A combination of absolute security and certainty is not existent. Everything is dependent upon so many imponderables and uncertainties in the future that we cannot tell. But my best judgment is that, first, the only real chance of preventing just what you say is a danger—and which may well be a danger—is to rehabilitate the economic life of the European countries.

My second point is that my best judgment is that it will have that effect.

Mr. LODGE. Well, Mr. Secretary, insofar as it militates against that danger, it is because it diminishes the popularity of communism by alleviating starvation and misery; is that not right?

Secretary ROYALL. I do not think you can put it solely on popularity. It also would tend to decrease starvation, disease, and unrest, discouragement, which are the breeding grounds for any radical change of thought. I do not think the term "popularity" is quite inclusive.

Mr. LODGE. Let us say that it would tend, in mitigating those circumstances, to diminish the spread of the disease of communism among the people.

Secretary ROYALL. I think it would; yes.

Mr. LODGE. Well, I would like to point out to you, there, that in Poland there are only 3 percent Communists. There are 30 percent in France. There are fewer Communists in the eastern European countries behind the "iron curtain" than there are, percentage-wise, in the western European countries outside the "iron curtain." And from that I would deduce that combating the spread of the disease is not enough because of the Communists' resort to internal force when constitutional means do not succeed.

Now, my question—and I would like to put it to you again—is: Is there anything in the administration's thinking about the problem of making the fractional effort that would be required to assist these western European countries to meet the threat of internal force until the European recovery program can so bolster and strengthen these governments that they no longer need any assistance to meet that threat?

Secretary ROYALL. I do not know exactly what you have in mind. I am sure that we are lending encouragement to the constituted authorities of these countries, and the most encouragement that we can render, it seems to me, is the holding out, at least, of the hope that we may assist their economic condition.

Mr. LODGE. I have in mind, Mr. Secretary, attempts by violence to seize the Government of Italy before this can take hold.

Secretary ROYALL. Yes.

Mr. LODGE. I spent some 3 weeks there this fall, and the Communist forces in Italy are very well armed and very strong. Now, that is a very difficult weapon for us to cope with because we are a legally minded people. But surely we must recognize, as realistic people, that there are attempts, and there are likely to be further attempts, to capture these legally constituted governments by extra-legal means.

Secretary ROYALL. I certainly would not dismiss that as a possibility—that that attempt will be made. But I do not know how; I do not know enough to know how. You have been there more recently than I have, Mr. Lodge, and your judgment on it should be very good.

I do not know how real the danger is of an internal coup by force in those countries. I know it is certainly a possibility.

Mr. LODGE. In Italy it is the most dangerous, and I was anxious to receive assurance that that danger was recognized in the high places in the administration and that something was being done to assist these countries to meet that danger.

Surely if the ERP program has significance we must examine all the strategical elements that are involved in its success.

Secretary ROYALL. I am sure that all the defense departments are constantly alert to the internal as well as the external conditions and all the countries of the world, as far as they can get that information.

Mr. LODGE. Thank you very much, Mr. Secretary.

Mr. VORYS. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:15 p. m., the committee adjourned to 10 a. m., Wednesday, January 21, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 21, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met, pursuant to adjournment, the Honorable Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will be in order.

We have with us this morning the Secretary of the Treasury, Mr. Snyder.

Mr. Secretary, we are glad to have you with us this morning, and we will be glad to have you proceed in your own way.

Secretary SNYDER. Mr. Chairman, it is a pleasure for me to be before your committee.

I have a prepared statement which I would like to read first.

Chairman EATON. Very well. You may proceed in your own way.

STATEMENT OF HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. The President, in his message to the Congress, recommended that 6.8 billion dollars be appropriated to finance the European recovery program for the 15-month period ending June 30, 1949.

The National Advisory Council on International Monetary and Financial Problems has carefully considered all the financial aspects of the program.

The following statement, which was approved by the Council for submission to the committees of the Congress, summarizes the conclusions reached by the Council on the principal financial aspects of the program.

First, as to the over-all figure recommended by the President to be appropriated for the first 15 months, the Council has carefully reviewed the procedures which have been used by the interdepartmental committees of experts in arriving at this figure.

These procedures involved a critical examination of European needs and of availabilities in the United States and in other major supplying areas, and careful estimates of European dollar income and resources. The National Advisory Council believes that this approach is sound and has concluded that the recommended amount is needed to achieve the objectives of the program.

The first matter of detail which I wish to take up is the question of the form in which aid should be extended to Europe. This assistance should be provided as a combination of grants-in-aid and loans.

The criterion for selecting one or the other form should be the capacity of the participating countries to earn, in the years to come, the dollars which would be needed to pay interest and principal.

We must keep in mind that these countries have already incurred an obligation for large annual payments of interest and amortization arising from the dollar loans extended to them over a period of years by the United States Government or the United States private capital market.

We should take care not to insist that these countries contract additional dollar debts which will absorb so much of their dollar earnings as to operate to the disadvantage of future trade and private investment.

If the entire aid for European countries were to be on a loan basis, it would be practically impossible for them to meet the additional annual charges from their earnings of dollars, even after trade and investment return to normal.

The proportion of total aid which can prudently be provided on a loan basis must depend on the estimate of the borrowing country's capacity to repay in dollars and also on the degree of flexibility which can be introduced into the terms of repayment.

The International Bank may be expected to finance part of the capital requirements of the European countries, particularly where they require the financing of permanent additions to their equipment.

It does not seem likely, however, that the bank will be able to carry the whole, or even the major, part of the program, which properly ought to be put on a loan basis.

We propose, therefore, that when the Administrator for Economic Cooperation decides, after consulting the National Advisory Council, that it is desirable to extend aid on a credit basis, he will allocate the funds to the Export-Import Bank of Washington, which will then make the loan as directed and on terms specified by the Administrator in consultation with the National Advisory Council.

This procedure will enable the Administrator to draw upon the broad experience of the Export-Import Bank in the making of foreign loans.

Incidentally, this is one example of the manner in which the National Advisory Council would perform its customary role of coordination of United States foreign financial policy.

I shall be glad to describe this role in greater detail if the members of the committee wish me to do so.

It is also important that the American business enterprises be given opportunity to participate in the recovery program by making new investments abroad, or by expanding existing facilities where the program calls for additional capital equipment.

In this way, they will contribute to the restoration of Europe, while at the same time they will be carrying out their own programs for expansion abroad.

But we must recognize that new investments would be made at a time of great uncertainty and that investors may anticipate encountering difficulty in converting their earnings or their original principal into dollars.

To facilitate private investment, therefore, it will probably be necessary for the Government to guarantee the convertibility into dollars of local currency earned by the investment or available for the repatriation of the original investment.

While we may expect that the participating countries will try to make dollars available, it is possible that they will not have adequate dollars to permit conversion.

The Economic Cooperation Administration should not be expected to guarantee American companies making these investments against normal risks but merely to give them a transfer guaranty.

We propose that not more than 5 percent of the funds appropriated by Congress for the program should be obligated for these guaranties and that the guaranties themselves should not exceed the amount of the original investment and should not be extended more than 10 years from the termination of the 4-year program.

Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States and by liquidating the American investments of their own citizens.

I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952.

It should be kept in mind that the European recovery program is not intended to cover the entire import requirements of these countries.

It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate smoothly through ordinary commercial and financial channels.

By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems.

As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to, or below, the amount which would normally be regarded as safe.

When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences.

These investments annually earn a dollar income, which will be used to cover part of the cost of the program and which be used in the future to meet part of the cost of imports after the program ends.

Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to require European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

Even if these countries could liquidate all of the property owned by their citizens in the United States, they could not pay for more than a small part of the program.

We estimate that as of last June 30 the long-term dollar assets held by persons in the participating countries amounted to about 4.9 billion dollars.

Of this amount 1.5 billion dollars consisted of direct investments, and a considerable part of the remainder also consists of holdings which would be difficult to liquidate.

Some of these assets are already pledged for loans, while for many of the countries involved the amounts held here are negligible.

Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports.

In practice, this may be an alternative to borrowing from the United States.

We certainly will not object to the governments using these funds. The question of policy for us to decide is the extent to which we can help these countries in obtaining control of these assets.

In the case of unblocked assets, the only way the European governments can get control of them under present circumstances is through the compliance of their citizens with local laws.

In fact, a considerable portion of the assets formerly blocked in the United States has been unfrozen as a result of such action. While we do not have exact data on unblocked assets, we believe the amount is comparatively small.

A large part of the blocked assets are still blocked because their owners have not obtained from their own governments a certification that there is no enemy interest in their assets, which is required by the United States Treasury before the assets are unblocked.

The National Advisory Council and the executive departments concerned with this matter are giving very careful study to this problem. We hope to reach a final view as to the most satisfactory solution of this problem very shortly.

It will not be possible to obtain all the goods needed for the recovery program in the United States, nor would it be desirable to attempt to do so.

Some commodities are in short supply here, and purchasing abroad would leave more available for our own population and would in many instances reduce the net cost of the program. The needed amounts of food cannot be obtained in the United States.

A large percentage of the requirements of grain, fats and oils, meat, and other agricultural products can be procured only in other countries of the Western Hemisphere.

In this manner we can make it possible for countries in the Western Hemisphere to supply larger amounts of foods and materials to Europe and at the same time maintain essential imports from the United States.

It is the opinion, therefore, of the National Advisory Council that the Economic Cooperation Administrator should be authorized to expend funds for the procurement of supplies for the recovery program outside of the United States.

This would relieve pressure upon goods and services in short supply in the United States and would in some instances have further effect of assisting third countries in maintaining needed imports from the United States.

We definitely would not permit the use of dollars to buy goods abroad where the supplies available in the United States at reasonable prices are adequate for our needs as well as for the requirements of foreign countries.

In any case, all purchases would be made according to an agreed program, and the administering agency would control the use of the funds appropriated by Congress.

In addition to purchases in the Western Hemisphere, there are special instances where it may be in our interest to procure certain essential products in one participating country for delivery to another, making payment in dollars.

For example, we might buy steel or coal in one participating country for delivery to another. The dollars which are received would then

be used by the supplying country to pay for imports from the United States, thus reducing the need for direct expenditures by the United States for aid to the supplying country.

If the recovery program is to be successful, adequate measures for monetary stabilization must be taken promptly and with vigor by the European countries.

At the Paris meeting the 16 participating countries undertook—

to apply any necessary measures leading to the rapid achievement of internal financial, monetary, and economic stability while maintaining in each country a high level of employment.

They have recognized that recovery is not possible as long as inflation continues and unless production is increased.

The measures which should be taken must vary somewhat from country to country, but the general outline is clear.

Budgets should be brought into balance rapidly, so that the necessary expenses of government can be met without increasing the public debt and without increasing direct inflationary pressures.

In most countries modifications in tax structures and control of expenditures will be needed. As determined steps are taken, the trend toward budgetary balances, increased production, and steadying prices will all interact upon one another to facilitate stabilization.

The Administration proposes that each country receiving aid from the United States shall enter into a separate agreement with this Government which will cover the terms on which aid will be given.

The European signatories will undertake to adopt the financial and monetary measures which are necessary to stabilize their currencies and to maintain and establish proper rates of exchange. These agreements will also cover such matters as cooperation with other countries, the proper use of the goods supplied, and the establishment of a separate account for the local currency equivalent to the aid supplied in the form of grants.

Moreover, each country would agree to supply the United States Government with full information about any pertinent aspect of the recovery program and to give a report on the program to its own people, on the basis of the information which the cooperating countries will give us, and also from the reports of our own missions in these countries, we can be informed about the situation, and so be in a position to discuss with the country the measures which it has taken, or ought to take, to contribute to the recovery of Europe and its own stability.

We have a direct interest in assuring that the aid we provide to Europe makes a maximum contribution to the reduction of inflationary pressures and the restoration of stability.

To this end we propose that each participating country will deposit in a special account the local currency equivalent to an agreed rate of exchange, to the dollar cost to this Government of the goods supplied through grants-in-aid.

These accounts should be drawn upon only for constructive, stabilizing purposes. In many instances it will probably be best either to let the accounts remain idle or to authorize the use of this local currency to effect a net reduction in the government's debt.

These accounts, of course, will be available to finance some of our administrative expenses in connection with this program.

There may be instances in which they might also be used for reconstruction or development, or other purposes which would contribute to the increase of production in the country. In the view of the National Advisory Council, such expenditures should be undertaken only in agreement with this Government.

I wish to make it clear that the National Advisory Council, in considering the financial measures which the European countries should take, had very much in mind the necessity of preserving the spirit of free and friendly cooperation between this Government and the European governments.

I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

The adjustment of some exchange rates may be expected in the course of European recovery.

Inflation in Europe in certain instances has given rise to exchange rates which result in an overvaluation of the currencies in relation to the dollar.

This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency.

In some cases countries have resorted to export subsidies, by means of special exchange rates, or have used other measures in conflict with our own long-range international economic program.

The determination of an appropriate exchange rate is a very complex matter, involving the widest range considerations relating to prices, costs, and balances of payments.

The difficulties in settling exchange rates under present conditions are such that, although the rates of some of the participating countries will certainly have to be adjusted, the timing of these adjustments will vary from country to country.

Accordingly it would not be good policy for us to insist upon an across-the-board modification of exchange rates before we extend aid.

The revision of rates of individual countries should instead be considered as a part of a developing program of internal and external stabilization in conjunction with United States assistance.

To ensure that these revisions will be undertaken where necessary, the recipient countries will be asked to agree that when, in the opinion of the United States Government, their exchange rates are imposing an unjustifiable burden on their balances of payments, they will consult with the International Monetary Fund about revision.

Countries which are not members of the fund would be expected to consult directly with the United States Government. The National Advisory Council is making continual studies of the exchange rate problem and is the agency directed by Congress to coordinate policy in this matter.

After progress has been made toward internal stabilization in the European countries by balancing budgets, increasing production, and expanding trade, the time will arrive when it may be appropriate to make stabilization loans which would give greater assurance to the people of the participating countries that the stabilization will be permanent.

There is greater confidence in the stability of money if there is gold or dollars in the hands of the central bank.

At the appropriate point in the program it would be well worth while to give countries this additional assurance by extending a loan to provide monetary reserves.

If the loan is given prematurely, the reserves might be dissipated through balance-of-payments deficits.

A stabilization loan to be effective should come when there is reasonable assurance that the internal situation of the country concerned is satisfactory, and that it will be able to maintain its exchange rate at a stable level for a considerable period of time.

It is not likely that this situation will be reached immediately, but it is possible that in the course of 1948, and probably in 1949, some countries will be in a position to use stabilization loans effectively.

At the appropriate time Congress may then be requested to appropriate additional funds to be used by the United States Stabilization Fund to make these loans.

Finally, I should like to make a brief comment concerning the financing of the program. It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopted methods which might accentuate inflation in the United States or upset our own economic stability.

It is my firm opinion that we should finance the European recovery program within a balanced budget. I am confident that, so long as we pursue a sound fiscal policy, we shall be able to cover the cost of the European recovery program out of current revenues.

Chairman EATON. Thank you, Mr. Secretary.

We appreciate your very informative statement, and the last statement you made raises a question which I have in mind, as to the impact of this program upon our own economy.

You indicate that in addition to all that is proposed under this measure, there would be further loans made. How is the Treasury? Does it have a bottom to it?

Secretary SNYDER. Those loans would be purely stabilization loans such as we have made, Mr. Chairman, from time to time in the past. It was provided a few years ago that we should have a stabilization fund to help stabilize the relationship between United States and foreign currencies.

That fund is of such nature that the money comes back. It is really a revolving fund, so that when a country has a temporary imbalance, in its balance-of-payments situation, they can borrow some money for their reserve and as soon as the imbalance is made up it is paid back.

Stabilization is a question that would come up. I just mentioned that here because I thought it was important and that it should be given consideration.

It is part of the consideration that we have to give to the matter of getting the European countries stabilized.

Chairman EATON. As the financial agent of the Government is it your view that this great expenditure will not have a serious reaction upon our own economy, and possibly dislocate it?

Secretary SNYDER. From the studies that have been made by the various groups, we have been pretty well assured that we can do it without any serious impact on this country.

The expenditure would certainly be nothing comparable to what might happen to it if we did not make the effort.

Chairman EATON. It would have an effect upon prices here?

Secretary SNYDER. It could have. I do not think that it should necessarily have such an effect, and that is why the provision is suggested for off-shore purposes, so as to keep in mind, if we get short supply articles, and purchases here might force prices up, that we might look for those articles in other countries.

Chairman EATON. Now, we have a great problem of how to handle this tremendous transaction; its organization, and so forth.

Why can we not turn it over to the Secretary of the Treasury to handle?

Secretary SNYDER. Well, I appreciate that suggestion.

Chairman EATON. Are you responsive to that suggestion?

Secretary SNYDER. I think the suggestion made in the proposal is workable, Mr. Chairman. The crux of the whole program is the administrator. We must get able men to handle this program. We have studied the proposed organization very carefully, and we believe it is workable under the direction of an able administrator.

Chairman EATON. Of course, the general impression among us ordinary citizens is that the Treasury Department handles the funds of our country, which we supply, and that it is the most competent to do so of any section of the Government, including the State Department and others.

But you decline to accept that job, do you?

Secretary SNYDER. Well, Mr. Chairman, I think that this is so tied in with our foreign policy that we must have the administrator working very closely with the State Department. We could get off into some pretty difficult areas if we started out with two different Cabinet members operating in the foreign policy field.

Chairman EATON. They might not agree?

Secretary SNYDER. They might reach times when they would not agree on certain matters; while I am quite sure that General Marshall and I would always agree, there might come a time when a disagreement might arise, and we could not risk the development of two separate foreign policies.

We must have one foreign policy, with the financial aspect and the political aspect working hand in hand.

Chairman EATON. All I had in mind was the question that our foreign policy, present and future, will have at the masthead, a dollar mark, is that not right?

Secretary SNYDER. For a while, it will definitely have to, because we are certainly going to be extending aid to these countries, which is dollar-wise aid.

Chairman EATON. Thank you.

Mr. Jarman.

Mr. JARMAN. Mr. Secretary, speaking of the possibility of disagreement of Cabinet officers and of two foreign policies—we tried that, did we not? We tried two foreign policies, or two foreign policies were attempted about 18 months ago, and that did not work so very well, did it?

Secretary SNYDER. Well, I think we need one foreign policy, Mr. Congressman.

Mr. JARMAN. I am thoroughly in agreement with you, Mr. Secretary. Perhaps I should know this, but refresh my memory, Mr. Secretary, as to this National Advisory Council.

Secretary SNYDER. The National Advisory Council is composed of the Secretary of the Treasury as Chairman, and has as its members the Secretary of Commerce, the Secretary of State, the Chairman of the Export-Import Bank, and the Chairman of the Board of Governors of the Federal Reserve System.

Any Government financing, foreign financing, is channeled through that council, and it is that council which instructs our director on the International Monetary Fund and our director on the International Bank, as to his policy. It is determined within this council and they are instructed as to the positions to be taken in matters coming before those two international financial institutions.

It also forms the general lending policy of the Export-Import Bank.

Chairman EATON. Will the gentleman yield?

Mr. JARMAN. Yes, sir.

Chairman EATON. If we effectuate this legislation, would that National Advisory Council still have authority over the Administrator?

Secretary SNYDER. It is provided that the Administrator would perform all of his policies in consultation with the National Advisory Council just as the Export-Import Bank does. Through that council we are able to avoid duplication of effort and to measure what is done in one field as it affects another field and our operations have been very effective to date.

Mr. JARMAN. The National Advisory Council is entirely separate, is it not, from the Harriman committee?

Secretary SNYDER. Entirely.

Mr. JARMAN. I imagine it cooperated with it, perhaps, but it is a separate organization.

Secretary SNYDER. Yes, Mr. Harriman is a member of this council, but the Harriman committee was an entirely different organization, outside of the scope of the National Advisory Council, although we did consult with them from time to time and carefully read their report, when it was made.

Mr. JARMAN. Mr. Secretary, you spoke——

Secretary SNYDER. You know, Mr. Congressman, that the National Advisory Council is established by statute.

Mr. JARMAN. That is the reason I said I should know about it.

Secretary SNYDER. That is all right. You deal with a great many problems, and I was glad to refresh your memory.

Mr. JARMAN. You spoke of the dollar loans extended to these other countries over a period of years by the United States Government or the private capital market.

Do you have any rough estimate of the amount of those loans outstanding?

Secretary SNYDER. We can supply that for you. I do not think we have the figure offhand. You would like to know how many United States Government loans are outstanding in these 16 countries, and how many private loans?

Mr. JARMAN. Yes.

Secretary SNYDER. We will supply that for you.

Mr. JARMAN. I would appreciate that, Mr. Secretary.

(The information referred to is as follows:)

Outstanding indebtedness of ERP countries to U. S. Government and unutilized balances of United States loan and credit commitments as of Sept. 30, 1947¹

[Millions of dollars]

Countries ²	Amount disbursed (outstanding) ³	Unutilized balance ⁴	Total ⁵	Unpaid principal of World War I debt ⁶
Austria.....	2.3	21.1	23.4	---
Belgium.....	145.6	---	145.6	400.7
Denmark.....	18.2	14.8	30.0	---
Eire.....	---	---	---	---
France.....	1,692.6	211.0	1,903.6	3,983.7
Greece.....	86.7	32.0	118.7	31.5
Germany.....	36.7	27.0	63.7	749.5
Iceland.....	---	---	---	---
Italy.....	238.9	102.6	341.5	2,004.9
Luxemburg.....	---	---	---	---
Netherlands.....	327.5	173.0	500.5	---
Norway.....	19.3	59.8	79.1	---
Portugal.....	(⁷)	---	(⁷)	---
Sweden.....	---	---	---	---
Switzerland.....	---	---	---	---
Turkey.....	8.8	34.7	43.5	---
United Kingdom.....	4,184.7	435.0	4,619.7	4,368.0
Total.....	6,758.2	1,111.0	7,869.2	11,418.3

¹ Exclusive of cash advances on procurement programs, which are predominantly short-term. All figures with the exception of those for the Export-Import Bank and World War I debts begin with July 1, 1940. The Export-Import Bank figures begin with Feb. 12, 1934. Loans represent cash loans to foreign governments and private entities in foreign countries which result in a debtor-creditor relationship. Credit commitments represent property credits extended in connection with the disposal of surplus property, ships, or other property; the sale or disposition of or the settlement for lend-lease articles and services; the settlement for civilian supplies and relief and rehabilitation items; and commodity credits resulting from commodity advances by the U. S. Government to the military governments for Germany and Japan.

² Includes dependent areas of Belgium, France, Netherlands, Portugal, and United Kingdom.

³ Foreign transactions of U. S. Government, as of Sept. 30, 1947, U. S. Department of Commerce, Clearing Office for Foreign Transactions, Jan. 20, 1948, table 1, pp. 6 and 7.

⁴ As of July 1, 1947, excluding interest. Source: Table 7, p. 4 and table 10, p. 15, of Foreign Assets and Liabilities of the United States and Its Balance of International Transactions, a report to the Senate Committee on Finance by the National Advisory Council.

⁵ Includes \$26 million Austrian indebtedness and \$723.5 million for U. S. Army costs and mixed claims arising out of World War I and covering the indebtedness of Germany to the United States and its nationals.

⁶ \$35,481.

Estimated private United States loans to specified foreign governments outstanding as of June 30, 1947

[In millions of dollars]

	Dollar bonds ¹		Bank loans ²	Total
	National, municipal, and provincial	Government-guaranteed		
Austria.....	2.0	0.4	---	2.4
Belgium.....	4.2	---	---	4.2
Denmark.....	25.5	.6	---	26.1
Eire.....	.3	---	---	.3
France.....	.4	---	---	.4
Germany.....	64.7	22.5	---	87.2
Greece.....	6.1	---	---	6.1
Iceland.....	---	---	---	---
Italy.....	16.3	.6	---	16.9
Luxemburg.....	---	---	---	---
Netherlands.....	12.0	---	\$ 85.0	97.0
Norway.....	17.3	.3	\$ 16.0	33.6
Portugal.....	---	---	---	---
Sweden.....	---	---	---	---
Switzerland.....	---	---	---	---
Turkey.....	---	---	---	---
United Kingdom.....	---	---	---	---
Total.....	148.8	24.4	101.0	274.2

¹ Par value.

² Not including loans guaranteed by the Export-Import Bank.

³ Approximate net disbursements by commercial banks participating in an Export-Import Bank \$20,000,000 loan, but not at the risk of the Export-Import Bank.

⁴ 3-year revolving credit to the Norges Bank by commercial banks.

Mr. JARMAN. In conclusion, I have no other questions but I want to thank you for your very interesting statement which I have not only listened to with keen interest but which I am going to read very carefully again, because it has a lot of meat in it.

Secretary SNYDER. Thank you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, I also wish to compliment you on your very fine statement. It has a lot of candor in it, which I have been looking for. Along the line mentioned by the chairman as to the difference between a financial agent and a foreign policy agent, do you not feel sometime that this program, running into the billions—in 1 year it calls for \$6,800,000,000, which is about the average of the Federal budget for the 1930's—that we should have more business in this organization?

Secretary SNYDER. I have no doubt but what we should have a good business administration of the program. There is no question about it.

I think we are all agreed on that.

Mr. JONKMAN. Our foreign aid began with UNRRA. I do not know how Mr. Allen is doing over there now, but it has made a rather sorry mess of things in the past.

You will find for instance, one item of waste—a loan, which was \$75,000,000 which was lost, embezzled, or whatever you want to call it. That is a very serious reflection on the whole program.

After the First World War the Treasury Department handled the foreign aid program, did it not? Under the Dawes plan?

Secretary SNYDER. Well, there was a Dawes plan, and of course in connection with it private capital was brought in play to a very considerable extent.

Mr. JONKMAN. Well, public loans went into the program too?

Secretary SNYDER. United States public funds were not involved in the Dawes plan and the Treasury made no European loans after the termination of the World War I loan activities shortly after the end of the war.

Mr. JONKMAN. After we dissipated some seven thousand million dollars in public and private loans and found that it did not get us anywhere, I think the Treasury Department went in there with less than a half billion dollars and in a few years put those countries on their feet?

Secretary SNYDER. I think we should profit by past experience, certainly, and aim at a sound program, and a sound administration.

Mr. JONKMAN. Which do you think preponderates there, the need of a business administration, or a good fellow, good neighbor policy?

Secretary SNYDER. I think they are closely knit. If we are going to do this job, we certainly want to put it on a friendly, cooperative basis, or else we will probably have missed entirely the goal at which we are aiming.

But I still think that helping the participating countries to help themselves will be the best and most effective way. We should see that they exert their efforts along that line, and then supplement their efforts if we can.

Mr. JONKMAN. The point I am making is that if we have a sound business administration, right from the top down, that the correlation that we need for foreign policy could easily be established without any violence being done to our foreign policy.

But our past experience has shown that when the State Department enters into it, handles it, much as I regret to say it, we have not a business administration.

I am going to lead up to that in a moment. One statement you made very candidly, for instance, is the difficulty that we have in this respect. You say on page 3:

By insisting that participating countries exhaust gold or dollar balances we will merely add further instability to their monetary system. As a matter of fact all of the participating countries, except Switzerland, Turkey, Portugal, have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

Do you not think you could add other countries to that, besides those three?

Secretary SNYDER. No, sir; we have looked at that pretty carefully, and from the requirements of the countries it appears to us that their reserves in dollar balances are pretty low for the purpose of carrying on a stabilization or recovery program.

Mr. JONKMAN. For instance, Norway has already floated a private loan at New York, with the New York banks.

Secretary SNYDER. Yes.

Mr. JONKMAN. Does not that show that they are in pretty good condition?

Secretary SNYDER. Well, I would not want to comment on the bank's credit, but Norway has \$77,000,000 in gold. I would not want to comment on the bank's credit. The loan was a small one; I understand about \$12,000,000.

Mr. JONKMAN. The point I am making is this: I realize, of course, that we are changing from a relief program to a recovery program.

There is quite a difference, that is true.

Secretary SNYDER. Yes.

Mr. JONKMAN. But it is also true that under our relief program we have in the residual relief bill six countries—residual-aid bill, six countries; and in the interim-aid bill, three countries; and now we are back to 16 countries.

We are taking on quite a load. It seems to me that about 13 of these countries could do pretty well by themselves if it were not for the other three.

Is the purpose of the recovery program to establish joint action?

Secretary SNYDER. I think that is the aim of it, to get those 16 countries working in a unified program.

I think it is most important that we do that, and it is most heartening to see 16 European countries get together on something, and come up with a program to which they all subscribe, aimed at the recovery of the whole of Europe.

I was pleased to see that we could accomplish that first very forward-looking step.

I think each country's needs have been very carefully studied by this group to which I referred awhile ago, the technicians, who went back into the program—they did not accept just what was said in the presentation to us in the form of the original program, but they re-screened it, they changed some of those allocations of items, and tried to put it on the basis of just what they thought was absolutely necessary.

The whole program, I have satisfied myself, is aimed at trying to bring out the fullest possible self-help, and the part in this bill that is

provided for Congress to supply funds for, is for that extra amount needed to bring the participating countries to a beginning of a recovery and stabilization, and not to establish a better situation than that existing prior to the war, but to bring them to a point approaching that so that they will have an opportunity to move forward in the way of stabilization and economic recovery.

Mr. JONKMAN. Then are we seeking to secure the cooperation of the 13 countries, which I think could perhaps raise themselves by their own efforts, with the Marshall plan, or with loans and grants, in order to get their cooperation for cooperative effort?

Secretary SNYDER. I do not think that entered into it by itself. It might have been given consideration somewhere along the way. But I do not think any country is offered or will be offered aid and assistance under this program unless it needs it over and above what it can do for themselves.

Mr. JONKMAN. Well now, it came to me on very reliable authority that a high official of this Government had talked with a high official of the Danish Government. He said, "You don't intend to come in under the Marshall plan, do you?" The answer was, "Well, we hadn't intended to. We figured we could float a loan with the private banks, but everybody else is coming in so we might as well come in too."

Secretary SNYDER. Well, I do not know anything about that, Mr. Jonkman.

Mr. JONKMAN. Is there room for that spirit?

Secretary SNYDER. I do not think so. Mr. Block, our director on the International Bank, just advised me that Denmark has met with no success in trying to float a loan, although they have tried at considerable length to do so.

Mr. JONKMAN. Is the Committee for European Cooperation doing anything at the time? Have they held any sessions for the carrying out of the program since the Paris Conference?

Secretary SNYDER. Yes; I think they have had some meetings. Mr. Ness of the State Department can answer that question.

Mr. NESS. Since the time of the Paris meeting there has been no reconvening of the Committee for Economic Cooperation as a committee.

However, in the interval since the Paris Conference, subgroups of the committee have been meeting regularly, such, for instance, as those on the problem of payments within Europe. That subgroup has held meetings. But there have been no meetings of the entire committee.

Mr. JONKMAN. From the results we have had from the Marshall speech at Harvard and the Paris Conference, we have had a little more than a get-together of 16 nations who have said "We want \$22,000,000,000," and we have agreed that something should be done.

Secretary SNYDER. I think we have done much more than that. We find that they are actually trying to re-form their governments and are endeavoring to work out plans within their own governments for stabilization and for tightening up on their economic situation. We see marked evidence of that in practically every one of these countries.

So I can see a great deal more than just a request having been sent over here. They are conscientiously and honestly trying to help themselves.

Mr. JONKMAN. You have in mind there, I take it, the efforts on the part of the countries of France and Italy to revise their tax structure and consolidate their governments?

Secretary SNYDER. Yes; and Holland is doing the same thing.

Mr. JONKMAN. But Holland is not doing it on account of the Marshall plan?

Secretary SNYDER. But they are doing it. As long as they are working toward that objective, it does not mean so much to me whether it is on account of the Marshall plan or account of their own idea, because that is the goal we are aiming at, the reestablishment of economic stability.

Mr. JONKMAN. I know, but the administration by which we have before us states expressly that the aid to be extended is to be extended to countries parties—participating in self-help and mutual help. “Participating”—do you not think that after the offer was made, there should be a greater cooperative effort on the part, of those nations, to form, let us say, a customs union, at least?

Secretary SNYDER. I think they probably have got to have some notion about just how we are going to approach this problem.

I do not know of a single country which is not making some effort to measure just what its internal situation is, so that whatever further steps it takes should be in conformity with whatever we set up under this program and it should not go off in one direction, when we might come along and find that it should have gone in another direction, at the time that we start the program rolling.

But I agree with you that they should be continually working for their own salvation.

Mr. JONKMAN. Of course our trouble is, as we say, that we always won a war, and never won a peace. We may not even win this program, merely because of that reason.

Secretary SNYDER. That brings us up to the crux of the thing, which is the agreement we work out with each country. That is going to be the Administrator's responsibility, to sit down with each country, and not take exactly what is said here, but to actually sit down and review conditions as they are at the time he is working out the agreement, and work out the best possible arrangement with that country which will insure that they get to work on their own salvation and their internal recovery.

The Administrator will be charged with watching that program, and unless the countries are moving along, he can always hold up on further advances—if they are laggard about carrying out the terms of the individual agreements which are arranged with each country.

Mr. JONKMAN. All right, but assuming that you make bilateral agreements, are you not missing the boat by not having also a multi-lateral agreement, to create a cooperative action?

Secretary SNYDER. That gets over under the State Department's political angle—how far we want to go in tying matters together. We want to encourage cooperation between nations, but I would be getting out of my field entirely if I got into too much of a discussion along that line.

Mr. JONKMAN. Well, here is a statement of yours, and there are others like it, which I like very much.

It is candid and straightforward. On page 6 of your statement, you say;

The adjustment of some exchange rates may be expected in the course of European recovery. Inflation in Europe in certain instances has given rise to exchange rates which result in an over-valuation of the currencies in relation to the dollar. This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency.

That is a fair statement. I had no difficulty in getting that from those who have handled our foreign policies. That just shows the difference between our foreign-policy view and our financial-policy view.

There is no use denying it. For instance, yesterday I called attention to the fact that the legal exchange value of the French franc is 119 to the dollar, while the free-market, or the black-market value, if you want to call it that, is at least twice that amount; perhaps 250 to 300. And I asked: Does not that tend, just as you say there—to retard exports, because the exporter, or the exports are doubled in price? In other words, the exporter who has a piece of lace or a bottle of perfume in France, for which he would get \$5 in the United States, must get \$10 for it. That is true, is it not? He must get just twice as many dollars, as the market rate?

Secretary SNYDER. To get the equivalent number of francs; yes, sir.

Mr. JONKMAN. Yes. So you discourage exports. And I have not any doubt that France has goods which she could export, if the currency situation were so favorable that she could increase her exchange.

On the other hand, by that doubled value, you cut the cost of imports in two, if the rate is 2 to 1. Is that not so?

Secretary SNYDER. I believe you are exactly right, Mr. Congressman, and I want to say that whatever statement I have made is not in conflict with the basic theory of those who have preceded me. It just happens to have fallen even more definitely under the financial end, and that has been left to me.

Mr. JONKMAN. Well, I have to go by what each of you say, and that is for me to judge, whether there is conflict.

Secretary SNYDER. I want to assure you that there is no conflict. I think the greatest problem, in solving all of these exchange matters, is a matter of timing. We must watch that very carefully and then move toward adjustment at the proper time, without upsetting everything.

Mr. JONKMAN. I agree to that. You could not do it in 24 hours, all over the European continent?

Secretary SNYDER. That is right. And one step leads to another.

Mr. JONKMAN. But if we are going to furnish dollars, are we not encouraging that very fault that I just explained?

In other words, we are taking the bottom out of the barrel, and letting them retard their exports and encourage imports, and we are giving them exchange with which to do it.

Secretary SNYDER. That is one of the objectives, to try to bring about a situation so that they can properly make changes in their exchange rates.

But they have to have some hope of assistance, in some direction, or else then they can never stabilize and conditions would grow steadily worse.

One of the whole objectives of the aid we are going to give them is to help them get into a position where they can make those rate adjustments.

Mr. JONKMAN. Have you reasonable assumption, reasonable confidence, to assume that they will accomplish that before they use up the first \$6,800,000,000?

Secretary SNYDER. I think they will make great progress in that direction. I cannot say that they will undertake finally to accomplish it. It is a very complicated situation.

Mr. JONKMAN. The difficulty is this: Take the British loan. They got 3½ billion, and it was not until they found that they were scraping bottom of the barrel on that almost \$4,000,000,000 loan, that the United Kingdom finally woke up and said, "We are getting into a bad situation. We have to cut out some of these imports"—and they cut out movies, tobacco, oil, and things of that sort.

The point I am making, Mr. Secretary, is that by giving these loans we are absolutely encouraging the very thing we seek to eliminate and what sense is there in it?

Secretary SNYDER. On the British loan, up until July, they had maintained themselves well within the estimates which they had furnished in the preparation for the loan.

Up until July—we can furnish you tables to show it—they had stayed pretty well within their estimates.

They ran into some difficulties later, and from then on their real problems started. They had greater demands for convertibility than they anticipated they would get, and there was some real difficulty there.

Also they have had some other troubles of which you are well aware—the weather, the crop situation, and so forth. But I have to be perfectly frank with you—I spent a harrowing month over there, talking to the representatives of every section of Europe, and also to some of the nationals of those countries, and I think we can expect, with the conditions over there as they are, if we do not give friendly aid at this time, that the cost to us will be so great that we will regret it.

Mr. JONKMAN. What sort of analysis have you to indicate that it cannot be done with half the amount?

Secretary SNYDER. This was arrived at with a very careful, studious approach.

If we start to say a billion less or 2 billion less, or a billion more or 2 billion more, it will be a much more arbitrary approach than the one which has already been made, because there has been a tremendous amount of careful study in arriving at those figures.

Mr. JONKMAN. The other day I asked the State Department, I said, "I am still using the CEEC figures."

They call for \$5,900,000,000.

And I checked back on the CEEC figures. They begin with \$452,000,000 for feed or fertilizer, \$340,000,000 for solid fuel, \$520,000,000 for iron and supplies, and so on down the line.

I said, "You arrived at that \$5,900,000,000, as a total, from certain items and I would like to have the items, for each country, to make up that total."

Well, they said they are going to get the information for me, but I assume, Mr. Secretary, that if you arrive at a total, your total would be the amounts needed by each country, so you would have those at your fingertips.

Secretary SNYDER. Just for the record, those CEEC figures were for a 12-month period; those in this program are for 15 months. So there is a difference there.

Mr. JONKMAN. It does not make any material difference.

Secretary SNYDER. It makes a difference between the 5.9 and the comparable Executive branch figure.

Mr. JONKMAN. Naturally.

Secretary SNYDER. I just want to make that clear, that we were talking about a different period of time.

Mr. JONKMAN. On the other hand, it is equally clear, Mr. Secretary, that if I say to you, "Here are 16 countries which together need \$5,900,000,000," I should be able to say what each country needs, because I am assuming that that is my total arrived at by individual items. Is that not so?

Mr. NESS. I understand, Mr. Congressman, that the material which you requested previously was supplied on a commodity-by-country basis.

Mr. JONKMAN. But the point I am making is that apparently it was something that had to be figured out from other figures instead of just saying, "Here is how we arrived at the total."

Secretary SNYDER. I think they had approached the problem on the basis of commodity needs for each country and then arrived at the total commodity needs for the whole program. They had taken the requirements of each country and had arrived at so many bushels of wheat, for instance, against the whole program.

Mr. SOUTHARD. The estimates were made by commodities, in the first instance, and at the same time a break-down by country was made, that is, breaking that total down by countries.

Mr. JONKMAN. Is it not true that you have difficulty in getting analytical figures—and I do not want to be too critical?

Secretary SNYDER. Of course, you have a difficult problem. You do not want to say a country is going to get so much of this and so much of that, because you are going to handicap your Administrator. He wants to go in and find out, through a recheck, that those are actually the needs. The estimate appears in the background as to what will be required, but when you start making too precise an appraisal, by items, you are almost setting a pattern as to exactly what each country will want. You cannot handicap your Administrator if you want him to do a bang-up job for you.

Mr. JONKMAN. Well, I do at least want general figures.

Secretary SNYDER. Well, I think you agree with me that we would not want to set too precise a pattern, because we want our Administrator to do a good job and not to be handicapped.

Mr. JONKMAN. Yes; but take the wheat situation alone. I want to know how much of that \$1,452,000,000 worth goes into the various countries. The interim aid—we found, for instance, that Italy had a great deal more wheat than was estimated in arriving at those figures. And that is a serious error.

Secretary SNYDER. Well, we will get those figures for you.

Mr. JONKMAN. That is all for the present, Mr. Chairman.

(The information referred to is as follows:)

DEPARTMENT OF STATE

(January 20, 1947)

EUROPEAN RECOVERY PROGRAM

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM WESTERN HEMISPHERE, APRIL 1, 1948, THROUGH JUNE 30, 1949, AND POSSIBLE SOURCES AND DISTRIBUTION OF FINANCING

The European Cooperation Administration will have to draw up programs of United States assistance to each participating country covering the commodities and services to be purchased in the Western Hemisphere and the manner in which these purchases will be financed. Each country program will have to be coordinated with the country's total requirements and estimated imports from areas outside the Western Hemisphere and with the amounts of financing available from sources other than new United States funds.

The programs of United States assistance for each country as they may be developed by the Administrator should not now be prejudged. Therefore, an accurate representation of a program for each country, reflecting its aggregate required imports from the Western Hemisphere and the source of funds which will in fact finance each segment of these imports cannot now be made. A continuing process of adjustment will be necessary in order to take account of such factors as the success of the production effort by the participating countries, changes in world availabilities, price movements, supply and financial arrangements with nonparticipating countries, and the decisions of such agencies as the International Bank.

An illustrative program can, however, be drawn up which will be indicative at least of the country by country programs as they might be determined by the Administrator after he has considered all of the relevant factors. An example of such a program is set forth in the attached tabulation.

It needs to be emphasized again that the distribution of commodities by countries and sources of funds indicated in the accompanying tables is only an approximation of the program as it would actually be developed by the Administrator. Particular emphasis should be given to the fact that the amounts shown in table 1, column 4, and in the corresponding columns of the individual country tables do not necessarily represent the amount which each country would receive in the form of direct assistance from the United States, nor do they indicate the terms on which such appropriated funds would be advanced. Rather, they indicate the dollar balance required to fill each country's total estimated required import program from the Western Hemisphere (column 1), after deducting the dollars obtained from exports of goods and services (column 2) and after deducting sources of financing other than new United States funds (column 3). This balance of a particular country's dollar needs (shown in column 4) might in some instances be obtained indirectly through another participating country rather than directly from the United States. Various arrangements for indirect financing of this character could be made and might provide a feasible way to assist the participating countries in overcoming some of the obstacles to increased trade among themselves.

For example, bizonal Germany is expected to have a substantial surplus of exports over imports in its trade with some participating countries, and the latter must settle in dollars for a large part of their debit balances with the bizone. In this way the dollar requirements of these participating countries are increased (because they must pay dollars not only for their imports from the Western Hemisphere but also to settle their German accounts). On the other hand, the bizone's need for direct dollar assistance would be correspondingly reduced (because it would receive dollars in addition to those obtained from its exports to the Western Hemisphere shown in column 2). In circumstances like these the Administrator might find it desirable to allocate funds appropriated for European recovery in such a way as to increase the direct assistance in the form of loans or grants to one participating country over the amount of its Western Hemisphere deficit and correspondingly reduce the direct assistance given to another participating country. Alternatively, the administrator might find it desirable to purchase goods in one country for delivery to another, the transaction being recorded as additional direct assistance to the receiving country. The exporting country's need for direct dollar assistance would be correspondingly reduced. In

general, adjustments of this kind would be considered by the Administrator in the light of recommendations by the participating countries as a group acting through their continuing organisation. Such adjustments would not increase the total amount of assistance required but would only affect its distribution between countries.

The country tables which are appended present for each participating country an illustrative composition of its imports of goods from the Western Hemisphere and its net dollar payments, if any, for freight and other invisible items, for the period from April 1, 1948, through June 30, 1949. All values are expressed in terms of July 1, 1947, prices as the adjustment for higher prices is covered in the table on page 5. A distribution of the financing of these imports and payments among the following sources of dollar funds is shown:

Column 2. Dollars earned by each country from exports to the Western Hemisphere and net dollar receipts, if any, for shipping and other invisibles. In the case of Portugal, the amount shown in column 1 includes an expenditure of Portuguese gold and foreign exchange holdings in an amount necessary to offset its deficit on current account.

Column 3. Dollars obtained from such sources as International Bank loans, private investment, existing credits of the Export-Import Bank, and credits extended by participating countries having net dollar earnings on current account to other participating countries. Credits or other assistance by other Western Hemisphere countries are also included in column 3.

Column 4. New United States funds for European recovery and for prevention of disease and unrest in Germany (GARIOA) for which appropriations are being requested. As pointed out above, the amounts in column 4 represent the deficit computed on July 1, 1947, prices with the Western Hemisphere which it is necessary to finance directly or indirectly with new United States funds and do not necessarily represent the direct assistance in the form of grants and loans which will be extended to individual countries. The adjustments for increased prices and savings on shipping mentioned in the table on page 5 will also have to be taken into account on a country by country basis.

The table on the following page recapitulates the country tables and presents a possible distribution, by sources, of the financing of the total Western Hemisphere import program.

TABLE 1.—Recapitulation of tables showing illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing: Apr. 1, 1948–June 30, 1949—(at July 1, 1947 prices)

	Total imports ¹	Possible sources of financing		
		Dollar earnings ²	Sources other than new United States funds	New United States funds ³
Austria.....	233	39	12	182
Belgium-Luxemburg.....	853	334	106	323
Denmark.....	237	45	28	164
France.....	1,631	369	128	1,434
Greece.....	262	67	9	186
Iceland.....	23	10	.....	13
Ireland.....	192	40	.....	152
Italy.....	1,160	183	106	869
Netherlands.....	1,136	271	160	705
Norway.....	253	163	56	34
Portugal.....	144	144	.....	.....
Sweden.....	499	423	43	33
Switzerland.....	535	535	.....	.....
Turkey.....	69	69	.....	.....
United Kingdom.....	4,311	2,133	418	1,760
Germany:				
Bisone.....	1,014	100	.....	914
French zone.....	93	13	.....	80
Saar.....	14	3	.....	11
Total.....	12,969	4,941	1,158	6,860

¹ Including net dollar payments for freight and other invisibles.

² Including drawings of \$72 million by Portugal on its gold and foreign exchange resources.

³ This column includes funds being requested by the Department of the Army for prevention of disease and unrest in Germany. A reconciliation with the \$6,800 million being requested for the European recovery program is to be found on p. 5.

Column 1 indicates that the required imports of the participating countries of goods and services from the Western Hemisphere during the 15 months, April 1, 1948, through June 30, 1949, are expected to amount to \$12,959 million (in terms of July 1, 1947, prices). This total, after deducting \$1,146 million of payments for net freight and net other invisibles, equals the total commodity imports of \$11,813 million shown in the summary balance of payments table on page 97 of the committee print of the Outline of a European Recovery Program.

Of this total, it is estimated that the participating countries will finance \$4,941 from their dollar earnings from exports to the Western Hemisphere and other dollar receipts (and, in the case of Portugal by drawing down gold and foreign exchange holdings).¹

Sources other than new United States funds are expected to finance, in terms of July 1, 1947, prices, \$1,158 million of the total.² It is proposed that the balance of \$6,860 million be financed by new United States funds appropriated for European recovery and to the Department of the Army for prevention of disease and unrest in Germany (GARIOA). The following table presents a reconciliation of this balance with the authorization of \$6,800 million requested for European recovery.

Goods to be purchased in Western Hemisphere with new United States funds (at July 1, 1947, prices)—column 4 of recapitulation	\$6, 860
Adjustments:	
Add: Adjustment for price increases ¹	\$482
Deduct: Savings on shipping ²	100
	382
Adjusted cost of commodities and shipping services to be purchased in Western Hemisphere with new United States funds ³	7, 242
Authority to obligate funds for procurement of items to be delivered in subsequent years	200
Uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere ⁴	200
Total being requested for European recovery program and by Department of Army for Germany (GARIOA)	7, 642
Deduct: Appropriations being requested by Department of Army for prevention of disease and unrest in Germany (GARIOA)	822
Total requirement for first 15 months, European recovery program ..	6, 820
Authorization requested for European recovery program (preceding line in rounded amount)	6, 800

¹ This figure is equivalent to the adjustment for higher prices of \$365 million shown in the summary balance of payments table, page 97 of the Outline, after eliminating that portion of the increase attributable to "Sources other than new United States funds," such as the International Bank, and to Portuguese cash purchase.

² See page 92 of the Outline. These are savings possible if additional temporary transfers of bulk-cargo carriers are made.

³ This entry and the following entries in the reconciliation are shown in the tables on pages 108 and 109 of the Outline and explained in the accompanying text, pp. 107-109.

⁴ See footnote 2, table 17.

The distribution by sources of financing in the following country tables has been made according to the following principles:

1. Financing which might be forthcoming from sources other than new United States funds has been spread over commodities for the purchase of which it is thought most likely that loans and credits might be granted. Much is assigned to the category "other imports," which includes heavy and specialized equipment and important industrial raw materials, and additional large sums are allocated to bread and coarse grains, fats and oils, sugar, meat, and coffee, for which other Western Hemisphere countries might extend commodity credits or make other arrangements to assist the participating countries.

2. It is assumed that new United States funds will be used, in the first instance, for "selected" commodities.

¹ See The European Recovery Program—Country Studies, table II A. The sum of total exports to the Western Hemisphere and, where positive, of "Net freight" and "Net other invisibles" is the figure shown in column 2 of the attached country tables.

² International Bank, private investment, existing Export-Import Bank credits, dollar credits by participating countries, and credits or other assistance by other Western Hemisphere countries. These sources are expected to finance \$1,228 million in current prices. This figure is equivalent to the figure of \$1,335 million shown in the committee print of the Outline of European Recovery Program, p. 106, after deducting the item of \$85 million representing purchases on cash basis (here included in column 2) and adding credits of \$28 million by participating countries to participating countries.

3. Dollar earnings of the participating countries are assigned to the remaining Western Hemisphere requirements.

In this connection, it should be pointed out that the category "other imports" is made up principally of important raw materials and manufactured goods, which in almost all cases are as important to economic recovery as the selected commodities. On many of these commodities studies of requirements and availabilities are being prepared, but a miscellaneous category will always be necessary since trade between advanced industrial countries involves thousands of individual products. Preliminary indications of the values of some of the most important items in the category are given in footnotes to the tables.

It is recognized and, indeed, emphasized that the following tabulation is only illustrative and that the actual pattern determined by the Administrator might vary markedly from the one outlined here. It may, however, be useful in clarifying and delineating the problems which will be encountered in initiating the program and in adjusting its continuously to changing conditions.

TABLE 2.—*Austria*

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM WESTERN HEMISPHERE AND POSSIBLE SOURCES AND DISTRIBUTION OF FINANCING: APR. 1, 1948 TO JUNE 30, 1949 (AT JULY 1, 1947 PRICES)

Import	Total imports	Possible sources and distribution of financing		
		Austrian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	36.3			36.3
Coarse grains.....	4.4			4.4
Fats and oils.....	12.5			12.5
Oil cake.....	1.6			1.6
Sugar.....	5.4			5.4
Meat.....	8.8			8.8
Dairy products.....	4.1			4.1
Eggs.....				
Dried fruit.....	1.5			1.5
Rice.....				
Coffee.....	4.0			4.0
Other foods.....	6.3			6.3
Subtotal.....	84.9			84.9
Tobacco.....	2.9			2.9
Cotton.....	21.6		4.7	16.9
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.6			1.6
Coal.....				
Mining machinery.....	.5			.5
Petroleum products.....				
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....	2.0			2.0
Iron ore.....				
Trucks.....	3.8			3.8
Freight cars.....				
Steel equipment.....	4.2			4.2
Timber equipment.....	4.0			4.0
Electrical equipment.....	.7			.7
Other imports ¹	67.0	39.0	7.5	20.5
Total commodity imports.....	193.2	39.0	12.2	142.0
Net freight.....	40.0			40.0
Other dollar payments.....				
Total ²	233.2	39.0	12.2	182.0

¹ Includes (in millions): Copper, \$6; chemicals, \$16; hides and skins and leather, \$1; wool, \$1.

² In the case of Austria and all other countries (except Portugal), the deficit on current account with the Western Hemisphere equals column 1 minus column 2 or alternatively, column 3 plus column 4.

TABLE 3.—*Belgium-Luxemburg and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Belgium-Luxemburg dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	78.1	.....	19.0	59.1
Coarse grains.....	64.9	.....	2.5	62.4
Fats and oils.....	22.2	.....	.....	22.2
Oil cake.....	28.1	.....	.....	28.1
Sugar.....	15.3	.....	4.8	10.5
Meat.....	13.3	.....	.....	13.3
Dairy products.....	36.0	.....	.....	36.0
Eggs.....	.....	.....	.....	.....
Dried fruit.....	.8	.....	.....	.8
Rice.....	.8	.....	.....	.8
Coffee.....	15.3	.....	4.8	10.5
Other foods.....	15.8	.....	.....	15.8
Subtotal.....	281.6	.....	28.1	253.5
Tobacco.....	21.5	.....	.....	21.5
Cotton.....	46.0	.....	27.9	18.1
Nitrogen.....	.4	.....	.....	.4
Phosphates.....	.4	.....	.....	.4
Potash.....	.....	.....	.....	.....
Agricultural machinery.....	8.0	.....	5.0	.....
Coal.....	20.5	.....	.....	20.5
Mining machinery.....	2.9	.....	2.9	.....
Petroleum products.....	35.2	24.3	.....	10.9
Timber.....	23.3	23.3	.....	.....
Iron and steel:	.....	.....	.....	.....
Finished.....	19.3	.....	15.7	3.6
Crude and semifinished.....	9.4	5.2	.....	4.2
Pig iron.....	.....	.....	.....	.....
Scrap iron.....	.....	.....	.....	.....
Iron ore.....	.....	.....	.....	.....
Trucks.....	21.8	.....	21.8	.....
Freight cars.....	.....	.....	.....	.....
Steel equipment.....	9.1	.....	9.1	.....
Timber equipment.....	.....	.....	.....	.....
Electrical equipment.....	6.0	.....	6.0	.....
Other imports ¹	293.0	223.2	69.8	.....
Total commodity imports.....	795.4	276.0	196.3	322.1
Net freight.....	16.0	16.0	.....	.....
Other dollar payments.....	42.0	42.0	.....	.....
Total.....	853.4	334.0	196.3	322.1

¹ Includes (in millions): Machinery and transportation equipment and technical apparatus, \$115; chemicals, \$29; lead, \$13; zinc, \$7; wool, \$15.

TABLE 4.—*Denmark*

Import	Total imports	Possible sources and distribution of financing		
		Danish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	0.5			0.5
Coarse grains.....	33.0			33.0
Fats and oils.....	8.8			8.8
Oil cake.....	42.2		4.8	37.4
Sugar.....				
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.4			.4
Rice.....	.2			.2
Coffee.....	20.0		4.8	15.2
Other foods.....	2.1			2.1
Subtotal.....	107.2		9.6	97.6
Tobacco.....	7.5			7.5
Cotton.....	6.9			6.9
Nitrogen.....	1.6			1.6
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9		7.9	
Coal.....	10.9			10.9
Mining machinery.....				
Petroleum products.....	26.2	15.8		13.4
Timber.....	3.7			3.7
Iron and steel:				
Finished.....	15.8		6.0	9.8
Crude and semifinished.....				
Pig iron.....	.5			.5
Scrap iron.....				
Iron ore.....				
Trucks.....	11.2			11.2
Freight cars.....				
Steel equipment.....	.5			.5
Timber equipment.....				
Electrical equipment.....	.5			.5
Other imports.....	13.5	8.8	4.7	
Total commodity imports.....	216.9	24.6	28.2	164.1
Net freight.....				
Other dollar payments.....	20.0	20.0		
Total.....	236.9	44.6	28.2	164.1

TABLE 5.—*France and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		French dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	115.7	-----	11.8	103.9
Coarse grains.....	66.1	-----	9.5	56.6
Fats and oils.....	70.9	-----	23.6	47.3
Oil cake.....	20.8	-----	-----	20.8
Sugar.....	19.8	-----	-----	19.8
Meat.....	.8	-----	-----	.8
Dairy products.....	26.7	-----	-----	26.7
Eggs.....	1.8	-----	-----	1.8
Dried fruit.....	2.0	-----	-----	2.0
Rice.....	4.6	-----	-----	4.6
Coffee.....	7.6	-----	-----	7.6
Other foods.....	7.4	-----	-----	7.4
Subtotal.....	350.2	-----	49.9	300.3
Tobacco.....	18.1	-----	-----	18.1
Cotton.....	165.8	-----	9.5	156.3
Nitrogen.....	11.8	-----	-----	11.8
Phosphates.....	-----	-----	-----	-----
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	59.7	-----	-----	59.7
Coal.....	206.2	-----	-----	206.2
Mining machinery.....	10.7	-----	-----	10.7
Petroleum products.....	146.5	-----	-----	146.5
Timber.....	35.6	-----	16.0	19.6
Iron and steel:	-----	-----	-----	-----
Finished.....	17.5	-----	-----	17.5
Crude and semifinished.....	10.0	-----	-----	10.0
Pig iron.....	-----	-----	-----	-----
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	-----	-----	-----	-----
Trucks.....	5.5	-----	-----	5.5
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	13.8	-----	-----	13.8
Timber equipment.....	8.9	-----	-----	8.9
Electrical equipment.....	10.0	-----	-----	10.0
Other imports ¹	504.2	275.7	52.2	176.3
Total commodity imports.....	1,574.5	275.7	127.6	1,171.2
Net freight.....	263.0	-----	-----	263.0
Other dollar payments.....	98.0	98.0	-----	-----
Total.....	1,930.5	368.7	127.6	1,434.2

¹ Includes (in millions): Machinery, transportation equipment, and business machines, \$173; chemicals, \$43; copper, \$19; lead, \$6; zinc, \$11; hides and skins, \$32; wool, \$26; cotton textiles, \$31.

TABLE 6.—Greece

Import	Total imports	Possible sources and distribution of financing		
		Greek dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	47.4			47.4
Coarse grains.....	4.8			4.8
Fats and oils.....	.8			.8
Oil cake.....	.6			.6
Sugar.....	16.6			16.6
Meat.....	8.8			8.8
Dairy products.....	38.4			38.4
Eggs.....	.9			.9
Dried fruit.....				
Rice.....	.6			.6
Coffee.....	2.7			2.7
Other foods.....	.7			.7
Subtotal.....	119.3			119.3
Tobacco.....				
Cotton.....	6.5			6.5
Nitrogen.....	2.4			2.4
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9			7.9
Coal.....	.2			.2
Mining machinery.....				
Petroleum products.....	8.3			8.3
Timber.....	4.5			4.5
Iron and steel:				
Finished.....	7.0			7.0
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	7.3			7.3
Freight cars.....				
Steel equipment.....				
Timber equipment.....	1.0			1.0
Electrical equipment.....	1.0			1.0
Other imports ¹	47.0	37.7	9.3	
Total commodity imports.....	212.4	37.7	9.3	165.4
Net freight.....	49.9	29.4		20.5
Other dollar payments.....				
Total.....	262.3	67.1	9.3	185.9

¹ Includes (in millions): Machinery, parts and accessories, \$12; clothing, \$12; chemicals, \$7.

TABLE 7.—*Iceland*

Import	Total imports	Possible sources and distribution of financing		
		Icelandic dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	1.5	-----	-----	1.5
Coarse grains.....	.5	-----	-----	.5
Fats and oils.....	1.4	-----	-----	1.4
Oil cake.....	-----	-----	-----	-----
Sugar.....	1.2	-----	-----	1.2
Meat.....	-----	-----	-----	-----
Dairy products.....	-----	-----	-----	-----
Eggs.....	-----	-----	-----	-----
Dried fruit.....	.2	-----	-----	.2
Rice.....	-----	-----	-----	-----
Coffee.....	.7	-----	-----	.7
Other foods.....	.2	-----	-----	.2
Subtotal.....	5.7	-----	-----	5.7
Tobacco.....	.1	-----	-----	.1
Cotton.....	-----	-----	-----	-----
Nitrogen.....	.2	-----	-----	.2
Phosphates.....	-----	-----	-----	-----
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	.8	-----	-----	.8
Coal.....	.9	-----	-----	.9
Mining machinery.....	-----	-----	-----	-----
Petroleum products.....	1.7	-----	-----	1.7
Timber.....	1.3	-----	-----	1.3
Iron and steel:	-----	-----	-----	-----
Finished.....	-----	-----	-----	-----
Crude and semifinished.....	-----	-----	-----	-----
Pig iron.....	-----	-----	-----	-----
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	-----	-----	-----	-----
Trucks.....	1.0	-----	-----	1.0
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	-----	-----	-----	-----
Timber equipment.....	-----	-----	-----	-----
Electrical equipment.....	-----	-----	-----	-----
Other imports ¹	11.0	10.0	-----	1.0
Total commodity imports.....	22.7	10.0	-----	12.7
Net freight.....	-----	-----	-----	-----
Other dollar payments.....	-----	-----	-----	-----
Total.....	22.7	10.0	-----	12.7

¹ Includes (in millions): Fishing and industrial equipment, \$9.

TABLE 8.—*Ireland*

(In millions of dollars)

Import	Total imports	Possible sources and distribution of financing		
		Irish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	26.5	.....	.....	26.5
Coarse grains.....	37.2	.....	.....	37.2
Fats and oils.....	3.1	.....	.....	3.1
Oil cake.....	1.4	.....	.....	1.4
Sugar.....	7.2	.....	.....	7.2
Meat.....	.....	.....	.....	.....
Dairy products.....	.....	.....	.....	.....
Eggs.....	.....	.....	.....	.....
Dried fruit.....	.7	.....	.....	.7
Rice.....	.....	.....	.....	.....
Coffee.....	.6	.....	.....	.6
Other foods.....	1.3	.....	.....	1.3
Subtotal.....	78.0	.....	.....	78.0
Tobacco.....	8.3	.....	.....	8.3
Cotton.....	2.0	.....	.....	2.0
Nitrogen.....	.4	.....	.....	.4
Phosphates.....	.....	.....	.....	.....
Potash.....	.....	.....	.....	.....
Agricultural machinery.....	1.6	.....	.....	1.6
Coal.....	11.2	.....	.....	11.2
Mining machinery.....	.....	.....	.....	.....
Petroleum products.....	13.0	.....	.....	13.0
Timber.....	7.1	.....	.....	7.1
Iron and steel:	.....	.....	.....	.....
Finished.....	1.6	.....	.....	1.6
Crude and semifinished.....	.....	.....	.....	.....
Pig iron.....	.....	.....	.....	.....
Scrap iron.....	.....	.....	.....	.....
Iron ore.....	.....	.....	.....	.....
Trucks.....	1.9	.....	.....	1.9
Freight cars.....	.....	.....	.....	.....
Steel equipment.....	.4	.....	.....	.4
Timber equipment.....	.....	.....	.....	.....
Electrical equipment.....	1.0	.....	.....	1.0
Other imports ¹	64.1	38.8	.....	25.3
Total commodity imports.....	190.6	38.8	.....	161.8
Net freight.....	1.7	1.7	.....	.....
Other dollar payments.....	.....	.....	.....	.....
Total.....	192.3	40.5	.....	161.8

¹ Includes (in millions): Chemicals, \$5; machinery and transportation equipment, \$12.

TABLE 9.—*Italy*

Import	Total imports	Possible sources and distribution of financing		
		Italian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	267.1	-----	23.8	243.4
Coarse grains.....	20.7	-----	9.5	17.2
Fats and oils.....	30.2	-----	9.5	30.7
Oil cake.....	4.1	-----	-----	4.1
Sugar.....	2.8	-----	-----	2.8
Meat.....	7.0	-----	-----	7.0
Dairy products.....	7.2	-----	-----	7.2
Eggs.....	-----	-----	-----	-----
Dried fruit.....	-----	-----	-----	-----
Rice.....	-----	-----	-----	-----
Coffee.....	14.3	-----	4.8	9.5
Other foods.....	10.2	-----	-----	10.2
Subtotal.....	300.6	-----	47.6	322.0
Tobacco.....	4.5	-----	-----	4.5
Cotton.....	149.5	-----	-----	149.5
Nitrogen.....	1.2	-----	-----	1.2
Phosphates.....	-----	-----	-----	-----
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	5.0	-----	-----	5.0
Coal.....	88.0	-----	-----	88.0
Mining machinery.....	-----	-----	-----	-----
Petroleum products.....	61.2	-----	-----	61.2
Timber.....	13.8	-----	-----	13.8
Iron and steel:	-----	-----	-----	-----
Finished.....	6.9	-----	-----	6.9
Crude and semifinished.....	8.0	-----	-----	8.0
Pig iron.....	.9	-----	-----	.9
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	-----	-----	-----	-----
Trucks.....	-----	-----	-----	-----
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	4.5	-----	-----	4.5
Timber equipment.....	-----	-----	-----	-----
Electrical equipment.....	7.0	-----	-----	7.0
Other imports ¹	805.8	183.0	60.5	622.3
Total commodity imports.....	1,025.9	183.0	108.1	734.8
Net freight.....	134.0	-----	-----	134.0
Other dollar payments.....	-----	-----	-----	-----
Total.....	1,159.9	183.0	108.1	868.8

¹ Includes (in millions): Copper, lead, and zinc, \$18; wool, \$15; hides and skins and leather, \$15; machinery, \$7; fish, \$5; naval stores, \$3.

TABLE 10.—*Netherlands and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Dutch dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	111.0		39.2	71.8
Coarse grains.....	70.3			70.3
Fats and oils.....	40.5			40.5
Oil cake.....	31.4		2.5	21.9
Sugar.....	6.6			6.6
Meat.....	4.2			4.2
Dairy products.....	1.7			1.7
Eggs.....				
Dried fruit.....	3.3			3.3
Rice.....	.6			.6
Coffee.....	17.7			17.7
Other foods.....	14.6			14.6
Subtotal.....	301.9		48.7	253.2
Tobacco.....	23.4			23.4
Cotton.....	32.9			32.9
Nitrogen.....	6.3			6.3
Phosphates.....	.6			.6
Potash.....				
Agricultural machinery.....	8.8			8.8
Coal.....	25.8			25.8
Mining machinery.....	2.3			2.3
Petroleum products.....	32.2			32.2
Timber.....	25.2			25.2
Iron and steel:				
Finished.....	53.8			53.8
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	23.2			23.2
Freight cars.....				
Steel equipment.....	4.6			4.6
Timber equipment.....				
Electrical equipment.....	6.3			6.3
Other imports ¹	491.3	174.1	110.7	306.5
Total commodity imports.....	1,088.5	174.1	159.4	705.0
Net freight.....	6.0	6.0		
Other dollar payments.....	91.0	91.0		
Total.....	1,185.5	271.1	159.4	705.0

¹ Includes (in millions): Industrial machinery and transportation equipment, \$193; chemicals, \$26; hides and skins, \$13; copper, lead, and zinc, \$15; cotton textiles, \$54.

TABLE 11.—*Norway*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Norwegian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	35.9	35.9		
Coarse grains.....	11.0	11.0		
Fats and oils.....	9.9	9.9		
Oil cake.....	3.4	3.4		
Sugar.....	9.9	5.1	4.8	
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.9	.9		
Rice.....	.6	.6		
Coffee.....	10.6	5.8	4.8	
Other foods.....	2.9	2.9		
Subtotal.....	85.1	75.5	9.6	
Tobacco.....	6.2	6.2		
Cotton.....	3.6	3.6		
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	4.8			4.8
Coal.....				
Mining machinery.....				
Petroleum products.....	15.0	15.0		
Timber.....				
Iron and steel:				
Finished.....	24.5	5.6		18.9
Crude and semifinished.....	1.4			1.4
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	2.5			2.5
Freight cars.....				
Steel equipment.....	2.5			2.5
Timber equipment.....				
Electrical equipment.....	4.0			4.0
Other imports ¹	98.0	51.4	46.6	
Total commodity imports.....	247.6	157.3	56.2	34.1
Net freight.....				
Other dollar payments.....	6.0	6.0		
Total.....	253.6	163.3	56.2	34.1

¹ Includes (in millions): Machinery and transportation equipment, \$46.

TABLE 12.—*Portugal and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Portuguese dollar earnings ¹	Sources other than new United States funds	New United States funds
Bread grains.....	33.4	33.4		
Coarse grains.....	7.3	7.3		
Fats and oils.....	3.1	3.1		
Oil cake.....				
Sugar.....	6.1	6.1		
Meat.....	1.9	1.9		
Dairy products.....				
Eggs.....	.6	.6		
Dried fruit.....				
Rice.....				
Coffee.....	.7	.7		
Other foods.....				
Subtotal.....	53.1	53.1		
Tobacco.....	4.1	4.1		
Cotton.....	2.0	2.0		
Nitrogen.....	3.4	3.4		
Phosphates.....				
Potash.....				
Agricultural machinery.....	3.1	3.1		
Coal.....	9.5	9.5		
Mining machinery.....				
Petroleum products.....	10.0	10.0		
Timber.....	4.5	4.5		
Iron and steel:				
Finished.....	6.4	6.4		
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	7.0	7.0		
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....	2.0	2.0		
Other imports.....	31.8	31.8		
Total commodity imports.....	136.9	136.9		
Net freight.....	7.4	7.4		
Other dollar payments.....				
Total.....	144.3	144.3		

¹ Including drawings of \$72 million on gold and foreign exchange resources.² Includes (in millions): Fish, \$6; machinery and transportation equipment, \$7; textiles and bagging, \$1

TABLE 13.—Sweden

Import	Total imports	Possible sources and distribution of financing		
		Swedish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	19.1	14.3	4.8	-----
Coarse grains.....	5.9	5.9	-----	-----
Fats and oils.....	7.7	7.7	-----	-----
Oil cake.....	11.8	11.8	-----	-----
Sugar.....	7.3	2.5	4.8	-----
Meat.....	5.1	5.1	-----	-----
Dairy products.....	-----	-----	-----	-----
Eggs.....	-----	-----	-----	-----
Dried fruit.....	1.7	1.7	-----	-----
Rice.....	1.1	1.1	-----	-----
Coffee.....	30.4	16.1	14.3	-----
Other foods.....	11.1	11.1	-----	-----
Subtotal.....	101.2	77.3	23.9	-----
Tobacco.....	9.6	9.6	-----	-----
Cotton.....	29.4	29.4	-----	-----
Nitrogen.....	1.2	1.2	-----	-----
Phosphates.....	.5	.5	-----	-----
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	12.7	-----	-----	12.7
Coal.....	-----	-----	-----	-----
Mining machinery.....	-----	-----	-----	-----
Petroleum products.....	58.3	58.3	-----	-----
Timber.....	-----	-----	-----	-----
Iron and steel:	-----	-----	-----	-----
Finished.....	27.1	27.1	-----	-----
Crude and semifinished.....	-----	-----	-----	-----
Pig iron.....	-----	-----	-----	-----
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	-----	-----	-----	-----
Trucks.....	12.2	-----	-----	12.2
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	-----	-----	-----	-----
Timber equipment.....	-----	-----	-----	-----
Electrical equipment.....	8.0	-----	-----	8.0
Other imports ¹	238.3	219.5	18.8	-----
Total commodity imports.....	498.5	422.9	42.7	32.9
Net freight.....	-----	-----	-----	-----
Other dollar payments.....	-----	-----	-----	-----
Total.....	498.5	422.9	42.7	32.9

¹ Includes (in millions): Copper, \$16; lead, \$6; chemicals, \$53; machinery and transportation equipment \$28.

TABLE 14.—*Switzerland*

Import	Total imports	Possible sources and distribution of financing		
		Swiss dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	55.2	55.2		
Coarse grains.....	43.8	43.8		
Fats and oils.....	8.5	8.5		
Oil cake.....	2.2	2.2		
Sugar.....	20.4	20.4		
Meat.....	6.7	6.7		
Dairy products.....				
Eggs.....	6.1	6.1		
Dried fruit.....	.2	.2		
Rice.....	1.4	1.4		
Coffee.....	11.2	11.2		
Other foods.....	9.5	9.5		
Subtotal.....	165.2	165.2		
Tobacco.....	8.4	8.4		
Cotton.....	14.0	14.0		
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.6	1.6		
Coal.....	4.0	4.0		
Mining machinery.....				
Petroleum products.....	12.0	12.0		
Timber.....	1.6	1.6		
Iron and steel:				
Finished.....	27.5	27.5		
Crude and semifinished.....	1.4	1.4		
Pig iron.....	.2	.2		
Scrap iron.....				
Iron ore.....				
Trucks.....	1.0	1.0		
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....	1.0	1.0		
Other imports ¹	187.0	187.0		
Total commodity imports.....	424.9	424.9		
Net freight.....	110.0	110.0		
Other dollar payments.....				
Total ²	534.9	534.9		

¹ Includes (in millions): Machinery and transportation equipment, \$44; chemicals, \$30; copper, \$11; instruments and apparatus, \$11.

² Switzerland has net dollar earnings on current account.

TABLE 15.—Turkey

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Turkish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....				
Coarse grains.....				
Fats and oils.....				
Oil cake.....				
Sugar.....				
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....	.3	.3		
Other foods.....				
Subtotal.....	.3	0.3		
Tobacco.....				
Cotton.....				
Nitrogen.....	.6	.6		
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9	7.9		
Coal.....				
Mining machinery.....	1.0	1.0		
Petroleum products.....	7.5	7.5		
Timber.....				
Iron and steel:				
Finished.....	5.0	5.0		
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	9.0	9.0		
Freight cars.....				
Steel equipment.....				
Timber equipment.....	.4	.4		
Electrical equipment.....	2.0	2.0		
Other imports ¹	25.2	25.2		
Total commodity imports.....	58.9	58.9		
Net freight.....	4.7	4.7		
Other dollar payments.....	5.4	5.4		
Total ²	69.0	69.0		

¹ Includes (in millions): Chemicals, \$6; machinery and precision instruments, \$4.² Turkey has small net dollar earnings on current account.

TABLE 16.—United Kingdom and dependencies

Import	Total imports	Possible sources and distribution of financing		
		United Kingdom dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	436.4	.....	238.1	198.3
Coarse grains.....	121.7	.....	38.1	83.6
Fats and oils.....	128.3	.....	38.1	90.2
Oil cake.....	43.1	.....	19.0	24.1
Sugar.....	147.1	.....	19.0	128.1
Meat.....	329.5	.....	33.3	296.2
Dairy products.....	164.2	.....	.....	164.2
Eggs.....	75.9	.....	.....	75.9
Dried fruit.....	17.1	.....	.....	17.1
Rice.....	37.9	.....	.....	37.9
Coffee.....	18.0	.....	4.8	13.2
Other foods.....	61.0	.....	.....	61.0
Subtotal.....	1,580.2	.....	390.4	1,189.8
Tobacco.....	160.4	.....	.....	160.4
Cotton.....	226.6	.....	.....	226.6
Nitrogen.....	1.4	.....	.....	1.4
Phosphates.....	.5	.....	.....	.5
Potash.....	.....	.....	.....	.....
Agricultural machinery.....	20.8	.....	.....	20.8
Coal.....	12.1	.....	.....	12.1
Mining machinery.....	32.6	.....	.....	32.6
Petroleum products.....	190.6	190.6	.....	.....
Timber.....	212.8	156.3	.....	56.5
Iron and steel:	.....	.....	.....	.....
Finished.....	14.3	14.3	.....	.....
Crude and semifinished.....	56.0	56.0	.....	.....
Pig iron.....	.....	.....	.....	.....
Scrap iron.....	.....	.....	.....	.....
Iron ore.....	8.8	.....	.....	8.8
Trucks.....	.....	.....	.....	.....
Freight cars.....	.....	.....	.....	.....
Steel equipment.....	8.5	.....	.....	8.5
Timber equipment.....	1.7	.....	.....	1.7
Electrical equipment.....	40.5	.....	.....	40.5
Other imports ¹	1,622.4	1,594.5	27.9	.....
Total commodity imports.....	4,190.2	2,011.7	418.3	1,760.2
Net freight.....	59.0	59.0	.....	.....
Other dollar payments.....	62.0	62.0	.....	.....
Total.....	4,311.2	2,132.7	418.3	1,766.2

¹ Includes (in millions): Chemicals, \$100; copper \$80; tin, \$44; lead, \$37; zinc, \$35; aluminum, \$75; wood pulp, \$48; newsprint, \$24; hides and skins and leather, \$87; machinery and equipment, \$371; fish, \$29; wool, \$32.

TABLE 17.—*Western Germany, bizonc*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Bizonal dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	284.6			284.6
Coarse grains.....	54.1			54.1
Fats and oils.....	24.5			24.5
Oil cake.....				
Sugar.....	27.5			27.5
Meat.....	6.2			6.2
Dairy products.....	9.9			9.9
Eggs.....				
Dried fruit.....	5.5			5.5
Rice.....				
Coffee.....	2.2			2.2
Other foods.....	23.9			23.9
Subtotal.....	438.4			438.4
Tobacco.....	16.1			16.1
Cotton.....	66.5			66.5
Nitrogen.....	12.0			12.0
Phosphates.....	1.1			1.1
Potash.....				
Agricultural machinery.....	8.4			8.4
Coal.....				
Mining machinery.....	28.0			28.0
Petroleum products.....	22.5			22.5
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	9.4			9.4
Freight cars.....	60.0			60.0
Steel equipment.....				
Timber equipment.....	.3			.3
Electrical equipment.....	5.0			5.0
Other imports ¹	212.4	99.6		112.8
Total commodity imports.....	880.1	99.6		780.5
Net freight.....	134.0			134.0
Other dollar payments.....				
Total.....	1,014.1	99.6		914.5

¹ Includes (in millions): Copper, lead, and zinc, \$18; hides and skins, \$9; seeds, \$22.² In addition to its dollar requirements for imports from the Western Hemisphere, bizonal Germany will have an uncovered dollar deficit of \$200 millions with nonparticipating countries outside the Western Hemisphere. This deficit is made up of the following items (in millions): Wool, \$71; hemp, \$6.5; lead, \$10; coarse grains, \$28.5; cotton, \$16.6; other raw materials, \$26.6; freight, \$26.8.

TABLE 18.—*Germany, French zone*

Import	Total imports	Possible sources and distribution of financing		
		French zone dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	44.6			44.6
Coarse grains.....				
Fats and oils.....				
Oil cake.....				
Sugar.....	1.6			1.6
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....	.3			.3
Other foods.....				
Subtotal.....	46.5			46.5
Tobacco.....	2.0			2.0
Cotton.....	16.7			16.7
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.1			1.1
Coal.....				
Mining machinery.....				
Petroleum products.....	8.7			8.7
Timber.....				
Iron and steel:				
Finished.....				
Crude and semi-finished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....				
Freight cars.....				
Steel equipment.....				
Timber equipment.....	.7			.7
Electrical equipment.....				
Other imports.....	16.2	11.5		4.7
Total commodity imports.....	91.9	11.5		80.4
Net freight.....	1.3	1.3		
Other dollar payments.....				
Total.....	93.2	12.8		80.4

TABLE 19.—Germany, Saar

Import	Total imports	Possible sources and distribution of financing		
		Saar dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	7.0			7.0
Coarse grains.....	.6	.6		
Fats and oils.....				
Oil cake.....				
Sugar.....	1.0	1.0		
Meat.....	.8	.8		
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....				
Other foods.....				
Sub-total.....	9.4	2.4		7.0
Tobacco.....	.3	.3		
Cotton.....				
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....				
Coal.....				
Mining machinery.....	3.9			3.9
Petroleum products.....				
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....				
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....				
Other imports.....				
Total commodity imports.....	13.6	2.7		10.9
Net freight.....				
Other dollar payments.....				
Total.....	13.6	2.7		10.9

Thank you very much, Mr. Secretary.

Chairman EATON. Mr. Secretary, it is very evident that the committee is finding you a real gold mine for information we have been seeking. In fact, you constitute pay dirt. I would like to suggest, to give everybody a chance, that we see if we cannot confine our questions to about 10 minutes each, Mr. Richards.

Mr. RICHARDS. I have no questions at this time, Mr. Chairman.

Chairman EATON. Mr. Vorys.

Mr. VORYS. Mr. Secretary, you have recommended that this aid be in the form of grants and loans. We have had considerable discussion on the proposition that the grants could require ultimate repayment in, for instance, strategic materials. Members of our committee have pointed out that this amounts merely to a restricted type of loan. What I want to know is what is wrong with that?

Secretary SNYDER. In the immediate future, the difficulty would be that in figuring this program, the countries have taken into consideration the production and sale of as much of that material as can

be handled, as part of their own effort. As time goes on, as they get into production, that might be well able to form an important part of the program, beyond this earlier period of aid.

Mr. VORYS. I appreciate that, and you have stated it quite well—that for a 4-year period, or a 5-year period, there is no use loading down these countries which are dollar-short with dollar liabilities that would come due during that period, or with obligations that would cut down their dollar resources.

Secretary SNYDER. Or cut down their supply of equipment, materials, and food for their own consumption, needed to bring them back up to a stable level.

Mr. VORYS. That is right.

Secretary SNYDER. Because if we force them to put these dollars which we are loaning them into something which is not productive toward the reestablishment of their own economy, we would not be aiding them. We have figured all of that—what their capacity to produce those materials will be during the next 3 or 4 years, what they can do under that program—and have tied it into their self-help. The aid we are proposing is over and above that.

Mr. VORYS. Yes.

Secretary SNYDER. As you say, when we go beyond the period of aid, and the countries get stabilized and get into production, then we might give some consideration, in the individual dealings with them, as to what might be feasible in that area.

Mr. VORYS. What I cannot understand is why it would hurt a country to say to it, in substance, this: "We are furnishing you food and a great many other things you need, subject to your repaying us in X strategic material, of which you and I both know that you have excess supplies which have not yet been developed. You do not need to make any payment for 10 years, let us say. But at that time you will have to repay, in strategic materials, on the basis of, let us say, 25 percent of your production." Or some other such percentage. That country has the right to pay in dollars rather than strategic materials, but has no obligation at all except that, at some period in the future, it must repay something that we know perfectly well we are then going to need.

For the life of me I cannot see how that would cripple that country, or cripple the recovery plan.

Secretary SNYDER. I agree with you, and the Administrator will be charged with giving consideration to all those things in making the agreements, and determining what shall be loaned and what shall be grants-in-aid. If he sees an opportunity, over a long-range period, for repayment of a loan, then he can move over into the problem of how the loan could best be repaid. He has to analyze not only the immediate conditions of the country receiving the loan but the future conditions of that country.

Mr. VORYS. Well, the thought was that by having some provision in the law, we might help the Administrator a little by not leaving him quite so much latitude. We have found an inclination on the part of administrators who can make loans or grants, often to make the grants because then they do not have to collect them. If percentage-wise or otherwise we were to say, "Now, so much of this, six-sevenths of it, shall have some provision for ultimate repayment in kind some day," I think we would be helping the Administrator

when these countries come in saying, "We prefer to have a grant rather than a loan."

Secretary SNYDER. Mr. Congressman, you will be interested in page 49 of the background information for the program, which says:

In appropriate circumstances loans made by the United States administering agency might contain a provision specifying that in the event circumstances make the probability of repayment of the loan in dollars at its maturity date doubtful, the participating country may tender or the United States Government may require deliveries of materials expected to be in long-term short supply in the United States.

Mr. VORYS. I am familiar with that suggestion.

Secretary SNYDER. The point of what you are saying is in complete accord with the thinking of the people who are proposing this.

Mr. VORYS. That is all for now.

Chairman EATON. Mr. Courtney.

Mr. COURTNEY. No questions.

Chairman EATON. Mr. Gordon.

Mr. GORDON. Mr. Secretary, I want to thank you for your comprehensive statement. I have only one question. Is there some set rate of interest contemplated under these stabilization loans?

Secretary SNYDER. Will you repeat that question? I am sorry, I did not hear it.

Mr. GORDON. Is there some set rate of interest contemplated on these stabilization loans?

Secretary SNYDER. No; there has been no rate determined at this time. Those long-term stabilization loans are for some time in the future. We are merely mentioning those here because I want to give you the complete thinking, so that if a proposal for stabilization loans should come up at some time and I were to be around, you should not say, "Why did you not tell me that before?" We might consider stabilization loans an appropriate thing later on, as we see those countries stabilized and moving ahead, where just a little extra help of a stabilization loan might be of assistance to them. But it is too early to talk about that now, because it might not happen for 3 or 4 years.

Mr. GORDON. I suppose, too, that the rate of interest would vary as to different countries?

Secretary SNYDER. It has to. Of necessity, it has to.

Mr. GORDON. And the amount of loan also?

Secretary SNYDER. Not only the amount of loan, but the type of rate structure that existed from country to country. If you go into the international loans we have made over a period of years, you will find many rates. There may be a pattern of rates, but there is no precise rate. That is a negotiated matter.

Mr. JARMAN. Will the gentleman yield?

Mr. GORDON. Yes.

Mr. JARMAN. Mr. Secretary, as I understand it, the basis on which it has been decided whether these funds are to be allocated as loans or grants is the opinion of these people who have studied the question as to the ability of the various countries to pay.

Secretary SNYDER. It will be the Administrator who determines that. It will not be a predetermination made now, but it will be the Administrator's duty to determine their ability to pay when he is negotiating the arrangements with the various countries.

Mr. JARMAN. I suppose that explains the leeway in the testimony we have heretofore received, to the effect that the loans would be between 20 and 40 percent of the total.

Secretary SNYDER. There necessarily has to be a spread there.

Mr. JARMAN. The Administrator would decide that?

Secretary SNYDER. Yes; and we do not want to narrow that down, because we want him to make just as many loans as he possibly can, measured against the countries' ability to pay, and we do not want to say today that a certain percentage will be loans and have everybody set that as their goal. We want the Administrator to be charged with doing the best job he can, and making as many loans as he possibly can, measuring against a careful analysis of their ability to pay.

Mr. JARMAN. But it is now contemplated that the loans will be between 20 and 40 percent?

Secretary SNYDER. That figure has been used; yes.

Mr. JARMAN. Now, Mr. Vorys just asked you, if I understood him correctly, about stipulating into this legislation the fact that, in due course, six-sevenths of it be loans, and one-seventh be grants; and, as I understood your reply, you said his thinking coincided with that of those who are proposing this legislation. Did you mean to say that you think it would be desirable for us to tie these countries down to pay six-sevenths of this?

Secretary SNYDER. I did not think I had made any such commitment.

Mr. JARMAN. Maybe I misunderstood one of you.

Secretary SNYDER. No, I do not think I said that. If I did, I certainly want to correct it.

Mr. JARMAN. Perhaps I misunderstood one of you.

Secretary SNYDER. No, we were talking about requiring the countries to pay in materials rather than in dollars, and we were not talking about the percentage or anything of that sort.

Mr. VORYS. I did not understand that you approved of the percentage which I picked out of the air. I would be glad if you did.

Secretary SNYDER. I did not intend to agree, and I did not think I did.

Mr. JARMAN. What would be the danger for us, if instead of six-sevenths, say, 50 percent were fixed; what would be the danger, if, by this legislation, we were to stipulate that England, say, or France, in a 10-year period, were to repay a considerable amount in strategic materials rather than leave it to the coordinator or administrator, what would be the danger of, just as soon as we pull these countries out, us having, by legislation, created a situation whereby they would just fall back into the pond again?

Secretary SNYDER. I do not think it would be the best approach, to tie down any specific percentage that must be made in loans, or grants-in-aid, or any percentage to be repaid in a certain fashion. Having spent my entire life in the banking business, I know that if the board of directors ever tries to make too precise a determination of policy, and spells it out too definitely, they put their officers in a very bad position when they start negotiating. A good broad policy will produce the best results.

Mr. JARMAN. I so thoroughly agree with the Secretary that I just did not want to run any risk of the record being misunderstood.

Secretary SNYDER. Thank you very much.

Mr. VORYS. Mr. Secretary, were you ever on a board of directors that authorized the president of the bank to either lend or give away all the money in the bank?

Secretary SNYDER. That is a new field of banking, Mr. Vorys.

Mr. MUNDT. Mr. Secretary, I want to pursue this for a moment. It seems to me that the criterion which you spell out on the first page of your testimony does not quite represent the process of administration which you have been discussing here with Mr. Vorys and Mr. Jarman, because you list there only two possibilities: grants-in-aid, which are gifts, absolutely, and loans. And the way you describe the word "loan," it is something to be paid back in dollars. The criterion to be used is the ability of the countries in years to come to pay back the dollars. I think you said in the record that there is a third possibility, that an advance of some kind, to be paid back in commodities or in critical materials, after these countries have started to get back on their feet, if that is part of the program.

Secretary SNYDER. That is not inconsistent with what I have said here, because those materials are worth dollars, and if we elect to take those materials instead of the dollars, that is just exactly what we provide here.

Mr. MUNDT. But your implication here is that unless they have the opportunity to convert those raw materials into dollars, which many of them may not be able to do, it is then a grant-in-aid.

Secretary SNYDER. Oh, no.

Mr. MUNDT. Let me read it to you, Secretary Snyder:

The criterion—

Secretary SNYDER. I am quite willing to amend the statement to include that, because that is our intention. Perhaps I oversimplified it. I am considering that if they furnish us materials, those materials have a dollar value, and, therefore, it would be a question of dollars, or so many dollars worth of material. So I simplified it by saying, "their dollar ability to pay."

Mr. MUNDT. Then, it is the purpose of the Government, insofar as you speak for it, to consider this third field?

Secretary SNYDER. It is right in our proposal, on page 49. It is spelled out.

Mr. MUNDT. I know, but, after all, that is your testimony.

Secretary SNYDER. Perhaps I oversimplified it. I was thinking in terms of the dollar ability to pay, which would be material.

Mr. MUNDT. Do you agree with me that there is a fourth category of repayments which they might make, which are repayments in services? For example, France owns the radio station in the name of the Government. We want to conduct radio programs to help the people of Europe realize the motive behind the European recovery program, and to answer the lies the Communists are spreading against us. Would there be anything wrong, as you see it, for them to make certain repayments to us by giving us time on that radio station?

Secretary SNYDER. Those things should all be given consideration in the negotiating of the individual loan.

Mr. MUNDT. Would it not seem to you to be a reasonable way of making some repayment?

Secretary SNYDER. Personally, I think that much of that should be required as part of the program, because it is just as much to their interest to get this program into effect as to ours.

Mr. MUNDT. Very good. I agree with you.

Secretary SNYDER. But again you agree with me that if that service is worth dollars, that it gets back to the dollar ability to pay.

Mr. MUNDT. That is correct. In this case it is not, of course, because they are not selling that to the American advertisers for dollars.

Secretary SNYDER. That is right.

Mr. MUNDT. I agree that if this program is going to work, we have got to put it on the basis that when we start putting coal in the locomotives, that the train does not stop dead in its tracks, that we are going to have to work together with the elimination of customs duties and so forth. Therefore, will you tell me why the administration has discouraged the meeting which was to be held about now in Europe by the British and the French, to begin at this time to work out the cooperative agreements whereby they are going to bring their economies and their customs systems closer together?

Secretary SNYDER. I do not know of any such discouragement. I am not aware of it.

Mr. MUNDT. Yes. I realize that you are not in the State Department. But I think that is a matter of record, or a matter of fact. Do you wish to say something on that, Mr. Ness?

Mr. NESS. No comment.

Mr. MUNDT. No denial?

Mr. NESS. I just do not know.

Mr. MUNDT. I think you will find that to be true, and it is very disappointing to me because I would like to see them get under way with this program at once, insofar as working out this mutuality and cooperation is concerned.

Have you any thought, Mr. Secretary, as to the amount of these stabilization loans which are contemplated later in 1948? Is that going to be a multibillion-dollar proposition, or will that involve just a few million dollars? What do you envision in that connection?

Secretary SNYDER. I could not possibly make an estimate of that, at this long range.

Mr. MUNDT. But you do feel, however, that this \$6,800,000,000 is not a program to cover 15 months, but an installment payment to which we are to make further contributions later on during the year?

Secretary SNYDER. Oh, no; not unless Congress elects to do so by being convinced that it is a proper thing to do.

Mr. MUNDT. That is right.

Secretary SNYDER. That is not part of this particular program, no.

Mr. MUNDT. But if you run up an amber light or caution signal, "Do not expect this \$6,800,000,000 to be enough, because it will not do it——"

Secretary SNYDER. I want to make myself perfectly clear. In looking over our experience in the past, in stabilization of exchange, and maintaining a balance of position with a country, it occurred to us that there might arrive a time when we would deem it advisable and proper to consider such a procedure, and I just wanted to flag it. I do not know whether it will happen or not. It is just something that has been advanced, something that we have thought of.

As the participating countries advance, and we see things moving along in pretty good shape, you folks might, yourselves, say, "It might be a good idea to set up this stabilization fund."

Mr. MUNDT. I appreciate your candor in bringing it up. In your final paragraph you say:

It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopt methods which might accentuate inflation in the United States * * *.

In all honesty, I think we should be candid with the country, and let them realize that this program, in itself, is accentuating inflation in the United States, because necessarily we put the impact of a great purchasing power upon supplies which are short, which is an inflationary measure. I think we should do something along that line. I do not think we should disguise it as a cloak and as having nothing to do with the high cost of living, because obviously it does.

Secretary SNYDER. Yet this program calls for less exports than we exported last year; is that not true, Mr. Ness?

Mr. NESS. That is true.

Mr. MUNDT. But the exports made last year, together with other factors, certainly have precipitated the inflationary rise in the cost of living?

Mr. NESS. It may have been one of the factors contributing to the rise.

Mr. MUNDT. Well, that is a fact, is it not?

Mr. NESS. Yes, but this program, however, does not tend to do that, because it is dropping back in exports.

Mr. MUNDT. It may not be intensifying it, but it is certainly going to contribute, during this coming year, to increasing or maintaining the high cost of living.

Secretary SNYDER. But it is not adding to the inflationary pressure, that is the point I make.

Mr. MUNDT. It is adding to the vis-à-vis not doing it. It may not be adding to the vis-à-vis of 1947.

Mr. JONKMAN. Will the gentleman yield?

Mr. MUNDT. Yes.

Mr. JONKMAN. It is not making us sicker than we are.

Mr. MUNDT. It might be postponing our convalescence. I think we have to recognize that factor and move into the program, anyhow, but I think we should do it with complete honesty to the American public and say, "This is not only going to cost us taxpayers money, but it is also going to increase the cost of living while it is being done." As an economist, you would not deny that, would you?

Secretary SNYDER. I think it is perfectly obvious that if we are going to put this much of a program through in this country, we are measuring it in terms of much greater stakes.

Mr. MUNDT. That is perfectly right.

Secretary SNYDER. But I do want to say something about this sick country here. I would, first of all, like to stay as sick as we are, producing more than we ever produced in our history, and making greater profits than we ever made.

Mr. MALONEY. We also have more debt than we ever had, have we not, Mr. Secretary?

Secretary SNYDER. Well, we are getting along with it all right.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, insofar as inflation is concerned, it seems to me that Marshall plan or no, unless this Congress takes some action, we are still going to have inflation. That is the nub of the whole thing.

Now, I have a few questions I would like to ask. Do you think this country is capable of undertaking a project of the magnitude envisaged in the Marshall proposal?

Secretary SNYDER. I bottom my opinion on the careful study made by the various groups which approached that problem. I think yes.

Mr. MANSFIELD. Do you think we can carry this proposal, and at the same time appropriate the funds necessary for universal military training?

Secretary SNYDER. I think we have got to measure both this program and universal military training program against a greater problem. It is not purely the economics of it, as apparent today, but it is the long-range economics taking into consideration some alternatives that we have to face.

Mr. MANSFIELD. You indicate, then, I presume, that we could carry both?

Secretary SNYDER. If we are able to maintain our present or nearly our present level of economy, yes.

Mr. MANSFIELD. Do you think it reasonable to assume that we can carry those two proposals, and the tax reduction as contemplated in the Knudson proposal, which I understand will be before the House this month, and which will mean a lessening in revenue to the Treasury of something like 5.8 billion dollars?

Secretary SNYDER. Mr. Congressman, I have stated on a number of occasions that I do not believe that while we are faced with these particular problems as we are today, and with the present economic situation as it is in this country, we should have the lowering of revenues available at this time.

Mr. MANSFIELD. You think these funds are necessary for the carrying out of this particular program, and the reduction in the national debt?

Secretary SNYDER. That is correct.

Mr. MANSFIELD. That is all, Mr. Secretary.

Chairman EATON. Mr. Smith.

Mr. SMITH. Mr. Secretary, do you consider it a condition precedent that we have a balanced budget before this plan is adopted?

Secretary SNYDER. I think we should include any aid in a balanced budget.

Mr. SMITH. In other words, if there is a danger that the budget is not going to be balanced, that we should refrain from embarking on this program.

Secretary SNYDER. Quite the contrary. I think we ought to provide this and then see that we have a balanced budget.

Mr. SMITH. I notice from your remarks on page 5 you stressed the fact that countries, by agreement, will concede that they must stabilize their currency, and their budgets must be balanced, and so forth. Do you have any information that you can offer for the record to show that these countries are willing to do that, aside from your own statement?

Secretary SNYDER. Oh, yes; they proposed it themselves. It was included in the original proposal, the Paris proposal.

Mr. SMITH. Do you feel that——

Secretary SNYDER. I quoted from it in my statement, Mr. Congressman, as to just what they agreed to undertake.

Mr. SMITH. Where is that, please?

Secretary SNYDER. At the top of page 5:

At the Paris meeting the 16 participating countries undertook to apply any necessary measures leading to the rapid achievement of internal financial, monetary, and economic stability while maintaining in each country a high level of employment.

That was all spelled out, the balancing of the budget, and stabilizing of their internal economy. They all agreed to that in the meeting.

Mr. SMITH. Since that meeting, has there been any movement in that direction that you know of?

Secretary SNYDER. In a number of countries; yes, sir.

Mr. SMITH. Which ones?

Secretary SNYDER. Italy, France, several of the other countries where studies are under way, but the most progressive movements have been made in those two countries.

Mr. SMITH. In other words, by these agreements we are going to impose certain conditions?

Secretary SNYDER. Definitely.

Mr. SMITH. There has been some publicity to statements from people in Europe to the effect that if the American plan envisages any demands or any strings, that they are not interested. As a matter of fact, in our trip last fall, an official of one of the governments said, "If you offer us aid, and attach strings to it, we do not want your aid." I think there is a growing feeling, in some of those countries, to the effect that if we restrict this program in any way which does not meet with their approval, they do not want it. Do you have any information to that effect?

Secretary SNYDER. No, sir; I have not, presently.

Mr. MUNDT. I think the record should show that that was not one of these 16 countries.

Mr. SMITH. It was not?

Mr. MUNDT. No.

Mr. SMITH. It was.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Secretary, on your trip to Europe, did you find that one of the basic things lacking in Europe was confidence by the people in their own governments and their own currencies?

Secretary SNYDER. That was almost universal.

Mr. JAVITS. And do you feel that such confidence would be materially reestablished if there were stable currencies in those countries?

Secretary SNYDER. Definitely.

Mr. JAVITS. Therefore, would you not advise considering very seriously some means by which, as part of this European recovery program, we could help in the stabilization of those currencies more promptly perhaps than is indicated in your memorandum?

Secretary SNYDER. That is a delicate question of timing. To try to spell out in legislation how to do it would be a difficult thing to do. We could provide for the objective, but I doubt if we could say, "This is the pattern that should be followed." I think we would have trouble working that out.

Mr. JAVITS. What would you think, Mr. Secretary, in view of the lack of confidence which we both observed, if part of the aid under

the European recovery program were made available in gold, instead of in paper dollars or credits? We have a good deal of gold at Fort Knox. Why not allow some of this aid in gold?

Secretary SNYDER. That would come under the stabilization matter I talked about. What we are talking about here is getting them in motion.

Mr. JAVITS. But, Mr. Secretary, if the resources of these countries can be materially enhanced by confidence, would it not seem advisable to give serious consideration to allowing them some of the money in a form which would inspire the greatest confidence? To us it should not be impracticable because we have a good deal of the monetary gold in the world now.

Secretary SNYDER. Well, I do not know. It would be all right. I suppose. We would advance these funds in gold?

Mr. JAVITS. Well, in part.

Secretary SNYDER. I do not think that would make any great difference. If it was felt that that would create confidence, whether it was dollars or gold, and if we have any free gold not tied up by obligations, I am quite sure that that would be just another manner of payment.

Mr. JAVITS. Would you say that some serious consideration should be given to that point?

Secretary SNYDER. The main handicap of the suggestion is that we do not intend to make big advance payments. We are going to advance money as the program goes along, watching it to see that it is meeting the needs for which it is set out. So there never would be an occasion where we were going to advance funds that would be of the size to encourage the sort of thing you are talking about—at least in the early stages. It is not the intention to make big advance payments.

Mr. MANSFIELD. Why not make it bimetallic, gold and silver, instead of just gold?

Mr. JAVITS. I might say to the gentleman that I do not accept that amendment.

Mr. Secretary, I notice on page 6 of your statement that you say:

I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

Does not the Secretary believe that fiscal measures will figure in the bilateral agreements between us and the benefited countries?

Secretary SNYDER. By all means; but by my language there I mean we are not going to tell them: "You have to put on a certain type of taxes," or "You are going to have to set up a certain arrangement toward this end." We will give them the principles, and then we will have to watch as they go along, and if they are not following those principles, that is when we can cut aid off.

Mr. JAVITS. Suppose we are convinced that their actions are uneconomic, can we turn the stream of aid on or off?

Secretary SNYDER. Always.

Mr. JAVITS. Will the Treasury have anything to do with the turning the aid on or off, or is that solely the decision of the Secretary of State? As I read this, it is.

Secretary SNYDER. The NAC is in consultation at all times, and we have found it to be very effective up to date. If you talk to the Export-Import Bank officials, they will tell you there is a very fine

working arrangement between the NAC and the bank, and they welcome the type of consultation we give on the Council as to whether that is proper or this is proper. I am quite sure the Administrator will be delighted to have the advice of the Council in his work.

Mr. JAVITS. Is there any reason why there should not be a disclosure to countries to be benefited under this European recovery program of those of their citizens who have private investments in our country, whether or not they are blocked?

Secretary SNYDER. We are working on that program right now and I hope to have a proposal on this very shortly.

Mr. JAVITS. Do you believe that we must have some mechanism by which American foreign policy should be observed by private investors in the ERP countries in return for the guaranties of convertibility and withdrawal of the foreign exchange involved, which are proposed in the administration's ERP bill?

Secretary SNYDER. There is no question about that.

Chairman EATON. Mr. Secretary, are you conscious of the fact that, in going into this enterprise, the United States of America becomes a European power, along with the other 16 nations?

Secretary SNYDER. Well, we are certainly taking a great interest in European affairs.

Chairman EATON. That evidently has your approval, Mr. Secretary.

Mr. Jonkman will take the chair, as I must go.

Thank you very much for being here, Mr. Secretary.

Mr. JONKMAN. Mr. Lodge.

Mr. LODGE. Mr. Secretary, in the several pieces of legislation which we have had before us over the past year, we have substituted the word "credits" for "funds," in connection with the availability of dollars to other countries, and each time—Dr. Judd brought this up with Ambassador Douglas, I believe—each time that foreign-aid legislation comes before this committee, the word "funds" is put back, and we have to take it out and put in the word "credits."

I wonder if you would care to tell me whether you feel very strongly that we should make actual funds available or whether you have any objection to our substituting the word "credits"?

Secretary SNYDER. Does that cover your grants-in-aid?

Mr. LODGE. It covers everything except for loans, of course.

Secretary SNYDER. I do not quite get the distinction.

Mr. LODGE. All the legislation we have had up to now has been for grants-in-aid. I am referring to the grants-in-aid part of this measure, which is, of course, by far the larger part, as it is now constituted.

Secretary SNYDER. The point I wondered about was, if we say "credits" and then were grants-in-aid, whether we leave the impression with people that they were credits to be repaid. That would be the only question in my mind. I am just wondering whether the general public would understand that we were advancing \$6,800,000,000. in repayable credits.

Mr. LODGE. You would have no objection to making "credits" rather than "funds" available for the grant-in-aid part of this legislation?

Secretary SNYDER. I think that would be more clearly stated. I would have to give careful study to that question.

Mr. LODGE. I would be glad to have your view on that, Mr. Secretary, because this is a matter which crops up in every foreign-aid

bill that we have, and we thought that it was better to have the word "credits" instead of the word "funds."

Secretary SNYDER. Just roughly, I do not see that it makes much difference, when we follow my interpretation of those two words. I am just wondering whether we would be making it clear to the public.

Mr. LODGE. Our object in putting in the word "credits" was to protect the public. We thought we were protecting the public against the use of these funds in a way which would send up prices beyond our control. If we established lines of credit, then, we would have more control over the expenditure of these dollars in the United States, and, therefore, it seemed to us that from the point of view of protection of the public it was better to do that. Now, when it comes to the public's misunderstanding, I suppose that is a matter of public relations, and I notice that your Department has always been very adept at that, so I do not doubt that you can sell that idea along with a lot of others.

Secretary SNYDER. If you desire me to, I will make a very careful study of the use of the two words as applicable to this.

Mr. LODGE. All right, sir. I think that would be very useful.

Now, Mr. Secretary, does it not seem to you that the dollar, rather than gold, is becoming the medium of exchange throughout the world?

Secretary SNYDER. At present, certainly.

Mr. LODGE. Do you anticipate in those circumstances—

Secretary SNYDER. There are some gold movements, but they are principally in terms of dollars.

Mr. LODGE. Do you anticipate that in that connection it might be necessary, at sometime, to prevent the export of dollars or to control the export of dollars, in the same way in which other countries control the exports of the currency of their country? or do you believe there is no danger of having to do that?

Secretary SNYDER. I would hesitate a long time in making any recommendation to block dollars, or anything of that sort. I think, for our world-trade aspirations, we want to bend every effort to keep the dollar free, if we can.

Mr. LODGE. I was tremendously interested in that part of your statement to which Mr. Jonkman referred, on page 6. I think it is an excellent statement. In that connection, I would like to ask you this: Would you agree that a large part of the load on the American taxpayer consequent upon this program is due to the demand made upon us to fill in the gap between the legal and the real value of foreign currency?

Secretary SNYDER. No; I do not quite follow that, Mr. Congressman.

Mr. LODGE. Well, you said that you felt that some of these currencies were overvalued. Obviously, when they are overvalued—and you state that yourself—exports become difficult, and exports are reduced.

Secretary SNYDER. It is a matter of getting their economy to move in such a fashion that that can be corrected.

Mr. LODGE. Therefore, to that extent, we are being asked to fill in the gap between the legal and the real value of their money; is that not so?

Secretary SNYDER. The real ability of the country to meet its need. I would rather put it that way.

Mr. LODGE. In other words, you would say that it is not true that we are being asked to fill in the gap between the legal and real value of their money?

Secretary SNYDER. Not as such. It is the real need of the country.

Mr. LODGE. If that is true, then, what difference does it make whether their currencies are overvalued or not?

Secretary SNYDER. In the long run, it makes a great deal of difference, because what we are doing here is to enable them to reestablish their economy.

Mr. LODGE. You mean it makes no difference now? If the real value of their money was the same as the legal value, it would make no difference to us right now?

Secretary SNYDER. Now, Mr. Congressman, do not try to get me all twisted up.

Mr. LODGE. No. I am trying to understand.

Secretary SNYDER. I just said that there is no desire on our part to make up the difference between the legal value and the real value of their currencies. What we are looking at is the objective and at the ability of those countries to purchase at this time, and we are trying to make up the difference between the real need and the available means of payment. The purpose is to get the countries into a stable area where their currencies can be adjusted to their proper level. You could get into a rather intricate discussion of that, which gets us away from what we are trying to do.

Mr. LODGE. I am afraid I do not understand you any better than you understand me at this point, Mr. Secretary. That doubtless is my fault. It seems to me that since it was desirable to devalue these currencies, that one of the reasons it was desirable was the European recovery program, and since a devaluation of these currencies would contribute to European recovery, therefore, it would also diminish the load on the American taxpayer and, therefore, that it would be important for us to know now to what extent the difference between the legal and real value of these currencies constitutes an additional drain on the American taxpayer by means of this program.

Secretary SNYDER. Well, if we required each country, right at this minute, to revalue its currency, on a dollar basis, we would probably just wreck a great many of them.

Mr. LODGE. I am making no suggestion, sir. You know so much more about this than I do. I am simply asking that question.

Secretary SNYDER. I am not assuming that I do at all. I am just trying to approach it in the fashion that most of us can understand better. If we get to talking about a difference between the legal and real value of a currency, we get to thinking in terms which are completely foreign to our real objective. We are not just trying to go into a country and say, "Here is the real value or dollar value of this currency, and here is the official rate, and, therefore, we are going to make up the difference in the value of that currency." No one would understand what we were trying to do.

Mr. LODGE. I understand that, Mr. Secretary, and I realize that the question of devaluation is a very delicate matter. I do not feel competent myself to comment on how this devaluation should take place. You say it should not be across the board, and I am quite willing to defer to your estimate of that situation. Nevertheless it seems to me pertinent to inquire—and the inquiry is not made in

any spirit of criticism. I would simply like to know to what extent the difference between the legal and the real value of foreign currencies adds to the burden of this program. Just as a matter of estimate.

Mr. SNYDER. That would be a difficult question to try to answer.

Mr. LODGE. The reason I think it is important, Mr. Secretary—

Secretary SNYDER. If you will permit me again to sit down and try to think that one through—

Mr. LODGE. Yes, sir; I do not want to embarrass you in any way.

Secretary SNYDER. I might be able to come up with something. But I do not want to cloud the thinking here, Mr. Congressman, by stating that all we are doing is making up the difference between the actual and legal value of a currency.

Mr. LODGE. I made no such suggestion, Mr. Secretary.

Secretary SNYDER. I know, but you are asking questions, the answers to which might lead to that thinking, and lose sight of the basic purpose we have here.

Mr. LODGE. I can only say that the present preoccupation of many people, including yourself, according to your own excellent statement, the preoccupation of the Herter committee, was in large part with this question of stabilization of currencies, and surely the word "stabilization" has something to do with the difference between the legal and the real value of the currency, has it not? I am not an economist and I would defer to the Secretary of the Treasury on that question.

Secretary SNYDER. There is no question about that. On that we are in full agreement. But when you ask me, Mr. Congressman, if what we are actually doing here is not furnishing the money to make up the difference between the real value and the legal value—

Mr. LODGE. I said if in part that was not what we were doing.

Secretary SNYDER. Will you permit me to sit down and figure that one out?

Mr. LODGE. I would like to have an answer to that question, whether in part this legislation is not intended to fill in that gap. Then we can appreciate the importance of that particular problem. It has occurred to several of us that a customs union, an economic federation of Europe, which some of us believe in, as a worthy objective, cannot be achieved unless you have stabilization of these currencies, and stabilization implies devaluation and some uniformity. Would you agree with that?

Secretary SNYDER. I think that is the objective of stabilization.

Mr. LODGE. Therefore, to that extent, I would be interested in getting your authoritative view on that.

Secretary SNYDER. I will be glad to consider the matter and give you an answer.

(The information requested is as follows:)

The estimates of the executive branch are based on the assumption that exchange rates of the participating countries will not be an obstacle to exports.

Even in those cases where an adjustment of the foreign-exchange rate may be needed, a change in the rate at the present time would not substantially increase the availability of goods for sale in the Western Hemisphere. The scarcity of goods in Europe is such as to restrict the amount available for sale in the Western Hemisphere. In addition the volume and nature of imports in many countries are determined primarily by direct import controls rather than exchange rates. For these reasons, even if European exchange rates did in all cases reflect what we might consider to be the "real" values of the currencies, the European dollar requirements would not be substantially reduced.

However, in instances where the exchange rate maintained by a country receiving European recovery assistance is found to be imposing an unjustifiable burden upon that country's balance of payments the Administrator will require that the country concerned consult with the International Monetary Fund, or with the United States Government in the case of nonmembers of the fund, with respect to revision of its rate of exchange.

Mr. LODGE. Now, Mr. Secretary, with regard to these loans which are to be made by the Export-Import Bank, to what extent will it be necessary to relax the conditions under which the Export-Import Bank now operates, in order to allow it to make these loans?

Secretary SNYDER. This will have no effect on the Export-Import Bank's loan policies. The Administrator, when he decides that a loan should be made, will allocate funds to the Export-Import Bank to make the loans under the terms the Administrator works out in consultation with the NAC.

Mr. LODGE. But those terms will be different from the terms under which the Export-Import Bank is allowed to make loans today?

Secretary SNYDER. They may well be.

Mr. LODGE. In other words, they are not as good loans; from a banking standpoint they have more latitude?

Secretary SNYDER. The loans may or may not. Some of them would approach Export-Import Bank standards. I just would not want to say whether they would or would not.

Mr. LODGE. But they would not be forced to?

Secretary SNYDER. No, they would not.

Mr. LODGE. In other words, the reason for this exception in the bill is because we want to be sure that the Administrator has the power to make loans, even though they do not meet the conditions under which Export-Import Bank loans are made?

Secretary SNYDER. That is correct.

Mr. LODGE. In other words, in some part we can presume that these will not be as good loans?

Secretary SNYDER. I certainly do not want to advocate that we make a lot of loans that we do not think we are going to be able to collect. We might make some weaker loans, but certainly not loans that we do not think will be paid back.

Mr. LODGE. But you see, after all, Mr. Secretary, for us who are asked to give something of a blanket endorsement there, it is just as well that we understand what that blanket endorsement might entail. That is why I am interested in having your opinion as to whether the purpose of this relaxation of conditions is not to enable the Export-Import Bank to make loans which otherwise it would not be allowed to make.

Secretary SNYDER. The Export-Import Bank is only acting as the agent for the Administrator. Therefore, its activities would not affect its loan policy or its operations in any way.

Mr. LODGE. Not with respect to matters outside this legislation?

Secretary SNYDER. That is right.

Mr. LODGE. I am, naturally, talking only about matters within this legislation.

Secretary SNYDER. It is using that established agency to administer the loans rather than create a new agency and having another operating unit, when we already have the bank working. That is the purpose of the proposal.

Mr. LODGE. After all, it would not be necessary to have this legislation in that connection if these countries, which will receive the loans under this legislation, would be able to satisfy the conditions under which the Export-Import Bank operates?

Secretary SNYDER. Well, not entirely, because this is a unified operation, in which the Administrator is dealing in both ways, and he tries to move as much over into the loan area as he possibly can, and still take care of the specific situation by not having two agencies working on the problem. It might accomplish a little more than otherwise. That is the purpose of it.

Mr. LODGE. Yes; but if these loans were able to satisfy Export-Import Bank conditions, then, it would not be necessary to have this legislation at all. These countries could simply go to the Export-Import Bank and insofar as that bank had credits available, they would be able to obtain the loans. It is because the conditions are apt to be less easily met that we have decided to relax these restrictions to some extent; is that not so?

Secretary SNYDER. There are many loans which do not fall within the Export-Import Bank field.

Mr. LODGE. Yes.

Mr. SOUTHARD. We anticipate the possibility that if the Export-Import Bank separately were given the authority to make loans, a situation might arise of a decision by an autonomous agency that a loan was not appropriate. Then, how would the Administrator make a grant? Having a total program, estimated to cost a certain amount, how would you move freely, in view of the circumstances, between making grants and making loans? After all, if there were separate responsibilities, you could well envisage that if the loans were not to be made under the Administrator's funds, the grants would be inadequate.

Mr. LODGE. In other words, that would be inadequate because unless you relaxed these conditions, these items which otherwise would be loans would have to be grants. Is that what you mean?

Secretary SNYDER. It might well be that.

Mr. LODGE. But it would necessarily remain true that they would not be as good loans?

Mr. SOUTHARD. Not necessarily. I think one could apply the most rigorous capacity to pay test, and then if the country did not meet that test, the rest of the assistance to it would be grants. But at least you would have one agency fundamentally responsible for the making of the decision.

Mr. LODGE. And at least you would have a hope of repayment. Is that correct?

Mr. Secretary, will the Export-Import Bank, in this connection, operate largely through the governments of these several countries, or will they operate also through private banks?

Secretary SNYDER. Largely through governments. Perhaps those questions could be better answered by the Export-Import Bank. If they are not, I will attempt to get answers for you.

Mr. LODGE. Very well, sir.

You mentioned the combating of inflation. If you were the Administrator of this program, Mr. Secretary, would you recommend to these countries tactfully, of course, as I am sure you would, that they use the same means of combating inflation as have been advocated

by the President of the United States for combating inflation within the United States?

Secretary SNYDER. I think you would have to approach each country with its own situation.

Mr. LODGE. But would you operate under those principles laid down in connection with anti-inflation measures in this country?

Secretary SNYDER. You would have to take each country's situation into consideration.

Mr. LODGE. You would not be prepared to state whether you would adopt the same principles of combating that inflation?

Secretary SNYDER. We would certainly adopt the principles that were most applicable to the country with which we were dealing, and would not attempt to set up any over-all program for all the countries. Each country would be studied carefully, and in the agreement with that country, the appropriate suggestions and recommendations would be made.

Mr. LODGE. Insofar as the President's anti-inflation program in this country contains—in your opinion well-established economics principles—would you take those principles and attempt to adapt them to each individual country?

Secretary SNYDER. If they were adaptable to the particular country why, that would be proper, yes.

Mr. LODGE. Would you, for instance, be prepared to say whether you believe that price controls, in these countries in Europe, should remain in force, or should be diminished, or augmented?

Secretary SNYDER. It all depends on the local situation.

Mr. LODGE. Have you any views as to any of those local situations with respect to price controls?

Secretary SNYDER. Not at this time.

Mr. LODGE. Is it possible to get the view of the administration with respect to price controls in these various countries?

Secretary SNYDER. I think we would have to study each country, as we approach the agreement with them.

Mr. LODGE. Who in the administration would be willing to give us a view as to what the Administrator should recommend with respect to price controls in these several participating countries?

Secretary SNYDER. I do not know who is equipped to give any such answer at this time.

Are you, Mr. Ness?

Mr. LODGE. Well, I would like to have an answer on that, Mr. Secretary, because as you know better than I, price controls, monetary stabilization, and so on, are all linked up with recovery in one way or another. Of course, views differ as to how they are linked up. But since, after all, I assume that you will agree that this program cannot be considered independently of our domestic economy, therefore, I would like to get the view of the administration as to whether they will be inclined to recommend the same sort of medicines for the domestic economies of these countries as have been recommended by the President with respect to our own domestic economy, bearing in mind, naturally, variations within the various countries. I would like to get an authoritative view from the administration on that. I assume that you agree with me, Mr. Secretary, that insofar as foreign affairs are intimately related to domestic affairs, at this critical juncture, it is well to approach both from a nonpartisan angle.

Secretary SNYDER. I think so.

Mr. LODGE. That was the purpose of my question. You mentioned sound fiscal policy in this country. I do not wish to go into that too deeply, Mr. Secretary. I assume that you feel that the present policy, which has existed for some time, of monetizing the public debt, is sound fiscal policy.

Secretary SNYDER. That what, sir?

Mr. LODGE. That the policy of monetizing the public debt, I assume you feel, is a sound fiscal policy.

Secretary SNYDER. I have established, I think, on a number of occasions my views on the management of the public debt, and the approach we should make, and I am prepared to give you an exhaustive statement which I have prepared on the subject.

Mr. LODGE. I regret that I am ignorant of that, Mr. Secretary.

Now, with respect to taxes: Do you believe that in these countries where inflationary conditions exist, the tax structures should be altered?

Secretary SNYDER. We would certainly have to examine each country.

Mr. LODGE. I would like to get some recommendations as to taxes within these countries, because although I am quite appreciative of the fact that we must be very tactful in dealing with the internal affairs of these countries, nevertheless, since the conduct of these affairs bears so directly on the possibilities of recovery, it is important at least for the Administrator to make tactful suggestions in the beginning, let us say, on these various matters. Therefore, it is important for this committee, it seems to me, to know where the Administrator might possibly stand on such questions as price controls and taxes.

Secretary SNYDER. I think I can state very categorically that the nationals of every one of these countries should be called upon to give their full support and aid in the support of their own country. If it requires adjustment of tax structures, and that sort of thing, then, it will be most appropriate to give very careful consideration to that fact.

Mr. LODGE. You would not suggest a \$40 tax credit as an anti-inflationary measure?

Secretary SNYDER. I do not think it has ever been suggested as that.

Mr. LODGE. The point of these questions, Mr. Secretary, is that it would be very interesting to me to obtain your views particularly, and the views of the administration generally, on what the criteria for internal recovery and reciprocal self-help among the 16 participating nations will be. They will unquestionably look to us for leadership on matters of that kind, in an attempt to expand the free-trade area of Europe, as we have created our free-trade area in this country. It is not my desire to put you in a delicate position, but I would like to know what these criteria for internal recovery will be, and, if it would be convenient for you to submit to us some memorandum on that, including the various items which I have brought out, it will be very helpful to this committee.

Secretary SNYDER. We will attempt to do it.

Mr. LODGE. We are trying to write legislation, and it is a difficult piece of legislation to write.

Secretary SNYDER. I know.

Mr. LODGE. We do not want to handicap the Administrator, but we would like to have some guidance as to what his criteria will be in this connection.

Secretary SNYDER. I frankly want to be just as helpful as I can; and if we can get up something that will be helpful, we will try to do it. (The information requested is as follows:)

While the Administrator will have a real interest in the goals to be laid down by each country for the achievement of internal stability, he will leave to each government the determination of the most effective means possible for the attainment of its objectives. At frequent intervals, the Administrator will consult with the governments of these countries on the relative success achieved in accomplishing the proposed aims.

Obviously, it is impossible at present to foretell what the Administrator will find it necessary to do in each specific case, and, consequently, it would not be wise to express at this time any views which might bind his actions. While all of the ERP countries have suffered from internal price distortions which are inevitable results of a long war, the forms and extent of inflation and the probable effectiveness of alternative remedial measures differ very widely.

Most ERP countries have experienced a large expansion in their money supply as a result of military or reconstruction expenditures which were not covered by taxes or savings. However, the domestic price levels of a number of these countries have not risen in the same proportion; this is mainly due to reasonably effective price and wage controls offsetting the shortages of goods and services. As a result, there have accumulated in such countries large backlogs of more or less involuntary savings. Confronted with this situation, several countries resorted to the partial blocking of liquid assets. This action, reenforced by capital levies, initially served to restore a measure of equilibrium, but most of these countries have continued to suffer from budgetary deficits. Other countries have maintained the effectiveness of their wartime price controls while restoring approximate equilibrium in the public budget. Although these countries have avoided the disruptive effects of open inflation, the impact of "suppressed inflation" arising from a shortage of goods while current and accumulated purchasing power remains high is nonetheless real.

Still other countries have experienced disproportionate price increases that, far from restoring equilibrium between prices and the money supply, have set off a cumulative process of inflation that has been fed by budget deficits, private credit expansion, and the wage-price spiral.

While there is large scope for direct and financial controls to stem inflation and to prevent the dissipation of resources for nonessential purposes, an increase in the flow of goods, stimulated by the ERP, can provide the most effective and lasting assurance of price stability. Such a recovery of production would permit the progressive relaxation and elimination of price controls at an earlier date than would otherwise be possible.

As in the case of prices, the Administrator will expect each country receiving assistance to adopt the tax measures necessary to internal stability but the particular measures will be left to the discretion of the government in each country. In the event that the goal of internal stability is not achieved in a particular country within a reasonable period of time the Administrator will be concerned with the extent to which the tax system in that country is impeding achievement of internal stability.

The willingness of recipient countries to undertake necessary tax reforms is implicit in the statements which the several European governments issued at Paris on the subject of internal financial and economic reforms. The Administrator will, of course, wish to render every possible technical assistance when requested by the European countries in improving the administration of the tax program adopted by the foreign government. Naturally the amount and nature of the technical assistance which will be requested from the Administrator will vary from country to country since there is a wide diversity in the tax structures and the efficiency of the tax systems among the participating countries.

The administration's approach to the problem of European recovery has been based from its very beginning on the fundamental principle that European self-help and cooperation are prerequisites for United States assistance. In reply to questions by Senator Vandenberg, administration witnesses have declared the administration's readiness to accept a clause for insertion into the proposed bill which would specifically tie the continuation of American assistance to a continuation and development of European self-help and cooperation.

In evaluating whether satisfactory progress has been achieved by a European country over a given period the Administrator will have to appraise—

- (1) With respect to self-help, results in—
 - (a) increasing industrial and agricultural output; and
 - (b) achieving and maintaining monetary and financial stability.
- (2) With respect to cooperation, results in—
 - (a) developing intra-European exchange of goods and services; and
 - (b) developing its economy along lines that assist in integrating and unifying the economy of western Europe as a whole.

Such an appraisal will call for the highest kind of political and economic judgment. It will take as its point of departure such objective criteria as industrial and agricultural output, data on the fiscal position of the participating countries, on price developments, on the volume of intra-European trade, etc. But such data may be highly misleading unless they are interpreted in the light of many less definite factors.

Thus, a 10-percent increase in industrial output of a country that received additional coal during the period and whose production was previously held back only by a fuel bottleneck would be a much smaller achievement than a similar increase on the part of a country that has to contend with labor shortages and a series of strikes fomented by political opposition. The importance of taking varying weather conditions into consideration when appraising any progress in agricultural output need hardly be mentioned. The same percentage of public expenditures uncovered by tax receipts would have varying significance depending upon the purpose of the expenditures, the country's current rates of savings and of private investment, and similar factors. A given increase of prices over the period may mean either the tapering off or the start of an inflationary spiral.

With respect to cooperation, the same reduction in the level of tariff protection between two countries is far more significant if they are countries with competitive industries than if they are countries whose economies are largely complementary. Also the achievement of an above-average increase of exports to other participating countries may be far easier for a country that has abandoned an overvalued rate of exchange than for a country that has already been forcing exports through allocations or incentives to exporters.

Even more complex questions arise in trying to appraise the progress of a country in the face of contrasting developments in different fields. There is obviously no mechanical criterion for offsetting the progress achieved in stepping up production against a simultaneous worsening of the inflation or, alternatively the success in stopping inflation against a concomitant reduction in economic activity. Furthermore, many elements which enter importantly into the determination whether satisfactory progress has taken place do not lend themselves to any quantitative determination. This is particularly true with respect to the progress toward greater intra-European cooperation.

It would certainly be convenient to be able to rely on an objective test which would automatically gage the progress made by the participating countries toward the goals of the European recovery program. Unfortunately, no such test is available. Quantitative indexes on production, budgets, prices, trade, etc., have important functions as indicators. But, like laboratory tests in medicine, they do not do away with the necessity of balanced judgment by an experienced diagnostician. This judgment will have to be exercised from time to time, in the light of all the relevant evidence, by the Administrator.

Mr. LONGE. Thank you very much, Mr. Secretary. I am much obliged.

Mr. VORYS. Mr. Secretary, we appreciate your coming here. You have been very helpful, and we thank you for your contribution, which has been very valuable.

Secretary SNYDER. Thank you, Mr. Chairman. I appreciate the courteous approach that each of these gentlemen has had.

Mr. VORYS. We will adjourn until 2 o'clock, at which time we will hear Secretary Harriman.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

We have with us our very distinguished Secretary of Commerce, who will make a statement, and then subject him to the inquisition.

**STATEMENT OF SECRETARY OF COMMERCE W. AVERELL
HARRIMAN**

Secretary HARRIMAN. Thank you, Mr. Chairman.

If I may, I would like to run through some material I have prepared as Secretary of Commerce.

Before doing so, I would like your permission to give a personal view on the program as a whole.

I firmly believe that the recovery program for Europe of the size and nature proposed by the President is an essential step in building a stable peace.

We are proposing to assist the people of western Europe to regain their economic stability, without which political stability cannot be obtained.

It is certainly abundantly clear that there are forces in Europe which wish to take advantage of the economic chaos and hunger to establish a totalitarian dictatorship. I must say that I am completely convinced that that process can be checked by stable economic conditions; and from my experience, I have found the people of Europe are as wedded to their historic freedoms as ever.

At the same time, it is clear that there is economic political warfare publicly declared by those that are under the control of the Kremlin who are attempting to prevent recovery and who maintain the present conditions under which they are hopeful of expanding their influence and power.

In addition, it is also abundantly clear that the overwhelming majority of the people of these countries are struggling to overcome the destruction and disruptions caused by the war and to rebuild their lives under democratic institutions.

With the help that we have given, real progress is being made in spite of the efforts that have been made, both from within and without, to prevent recovery. These countries, including western Germany, number 270,000,000 people who are among the most talented industrial and freedom-loving people in the world.

They are largely the people from whom our traditions and way of life stems.

If western civilization in these areas collapses we shall face world conditions quite different from anything that we have ever before known.

We know that wherever governments are under the control of the people, and wherever the people are free to make the ultimate decisions, the cause of peace is furthered; but historically we find no such assurances in dictatorships.

This program contemplates helping these countries to help themselves and, by working together, to help each other.

The cooperative relationships which the participating countries have undertaken to develop during the recovery period may well lead to permanent relationships and help break down the nationalistic barriers which have caused so much economic difficulty in the past.

I, for one, have no doubt that if we embark on this program with determination it will be successful in the reestablishment of western Europe on a firm foundation so that it can go forward in its traditions of democracy, freedom, and expanding human values.

Not to have such faith is to deny the vitality of the free institutions to which we so firmly adhere.

I believe that this program is one of the most far-reaching undertakings for peace and for human progress ever undertaken by this or any other country. It is noble in concept and at the same time is based on considerations of our own self-interest and, in my opinion, of our own self-preservation.

I would prefer to discuss only the constructive aspects of the program, but I feel that I should also state my judgment as to the effects of the alternative—if we should fail to take this step.

The President last summer appointed a committee of 19 distinguished private citizens to give its judgment on a foreign-aid program. I served as chairman of this committee.

A section of their report deals with the interest of the United States in European recovery. They emphasize our humanitarian and economic interest and then conclude with their views on the strategic and political aspects.

I commend to this committee their full statement on this subject. I will quote, however, only the concluding sentences. This statement was written by the members of the committee and not by myself, but I fully concur in their conclusions:

The domestic consequences are such as no American could easily tolerate: The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in our relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of our economic and political life, perhaps extending even to our very form of government.

In such prodigious terms is the interest of the United States in European recovery defined. The committee is convinced that a sound program for western European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

I want to make it clear that a program of the contemplated magnitude will be costly and will mean sacrifice by the American people. The benefits to be gained, however, far outweigh the immediate sacrifices. As you know, we cannot expect to obtain direct repayment for a substantial part of the aid given. Our returns will be in furthering peace and in world stability, and I believe we will get an indirect return over the years from expanding world trade.

Up to now I have been speaking as an American who has had the opportunity during recent years to observe at first hand developments in Europe. I shall now turn to certain aspects of the problems that are associated with my present responsibilities as Secretary of Commerce.

UNITED STATES ECONOMIC INTEREST IN EUROPE

The area we are concerned with is a great industrial workshop, even now comparable in the world only to our own country. It is also a great world trade center. Its economy in modern times has rested in large measure upon buying raw materials, converting them into manufactured articles through use of its own fuel, skilled labor, and industrial resources, and selling the finished articles in the world market.

Much of its grain, feeds, fats and oils, tobacco, cotton and other fibres, and petroleum have been bought abroad with the proceeds of these sales. To an important extent, also, western Europe's income from sales of manufactured products was augmented by income from tourist, shipping and financial services to the outside world, and from overseas investments.

Its ability to sustain a dense population is dependent upon the existence of world conditions under which it can buy its needed materials, manufacture and sell finished products in volume.

These conditions have not existed since the war. You have heard in detail, in previous testimony, the ways in which they were disrupted by the war and the extent of this disruption.

It is unnecessary for me to repeat those details. Suffice it to say here that western Europe is, under present conditions, unable to produce and trade in the volume necessary to play its prewar role in the flow of world trade, or even to rebuild and expand its productive equipment, employ its population fully and effectively, and support itself.

This indicates the seriousness of the situation for Europe itself. I wish rather to indicate our economic interest in the restoration of Europe to its earlier role in the world's economy.

We clearly have such an interest in the restoration of Europe as a paying market for United States goods. Prewar western Europe bought and paid for United States commodities far in excess of their sales to the United States.

This was part of the great triangular trade in which western Europe sold its goods and services to Latin America, the latter to the United States, and the United States to Europe.

Similarly, part of our exports to western Europe were paid for from the proceeds of its excess exports to the Far East, which, in turn, had an export surplus with the United States.

This is a very general, rough indication of the type of multilateral trade with which we are involved directly and indirectly in Europe.

The war and its aftermath, including the delay in European recovery, has disrupted these multilateral trading relationships and seriously affected the economies of the other trading nations of the world.

With too little production and a resulting low level of exports, Europe has since the war been able, only with difficulty and with much outside assistance, to provide its most pressing import needs.

Contrary to the general impression, and in spite of our financial aid, we sent in 1947 a smaller proportion of our exports to Europe than in 1946 or before the war. And, while our total exports have to date been sustained by an abnormal demand backed up in other areas of the world during the war years, definite signs have appeared of a dollar shortage in other parts of the world as well, foreshadowing an inevitable steep decline in our exports.

It is to our interest, therefore, purely from a business standpoint, that this world network of trade be restored and sustained on a paying basis, not necessarily on the identical lines as prewar Europe's industrial productivity, so that she may be able to sell abroad in payment for what she needs to buy abroad.

To be sure, there will be more competition for certain of our products. There will, however, be bigger and sounder markets in Europe and elsewhere.

I am not suggesting that the United States could not endure the loss of European markets. However, our output of many industrial and agricultural products and that of other countries has been developed on the basis of European participation in international multi-lateral trade. The decline of Europe would require far-reaching readjustments of agricultural and industrial production and distribution in this country and in other areas.

It would also affect our ability to obtain needed imports and, particularly, essential raw materials.

That is not only within Europe but among the dependencies of European nations.

Such readjustments would be costly in terms of employment and standards of living to our people and to the people of other countries. The cost of such a change is, of course, not calculable in dollar terms, or easily related to the cost of the program before you.

It is clear, however, that the cost would be very great in both economic and human terms.

PROGRESS TO DATE

We have already furnished substantial aid to western Europe—nearly \$3,000,000,000 in grants and over \$7,000,000,000 in loans and credits since the end of the war. It is fitting and desirable at this point to inquire into the results achieved thus far.

We find that in 9 out of the 16 countries involved, industrial production is now at or above prewar levels.

I am speaking of the current level, that would not go for the year as a whole.

These are the Netherlands, France, Denmark, Luxemburg, Norway, Sweden, Switzerland, Ireland, and the United Kingdom.

Belgium is below prewar level by about 10 percent; and Italy's production is at about two-thirds of prewar; Germany and Austria, however, are operating at less than half of prewar.

Except for the latter two countries, the average level of industrial production in the other participating countries is now close to prewar.

To be sure, consumption levels are considerably below prewar for large groups of the population, but this is so in large measure because so much of the production has had to go into replacement of what was lost through wartime destruction and deterioration.

Then, too, these countries have been trying to maximize their exports.

At the same time, they have had to take care of an increased population. The hard winter of 1946, the 1947 drought, and the rapid depletion of foreign exchange resources also increased their difficulties most substantially.

The point should also be made, in the light of these facts, that the Europeans are not sitting down on the job. The urban populations have largely a most inadequate diet; in addition, there is a widespread lack of consumer and incentive goods.

It is not easy to work on a half-empty stomach; and it is not encouraging to work for wages that cannot be used fully to satisfy family needs.

Nevertheless, they have worked hard to achieve the substantial progress that has been made.

More than that, it promises well for what can be accomplished with further adequate help. Our assistance thus far has certainly produced results. I believe, therefore, we have a reasonable basis for going ahead.

PROCUREMENT AND SUPPLY FROM OTHER SOURCES

It is important to understand that Europe will have to get many of the materials she needs from countries outside of the United States.

Only about one-third of the things needed by the sixteen countries of western Europe will be obtained from the United States.

The European countries will not be able, at first, to finance all of these so-called offshore purchases with exports of their own products. For the first 15 months of the proposed program, only about two-thirds of the materials to be imported from sources other than the United States can be paid for by exports from Europe.

The other third will have to be paid for either by dollars from the United States or by credits extended to Europe by the supplying countries.

There are several reasons why we should assist European countries to acquire goods from other countries. The strains on our economy will be lessened if other nations can supply part of the materials that are in short supply here. This will also provide the widest possible opportunity for other countries, particularly in the Western Hemisphere, to send to Europe the goods which they have customarily supplied.

South America can supply various food items and fertilizers; Canada can supply some manufactured goods as well as grain. And these Western Hemisphere countries are thus enabled to buy the goods which we have usually sent them.

This triangular trade will have a healthy effect on the internal economy of these other countries and assist in the reestablishment on a firm base of the structure of international trade.

There will also result a broader diversification of purchases in this country over a wider area of our productive capacity which can be more readily sustained and which will be healthier for our economy both now and in the long run.

At the same time, it will be possible through the wise use of the export control powers, which the Congress has recently extended, to protect our economy from undue drains in any particular items.

There is a further aspect of this matter.

Several of the most important supplying countries will be unable to produce sufficient of the materials that Europe needs unless they receive some outside assistance.

In this connection, the Congress has just recently, during the special session, authorized the Commodity Credit Corporation to engage in broad projects "to stimulate and increase the production of foods, agricultural commodities and products thereof, in non-European foreign countries."

This farsighted legislation is bound to make our task easier.

To sum up—other exporting nations are expected to supply to a great extent the needs of western Europe. That will not only lessen the impact of the program on the United States; it will aid tremendously in rebuilding the trade of the world on a sounder base, and at a higher level.

In general, it will help the development of world reconstruction and prosperity.

THE DOMESTIC IMPACT

When we try to determine the effect of European aid on our economy, it is not enough to consider the amount of financial aid we plan to extend. More important than the amount of money involved is the volume of goods we will ship. High prices in this country result from the short supply of goods in relation to heavy demand.

The impact of current and expected exports cannot be appraised without recognizing that imports help to relieve many important commodity shortages.

It is, therefore, the difference between the exports of goods and offsetting imports which is significant.

My figures relate only to export and import of goods. They do not include services.

This export-trade surplus, which was approximately \$10,000,000,000 during the past year, represented about 4 percent of our gross national product. This rate compares to about 5 percent for 1943 and 1944, the peak war years, and is comparable to the postwar years of 1919 and 1920.

While exports have increased from prewar, the volume of our production has also increased, to a level more than half again as high as before the war. This large increase in our production has made it possible to assist in postwar reconstruction abroad, and at the same time to provide impressive increases in our standard of living.

I believe that we have probably passed the export peak, and to the extent that exports contribute to our inflationary problems they will play a lesser role.

Assuming the appropriation of 6.8 billion dollars recommended for the European program is made, our exports will be somewhat less in 1948 than in 1947, and our imports are expected to increase.

In making this statement, account has been taken of all known resources available for the purchase of our products, including remaining credit balances, gold, dollar assets, likely private investment, and funds which may be made available by the International Bank and Monetary Fund.

I do not mean to suggest that our exports of short-supply commodities do not play a part in the current inflationary situation. To ship products abroad for which there is a market here at home calls for sacrifice.

It would, of course, be easier for us to win our battle against inflation if we could use the goods we are exporting to help meet the heavy demands at home.

We must face the fact that the European recovery program will add to our difficulties in trying to control inflation. But we must remember that inflation is caused in large part by many other factors of domestic origin.

In general, therefore, the answer to the question as to the inflationary aspects of the program is that they are real but are not controlling.

We should have to treat with them even in the absence of this program, and in either event the same measures would be necessary and should be used.

SPECIFIC IMPACT, INDUSTRIAL ITEMS

To complete this analysis, the drain on our economy should also be appraised in terms of the particular items involved. I shall touch on the major industrial items, since I understand Secretary Anderson will discuss with you the food and agricultural items; and Secretary Krug, coal and petroleum.

I should then like to refer briefly to the findings of the President's Committee on Foreign Aid, and relate them to the recommendations of the executive branch.

AGRICULTURAL MACHINERY

The CEEC stated import requirement for tractors and other farm machinery, of which the United States would be called on to supply some 85 percent, amounted to \$932,000,000 at July 1, 1947 prices.

Of this total, \$353,000,000, or 38 percent, was required for the first year of the program.

This request was judged to be far in excess of United States capabilities to supply and probably a good deal greater than could be used effectively in the time involved.

The estimate here presented is that the United States would supply \$136,000,000 of farm machinery during the first 15 months and a total of \$545,000,000 during the entire period of the recovery program.

Mr. VORYS. Would you mind an interruption?

Secretary HARRIMAN. Not at all.

Mr. VORYS. I am trying to tie this in to a recapitulation table that we have been handed. On that recapitulation table I find 133.2 million United States funds for agricultural machinery out of a total of imports of 158.7.

I just wondered if you are familiar with this recapitulation or if somebody here is?

Secretary HARRIMAN. My figures indicate that our suggested supply in this program for 15 months is \$136,000,000.

Mr. VORYS. I wondered whether that is the Harriman report recommendation.

Secretary HARRIMAN. I am talking about the executive branch recommendation. This shows \$136,000,000.

Mr. VORYS. I thought we might be coming to a whole string of similar items and we might get the thing geared in together at this time, so that we could follow it.

Secretary HARRIMAN. This shows a couple of million dollars difference only.

Mr. VORYS. Could we find out where this mimeographed sheet comes from? I am informed that Ambassador Douglas brought this in yesterday.

Secretary HARRIMAN. I will check my figures with that. In this case it is only a fractional difference. It is 133 instead of 136.

Mr. VORYS. That caused me to wonder whether these figures you are now giving were the ones you intended.

They are not merely the Harriman report figures?

Secretary HARRIMAN. No. We will touch on them later. I am discussing the executive branch recommendation. It may be a misprint. I will check that.

The necessity of insuring that Europe has available sufficient means of production to maximize food output has been discussed in detailed evidence previously submitted to your committee; and will, I am sure, be emphasized in the course of Secretary Anderson's testimony.

Our particular concern has been the development of an export program which will not endanger the achievement of food production goals in the United States.

Normally, Europe has taken about 5 percent of our farm-machinery production. The program recommended would about double that percentage, but because of our increased production it would still leave more of this equipment for the American farmer than he had in 1946, and at the same time, take care of our other regular customers abroad.

Although many American farmers have had machinery on order for some time, they are in better shape in this respect than prewar.

The volume of farm power, machinery and equipment is calculated to be more than 20 percent higher than prewar. The recommended increase in exports to Europe should not result in any decrease in our food production, but only cause a short deferment in the replacement of some older equipment.

COAL-MINING MACHINERY

The proposed program for the export of coal-mining machinery calls for the shipment of \$82,000,000 worth of this equipment during the first period of the program.

The estimated total for the entire period is approximately \$207,000,000. It will be noted that the program here recommended approximates the level of the CEEC request but it should also be noted that these recommendations involve a redistribution of the exports envisaged in the Paris report.

In particular, the requirements for certain of the participating countries have been revised downward while those for western Germany have been increased.

Exports under this program will involve a wide variety of equipment, the most important items being conveyor belting, hose, wire rope, and some specialized machinery such as cutters and loaders.

The CEEC requirements have been carefully reviewed by American manufacturers and it is their judgment that they can be met. Our productive capacity has increased since the war, and our own accumulated demand has been substantially overtaken.

Fairly accurate forecasting of future demand was possible, because of the large volume of orders now held by our manufacturers for delivery 2 years ahead.

Only conveyor belting offers a major supply problem but this is proposed to be met in great part through alteration of the original specifications to enable United States producers to operate their presses at maximum capacity.

The effect of imports of these items on Europe's production and export potential is great. The shipment of relatively small amounts of these critical items will make possible the rapid completion of programs for repair, modernization and expansion of Europe's coal mines which will in turn progressively reduce and ultimately eliminate the currently high and uneconomical movement of United States coal to Europe.

ELECTRICAL EQUIPMENT

The power program calls for the furnishing of equipment and supplies to the total value of \$345,000,000. It comprises generating equipment, motors, and other types of electrical machinery, apparatus and supplies, and also such items as machine tools, small construction machinery, boilers, valves, and castings.

Of the \$345,000,000, \$70,000,000 is destined for the power generation industry; the remainder will be equipment for use in fertilizer production, mining operations, and other industries.

During the first period, \$95,000,000 is involved, consisting mainly of the smaller items, such as motors and electrical supplies. No large generating equipment, of which we are now extremely short, is contemplated to be supplied until toward the end of the program.

Our annual production of these items now exceeds \$4,000,000,000 and we have usually exported 6 percent of our production.

There is contemplated a relatively large increase over our regular exports to Europe, which is normally self-sufficient in these items, but our total exports to all destinations are not expected to exceed 8 percent of production.

The electric-power program is a vital phase of the general economic rehabilitation of western Europe. The importance of the program to the CEEC countries is shown by their plans for expansion.

The participating countries are undertaking to expand their power industry to an extent requiring the use of \$5,000,000,000 of equipment, of which we propose to supply the aforementioned \$70,000,000, or 1.4 percent.

While our contribution in electrical equipment generally is relatively small, it involves many items of specialized character available at this time only from the United States.

IRON AND STEEL

We propose to supply 3.1 million tons of iron and steel valued at \$290,000,000 during the first 15 months of the program; that is just over half the amount estimated in the Paris Conference report.

Included are 2.1 million tons of finished and about 1 million of crude and semifinished.

During the same period, the participating countries will produce about 35 million tons; our production will be about 80 million tons.

Our contributions will fill a critical need to reconstruct damaged and destroyed plant and transportation facilities and take care of a large volume of essential replacement and maintenance deferred during the war.

That will be particularly important to certain countries.

Imported steel in the next year or two is also essential to the success of many vital production programs in Europe. In the latter years of the program our contribution will be much less.

Mr. VORYS. I hate to interrupt you, but we are going through a detailed thing, and we might as well try to keep track of the items.

If this is Mr. Douglas' summary sheet, every item so far has been different from what you are giving. There is in here \$2,000,000 for scrap iron. I do not know what that is. I think that is the same.

Secretary HARRIMAN. That \$2,000,000 for scrap iron, I think, is the sale of scrap in Austria. It is not coming from the United States. I am dealing with the commodities coming from the United States.

Mr. VORYS. All I wanted to find out was whether yours was correct, and I understand yours was supposed to be the executive branch statement, and so far out of four items there is a difference between your items and those that I have, and understand to be the executive branch items, which total up at the bottom, \$6,860,600,000.

Chairman EATON. Is that 6 billion?

Mr. VORYS. Yes. It is \$6,860,600,000.

Each item you mentioned so far, including agricultural machinery, electrical equipment, mining machinery, and one item that you have given on iron and steel, are each different. I thought you were talking about the same thing as this list.

Secretary HARRIMAN. I am. This is calculated in a different way.

I can explain that. That scrap iron is Austrian and scrap which is to be financed by dollars, but it is not coming from the United States. That is the explanation.

I can take this and reconcile it. I have given general figures. The figures can be reconciled.

Mr. VORYS. This is supposed to be the composition of imports of commodities and services from the Western Hemisphere and possible sources in distribution of financing, April 1, 1948, to June 30, 1949. It is July 1, 1947, prices in millions of dollars.

I thought the way to follow this was in this manner.

Mr. JARMAN. That is the Western Hemisphere?

Mr. VORYS. It is Western Hemisphere. You all have this.

Mr. RICHARDS. I do not have it.

Mr. JARMAN. Are there any South American or Canadian figures in there?

Mr. VORYS. The columns are, "Total imports from the Western Hemisphere," "Possible sources in distribution of financing," "Own resources," "Sources other than United States funds," "United States funds."

I thought that probably the last column would correspond with your figures.

Secretary HARRIMAN. This table includes purchases made in this country as well as in other countries.

I have to reconcile the two, which I will be glad to do. What I am giving you is the totals that are expected to be furnished from the United States proper, whereas this is how they are to be financed.

Mr. VORYS. What you have given so far for agricultural machinery, let us say, of \$136,000,000, is the amount of machinery at July 1, 1947, prices, that is to come from the United States?

Mr. BISSELL. This is a break-down by financing. The figures the Secretary has given refer to physical sources of supply. Take agricultural machinery, for instance. The program provides for \$136,000,000 physically to be shipped from the United States, but this suggested break-down implies a small portion of that would be financed with funds other than recovery-program funds.

None of these estimates will precisely reconcile, except by accident. The total for Western Hemisphere shown on the sheet agrees with the totals for Western Hemisphere by physical source.

Secretary HARRIMAN. I am dealing with the impact on our economy, which is what has to be shipped from this country.

I have explained the program contemplates shipping 2,100,000 tons of finished and 1,000,000 of crude.

The request for scrap has been rejected entirely, because scrap so directly affects our crude-steel production. Similarly, the estimates for crude and semifinished steel have been substantially revised downward, because of their effect on our output of finished steel and because shipments of such products reduce the availability of scrap generated in their further finishing, and thus affect our domestic production.

In making these reductions, account was also taken of the fact that available fabricating facilities and manpower in Europe are considered inadequate fully to utilize the originally requested tonnages.

I should mention at this point that we have just sent a technical mission to Germany to survey the possibilities of exporting scrap to the United States.

In the case of steel-making equipment, also, it was found necessary to scale down the CEEC requests. We propose to furnish such equipment to the extent of \$48,000,000 during the period ending June 30, 1949, as compared with a request of \$100,000,000.

Substantial orders amounting to between \$60,000,000 and \$80,000,000 are already placed in the United States, and much of the equipment which it is proposed to be made available should come out of these orders. The reduced amounts will, nevertheless, make a substantial contribution to the CEEC program for expanding steel-making plants.

Mention should also be made here of the secondary demand on our steel supply involved in the furnishing of products made from steel.

Taking this in account, the exports during the first 15 months are estimated to be 5.5 million tons of ingot equivalent. This represents 5 percent of our ingot production.

Moreover, there should be subtracted therefrom the volume of scrap generated within the steel industry proper and in the fabricating industries involved, which is estimated to be 1½ million tons.

In other words, the actual weight of steel in all forms, including machinery, which will be exported under the program during this period will be about 4,000,000 tons.

FREIGHT CARS AND TRUCKS

While we fully recognized the critical need for rehabilitating rail transport in Europe, the requests of CEEC for freight cars were considerably reduced. The request for 47,000 cars in 1948-49 did not adequately take account of the substantial contribution that could be made by repair of war-damaged equipment and by the reorganization of transport facilities.

In view of these considerations and of the great needs within the United States, we propose to permit exports of only 20,000 cars, all to western Germany, during that period.

Incidentally, I might point out that 20,000 cars built to European specifications are about the weight of 10,000 United States cars.

Provision has also been made for about 65,000 motortrucks during the 15-month period. While the CEEC report assumed that United States parts would be imported and assembled in Europe, it is our

view that Europe will, in part, continue to find it necessary to follow the traditional practice of importing complete units.

The recommended total of 65,000 motortrucks for the first 15 months is not relatively large.

In the first place, normal prewar United States export of motortrucks to these countries averaged 30,000 units yearly. Moreover, 65,000 motortrucks probably will not increase the over-all inventory of motor vehicles in these countries.

In all likelihood, the units supplied by the United States will be used only to replace worn-out units and will, therefore, also not increase petroleum consumption in these countries.

RELATION TO PRESIDENT'S COMMITTEE ON FOREIGN AID

The President, in appointing under my chairmanship a nonpartisan committee of distinguished private citizens to study the problem of foreign aid, emphasized the necessity for an appraisal which would determine the limits within which United States could "safely and wisely" undertake a program of foreign assistance.

While there are certain differences between the conclusions of the President's Committee on Foreign Aid and the program recommended by the executive branch, a comparison of the foregoing analysis with the recommendations of the committee reveals a broad area of agreement in the two sets of estimates.

In setting forth the reasons for an assistance program, the report of the committee stressed the vital importance of European recovery on political and strategic grounds and also pointed out the great importance of the European market to the American economy, both for direct trading with the United States and as a vital element in the restoration of those multilateral trading relationships which are a prime objective of United States economic foreign policy.

The committee estimated that for the first year of the program the United States Treasury should provide 5.75 billion dollars to finance the European deficit, including western Germany. This may be compared with the figure of 5.90 billion dollars for the fiscal year 1949, in the executive branch program.

The committee further estimated that undertaking a program of this magnitude would result in a total volume of United States exports and an export surplus over imports smaller than in recent experience.

Of equal importance, however, with such over-all magnitude is the probable impact of a foreign-aid program on specific commodities required from the United States.

It is significant, therefore, to note that in the cases of those commodities which I have discussed, the program here recommended for the first year of the recovery effort contemplates exports within the range of United States capabilities as estimated by the President's Committee on Foreign aid.

Thus, in the case of agricultural machinery, the administration's program contemplates exports from the United States amounting to 136 million dollars as against the committee's estimated range 75-125 million dollars.

For coal-mining machinery, the figures are 82 million dollars in the executive-branch program as compared with the committee's range of 80-105 million dollars.

In the field of electrical equipment, the administration's recommendation is 95 million dollars as compared with a range of 100 to 125 million dollars.

While the committee estimated the furnishing of a larger proportion of finished steel products, the contemplated total exports of steel-mill products and raw materials amount to 232 million dollars as compared with the committee's range of 175 to 300 million dollars.

The administration's recommendation in the case of steel-mill equipment amounts to 48 million dollars as compared with the committee's range of 50 to 100 million dollars.

Finally, the program for the export of freight cars is identical with the estimates of the committee.

THE ROLE OF THE DEPARTMENT OF COMMERCE

In concluding, I should like to explain briefly the role of the Department of Commerce in relation to this program.

We are at this time administering certain export control, allocation, and priorities functions, the necessity for which would undoubtedly continue with the European recovery program.

I believe that such functions should be performed in an agency of Government other than the one established to administer the ERP.

Decisions in respect to the exercise of these powers are now made on an interdepartmental basis under the supervision of the Secretary of Commerce in the manner prescribed in the Second Decontrol Act.

In that way, the technical counsel and assistance of all agencies concerned are brought to bear on the many difficult and complex problems involved, including the evaluation of our own needs and those of the rest of the world.

It is my feeling that a new organization established to administer the ERP should be authorized to appraise the needs of the European countries, but not to decide what the total amount of our exports of any commodity should be, or what share should go to western Europe.

The new agency would have a vital responsibility but in a limited field.

Its primary assignment in this respect should be rather as the advocate for the participating countries—to initiate, approve, and present their programs—but not to make the final decisions as between their claims, and those of the United States and the rest of the world.

That is the brief statement, sir, that I have prepared for the consideration of the committee.

Chairman EATON. Mr. Secretary, thank you for your very comprehensive statement.

What is your idea of the proper organization for the administration of this great enterprise?

Secretary HARRIMAN. I am a firm believer that it should be in the hands of one administrator, appointed by the President, with the advice and consent of the Senate, and that he should be in charge of the operating responsibilities of this great task.

He must, of course, work under the direction, in regard to foreign policies, of the Secretary of State, which policies, of course, in the last analysis are made by the President.

I am impressed with the fact that he will have to have relationships with other members of the Cabinet and the heads of the other agencies

of the Government, and that he should be in a position to deal with us and should have access to us.

In other words, in vital decisions it will be a matter of how much grain can be made available from the United States, and he must have the full cooperation of the Secretary of Agriculture who is charged with the responsibility of our domestic agriculture, and responsibilities in seeing that our people get enough to eat.

Those relationships were established during the war, and we are now working under them, in spite of the fact that I have the ultimate responsibility for export controls.

We have worked together with the Department of Agriculture and the staff, and the Secretary of Agriculture and I get together and talk on questions of major policy.

There should be an administrator of this program who has the same relationships that a member of the Cabinet has.

He would have to have relationships with the Department of Commerce in the industrial equipment end, with Interior on questions of coal, and certain of the other agencies, such as those providing transportation as required.

He would consult with the Maritime Commission on shipment abroad.

It sounds complicated, and is complicated.

This is a very vital program. I think the administrator should be charged with those operating duties and should have a competent staff here and abroad to make the necessary analyses of the requirements of these countries.

I went through in England much the same type of study that is now required.

I went there early in 1941 and with a small staff we got to know pretty well what the British economic requirements were and how they were operating, the needs for the war, and also the civilian population needs.

We worked very closely with the Supply Ministry in England, the Agricultural and Food Ministries and those relationships are outside of our normal diplomatic relationships.

But anyone abroad must be under the supervision of our Ambassador. We cannot have two representatives, in addition to which many of the decisions are beyond the purview of the particular supply ministers and must go to the Cabinet and must be dealt with by the Prime Minister.

In those respects those men will only work with our Ambassador, who is our senior representative.

Therefore, our Ambassadors in each country will be brought into the recovery program and must cooperate with those who administer the program abroad.

On the over-all policy decisions that will occur, the current day-to-day flow goes through channels of communication of the State Department, and directly to the Administrator here.

It is a great convenience.

Chairman EATON. You would give the Administrator Cabinet rank?

Secretary HARRIMAN. I think that is a detail. I don't know that it is necessary to do so. There are plenty of men in administrative positions that are accepted by the members of the Cabinet as their

equal, and I would certainly accept him as such, and I think all the other members should.

I have never heard of a special agency having Cabinet rank, and I am not suggesting that. I am only speaking about his status within the councils of the Government. After all, he is much the same in certain respects as the Lend-Lease Administrator, Mr. Stettinius, who had access to members of the Cabinet on matters of policy, and I am only trying to indicate the need for the relationship with the other agencies and departments of the Government.

Chairman EATON. You are in full accord with the general purposes of this proposal and the expenditures of these billions for the purpose of recovery in Europe?

Secretary HARRIMAN. It is my judgment that this is the minimum safe amount to undertake this enterprise. I think the enterprise, as I have said, is noble in its concept, but I cannot overemphasize my feeling that it is in our self-interest, and our own preservation.

I believe that the humanitarian interests are to some extent important, but I think in time our economic interests will repay our own investment when we get the money back indirectly in terms of stability of our own economy. I think the very fact of being able to get an increase of the raw materials we need, and a stable supply, will be important. Over-all, I just cannot contemplate a world in which western European civilization has declined and is under aggressive domination. The change in the balance of power would be such that it would have a drastic effect on the rest of the world.

I think we can avoid war. In fact, I am satisfied that we can avoid war, if we recognize this is the time to work and lay foundations for peace. I would have no such confidence if we did not take the step contemplated by this program.

Chairman EATON. This committee has a very difficult and important responsibility to prepare a bill authorizing this expenditure and giving the ground for our faith in it, and also to create an organization for its administration. That is why I was asking you for some light on that particular subject.

This Administrator would have to be two men. He would have to represent in some way, at least, the foreign policy of this Nation, which involves our becoming a European power along with the other 16 countries which would cooperate. On the other hand, he would have to be skillful, even as skillful and able a financial administrator as you are, to handle this situation.

How are you going to reconcile those two great functions in one man?

Secretary HARRIMAN. He must take the lead of the Secretary of State in foreign policies. Most of his activities will be within those policies, and that will require a very detailed knowledge of the economic requirements of these countries and the progress that is being made in recovery and how funds can best be used in each country and in the recovery of Europe as a whole.

Most of his activities will be in the economic field, but they must be considered with our foreign policy. We cannot have, of course, two foreign policies, but having worked in that field I see no basic difficulty in coordinating our economic assistance with our foreign policy.

Chairman EATON. This is the last question I have: Supposing the State Department takes one view of this proposed action and the Department of Commerce takes another view. Which department will prevail?

Secretary HARRIMAN. Well, we have those differences today. For instance, we have a Cabinet Food Committee, of which Mr. Anderson is the chairman, and Secretary Marshall and I are members of that committee. Mr. Lovett usually attends instead of Secretary Marshall, because he has been away so much and otherwise occupied. We thresh out these programs, weigh the values, and between us, we have always been able to come to conclusions.

On matters of basic policy we have on occasion gone to the President to explain what we are contemplating doing because, after all, he has the ultimate responsibility.

We have not found it impossible to come to an agreement. This is really carrying on much of the same type of work as we did during the war, and which has been continuing since the war. It would be more concentrated in its attention. But I do not see any grave difficulties.

Of course, if there is a situation where there are fundamental differences of opinion they must go to the President for his ultimate decision.

I presume the Congress would follow the program from time to time, and would give an expression of its views. After all, if the people of the country and Congress are not satisfied with the work as administered and progress being made there will be questions raised in connection with appropriations for the future.

Chairman EATON. Failure is the last court of appeal in your point of view, but there is a further appeal from the President to the Congress.

Secretary HARRIMAN. Certainly.

Chairman EATON. Thank you very much.

Secretary HARRIMAN. May I say this. You have asked a question on administration, and I want to emphasize that I would not shoulder this administrator with responsibility for decisions as to how much we should eat at home, and what our policy at home should be, and our relation to other countries. You would be putting on an administrator's shoulder a burden which would be impossible for one organization or man to fulfill. They must remain with agencies outside of this organization.

Chairman EATON. He would have to spend most of his time up here.

Secretary HARRIMAN. Defending the interests of the communities that each of you represent, sir.

Chairman EATON. Mr. Richards.

Mr. RICHARDS. I want to congratulate you and your very fine committee, and the other members of your very fine committee, who have made such a comprehensive report of your study of the European situation.

As I understand it, the recent war cost the United States between \$200,000,000,000 and \$300,000,000,000. The national debt of the United States now is about \$265,000,000,000, and for that reason I am very glad indeed that you went into very fully the question of the alternative, if we do not do this thing, because I think we can only

justify a position in support of this program in the full light of what may happen if we do not do it.

You mentioned here that the United States has already spent in Europe, since the war, about \$3,000,000,000 in grants, about \$7,000,000,000 in loans and credit, \$10,000,000,000 in all. This bill proposes to furnish something over \$6,000,000,000, of which from 20 to 40 percent will be in the form of loans and credit.

In view of the fact that Europe is already obligated to us to the extent of \$7,000,000,000, not to mention normal commercial debts, that they are further obligated to the International Bank for certain loans, do you think that it could be expected that 20 to 40 percent of this money could be repaid in the future without endangering the European economic program?

Secretary HARRIMAN. I believe 20 percent is a sound minimum. You see, each country is in a different position, and certain of these countries are in a position to pay considerable sums of money, not all are obligated. We are dealing with 16 different nations with different conditions. Therefore, I believe that we may get repayments on 20 percent. The amount above that I think will require a detailed analysis of the position of each country, the amount that is going to each country, what their programs are, and to some extent it would depend upon one of the objectives which we have contemplated in this program, to get these countries to expand the production of their raw materials, particularly in their colonies or dependencies, and then be able to take back for our current needs and stock-piling such of that increased production as is necessary.

It is most important for us in connection with being assured of a source of supply. As you know, we are much more dependent for our raw materials abroad than we were prewar, both because of our depleted national resources here and because of our expanding needs with this very much larger economy we now have.

Now, I speak of that as being one of the variables which we do not know until our negotiations are made with each country. If they can expand their production of these raw materials it may well increase their income over what now appears to be evident. Therefore, I think that the administrator should have flexibility in the decisions.

I certainly agree with the thought which I gather is back of your question, that it would be most unwise to saddle any country with a debt which it could not pay. Our object is to get back to sound credit, and if we follow the pattern of former experience, such as after the last war, private credit begins to take the place of Government credit, private investment in place of Government investment, and when you get a period of confidence and stable currencies we find that to follow.

To get back to healthy conditions will also follow. If you saddle countries with a debt it hinders a return to normalcy.

Mr. RICHARDS. It would also discourage our people if they expected to get 20 to 40 percent repayment on this money and get none of it back?

Secretary HARRIMAN. It would certainly be most unfortunate.

Mr. RICHARDS. You mentioned in your very admirable statement here that these people over there requested a certain amount of scrap, and that you had turned them down flat in your recommendation. Is that the only instance in which they have been turned down flat on anything they have asked?

Secretary HARRIMAN. I think that is the only instance where they have been turned down particularly. The reason for that, Mr. Congressman, is that the one limiting factor, or the one bottleneck in our steel production in this country is the shortage of scrap. We would be more closely operating on a 100 percent capacity basis if we had more scrap in this country. If we shipped scrap out of this country it would reduce our steel production and reduce our ability to carry other programs. We also feel that the European countries, and we, ourselves, have not made as energetic an effort to organize scrap collection in Europe, and particularly Germany, as was possible.

Mr. RICHARDS. Is it not a fact that scrap is all over the place over there?

Secretary HARRIMAN. That is correct. There is no question of the need for more scrap in Italy, Britain and other countries, to some extent. In Germany they can collect more scrap than is now being collected. It was not turned down from the standpoint that they did not need scrap, but the place to get it is in Europe, rather than in this country.

Mr. RICHARDS. I saw one plant there covering about 5 square miles with nothing but scrap. None of it has been utilized.

Secretary HARRIMAN. That is correct.

Mr. RICHARDS. It seems to me that some plan could have been worked out to use this scrap where it is needed most.

Secretary HARRIMAN. These problems have been growing, and with all of the problems we have been having the problem of collection of scrap is now receiving the attention which it deserves. That is being organized some.

Mr. RICHARDS. There is one other material that is very essential to steel production, as I understand it, and that is chromite.

Secretary HARRIMAN. Manganese is the most important for our production.

Mr. RICHARDS. They both are in short supply in the United States, are they not?

Secretary HARRIMAN. We are importing chrome. There is no shortage of manganese and chrome to keep our present production going. There is a desire on our part to stockpile some of those critical materials, both chrome and manganese, in order to see us through in emergency if it should come.

Mr. RICHARDS. Domestic production does not meet the need for those two materials?

Secretary HARRIMAN. No. We import most of our manganese and a large part of the chrome.

Mr. RICHARDS. A great deal of it comes from Russia?

Secretary HARRIMAN. I think 20 or 25 percent of our manganese and chrome comes from the Soviet Union.

Mr. RICHARDS. The fact that we need those materials is good ground for trading with Russia, is it not?

Secretary HARRIMAN. Well, we are trading with Russia now on an open basis. We are buying what we can in Russia and they are buying what they can here, subject to export controls.

Mr. RICHARDS. Are those two materials produced to any extent in this 16-nation group?

Secretary HARRIMAN. Well, not directly in those nations, but their dependencies, West Africa, for instance, one of the colonies of Britain,

produces a very substantial amount in the Gold Coast. They produce manganese. Of course India is now a free dominion. We get a large quantity of manganese from India and also get a substantial quantity from Brazil.

Now, part of this program would contemplate the expansion of the production of raw materials so that that should be considered.

Mr. RICHARDS. Do you think we would have a right to insist, through a provision in this bill, or otherwise, that part payment for the money we are letting these nations have, be delivery to the United States of these commodities when they are surplus to the needs of Europe?

Secretary HARRIMAN. I am glad you say "over and above their normal transactions," because I think we would be destroying future trade if we did not permit our purchases for our current requirements to be paid for in cash, which, again, gives them in those countries the dollars to buy from us the needed commodities. It is the program, approved by Congress, to stockpile those critical materials.

I hope that program can be fulfilled. It has not been possible since the war to make much progress. But I would hope that as a result of this program these countries can properly be asked, and, if satisfied, be willing to do it and expand their natural resources in colonies and dependencies to increase production, to be sure of what is very touchy in many items, for instance, tin, which we are very short of, and to increase it for current requirements and protect our expanding economy, and then over and above that to ship to us tonnages which we can stockpile and keep as a reserve.

It is in that area in which we can expect to get repayment. You can handle it two ways. It has been proposed one way. The Congress, of course, could appropriate more money, bearing in mind what we would get back for nothing in the way of stockpiling, or in accordance with what the administration has recommended, that certain sums be granted as loans, and then we purchase out of the appropriations the Congress has made, or may in the future make, for stockpiling, which funds would be used to repay us.

It seems to me the one that has been recommended is the more practical method of dealing with it. So indirectly we get repaid through the goods we get here later, which we take in repayment and add to our stock pile.

Mr. RICHARDS. The bill here suggests that we be allowed the privileges of purchasing.

Now, I was just wondering whether it should be written in the bill that certain critical materials should be furnished us in part payment for this aid.

Secretary HARRIMAN. Well, sir, then you would have to reduce the amount of loans that you would expect to make because it is contemplated on this recommendation that we will get repaid with dollars that are appropriated for the stock pile. You could handle it either way. Then you would have to increase the appropriations for the European aid program to take account of the material which we would get for nothing for stock-piling.

I am not sure I make myself plain. I will put it another way: You would have to increase the amount of grants-in-aid. Then you would get back some of the grants-in-aid not in the form of dollars but in the form of material or as is recommended you could make more

loans which they would repay out of dollars through our purchase of these raw materials for stock piling.

Mr. RICHARDS. To put it another way, you start to run in a circle and meet yourself coming back?

Secretary HARRIMAN. Yes. This is a method, and I think the most practical method, of doing it.

Mr. RICHARDS. I was trying to get out of that vicious circle.

Secretary HARRIMAN. Well, sir, at the moment, the reason why we are not buying for stock pile is that these materials are not being produced in sufficient volume over and above current needs of ours, and other nations. This will require additional facilities which will require capital expenditures, which will have to be made, and it will be a period of time before they can afford to make those expenditures. It will take steel and other equipment which they first need to rebuild their own facilities at home. But I certainly believe it should be the objective of the program to divert at the proper time the energies of the European countries to expand these productive facilities, and it is only through exploration and development and exploitation of these natural resources that we can hope to be assured of a supply of these critical materials with an additional amount for stock piling.

Mr. RICHARDS. I have one more observation. The United States has taken over many additional military obligations for the protection of Europe. These additional obligations cost us one billion annually, which is another reason why this aid should not be a one-way street.

Secretary HARRIMAN. I agree with you, sir.

Chairman EATON. Mr. Mundt.

Mr. MUNDT. Talking on the subject of manganese, I wanted to point out that it was pretty hard to justify exports of war potentials to Russia which make her strong enough to jeopardize the peace of the world and to cause 16 countries to come to us for assistance on the basis that we were short of manganese, because we have in one State of the Union alone, South Dakota, the world's largest deposits of manganese. You can get them from us without building up a formidable aggressor by making exports for those things in return for peace of the world.

Chairman EATON. Will the gentleman yield?

Mr. RICHARDS. Yes.

Chairman EATON. Why have we not discovered South Dakota before?

Mr. MUNDT. They have been discovered, sir, but they have not been exploited and developed, and I do not think that probably is an appropriate question for the Secretary of Commerce. That is not his particular field. That is handled by the Bureau of Mines.

Secretary HARRIMAN. Thank you, sir. That is correct.

Mr. RICHARDS. I might add that the gentleman's State has the finest pheasants in the world. You cannot beat them.

Mr. MUNDT. If we were going to encourage all these superlatives, it would occupy the rest of the afternoon.

Chairman EATON. They certainly have very fine representatives in Congress, too.

Mr. VORYS suggests that we make a 5-minute rule, and he sets a very beautiful example thereby. Then we will go around after that.

Mr. VORYS. I know everybody wants to ask something, and I realize I have more than 5 minutes' worth here.

Who got up this so-called Harriman report, Mr. Secretary?

Secretary HARRIMAN. The committee organized itself into subcommittees on the different basic categories of commodities that were required. For instance, on capital durable goods, Hiland Batcheller; consumer goods, John L. Collyer; development and administration and drafting, Robert M. La Follette; economic and financial analysis, Owen D. Young; food resources, Chester C. Davis; manpower, Paul G. Hoffman; mineral resources, Robert Koenig; transportation, Granville Conway.

The committee, as a whole, had a staff, although a small staff. Mr. Bissell was the executive secretary. He is here, if you want to ask some detailed questions.

Each of the subcommittees had a small staff. They had available to them the information in Government, and they went outside of Government to industry or to the background of the individual experience of the men. The subcommittees' reports were finally approved by the committee as a whole.

That, roughly, is the manner in which they went to work. They worked very strenuously and energetically for the brief time they were at it.

Mr. VORYS. Here is why I ask: I find that when Cabinet officers come up here often the most valuable detailed information comes from the second line of defense that sits behind them, because, of course, a Cabinet officer is a very busy man and he must have much of his studying and assembling of figures done by subordinates.

Secretary HARRIMAN. We are also not always as competent as our staff.

Mr. VORYS. What I am thinking about is this: That the data that is compiled in a particular foreign country is what is ultimately controlling, or at least very important, and I wondered where this committee got its data on the needs in, let us say, Germany?

Secretary HARRIMAN. Well, some of the men had been to Germany, and the information in particular I can explain. Mr. Koenig was over there on the matter of coal, one of the important items; such information was made available as they may have required. I think some of the food committees in Germany were studying requirements in Germany. That was from their own experience and was available in the Government. They also went to the industries who had been doing business, or had plants over there, not only in Germany but some of the other countries, and machinery people who had plants over there, and got from them the estimates of their requirements as they saw them. They had the benefit of their experience.

Of course, fundamentally, they tried to take and seek reports and analyze them in the light of these various other sources of information, which I speak of.

Mr. VORYS. For instance, when I was in Germany as a member of the Economic Aid Committee, we would see things and talk to people, but then when we would ask about coal production, or something like that—we did not go around and check all the mines—but we would ask for statistics. Our information was just as good as these statistics that were handed to us.

I am wondering whether your committee—I see it is the President's committee; but colloquially it is known as the Harriman committee,

and a very fine committee it is—whether you finally got down to where you had to rely on the same statistics that the CEEC fellows did and our officials did, or whether there was any double-check down the line?

Secretary HARRIMAN. Mr. Vorys, there was not time to send anybody abroad. You speak of coal. Mr. Koenig had been in Europe a good many months. He was on the SHAEF staff and he had to do with opening up the mines as we advanced. He also made a special report of conditions in Germany prior to that time, and also a report on the coal production in England, so that he drew on his previous experience in order to analyze the features which were before him. If the committee members were not particularly familiar, they brought in as advisers men that they thought were competent from industry who had been abroad recently, and in almost every case I think that is true. These committees had outside advice from men who had been on the spot; but I do not want to give the inference that we had a year to make a detailed examination. These are estimates, based upon the independent judgment of these men.

Mr. VORYS. For instance, on steel, the CEEC report came up with a proposal for production by the 16 nations of roughly two-thirds more than the steel exports to nonparticipating countries in 1938. As you mentioned in your report, you have cut the steel requests about in half, and yet the total is still very large, in view of the great needs of our economy.

I wondered whether your committee has any suggestions or recommendations about reexporting of this steel, as to where it should go? The amount, you remember, is still very high, compared with any previous production of these countries, as I understand it.

Secretary HARRIMAN. That is right.

Mr. VORYS. The proposition is, roughly, that we shall furnish the crude steel. They shall process it and then sell it. Is that not right?

Secretary HARRIMAN. Well, of course it goes into the pool. Some of the steel products are used for reconstruction and the domestic needs. Some of it is planned for exports. It goes into the flow of their economy, and exactly what use was made of the individual bar, or something, or the ingots, is a difficult question. That is something we have not followed through on. Some will go to reestablish their economy out of domestic use of the exports.

Mr. VORYS. Would you think that they should be exporting—these 16 participating countries—to the East; let us say to Russia—the finished steel products?

Secretary HARRIMAN. I certainly think so. One of the great question boxes about Europe's food in the future is their eastern European trade. They are obtaining a large amount of food from eastern Europe and Russia has also exported food.

To get the economy of western Europe going trade with eastern Europe must be reestablished.

The only way it can be done is by trade.

Mr. VORYS. So that you feel that it would be all right for us to allocate and control and thus reduce our use of steel in this country so that these countries could take the crude or semifinished steel and process it and reexport it to Russia, for instance?

Secretary HARRIMAN. Assuming they get in turn the vitally needed food.

Chairman EATON. The time of the gentleman has expired.

Secretary HARRIMAN. May I just say this: I do not believe in trying to build an iron curtain to the west of the iron curtain. I believe in attempting to break it down. That can be done by trade.

Mr. VORYS. I hate to see us furnish iron for the iron curtain, though.

Chairman EATON. I would hate to see both sides of the iron curtain come down at the same time.

Mr. LODGE. Mr. Chairman, may I suggest that since the gentleman was in the middle of questioning, he be given more time.

Mr. VORYS. I gladly yield at this time.

Mr. JARMAN. Mr. Chairman, following up that question about export of steel or any commodity to Russia or anywhere behind the iron curtain, in view of the fact that the gist of this thing is a shortage of dollars, would not any food or other material that even Germany we will say, would gain in return for the steel reduce what we have to do to help the situation to that extent?

Secretary HARRIMAN. Yes; if eastern Europe can increase its food production to anything approaching prewar, it will do two things: It will release the strain on dollars; but what is even more important, it will relieve the strain on our agriculture here and the sacrifice that we have to make in straining ourselves to help those countries. Wheat is a tough item.

Mr. JARMAN. This will no doubt sound like a foolish question, Mr. Secretary. It would be foolish but for the fact, in the discussion of the interim-aid bill, despite your testimony before us at that time, the statement was repeatedly made on the floor even after members of our committee refuted it, that we had had no testimony whatever as to the availability of these materials in the United States and as I say, that is the basis for this apparently foolish question that I am going to ask you.

You spoke of eliminating the scrap requests and the reduction of steel by those reductions. I suppose you spoke of the Paris request?

Secretary HARRIMAN. Yes.

Mr. JARMAN. That was gone into very carefully by your committee, I take it, resulting in the throwing out of the scrap and the fact that we would need this reduction and that reduction, and when you had reached your final conclusion, I judge it is your opinion and the opinion of your committee that while some of these goods are in short supply and although it is going to be necessary for us to sacrifice and tighten our belts in instances, by and large this material is available in this country and can be supplied without wrecking it.

Secretary HARRIMAN. That is correct, sir. To cover some of the other aspects, there are a number of commodities such as coal and cotton and certain others where the full requests have been included in the estimates.

The requests were analyzed from two angles: one, the availability in this country or in other parts of the world—the question of availability.

There was not any use of embarking on a program if the goods were not available. The second was whether the estimates at Paris were overambitious in terms of use and they were scaled down with that in mind as well.

The net conclusion, I think, was that the program of capital expenditures which would be required for some of this steel and

other machinery was rather greater than the 16 countries could absorb during this 4-year period.

It would take more like 6 years to expand that production to the degree which they had contemplated in this report. At the same time, we believe that this assistance will be of a nature to let these countries get back to a self-sustaining basis.

Mr. JARMAN. There is no use in getting them back on a self-sustaining basis, is there, if in doing so we should put requirements in this bill that they pay back a great deal of this in strategic materials 5 or 10 years from now?

In other words, if we create a situation which would endanger them falling immediately back into the slough of despondency, the situation in which they now find themselves, immediately after we pulled them out—there would not be much system to that; would there?

Secretary HARRIMAN. No, sir.

Mr. JARMAN. Now, considering this \$6,800,000,000 that is proposed under this bill, 20 to 40 percent of which is expected to be loaned.

Now, the crux of the situation being the dollar shortage, if we put in any stipulations about requirements of payment in strategic materials which would increase those loans to a larger amount than 20 to 40, would it not be necessary to add that much to the six-million-eight?

Secretary HARRIMAN. It would be.

Mr. JARMAN. And therefore we would be just taking out of one pocket and putting into the other; would we not?

Secretary HARRIMAN. We would; that is correct.

Mr. JARMAN. Now, short supply: Of course, many of these goods are in short supply. We had several amendments on the floor offered by well-intentioned young gentlemen, I am sure, from my part of the country, to eliminate the shipment of anything that was in short supply.

Is it the opinion of your excellent committee that we can supply these goods? A sufficient number of them are in short supply, are they not—that an amendment to prevent shipping anything in short supply would ruin the program; would it not?

Secretary HARRIMAN. It would. I do not mean to say that some quantities are not in adequate supply. Dried fruits, for instance, we can send. We may even have some wheat in surplus. I think we have enough cotton and coal, but it is taxing our transportation. But in other areas, even though we have some in surplus, we have not enough and we must realize that this cannot be undertaken unless the American people are prepared to make an immediate sacrifice for the ultimate gain.

Mr. JARMAN. Speaking of sacrifice, can you compare quickly the tax that the Englishman pays as compared with our tax? I mean, which pays the most?

Secretary HARRIMAN. Oh, they pay very much more. I have forgotten what it is now, but during the war a single man paid a 50-percent tax on his income over a hundred pounds, over \$400, and that went up to nineteen and six to the pound.

That is 19½ cents out of every 20 cents.

Mr. JARMAN. A great deal more?

Secretary HARRIMAN. A great deal more, and corporations paid 100 percent excess-profits tax.

Incidentally, they paid a larger percentage of their war expenditures out of taxes than we did, I think—about 10 percent more.

Mr. JARMAN. I wonder, how wrong I have been in making the statement which I have made promiscuously in my district to the effect that while our taxes are high in this country and we want to reduce them when that can reasonably occur, that if this plan does not become law and assuming the worst, that is, a domination of the rest of the world by communism and the necessity to fortify this continent and maintain the necessary standing army, that this period of ours would during the years to come probably be reflected upon as a low-tax period.

Was I very far wrong in that?

Secretary HARRIMAN. I think you are very right, sir.

Mr. JARMAN. That is all, Mr. Secretary.

Chairman EATON. The gentleman from the manganese section of the country, Mr. Mundt.

Mr. MUNDT. Mr. Chairman and Secretary Harriman, on page 13 you mentioned that the calculated production of farm machinery next year is going to be 20 percent higher than it was last year.

Of the calculated farm machinery production for next year, what percentage is it expected you will ship overseas under this program?

Secretary HARRIMAN. I do not think we estimate 20 percent above. I think I said that the machinery on the farms was 20 percent above prewar.

Farm machinery production for next year I have not included. Unless we can do something to help increase the amount of iron and steel available, I doubt if it is very much greater. It would be slightly greater, I think. It would be about 10 percent greater.

Mr. MUNDT. And what percentage of that greater production is calculated to be shipped overseas?

Secretary HARRIMAN. I think that the total exports of farm machinery from this country, it is contemplated, will be about 10 percent to Europe and the over-all would be about 15 percent.

It would be about 15 or 16 percent of our agricultural machinery for export and about 10 percent would go to Europe.

Mr. MUNDT. Does that mean we are going to have 5 percent less farm machinery available domestically next year than we are this year?

Secretary HARRIMAN. No, we would have roughly 5 percent more. Your expansion in production amounts to more than the increased shipments to Europe would.

Mr. MUNDT. That is what I was speaking of. Now, we come to something a little more vital. On page 17, in view of these considerations about freight cars and of the great need for them in the United States, we propose to permit exports of only 20,000 cars to all of western Germany. I think that is very commendable, that you are going to maintain the transportation system of the United States and limit exports to 20,000.

In that connection, I would like to find out what is going to be the policy of this administration about exporting freight cars to Russia, which was done through 1947?

Secretary HARRIMAN. I do not think there will be any shipped to Russia next year.

Mr. MUNDT. I know about some that were shipped this year but there may be a lot more than that.

Secretary HARRIMAN. I will submit the figures to you. They are a very small number.

(The information is as follows:)

During the eleven months ending November 30, 1947, 281 cars valued at \$1,616,254 were shipped.

Mr. MUNDT. That to me is the crux of a very difficult problem that you are going to have to face up to, and I think you realize it. It is a realistic approach to this program now in which we are sort of engaging in economic strife or ideological warfare, or something. I agree with you this is not just a humanitarian gesture, but it is a very essential part of our program if it is anything at all, and I think it is.

I think we are going to have to have some kind of modification to what you said was an open trade program with the Soviets whereby they would buy in this country what they could get and we would buy in their country what we could get without screening it, apparently from the standpoint of effectiveness of what they buy here upon this European situation which we are trying to help alleviate.

Certainly freight cars and locomotives and trucks and tractors are something which, in the hands of the Soviets, regardless of where they get them, help them increase the pressure and develop a formidable attack economically upon the 16 western countries they do not want to have successfully functioning in the ERP.

If we are going to, through congressional action, give \$6,000,000,000 or any major portion thereof in trying to make this program work in those 16 countries, I think it is an axiom, I think it is just naturally part of the program, and we might as well announce to the world that we are not going to, during that period, ship to the Soviet the type of things they need in order to succeed with their program of crippling our venture in Europe.

Now, what is wrong with that suggestion?

Secretary HARRIMAN. Well, Mr. Congressman, I would like to put it this way. We have the problem that we have only been controlling about 25 percent of our exports. We got down from controlling pretty nearly everything during the war to the natural fact that we did not have to control so much and then we were under considerable pressure from our appropriations standpoint and we had to reduce it to that amount.

When you control exports you have to have enough staff to make quick decisions or else you cripple all trade. We have additional funds now and we have recently, in the last week, placed all of the exports to Europe under control.

We felt that was a desirable thing to do.

Mr. MUNDT. May I ask a question for information here: By that, do you mean that before an American exporter can ship something he has to get some kind of clearance.

Secretary HARRIMAN. He has to get a license and that would include Russia and its satellites, as well as all western Europe.

Now, we believe that is desirable. That is a recovery area in which consideration of everything they buy here is important to make sure they are using their dollars for the most useful things and also to protect our economy.

We are finding that we should control more than we have in order to protect ourselves at home.

Now, that policy will make it most important for us to review **what** we had not been able to review, the major part of the trade to the Soviet Union and eastern Europe.

We will be developing policies in that respect. I want to say this, though, that in approaching that I think that we must consider definite questions on shipments to all countries regardless of what equipment goes out. I do want to emphasize the fact that we could not have world recovery as rapidly as we otherwise could if we attempted to shut-off trade from eastern Europe.

The food is most important of all, but then there is a great shortage of timber, coal from Poland also being a vital factor, and the trade between western and eastern Europe and trade between those countries and this country is important in recovery.

Now, as I say, I am not in sympathy with the idea of building up an "iron curtain" to the west of the "iron curtain." I am a firm believer that if we can get recovery in western Europe the pressures of the better living in western Europe will force a reduction of the rigidity of their controls which we say they have over certain countries in eastern Europe and that we can hope for a peaceful world only if we pursue that policy.

As far as such things as tractors are concerned, if they are available, I think we want to encourage that type of thing to increase agricultural production.

Now, you can play it two ways. We can accept the fact that a conflict is inevitable—and I do not accept that—or we can pursue the policy of trading with those countries, but in all cases we must see that they do export the things that we need, not only for ourselves but for the recovery of the countries that are interested in those things.

Mr. MUNDT. May I summarize that to be sure that I have it clearly in mind, because I think that this is one of the big vital issues around which the success of the program is going to revolve when it passes through Congress and the country must understand it clearly.

Am I correct, then, in my understanding that as of today and henceforth, all exports to European countries, which includes those behind the "iron curtain" and those this side of it, now must receive official approval by your control board before they are shipped?

Secretary HARRIMAN. That is correct. I beg your pardon. I am corrected. I must say we have announced it. The effective date is March 1.

Mr. MUNDT. Yes, and certainly that is a very commendable constructive step because we are going to be impelled by the realities, I am sure, to restrict certain types of exports to certain areas. Otherwise you are going to be accessory in trying to defeat the program and you do not want to do that. If it is going to succeed, do you agree with me that you must have in these bilateral agreements some kind of understanding with these 16 countries that they, in turn, exercise some kind of discretion in the type of things which they are shipping to the other side of the iron curtain? If we build up 16 European economies which, in turn, ship over into the Soviet area war potentials, because of their desire to get wheat or coal, then, we are engaging in a very vicious circle which comes back to jeopardize our security at some future date.

Secretary HARRIMAN. Well, I think, very frankly, that the less attempt we make to dominate other countries in this program, the better

off we are and the better results we will obtain. I think we had better leave it to those countries to decide on how they should develop their trade. It is absolutely impossible to define this war potential. In total war, as you said, even machinery for the farm in practice increases the war potential. Food is the really basic commodity on which a nation fights a war. I feel very strongly that trade must be encouraged, that we should not interfere with the bilateral arrangements. I know of the leading statesmen of these different countries, that they have the same thoughts and objectives in mind that we have. It may not satisfy any one individual. He might disagree on the kind of trade that is desirable or is not. I might disagree with him. In the last analysis, I think the time is going to come of more prosperous conditions in western Europe and the pressures of people for a better life will tend to make for a change in the objectives of the present rulers of those countries. I believe if we embark on a program of trying to hold them down, it will lead to disaster and lead to developments in the wrong direction. The standard of living in the Soviet Union is very low, as you know, and as the standard of living is increased, people begin to realize they can have a better life and when the Soviet Union begins to pay more attention to the improvement of the standard of life of their people, then, you are going to begin to have a more peaceful outlook.

Mr. VORYS. Mr. Jonkman?

Mr. MUNDT. A parliamentary inquiry. May I have the record show that silence does not mean consent, but simply that my 5 minutes have run out?

Mr. VORYS. Yes Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, Chairman Eaton has already asked a few questions about the function of the Administrator. Are there not more significant differences in the form of organization proposed by the President's bill, on the one hand, and, for instance, the committee which you headed and the Herter committee, on the other hand. By that I mean, to put it briefly, in my estimation the President's bill appoints only another Assistant Secretary of State while, on the other hand, your committee, if I may call it that, and the Herter committee propose a corporate form of organization of a Board of Directors in which the Secretary of State will be one of the directors and in that way it will integrate our foreign policy. Would you care to comment on that?

Secretary HARRIMAN. I would prefer to have the exact recommendations of the so-called Harriman committee presented to you by Mr. Bissell who is here, or by Senator La Follette, who wrote it. I do not find myself in full agreement with that proposal. On almost all of that report I agree, and the only thing I disagree with is the question of administration. It is not far afield. I cannot see how this can function in much of any other way than the one I have attempted to describe.

Mr. JONKMAN. When you say the one you attempted to describe, you mean in the Harriman report?

Secretary HARRIMAN. No.

Mr. JONKMAN. Do you mean the President's bill?

Secretary HARRIMAN. I have not discussed it in detail with Secretary Marshall, but I know generally what it does. I would not be surprised if it did not operate much in the way I outlined it in answer

to Chairman Eaton's question. Of course, the Herter committee's report is quite a different set-up from the so-called Harriman committee's recommendations. The Harriman committee report suggested the possibility of a form with a council attached to it which included largely the members of the Cabinet which this administrative group would have to function in. The Herter committee proposes, as I understand it, an independent Board of Directors of part-time individuals with export controls within the function of that corporation. I find myself not in agreement with that proposal. I want to say I have tremendous respect for the work of Mr. Herter and his committee. It has been very constructive and I cannot believe they entirely considered what would happen if this Administrator had such an independent authority and they put in an independent group of part-time men who had not been through, and were not responsible for, certain parts of it.

Mr. JONKMAN. At the present time, do you not think this will involve a big business administration? As I said to Secretary Snyder this morning, we are going to spend more on this program annually than our average annual budget for the 10 years in the 1930's. Will you give us an illustration? There has been considerable discussion here about stock piling of materials, whether we could not ask some of these 16 nations to bind themselves, not during the life of this program, but in the future, after the program has been consummated and they are back on their feet, to repay some of this money with stock piling materials. There has been quite a little discussion as to whether that would be in loans or in grants. Well, now, in loans, I cannot see any question there at all unless you want such things as uranium or exceedingly strategic and scarce materials, because any nation would be glad to pay its bills in commodities. In fact, that is one of the troubles we have with European countries, they want us to take more imports. But if we are going to take that from the grants, I can see it is going to be most difficult for a foreign policy-making organization to put itself in that position of the Shylock that says, "Just as soon as you get on your feet we are going to have a mortgage on you and then you are going to have to repay some of this stuff," while, on the other hand, if you had an independent auxiliary administration or a corporate organization, they would look at the business aspect more. After all, this is not relief any more, it is not helping the person for relief. We are putting them back on their feet in business and oftentimes furnishing the capital. Do you not think that the form of organization proposed in the so-called Harriman report or the Herter committee would give us a far better business administration than the State Department, which, from the very nature of its functioning, is under a difficult situation along this line? I am not criticizing them except for that.

Secretary HARRIMAN. Well, as I have said in answer to the question of Chairman Eaton, I believe that there should be an independent administrator to handle the operating functions. Now, on the question of the positions as to foreign policies, they must be under the Secretary of State. I do not know how you are going to define in advance what each of the countries can do in the way of developing natural resources. I have had certain discussions with certain people. There are potential sources of raw materials which are not entirely explored yet.

Mr. JONKMAN. I am not interested in taking the time on that. I would like to have you answer the question whether or not, for instance, if the State Department handles it, it would be far more difficult to lay down those conditions than if you have an independent corporate organization.

Secretary HARRIMAN. I would not have felt so; no. I think that those programs have got to be worked out with the full analysis of all of the administration, the Department of the Interior and the Department of Commerce, in terms of our knowledge of what we need and in terms of what can be expected in the way of future trade relationships. I think the Herter committee puts too much responsibility on a group of men who are entirely outside the Government. I think you will get a much better and more satisfactory arrangement if it is within the Government.

Mr. VORYS. Mrs. Bolton.

And again it is understood that the time schedule suggested by the Chair does not mean that silence gives consent to the last statement of the witness.

Mrs. BOLTON. Mr. Secretary, in the matter of the strategic materials and the method by which we might set up the agreements in the matter, if it would be feasible, it does seem as if it would be forward-looking on our part to do something about it. Would you feel that it would be wise to include such a condition wherever practicable?

Secretary HARRIMAN. I think much as it has been proposed is the right way. It is an objective and the Administrator should be charged with the responsibility to negotiate on what can be done in the way of expanding the production of these strategic materials and the amounts that can be obtained over a period of years, and those programs should be borne in mind in connection with what proportion of our assistance should be in the form of the grants-in-aid and what percentage should be in the form of loans. I think one has to bear in mind that to be effective this must be a continuing program and what might be decided in the way of percentage this year might be changed in another year and any new conceptions can be adjusted. The future question of grants-in-aid can be adjusted by what has been found out in the meantime.

Mrs. BOLTON. The strategic things would be in the Loan Division, however.

Secretary HARRIMAN. Yes, because they would be in terms of dollars, but actually what they could supply would be taken into consideration on those grounds.

Mrs. BOLTON. I have been informed that there is a difference between the State Department method and the other bill before us, which is the Herter bill, that in the State Department it is put in more or less as a condition and in the Herter bill it definitely negotiates toward that end. Does there seem to be very much difference to you?

Secretary HARRIMAN. I have not studied the language. I thought the State Department proposal made it perfectly clear that it was one of our objectives to get the maximum increase in production that was within reason and within our requirements. I do want to impress on your the fact that I am concerned over the availability of the raw materials we need, not alone for our strategic stock piling, but for our current use. I would think that the Administrator should have made clear to him that one of his responsibilities to this nation is to

see that these developments are undertaken. I do want to say that to my knowledge it is impossible to lay it down now because in some areas there are indications that minerals are there but they have not been explored sufficiently even to say what can be developed from them.

Mrs. BOLTON. Of course, the other countries would have to have machinery to develop and also they would have to have engineers to do the work.

Secretary HARRIMAN. They would have to have the machinery for their own production and there is also the question as to whether in certain cases American corporations might not be able to undertake these developments. And they might. It should all be left to the Administrator to work out and I would hope that at the proper time he would give it his attention.

Mrs. BOLTON. And in some of the considerations given we would have to consider, I suppose, what the ultimate goal is in this whole matter, whether it is for a controlled economy or whether it is for the thing which we always feel is American, the free-enterprise method, so that private capital would be developing these materials in different countries rather than just a Government-controlled economy.

Secretary HARRIMAN. Well, I must confess that I feel in these European countries that remain under what we call a democratic system, where the people express their own opinions as to the form of their economic development, that it is none of our affair, but when it comes to a totalitarian dictatorship, where a few people dominate, then, you have a potential difference. After all, we have in our own experience had the Government make certain regulations and if a country in western Europe felt that it would better develop its resources by a Government-controlled enterprise, I do not think that is any of our affair. At this time I think we ought to create opportunities for American private investment because that will get back to normal trade and business relationships.

Mrs. BOLTON. Could a further condition be inserted into the law that would provide that no alteration in the terms of agreements on businesses conducted by American concessionaires may be made without the approval of the United States Government?

Secretary HARRIMAN. I must confess that I hate to see that type of condition written into the law. Conditions change from period to period, and it should be our national policy to protect investments abroad in an appropriate manner, but conditions do change and I do not think you could give a concessionaire that authority if a country of its own free will wants to take over those assets. It is its right to do it, but we must insist, of course, that the investors be properly compensated for it. I would not favor writing in such a condition. I think it must be left to future development, although I firmly believe that American investments abroad should be protected. I do recognize the right of any nation to nationalize its resources if it finds it is necessary to do so, but American investors should be properly compensated for that.

Mrs. BOLTON. My 5 minutes is up, so I cannot go on.

Mr. LODGE. I would be glad to yield.

Mrs. BOLTON. Thank you very much Mr. Lodge.

Mr. VORYS. Mr. Lodge.

Mr. LODGE. Mr. Secretary, in connection with the strategic materials which have been holding our attention for some time, my under-

standing is that our stock-piling-development program runs over a period of 25 or 30 years; is that correct?

Secretary HARRIMAN. I have forgotten. I think it is 20 years. It is a long term.

Mr. LODGE. Do I understand you correctly that the administration's attitude means that these countries can never produce enough to repay something above the balance needed to support those countries?

Secretary HARRIMAN. I am not sure I understand your question. Would you mind repeating it?

Mr. LODGE. In other words, if they should reach a point where there is no dollar deficit, could we then receive some of these stock-piling materials in the future by way of quid pro quo for sums turned over under this program?

Secretary HARRIMAN. What was contemplated, as I understand it, was that the possibilities of supplying our stock pile would be taken into consideration in connection with the long-term loans which we would be making to these different countries and that that is a long-term repayment as far as our stock-piling program is concerned. The ability to repay the production of these foreign countries would be taken into account in connection with the size of the loans that are included in the program.

Mr. LODGE. I misunderstood you, Mr. Secretary. I understood you to say to the gentleman from Alabama that you felt that it would be a mistake to make long-term commitments' providing for repayment of any part of these sums in the long-term future.

Secretary HARRIMAN. If I made an incorrect answer, I want to correct myself, because I firmly believe that we should expect these countries to repay all that they reasonably can without interfering with their coming back to a normal relationship and get back to the time when private capital will take care of the future investments that will be required.

Mr. LODGE. Then, in that case there would be no reason not to increase the amount of these loans to more than the 20 percent now contemplated and provide for repayment of these loans in strategic materials in the long-term future?

Secretary HARRIMAN. Well, I believe that within this range it is a fair topic to set up. I think it would be unwise to set up any longer time of repayment at this time. After all, in the future, we may find that our guess as to the amount of strategic material has increased as a result of experience. This is a 4-year program, and adjustments can be made. I would think it would be unwise for Congress to insist on more than this range at the present time and have any real contemplation of getting the money back.

Mr. LODGE. Supposing it were expressed in such a way that the payments would not be made unless there was something above the balance needed to support these countries—in other words, something beyond these terms?

Secretary HARRIMAN. I would rather see the program stimulated as best it can be and set those goals. In your case there would not be the same incentive to meet those adjustments which are necessary. I think you would get about as much as we can fairly contemplate receiving in time.

Mr. LODGE. Is that not a pretty hard thing to stimulate?

Secretary HARRIMAN. Most of these developments are pretty long range developments—10 to 20 years. The loans will run for at least that period of time, and I would think you would have to make them about as precise as possible, and I think it would leave the future open. I think we ought to make these arrangements so. Otherwise, if there are contingencies hanging over the heads of different countries, it will affect their credit and their position, and I believe it would be wiser to set them in advance rather than leave them open.

Mr. LODGE. After all, is not credit a question of dollar balance? And if it were provided that that would first have to be satisfactorily handled, it seems to me that it would not affect their credit.

Secretary HARRIMAN. Well, it is such a variable factor. We'll know the kind of restricted conditions which people are living under now, and if you had contingencies over their heads so that they could not program their balance of payments, there would always be the question as to whether they should increase the food rationing of the British people or pay us a little more. I think it would be far better in our relations with each of these countries if we made a fixed agreement. I think we would get more incentive and there would be more recovery and it would work out better in the long run. If you leave that contingency open, then you get into every aspect of the life of each of these countries, because they are so restricted today. When you say that they ought to pay us more or less, causing a decision as to whether they should have a little more gasoline rationing or a little more food rationing, I would not think we would want to keep such a continual decision hanging over their heads.

Mr. VORYS. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, on the basis of the report made by your committee, and other committees which have looked at it from a domestic angle, is it your contention that the United States is well able to undertake the cost of the proposal now before us?

Secretary HARRIMAN. I believe that it was the conclusion of this committee that this country should embark on this program and should undertake this program and pursue it, as I have quoted, with boldness and determination; but, by the same token, it is recognized that it cannot be done out of our surpluses—that there will have to be a definite sacrifice in terms of consumption at home during this period. So when I agree that we are well able to do it, I must qualify it by saying, "With certain sacrifices, we are."

Mr. MANSFIELD. But, in your opinion, the sacrifices are well worth the achievement of the goals which have been set and which are, as I see them, a certain amount of humanitarian relief for a distressed people, the economic rehabilitation of western Europe, and we hope eventually all of Europe and the world, and, finally, as a hold-back of the spread of communism; is that correct?

Secretary HARRIMAN. Yes. I would put it in a slightly different way, but that is substantially correct. I think you can put it another way. I think we would be repaid economically, although that is very hard to prove, in terms of our world trade over the years. But in terms of the main objective of peace, the investment is tiny as compared to what we would face if we did not embark on it.

Mr. MANSFIELD. Mr. Secretary, would you give this committee the benefit of your views as to what would be the result here if this proposal were defeated?

Secretary HARRIMAN. I read from the statement of the so-called Harriman committee and I can read it again very rapidly. Or if you prefer, I shall give it to you to read.

Mr. MANSFIELD. If you have already given it to the committee, I will read it later.

Secretary HARRIMAN. I am handing you the part I read.

Mr. MANSFIELD. One more question, Mr. Secretary, and maybe two. Would you think it advisable to attach conditions to this legislation if it is reported out of this committee by means of which we would be able to get back from countries which have materials, minerals and products which are critical and in short supply in this country?

Secretary HARRIMAN. I do not think I would express it that way. It is the objective that these countries should expand their natural resources at home and in their colonial possessions, not only to assure us a normal supply for our economy but also to help us build up our stock pile. I think it should be expressed as an objective, not in terms of a condition, because it is very hard to define a condition and in the last analysis it is the general skill of the Administrator and wisdom of the administration in this program and the energy and good will of the people. I think we can best get that by stating objectives rather than conditions.

Mr. MANSFIELD. I see. Thank you, Mr. Secretary.

That is all, Mr. Chairman.

Mr. JONKMAN. Any further questions?

Mr. LODGE. Yes, I have some more questions.

Mr. JONKMAN. Mr. Lodge.

Mr. LODGE. With respect to the petroleum situation, Mr. Secretary, I understand that England, France, and Holland have big oil holdings, possibly as large as our domestic reserves. Why could we not cup some of our fields in from 5 to 10 years and repay the owners by deliveries from European-held oil reserves abroad? I am informed that the estimates of those reserves permit commercial use along these lines. Could we not keep these cupped fields for naval reserves and be repaid several hundred million gallons a year from foreign assets?

Secretary HARRIMAN. You mean with our domestic consumption held down?

Mr. LODGE. Yes.

Secretary HARRIMAN. I think in answer to that we would have to consider the whole world petroleum situation, our own requirements and the requirements of other countries, and I think the administration should consider that question. As you know, we have under control of our own companies very large reserves in the Middle East which in some ways are larger even in potentialities than those of any other country.

I think that a study should be made. I feel very strongly, as your question indicates, that we should conserve our petroleum resources in this country and should embark upon a program of expanding production abroad and increasing our imports. Generally speaking, at the present time, known reserves in the United States are about a third of the known reserves in the world and I imagine we probably know more about our reserves than at least certain other areas. We are now producing about two-thirds of the world's petroleum. That certainly is a reckless thing to continue to do and I certainly agree with what I gather is the background of your question. We are in

a very difficult shortage of petroleum products in this country this winter, and as Secretary Krug has testified before other committees of Congress, it looks as though next year is going to be serious also. We are expanding and have expanded fantastically our use of petroleum products in this country, approaching double what we used before the war. That is not the exact figure. Now, it would be reckless for us to go ahead and drain our own resources to take care of our immediate requirements. Now, Europe at the present time gives as per capita use of petroleum something less than 10 percent of petroleum products that we use in this country and it is contemplated under this plan, if the plan goes through as it is planned, that they will get up to about 10 percent per capita by the end of this program.

They use 10 percent per capita as compared to us. In other words, they use 1 barrel per capita compared to 10. One-tenth as much. Not 10 percent less, one-tenth as much. I do not think we can have European recovery if we deny Europe the value that comes from the use of petroleum products in internal combustion and so forth. What I am getting to, I think we should consider in expansion of world production our own resources and European resources under the control of the European countries. I think it would be perfectly appropriate to consider what part of their production they could, over a period of years, contribute to us, but I do not think anybody can be in the position of answering now what part of the available resources in the Middle East and Far East and the Caribbean, and so forth, we can now count on their contributing to us from their resources. I think it requires a very exhaustive study and I think that will be made, and I certainly agree with you that that study should consider what contribution they can make to our increasing requirements of petroleum products. I, for one, would like very much to see us conserve our supplies.

Mr. LODGE. I am in full agreement that without petroleum the European recovery program cannot work. I presume you will agree with me, Mr. Secretary, that unless we have adequate petroleum in this country to enable us to fill our vital needs with respect to heat and transportation and what not, this country cannot back up the European recovery program.

Secretary HARRIMAN. I agree fully. All I was trying to say, sir, was that it takes machinery and steel and capital and so forth to develop petroleum resources held by other countries. I think we should consider them in the requirements along with our requirements before we arrive at a figure at which it might be fair to ask them to contribute to our needs.

Mrs. BOLTON. Mr. Secretary, as I understand it, the European recovery plan from the standpoint of fuel counts upon a very definite amount, a very large amount, of oil from the Near and Middle East.

Secretary HARRIMAN. That is correct. They are pretty nearly dependent upon that.

Mrs. BOLTON. As I have gone into the figures, my information indicates that the oil production in the Western Hemisphere just about takes care of the Western Hemisphere and that the Near East could take care of the European situation as well as its own requirements as they increase?

Secretary HARRIMAN. Potentially.

Mrs. BOLTON. Now, if the Near East production is stopped, as it now has, as far as deliveries to the Western World are concerned, what will that do to the whole plan of the European recovery program?

Secretary HARRIMAN. Well, if there is a recession of petroleum from the Middle East it would be extremely serious to Europe as well as ourselves.

Mrs. BOLTON. And it would be a major difficulty, would it not?

Secretary HARRIMAN. A major difficulty to us and to the world.

Mrs. BOLTON. Especially to western civilization?

Secretary HARRIMAN. It would be, yes.

Mrs. BOLTON. Thank you.

Mr. LODGE. Would you have any objection, Mr. Secretary, to our cupping certain wells within 5 or 10 years?

I did not mean as of today. I mean within 5 or 10 years.

Secretary HARRIMAN. Well, I would like to see us establish a national policy. I would rather not say exactly what we should do. I would like to see us embark upon a full study in connection with this program of the long-range fulfillment of our requirements as well as the requirements of the other nations of the world and in that connection how it should be properly handled I do not know.

I am not familiar with what means should be adopted to see that we do not overdrain our present resources.

Mr. LODGE. Is there any present project toward such a solution?

Secretary HARRIMAN. I think Mr. Krug can best answer that.

Mr. LODGE. Is he going to testify before us, Mr. Chairman?

Mr. VORYS. Tomorrow afternoon.

Mr. LODGE. Mr. Secretary, in the Harriman report that it is stated—

The committee feels strongly that top priority should be given to provision of steel and equipment to repair war-damaged nitrogen fertilizer plants as rapidly as possible and the allocation of adequate supplies of coal to operate these at capacity.

Now, that brings me to the question as to how you feel about the dismantling of sheet steel and steel-rolling mill plants in Germany, and the second part of my question is, How do you feel about the dismantling of the huge nitrogen multiple plants in the French zone?

Secretary HARRIMAN. Well, I am not familiar with the details. I fully agree with that statement in the committee's report. As you know, the whole question of the plants in Germany has been reviewed and I think it is an established policy of all concerned that we must get Germany's coal production and industrial steel production up from its present low.

I think we have got to recognize, and we do recognize, as far as the administration is concerned, that there are fears of our western allies that Germany is not only a military threat but lest Germany should become the predominant industrial nation of Europe again. This European recovery program contemplates expanding steel production as well as bringing the German steel production back up to a substantial level.

I am getting off the nitrogen end but it is very clear that Germany must always play its part in the recovery of Europe and our plans should, and I believe do, accomplish that objective.

I am not familiar with the particular plants that you speak of. But nitrogen production for fertilizer is a very important element in the whole program.

As I have said, food is the most critical item of all and nitrogen fertilizer is needed in great quantities.

Priority should be given in coal, in my opinion, and in getting their plants back in full production.

Now, what exact amount of nitrogen fertilizer is needed, I cannot say.

Mr. LODGE. It is, however, interesting to note that the amount of nitrogen production lost in Germany because of dismantling is approximately 500,000 tons, according to the figure that I have, which amounts to 300,000,000 bushels a year, which is three times the amount that the American consumer was called upon to save in the Luckman food conservation program.

Bearing in mind the importance of nitrogen as mentioned in your report, I hope that you have considered this problem.

Secretary HARRIMAN. The existing nitrogen plants are not operating at full capacity, and this recommendation was directed to the supply of coal in order to assure a maximum production of the plants that are available, which we are not obtaining at the present time, as you know.

Mr. LODGE. When it comes to the question of coal, if we had not dismantled some of these steel mills in Germany we would be able to conserve a good deal of our steel and manufacture more freight cars and we could have transported more coal.

Secretary HARRIMAN. Well, this year, as you know, Germany has produced less than 3,000,000 tons of steel.

The program contemplates expanding that production to about 10½ million tons, so there is 7½ million tons more capacity there that they can expand.

That is the contemplation of this program.

Mr. LODGE. Mr. Secretary, in connection with your answer on this dismantling, and taking that in relation with your position with respect to the shipment of finished goods to Russia, do I take it, then, that you feel that Germany is more of an immediate threat to our national security than Russia is?

Secretary HARRIMAN. No, I have never testified to that.

Mr. LODGE. I was just asking the question.

Secretary HARRIMAN. No, I do not think so, but I do believe we should carry out the program of the recovery of Germany along the lines that are indicated. That is a vast task and steel is going to be required in more quantities than before the war and we should help the other countries come back.

I think we can assist in developing a healthy economy in Germany without making her a potential threat in the future.

She is not a threat at the present time. But I do think we must be, may I say, vigilant in our objectives in Germany for a long period of time, the principal aspect of which is the political side, namely, the encouragement of a real democracy in Germany.

I believe that can be done. I am satisfied that can be done of we stick to it because there was enough of a development of a democracy in Germany in the prewar period to make a decent economic life in Germany.

It is the opinion of those who are dedicated to those concepts that the opportunity can be extended to Germany to help form a peaceful western Europe.

Mr. LODGE. I am inclined to bear in mind, Mr. Secretary, your very wise statement that war potential is a very difficult thing to define. The problem is to see that Germany is playing her part and that is a bigger threat to the peace of Europe than to try to draw a distinction between a plant which manufactures one thing and a plant which manufactures another.

These plants can all be converted one way or the other, I imagine; do you not?

Secretary HARRIMAN. There are certain direct war production plants which are in the program to dismantle.

Seven and a half million tons of steel production in the Ruhr will provide enough steel for Germany to rebuild and I fully agree with you that we must bend our efforts in encouraging the increased production in Germany.

It has lagged way behind, as you know.

Mr. LODGE. Could we not more easily afford to ship coal to Germany than we could steel and would it not be wiser to ship more coal and get more steel production in order to rehabilitate these nitrogen plants and thereby increase the production of wheat in Europe and diminish the drain on American wheat and thereby reduce the cost of living in America?

Secretary HARRIMAN. I would think our interests ought to be directed toward an increase in the production of coal. When you begin to transport coal in ships 3,000 miles or more and bring back ballast, it is a very expensive operation.

I think our energy should be directed toward increasing the coal production and getting the steel production. I think the program there outlined is a pretty ambitious program for the immediate future and the important thing is to get coal as fast as possible.

Mr. LODGE. Can you not get more coal if you have more steel to improve the coal mines with?

Secretary HARRIMAN. Well, you can get some improvement in the production of coal by shipping steel for repair parts, some of which have been contemplated, and this 20,000 cars is one of the items in order to help transport the coal, but coal is the one great natural resource of Europe and we ought to do everything we can to stimulate that production.

I must confess that I have been gratified by the progress which has been made in the last 6 months in increasing the production of coal in Germany.

That is the most rapid way to get a dividend, I believe, and get recovery, is to bend efforts toward increasing coal production.

Mr. JONKMAN. Mr. Secretary, on page 12 under the section of agricultural machinery, you state:

The estimate here presented is that the United States would supply a hundred thirty-six million dollars for farm machinery during the first 15 months.

Now, is that what the final figure is for farm machinery?

Secretary HARRIMAN. That is the round figure, the estimate for the 15-month period.

Mr. JONKMAN. That goes into the bill for whatever you ask?

Secretary HARRIMAN. Yes; that is correct.

Mr. JONKMAN. Because the CEEC report, the general report, calls for \$370,000,000.

Secretary HARRIMAN. That is right; it was cut back for two reasons; one, the question of our own needs here and also a very serious question as to whether Europe could use that amount of additional farm machinery that quickly.

Mr. JONKMAN. That was your first shot, of course, and that pleased me very much. Your mining machinery you left about the same and your electrical machinery you left about the same.

You handle only the items that come within the cognizance of the Department of Commerce.

That is why you confined yourself to these articles here? That is the only serious cut that you have made, is it not?

Secretary HARRIMAN. That is what?

Mr. JONKMAN. That is the only serious cut that you have made, is on farm machinery. I think you cut steel plants down from a hundred million to 48,000,000.

Secretary HARRIMAN. Steel is about half.

Mr. JONKMAN. That is the steel plants?

Secretary HARRIMAN. No, also steel. It includes semifinished steels.

Mr. JONKMAN. Well, the CEEC general report had \$370,000,000 for iron and steel products. How much did you cut that?

Secretary HARRIMAN. About in two, I think.

Mr. JONKMAN. You cut that \$370,000,000 in two also. I want to say you have done a very good job.

That is all, Mr. Chairman.

Chairman EATON. Well, that has been a cooperative job with the State Department.

Mr. JONKMAN. But you still get a larger amount than the five billion-nine that the CEEC general report calls for, I mean not you, but the general result.

Secretary HARRIMAN. No, I do not want to give the idea that we have any made contribution there. As I said, cotton is available and has not been cut and coal is available and has not been cut.

Mr. VORYS. Could I say a word?

Secretary HARRIMAN. May I just say this: I do not take any pride in anybody's cutting these estimates because I am interested in seeing the maximum recovery in Europe as quickly as possible.

It is a question of availabilities and its effect on our domestic economy.

Mr. JONKMAN. Of course, you are certainly not going to give them a hundred million when 48 million will do the job?

Secretary HARRIMAN. That is what I mean by cut.

Mr. VORYS. Could I say this: You and the executive departments have scaled down certain CEEC requests and have made adjustments between them. Have there been any bad diplomatic repercussions from that, that you know of?

Secretary HARRIMAN. No. When the committee adjourned some of the working committees came over here and consulted with our people.

The members of the so-called Harriman committee consulted with them and also the members of the State Department, and our people consulted with them.

We considered their estimates and requirements and their more detailed information in the CEEC report as to the justification.

I do want to make that plain, that these figures are really all estimates and from my experience in the war, we will never really get down to a bill of materials until you sit across a table with each country and estimate exactly what they are going to use this material for and when, so that at best these are, in my judgment, intelligent "guess estimates" of what will come out. In the final analysis they will take this general form but they will inevitably have certain increases and certain deductions.

Mr. VORYS. But the fact that this has changed considerably from the 29 billion that was the first collective product of the CEEC committee has not ruined the chances for recovery; that is true, is it not?

Secretary HARRIMAN. Well, I believe that the figure that is now requested is a figure which can attain the results that we are after.

Mr. VORYS. What I am getting at is that if the Congress, which has an over-all responsibility fully as extensive as that of the executive department, in its collective wisdom should review and adjust this program that would not necessarily mean its collapse or failure; is that not true?

Secretary HARRIMAN. Well, I think that if this program were—I say substantially cut—it would be dangerous to the effect we all wanted when we embarked on this program.

Mr. VORYS. There is a straw man that is being fought with great success around here. That is the alternative of backing out and doing nothing.

In my judgment the chances of our doing that are extremely slight. On the other hand, there is also a tendency of all the cabinet officers who have come up here to say, "Now, we have gone over and back and forth on this and we have disagreed with each other and made adjustments up and down, and that is all right, but if anybody up on the Hill attempts to do that, then the whole thing is gone and the world is sunk."

Now, I do not think that is true, and I do not think that is the way to win friends and influence people up here. But that has been the attitude through 10 days of hearings here.

Secretary HARRIMAN. Well, how do you want me to express it? I will try to put it this way: now, these estimates that have been made are probably about as good estimates as you can have before you to consider.

Another group of people working on it would have come out with a somewhat different figure, perhaps larger and perhaps slightly smaller.

Now, you are asking us for our honest opinions. Now, I must frankly say that if you cut this figure substantially, from the studies that we have made I think that there would be a risk what we would not attain the objectives that we were after.

As far as I am concerned, as a taxpayer and an American citizen, I would rather see us appropriate a larger sum than this. I think in the long run the recovery would be faster and the over-all cost would be less.

I accept this figure because I think it will do the job. When you say, if you cut a hundred million dollars off it, should we stop the program, of course I would say, go ahead with it, no matter what is appropriated, but I am satisfied in my own mind that insofar as one

can analyze these various problems that if the Congress cuts it substantially it will be taking a risk of not attaining the objectives that we are after and that if we see it through it will cost us more in the long run.

I want to just explain this a little further. I went to Germany last summer, and I think if we spent more money in Germany, I figured roughly a third more between the British and ourselves, we would have more recovery.

The food is so low there although the situation now may be different, I do believe, that if you under-finance we will have to come back for more money.

I could not honestly say that a deep cut in this program would not be a dangerous thing to make.

Mr. VORYS. You are talking language which the Members of Congress understand and I wish we had heard more of that point of view. I think others have questions.

Mr. LODGE. Mr. Secretary, in connection with the shipments to Soviet Russia, could you inform this committee whether during the past year there have been any shipments of electrical equipment, including generators, for us in the development and manufacture of the atom bomb to Soviet Russia?

Secretary HARRIMAN. I have no knowledge, and nobody has that I know of, of the Russian program for the development of the atom bomb. There has been electrical machinery shipped. We know that power is necessary and I do not know where it is being used. There were substantial shippings of machinery.

I have not got it with me, but I will be glad to give you the full list of shipments to Russia this year by categories.

They were not under control and were not reviewed and from now on we do expect to have more information about it.

Mr. LODGE. What I had particular reference to was the report that duplications of the electrical equipment which the General Electric Co. in Chicago supplies to Oak Ridge, have been shipped to Soviet Russia.

Secretary HARRIMAN. I am not familiar with that.

Mr. LODGE. That would go through the Treasury Department, would it not?

Secretary HARRIMAN. The shipments of machinery have not been under control and we have not reviewed the individual shipments.

We get the totals from the Bureau of the Census, who tabulate by categories the shipments to different countries.

I could only give you totals. We would have to go back to the companies to know exactly what each item was.

Mr. LODGE. Would it be possible to find that out?

Secretary HARRIMAN. It would be very difficult. It would require a very considerable staff to go back to each of these items. In the future we can review machinery.

Mr. LODGE. Would it be much of a job to get a list from the General Electric Co. as to what items which they sent to Oak Ridge they also sent to Soviet Russia?

Secretary HARRIMAN. That would be available.

Mr. LODGE. That is what I had reference to. Now, would you say, in the light of your remarks earlier in the afternoon, that it was justifiable, to send such equipment?

Secretary HARRIMAN. I certainly think we should not send machinery that is specialized or directly used only for atomic energy production.

Mr. LODGE. I agree with you.

Secretary HARRIMAN. We are in consultation with the appropriate authorities on that question and will continue to be.

Mr. LODGE. I had an idea that we might be sending such equipment and I would be very much interested in knowing about this. Mr. Secretary, just one question in connection with the general purpose of this legislation, which constantly refers back to 1938 figures. I suppose this is done as a convenient measure.

Secretary HARRIMAN. That is correct.

Mr. LODGE. Would you say that the purpose of this program was, so to speak, "put Humpty-Dumpty together again"?

Secretary HARRIMAN. One of the objectives stated is to continue the cooperation in Europe. I feel very strongly that the continued economic cooperation in Europe should be an important objective of the program and I think we should encourage in every way that we can the fulfillment of the undertakings of the European countries in the closest economic cooperation.

I do not think you can get a satisfactory recovery in Europe and a firm prosperity there unless these trade barriers that I touched on are permanently broken down and they would get more of the economic integration or certain conveniences in breaking down trade barriers and then the freer exchange of goods.

Mr. LODGE. In other words, you believe that we should look toward an economic federation of Europe rather than toward the restoration of the crazy-quilt pattern of Europe with all its conflicting sovereignties?

Secretary HARRIMAN. There are many people who have tried to attain economic federation of Europe through conquest and there has never been the opportunity such as we have now to encourage it with peaceful objectives.

Therefore, I would hope that the administration would give that very high consideration.

As far as I know, all of the European countries in principle accept that. I think they would welcome cooperation from us and the right kind of pressures from us in encouraging the permanent development of those relationships.

It is a difficult thing to do, as you well know, and I think we would be remiss if we did not use all of our ingenuity and the right type of encouragement to accomplish that.

It would be tragic.

Mr. VORYS. Will the gentleman yield?

Mr. LODGE. Certainly.

Mr. VORYS. A change is difficult, to something new, but restoration of what existed in 1938 would create a difficult situation which Lord Lothian described as "the 26 nations that constitute the anarchy that is Europe;" and certainly our objective is not to restore that situation.

Mr. LODGE. That is the point I was trying to get at.

Mrs. BOLTON. Well, is it not true, if I may be permitted, that anything we do that merely rolls things backward is against the whole law that is functioning today to set up a new world? If we are trying to go backward we will find we are not progressing.

Secretary HARRIMAN. The reference to 1938 was purely a convenience in judging the size of expansion and the standards of living that existed at that time.

Mr. LODGE. It seemed to be important to stress the orientation of the program, Mr. Secretary, and perhaps you would agree, that the challenge is that either these nations can get together with the impetus of the European recovery program on a voluntary federated basis or they will succumb to an involuntary federation imposed by a Moloch state.

Would you agree with that?

Secretary HARRIMAN. Well, all you need do is to go back in history and see what has happened.

Mr. LODGE. Well, would you agree with that as a statement of the issue?

Secretary HARRIMAN. Well, I would rather put it affirmatively that I do not see a permanent recovery in Europe and an expanded economy unless there is the type of economic cooperation which is contemplated.

Mr. LODGE. I thought I had put it affirmatively and stated a choice.

I am just anxious to find out, Mr. Secretary, whether the administration is still going on tiptoe on this measure.

Secretary HARRIMAN. I am not trying to quibble words, but I did not hear your question very carefully. I think you are going to have continued difficulties in Europe on one account or another unless the objectives of the undertakings that the European countries have been spelled out are fulfilled, not just for this period, but permanently.

Mr. LODGE. But it would be hard to justify this measure if there were not the threat which we are all familiar with.

In other words, it is a strategical measure. Is it not?

Secretary HARRIMAN. Yes. That is certainly one of the controlling aspects of it.

Mr. LODGE. Thank you very much.

Secretary HARRIMAN. And I think if we could attain the objectives which you hold out the money we spent would be cheap at the price if that is the only thing we got out of it.

Mr. LODGE. I quite agree with you.

Mr. VORYS. Thank you very much.

(Thereupon at 5 p. m., the committee adjourned.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, JANUARY 22, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met, pursuant to adjournment, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. Mr. Secretary, you may proceed.

STATEMENT OF HON. CLINTON P. ANDERSON SECRETARY OF AGRICULTURE

Secretary ANDERSON. The success of the European recovery program depends to a large extent on food. Without adequate food there is little chance of real industrial recovery. A great amount of careful work has gone into the preparation of the food aspects of the program which is before you. These estimates represent our best thinking, and I am glad to have this opportunity to discuss them with you.

I understand that this committee has already had opportunity to study the testimony which I presented to the Senate Foreign Relations Committee. Therefore, I will only briefly summarize some of the most important points in that statement in my discussion here, and then present some additional information.

One point of which I am keenly conscious as Secretary of Agriculture is the importance to American farmers of a strong European market. All of us have taken pride in the tremendous increase in this country's food production in recent years. Our farmers have produced enough to feed our own people better than they have ever eaten before and at the same time enable us to respond to the needs of other countries with record-breaking shipments.

This record production has been achieved through increased use of fertilizers, a great expansion of mechanization, improved varieties—such as our new hybrids, improved insecticides and fungicides, and general improvements in farming practices. Weather helped, too. But last year the weather was unfavorable over a wide area. Though ideal for winter grains, which helped in our record wheat crop, it was adverse for some spring-sown crops and particularly bad for our corn crop. But in spite of the weather our total crop production was about up to the best 5 years of our history and within 5 percent of the all-time record set in 1946.

Come bad weather or good, our farmers are not going to give up the new tools which science and industry have given them. This

means assurance of greater total production than we have known in the past. It is fortunate that we are going to have an over-all abundance of food and fiber in the years to come. This prospect should be in the forefront of the thinking of all of us when we face decisions regarding American agriculture.

The many groups that have testified before the House and Senate Agricultural Committees on long-range agricultural programs have been practically unanimous in stressing the needs for substantial foreign markets for our agricultural products now and in the future. We all recognize that in the interest of conservation we need adjustments in the acreage of some of the crops which now bulk abnormally large in our exports. This is particularly true of grain. But even after we have achieved a well-balanced pattern of land use we shall still need good markets for cotton, wheat, tobacco, lard, rice, and certain fruits and vegetables. We have always needed good outlets for these crops, and in the past Europe has been a major market. For most of these crops we shall need a considerably larger foreign market than we had in the years immediately before the war. Our farmers also have a big stake in foreign markets for our manufactured goods, for such markets make jobs and food buying power in this country.

Western Europe is the world's biggest market for food exports. Since the turn of the century from 60 to 75 percent of our food exports have gone to the nations of western Europe. Unless the economy of that area can be restored to a strong, self-supporting basis the producers of our export crops will suffer directly, and all our farmers will suffer indirectly.

Conditions in western Europe affect our agricultural exports in many diverse ways. I have for some time been concerned about the need for expanded markets for our citrus fruits. As you may know, citrus products are now selling at extremely unfavorable prices to growers. Canada traditionally has been our best foreign citrus market. Before the war it took about one-half of our citrus exports. The United Kingdom was the next best market, taking about one-third of our citrus exports. Britain's dollar shortage has now caused most of the British market to disappear. But the effects have gone further than that. It is a sort of chain reaction proposition. Canada has been doing all she could to help in the rehabilitation of western Europe. In so doing she has shipped to Europe a large portion of the goods which would normally have come to the United States. This has resulted in an acute dollar shortage in Canada. Hence, beginning last November, the Canadian Government limited citrus imports from this country to not more than half the amount imported in fiscal year 1947.

I cite this situation as one illustration of how the break-down of European economy affects not only our trade with Europe, but with other countries of the world.

In one way or another this situation in Europe adversely affects our market for apples, pears, and other fresh fruits; prunes, raisins, and other dried fruits; cotton, tobacco, lard, and other agricultural products.

The implications of the program which you are considering, of course, go much further than agriculture; they involve the future of democracy in Europe, the strength of our allies on that continent, and

in fact, the very peace of the world. Nevertheless, thinking from merely the limited vision of our own agriculture, when you consider what the outlook would be without healthy, stable customers in western Europe, the prospects are not pleasant to contemplate.

In order to get a clear picture of Europe's food problem today and what is involved in her recovery—insofar as food is concerned—I have two maps which I would like to show you. I have big ones here from which I will talk. Smaller copies are included in my prepared statement.

These maps show the international movement of grains and soybeans, prewar and last year. The reason soybeans are included is that before the war Manchuria exported large quantities of them, and the virtual disappearance of those exports is an important factor in the present food deficit in the Far East. The inclusion of soybeans prevents these figures from being comparable with those which we normally use regarding grain movements. The width of the bands reflect the actual amounts of exports and imports, and they are carefully drawn to scale.

I would like to point out a number of aspects of this picture which explain the present European food problem, and then I want to come back and discuss the prospects for improvement in some of these areas.

First, notice the situation in South America. The country primarily involved here is Argentina which, before the war, was by all odds the world's largest grain exporter. Last year her grain exports were only about two-fifths of what they were before the war.

If the question is, Why are the Argentine exports down? the best answer is that Argentina has reduced acreages of grain and flax, and in addition had low yields in 1945 and 1946.

Secondly, they have had some change in their agricultural procurement program so the farmer has obtained a relatively small share of the price.

Mr. BLOOM. Is that also because the Government took control of the wheat market and other markets?

Secretary ANDERSON. The effect of the Government taking control of the market has been to change the price received by the farmers against the price received in world trade. I think that it is not the fact so much that the Government controls the export because this Government controls the export of grain from this country. It is the fact that the Government has not reflected the export price in the price paid to farmers, whereas we do reflect that.

Mr. BLOOM. The Government pays them \$2.35 and they sell it for \$5.

Secretary ANDERSON. Sometimes the Government spends a little bit less than that. The average price for the new crop is nearer \$1.70 than \$2. I am not inclined to criticize the Government's reason for that. We do things in this country that we do not always take the trouble to explain to the other countries. It is a fact which has had an influence on the amount of crops that have been available. I might say that the present wheat crop in the Argentine looks very promising, and may be due to a very substantial change in the Government's policy. I hope that is the reason. At least, whether that has helped there, as it has here, they do have a wheat crop coming on now that is substantial in proportion, and may be very useful in world trade.

Second, you will note that Canada's exports have increased sizably. Canada always exported a large quantity of her grain and she has done all she could to increase these amounts.

Third, you will notice some decrease in exports from Australia. That was due to a bad wheat crop in 1946. They are now harvesting a very large crop and their exports this year will be above prewar, though not likely to set a new record. Australia, too, has cooperated fully in meeting the world food crisis.

Fourth, notice the shipments from eastern to western Europe. Eastern Europe was normally a major source of grain supplies for western Europe. In 1946-47 this source had dried up, and eastern Europe was in fact a net importer.

Fifth, you will notice that the Far East has changed from a sizeable exporter before the war to a net importer since the war. In terms of total food her prewar exports averaged about 4½ million tons. Last year she imported 6½ million tons. This has required the United States and Australia to send to the Far East food which might otherwise be available for Europe.

Finally, you will notice the tremendous increase in exports from the United States. Before the war the United States exported some 4.6 percent of all grains moving into world trade. Last year, with almost exactly the same total world movement of grains, we exported 52.4 percent. Those are figures on grain only and so do not exactly correspond with the ones on the map.

You will notice also that prewar western Europe imported 24,000,000 long tons of grain and soybeans. In 1946-47, in spite of the increased shipments from this country and Canada, western Europe's total imports were only 17,400,000 long tons. That is 28 percent less than prewar.

To appreciate what that decrease in imports meant to the diets of the people you have to remember that western Europe's own grain production in 1946-47 was still substantially below prewar, whereas her population had grown by about 8 percent. You also have to remember that the reduction in supplies of meat and milk and eggs and most of the other major food items was even greater than for grain supplies. The Europeans have been able to stretch their grain supplies by cutting down on their livestock feeding and using portions of their coarse grain for human food. But that, of course, has cut their supplies of meat and milk and eggs still further. It adds up to a distressingly poor diet.

As you know, people in the Department of Agriculture, working with technicians from the Departments of State and Commerce, have spent a great deal of time in recent months working out the food aspects of the European recovery program which has been presented to you. This study has included several aspects: The minimum food requirements of the participating nations over the next 4 years, the portion which could be supplied from indigenous production, the amount which could be supplied from other nations, and the part which the United States might supply. We had to consider the needs of other food deficit areas, as well as those of Europe.

As I pointed out to the Senate Foreign Relations Committee this study led us to scale down considerably the estimates of the participating nations as to the quantities of grain and some other foodstuffs which they might expect to import during this program. It was not

because these nations were asking for more than they needed—to the contrary their figures were exceedingly conservative from the standpoint of need—it was merely that we do not think the exporting countries physically could furnish the quantities of food requested—particularly in the first 2 years of the program.

I have here a table—table 1—which compares our estimates of grain imports available to the participating countries from all sources, with the estimates of grain needs worked out by the European countries. You will notice that for the current year, 1947–48, import requirements are estimated at 29.9 million tons as compared with our estimate of an availability of 19.5 million. For next year they requested 27.7 million and we estimate 19.9 million available. For 1949–50 the figures are 27.6 as compared with 22.8, and for 1950–51 they are 27.4 and 22.8.

In the following lines we indicate how our estimates of grain availability break down between the various exporting regions. These figures involve a number of assumptions which you should know about. They are based on our knowledge of the prewar production and exporting patterns of the nations involved, the current trends in production and exports from these countries and the background of information and experience gathered through our participation in what is now the International Emergency Food Committee. After we had worked up our figures through this method we had an opportunity to check our estimates for Canadian exports with representatives of that government. It was gratifying to find that our estimates checked very closely with theirs.

Turning to the specific figures, you will note that the estimates on Canadian exports increase through next year but then begin a slight decline as Canada starts adjusting to a somewhat more normal wheat acreage.

The next line “other Western Hemisphere,” consists primarily of exports from Argentina. We estimate over the next 4 years that Argentina will increase her grain exports considerably above the present low level. As I pointed out earlier, that Nation was at one time the world’s largest grain exporter. The biggest portion of those exports were corn, but Argentina also exported substantial quantities of wheat. One of the commonly discussed needs in Argentina is some adjustment in the price paid farmers for their grain so as to offer greater incentive for increased production. Another often expressed need is for certain items of farm and transportation equipment and supplies. A program designed to restore Europe’s industrial economy will unquestionably help establish a desirable pattern of trade around the traditional United States, Latin America, and European triangle.

The “other nonparticipating countries” primarily involve eastern Europe and Australia. Australia will this year export about as much grain as could be expected from her in the next 4 years.

We have assumed a gradual increase in exports from eastern to western Europe. Any time you set down figures on expected exports from eastern Europe you have an assumption which you can’t prove. But we had to make estimates and we did have pretty good figures on the prewar exports, the land resources, and the conditions of the agriculture of these nations. So we can estimate with some confidence the approximate amount of grain which these countries

should produce under normal weather. The amount which will be actually offered for sale in the western European countries is, of course, a question involving many ramifications. However, we do expect a substantial increase in grain movement from eastern to western Europe.

There are several reasons for this: In the first place, the lack of exports for 1946-47 shown on the map before you was not due primarily to political considerations. The best grain-producing areas of eastern Europe—the plains of Poland, the Danube Basin, and the Ukraine—were seriously affected by either actual destruction of war or the political upheaval that followed. For example, a large portion of the ex-German territory now occupied by Poland is still not under cultivation. Furthermore, eastern as well as western Europe suffered from considerable bad weather up until 1947.

In the second place, this past year there was considerable improvement in the crops of eastern Europe and already some grain is beginning to move out. The USSR has recently agreed to ship Britain 750,000 tons of coarse grain between now and September in return for British-manufactured goods.

In the third place, supplies of manufactured goods would provide an incentive for other eastern European countries to export grain to western Europe. Eastern Europe has never been self-sufficient in manufactured goods, and there is little likelihood that she will become self-sufficient for many years. Her normal source of those manufactured goods is western Europe, just as western Europe depends on that area for food. As the agriculture of eastern Europe is revived on the one hand and the industry of western Europe on the other, there will be a very strong incentive to the revival of this trade.

All this adds up to the fact that although we have assumed some increases in grain exports from the various parts of the world which I have mentioned, the assumptions do seem to be reasonable. I call your attention also to the fact that the countries of western Europe themselves expect to have their grain production up to slightly above prewar levels by 1951. We have studied their estimates country by country, and believe that in most cases their goals can be achieved, and possibly in some cases surpassed.

Now we come to the last line on table 1, the estimates of grain which will be available from the United States.

Since these figures are of particular importance, I shall discuss them in some detail and indicate what effect the estimated exports of grain and other agricultural commodities would have on the economy of the United States.

The estimates of grain available from this country anticipate that for the next 2 years we will continue our acreage of wheat and corn at approximately the present levels. During the current year our wheat exports are proceeding at a planned rate of 450,000,000 bushels. However, if present conservation efforts are successful, our exports might run as high as 500,000,000 bushels. Such record-breaking quantities are made possible in part because of the exceptionally high yields which we had last year. Since we can only figure on the basis of normal weather and normal yields, we have dropped that figure down for next year and the year after. I might say that in the estimate of 300,000,000 bushels of wheat export to all countries, including western Europe, for next year, we have made adequate allowance for food used

by our own population as well as for other domestic uses, such as feed and seed. So, exports in this amount not only should constitute no strain on food grain supplies in this country, but probably represent a fairly good estimate of the amounts which we want to export with our present high level of production.

For the last 2 years of the program we have dropped our proposed wheat shipments down to 250,000,000 bushels so as to begin gradually decreasing our wheat acreage to more desirable levels.

As to feed grains, we estimate exports of about 100,000,000 bushels to Europe and elsewhere for each year of the program. Roughly about half of this amount is expected to be corn. With a normal yield of some 3,000,000,000 bushels from the anticipated corn acreage this would be an exceedingly small amount and would obviously have little effect on the amount of meat available for our consumers.

Turning from grain to other items in tight supply, let me say a further word about meat. We do not plan during the first 2 years of the program to export from this country to western Europe any of the types of meat which we consume. Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

I think your table will show a small amount of meat going to Europe. It is not beef or pork or mutton. It is horse meat, and therefore we are not worried about it in our own supplies.

The other two major food items which have been in short supply are sugar and fats and oils. We are a big sugar importer, and do not plan any sugar exports. However, world sugar supplies should be adequate to meet the needs of the participating countries.

I should be glad if you go into that in detail because it does present an opportunity for low-cost calories although not the most satisfactory food.

As to fats and oils, though some exports from this country are planned, they are more than offset by Philippine copra and other forms of oil which we will import. We have been a net exporter of fats and oils in recent years. But for the next 4 years we expect to be a net importer of these items.

I think it ought to be said we were a substantial net importer and it is planned to return to a more normal position.

Those, as I say, are the major food items involved in this program which now are in tight supply in this country, and I say to you frankly that I do not anticipate that exports in these amounts would add to the inflationary pressure in this country or call for any undue sacrifice on the part of our consumers. The reason I make that statement is that exports in the volume estimated represent considerable reduction from the present level at a time when we are continuing all-out production.

The other agricultural products covered in the proposed exports from this country are items which we have in relatively ample, if not abundant, supply.

This includes small dried egg shipments—much smaller than we have been making in recent years—a gradual decrease in our exports of cheese and dry skim milk, some increase in our exports of fresh and processed fruits, and increased shipments of cotton and tobacco. I discussed the picture regarding these items, as well as timber, fertilizer, and farm machinery, at some length before the Senate

committee. Though I will not cover that material again in this statement, I shall be glad to answer any questions which you might care to ask.

Now a word about the administrative machinery for carrying out this program. I am sure that others in the executive branch who have been working directly on this question would make more valuable witnesses on this aspect of the program than I. I do, however, have a general acquaintance with various proposals which have been made, and I would say that the organization recommended by General Marshall and Ambassador Douglas appears to be by far the best I have seen.

In this connection there is one point on which I have strong convictions. I believe the Department of Agriculture should continue to perform those functions for which its organization and personnel are best fitted and in which they have had long years of experience. This is provided for in the administration's proposals, and I do not believe my emphasis of it involves any undue pride of agency.

The job of buying large quantities of needed foods, when such purchase tends to have considerable effect on market prices and the normal flow of supplies, is at best a delicate operation. Through the Commodity Credit Corporation we not only have an agency which has had years of experience in handling much larger quantities of food and fiber than will be involved in this program, but we also have field personnel located at strategic points over the Nation which is experienced in dealing with food and fiber trade. Its people are also familiar with the problems of transporting, storing, and scheduling for ocean shipping, which will be involved in this program. CCC has also worked with most of the governments participating in this program, both in buying for them and in helping them locate supplies in this country which they desired to buy for themselves.

Closely related to the administration of this program is another phase of CCC activity which I should like to speak to you about. Section 7 of Public Law 395 passed by the recent special session of Congress authorizes CCC to engage in projects in non-European countries which would increase exportable supplies of food through purchase arrangements, or by furnishing technical assistance, seed, fertilizer, machinery, and other requirements of a similar nature. We now have under study specific areas and crops for which this authorization might be used. However, I feel it only fair to point out to this committee that we cannot expect too much in the way of results through this legislation during the 1948-49 crop year. The reason for that is simple. To be effective, this type of action must be taken before planting time. Planting time in most of the world begins in the next couple of months and, as all of you know, international negotiations take time.

This brings me to another factor which makes fast action difficult, if not impossible. Before we can act under this legislation we must first negotiate and get a firm commitment out of the country involved. Then we must present the proposal to Congress and wait 60 days to see if it is disapproved. Now even if Congress did not disapprove the project it would very likely be too late to take action after waiting 60 days. Congress, of course, might require some change in the agreement which the other country would find unacceptable, whereupon the circle of negotiation—submission to Congress, and waiting

60 days—must start all over again. Even for future years this 60-day requirement puts us at a distinct disadvantage since it requires a firm commitment out of the other country at a time when we are not able to give such a commitment ourselves. In short, the hands of administrative officials who will be responsible for carrying out negotiations are tied before they start.

Believing as I do that this authority could be very valuable to us in lightening the burden which the European recovery program places on our grain resources, as well as increasing the chances of the program's success, I urge the Congress to reexamine this 60-day waiting period provision so that changes can be made in order to expedite negotiations.

In closing, I would like to give you my conclusions about the food aspect of this European recovery program.

First, let me emphasize that the quantities of food which would be available to the people of western Europe under the estimates worked out by the executive branch are much less than those people had before the war. The plans envision a gradual increase above the present Spartan levels, but even at the end of the 4-year period the people of Europe would still have little more than a subsistence diet. Comparing per capita amounts with prewar, they would have less of most of the principal foods, including meat, sugar, fats and oils, milk, eggs, fresh fruits, coffee, even less bread grain. They would have some increase in potatoes, fish, cheese, cocoa, dried fruits, and fresh vegetables. We have cut the figures presented by the European nations very drastically, and should the diets fall below the general level which we have indicated, it will endanger the success of the entire undertaking.

My second conclusion is that the United States can furnish the quantities of food indicated as available from this country without adding any extra strain on either our food supplies or on food prices. The fact to keep in mind on this point is that the total food exports which we are recommending from this country—not only for western Europe but for the entire world—are less than we have been exporting in the last 2 years. In the items which are in tight supply, such as grain and fats and oils, this reduction is particularly significant.

Third, the chief unfavorable aspect of this program on our agriculture will be this: It will delay the time when we can begin reducing our grain acreage, particularly wheat, to more desirable levels. It will necessitate increasing conservation efforts if we are to prevent further reduction in our soil resources.

Fourth, this program, as I pointed out in the beginning, will constitute an investment in the future prosperity of American agriculture which should continue to bring returns for many years to come.

Finally, viewing the outlook in terms of our need for strong, democratic friends in Europe, in terms of the impetus which European recovery will give to world-wide recovery and in terms of improving the chances for world peace, I feel that we have no alternative but to undertake this program.

Chairman EATON. Mr. Secretary, we thank you for this very illuminating discussion.

We have adopted a system here in questioning of starting around on a 5-minute basis with each member being allowed his time. After we go around once then we start the open discussion.

I have one question. In the export of American food to Europe under this plan, they will be paid out of money furnished by the American taxpayers of whom they are a portion; is that correct?

Secretary ANDERSON. The farmer?

Chairman EATON. Yes. If we buy a bushel of wheat under the Marshall plan, the money comes from the American taxpayer?

Secretary ANDERSON. That would depend upon the particular method of financing worked out with each country.

Chairman EATON. Will that lift our economic structure to any appreciable degree and greater prosperity, do you think?

Secretary ANDERSON. No; I think that if we did not require some of these foods, we would merely be turning back to conservation practices in many of the farming areas of the country, and thereby perhaps reduce the amount of national income and farm income.

Mr. BLOOM. It would reduce the price, too, would it not?

Chairman EATON. You would not consider this farm subsidy to American agriculture?

Secretary ANDERSON. No, indeed.

The prices that the farmer will get for this will not be too greatly above the prices which he would get if he were merely dropping production to more normal figures.

I do not think that a program of this size, particularly in the last 2 years when we are talking about exporting 200,000,000 bushels of wheat, would not make too much difference to him because under the wheat agreements which have been under way for many years, we have been talking about export of 180,000,000 bushels of wheat in a longer period of time to come—20 years or more. This figure is not greatly above that figure.

Chairman EATON. I was thinking of the general impact on our economy. In the old days when the farmers sold a million bushels of wheat for export, they received pay for it from the country to which it was exported. Under the Marshall plan, when we ship a million bushels of wheat, they are paid out of money paid forth by the general taxpayers, of which they are a general portion; is that right?

Secretary ANDERSON. I think that is right, but it is only the same story that they had always in the creation of foreign credits. Sometimes they were paid by these countries from foreign loans which were paid for by the American taxpayer.

Chairman EATON. Sooner or later the American taxpayer has to increase his crop some way.

Mr. Bloom is an expert on agriculture.

Mr. BLOOM. Mr. Secretary, a further inquiry with reference to the question that the chairman asked you: Is it the intention of giving away all of this grain, or are you going to sell some of it? Are you going to be paid for some of it?

Secretary ANDERSON. Mr. Bloom, I think the best answer is that in all of the transactions that we have had with European countries, the matter of who makes the final payment has chiefly been a matter for determination by the State Department. We do not attempt to say how much will be loaned, how much will be cash payments. We get our money from the State Department and it has the problem of international finance before it. I cannot tell you how much of this program would be paid for by loans, how much would be paid for by

the export of goods, how much might be paid for by transfer to this country of products we might want in our economy, such as olive oil. We have to leave that to the State Department. It is completely out of our field. I would like to answer your question, and I am not trying to avoid it, but I must say we do not in our department reach the final decision as to how payment shall be made. We turn it over to the State Department and they reach that decision, which is properly within their province.

Mr. BLOOM. Your answer to the chairman's question was a positive statement that this amount of grain that was going to be exported would be coming out of the taxpayer's pocket. According to the last statement that you just made, that is not quite so, is it?

Secretary ANDERSON. I think as to the entire program the State Department will know there will be certain recoveries that may come back to them. I do feel that for the first year or two of the program, a good deal of the money that will be put into the program will come from the American dollar. That money is eventually repaid; whether it is immediately repaid on the basis of goods, I am not in a position to say, but at the beginning of it, it will probably be a matter of paying us in American dollars at least.

Mr. BLOOM. If you send them bread grains, and they make the bread, do they sell that bread or give it away? In other words, if we give them the material to make the bread and these countries sell the bread, then we are not altogether achieving the desire that we want to achieve to feed these people. If they are going to sell that bread, they get money for it. Do you not think we ought to be paid for the grain?

Secretary ANDERSON. I do not know that I can answer that question except to say that the primary purpose of the program is not relief. The primary purpose is recovery. If they sell that for some type of exchange and use that for their recovery, and hasten it thereby, then we were primarily interested in whether or not it comes back to us in some form of payment, and we increase our commitments, or whether they use that in their recovery program. I think it is a decision that should be made by the administrator and not by the Department of Agriculture.

Our function is to see that they have grain available for these needs and ship it when requested, to do what the administrator decides, or administration, or whatever, may be set up for the operation of the program. What it decides the receiving country should do with its money is not a question with which the Department of Agriculture would become involved. I do think that he would have to decide whether he wanted immediate repayment of so much for grain, or whether he would regard those grain shipments as instruments by which the economy might be more rapidly restored. It might, for example, as we found last year, be that there were quantities of olive oil available in certain European areas which they were anxious to trade or sell for goods made in Germany. The reason they wanted to sell for goods made in Germany in preference to the United States was that they had tractors of German manufacture. They wanted the repair parts to fit into those tractors. It was far more desirable for the quick recovery of both countries that the surplus quantities of olive oil in Italy be traded directly in the German economy and

repair parts be traded to Italy. We did supply, in the meantime, grain to both countries.

Mr. BLOOM. Is there any difference in giving grain to any of these participating countries and their making bread and selling the bread, is there any difference in that procedure than if we were to give them leather, and they were to make the leather into shoes, sell the shoes? Do you not think we ought to be paid for the leather as long as they are making a profit out of it, and getting the price of the leather besides the price of manufacture? Would that same thing not apply to foodstuffs?

Secretary ANDERSON. Yes; it is a question of what coin you want when you are repaid.

Mr. BLOOM. We have got to be repaid, or should be repaid some way if they sell it. If they give it away, if it is to feed the starving people over there, and give them food to eat, shoes to wear, and clothes to wear, and they put that on the market and sell it for a price, make a profit out of it, do you not think there should be some accounting of that?

Secretary ANDERSON. Yes; but I think that the accounting can be in terms of what the money is used for in the restoration of their economy. I do not think it always needs to be returned to us directly.

Chairman EATON. The gentleman's time has expired.

Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, on page 10 you say:

We do not plan during the first 2 years of the program to export from this country to western Europe any of the types of meat which we consume. Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

Are the figures available as to the amount of those types of meat we exported up to that program for 2 years in dollar value and in volume?

Secretary ANDERSON. Yes, they are available. For which years?

Mr. JONKMAN. Only 1946 and 1947. We are starting with 1948.

Secretary ANDERSON. During 1946-47, out of our total exports of 499,000,000 pounds, 235,000,000 pounds went to European recovery program countries.

Mr. JONKMAN. That is for 1 or 2 years?

Secretary ANDERSON. For the 1 year, 1946-47.

Mr. JONKMAN. Half a billion pounds a year.

Secretary ANDERSON. Out of this country; yes.

Mr. JONKMAN. Do I understand that we will export during the next 2 years that much less?

Secretary ANDERSON. This year we were not shipping meat to these European countries.

Mr. JONKMAN. This year or next year?

Secretary ANDERSON. Next year we are shipping no meat to the European countries except horse meat, and the year following.

Mr. JONKMAN. That should ease up the meat situation in the country. What is the annual consumption of meat?

Secretary ANDERSON. In calendar 1947 it was about 22¼ billion pounds.

Mr. JONKMAN. It would be at least an easing up of 2 percent.

Secretary ANDERSON. Yes. Even that amount was not going to these countries. Only 235,000,000 pounds. About 1 percent.

Mr. JONKMAN. Since when have you not been shipping any?

Secretary ANDERSON. I imagine the last meat went in the spring of 1946 in any sizable quantities. We shipped some small quantities that previously had been contracted for in the summer of 1946, but they were relatively small quantities. Starting the 1st of July 1947 no meat went to Europe. Some small quantities have gone to neighboring Western Hemisphere countries. Some small quantities went to Cuba because we had contracts. We shipped them so much rice and wheat in exchange for sugar. Our transactions with Cuba were almost entirely on a trade basis. They sold us 1 year about \$450,000,000 worth of goods. We sold them wheat and meat.

Mr. JONKMAN. The policy of not shipping the types of meat consumed by the American people has already been in effect for a year.

Secretary ANDERSON. Yes; starting July 1, 1947, no meat whatever has been going into Europe.

Mr. JONKMAN. With reference to wheat, has the Government already bought the wheat for the interim-aid program?

Secretary ANDERSON. I think it would be safe to say that we have not bought all the wheat for the interim-aid program. There was a statement made yesterday as to the totals. We have acquired sufficient wheat as grain and sufficient flour to cover the period through March 1948. We have not acquired much flour or wheat for April which is still in the interim-aid program. Most of the interim-aid program requirements are covered, however, since a good deal is in pipe lines.

Mr. JONKMAN. It is considered the pipe line that you run from the interim aid into the Marshall plan, if it is adopted?

Secretary ANDERSON. The pipe-line stock is the working stock necessary to keep the export programs operating without interruption.

Mr. JONKMAN. How much wheat have you on hand for that program now, do you know?

Secretary ANDERSON. Not exactly because our purchases are not broken down separately for each program. There have been acquired, however, by the Commodity Credit Corporation and by commercial interests, 435,000,000 bushels of a 520,000,000-bushel goal for grain and grain products.

Mr. JONKMAN. That covers you through the April pipe line? That is, you calculate that it will?

Secretary ANDERSON. No; it covers through March, the tentative March allocations. I am concerned with the shipments we have made and the shipments we are going to make during January, February, and March on our present allocations as they are all covered by the supplies of grain we now have.

Mr. JONKMAN. I agree with it on the basis of shipments. I was not interested in allocations, but I like to know what is shipped.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. Mr. Secretary, when the interim-aid program was before the House, there was a determined effort to amend it to prevent the shipment of anything in short supply in the United States. You stated that you expressed the opinion that the quantities of food indicated as available from this country could be supplied without any extra strain on the food prices. Even so, what effect, as far as food is concerned, would an amendment like that have?

Secretary ANDERSON. Any amendment which says that you cannot ship items in short supply makes you stop and test what the use of

that commodity would be if you allowed everything to run unrestrained. For example, under it, I would have to use an illustration to show you what I mean. Under the price decontrol bill, if you recall that was passed in August of 1946, it became my duty to certify those things which were in short supply month by month. I continued to say that cereals were in short supply to the very last day of the legislation, and I mean they were still in short supply as far as we were concerned, and in June of 1947, when people were talking of this terrific billion four hundred million wheat crop and the possibilities of another large corn crop, the corn crop failed and cereals did show up in extremely short supply over all. If you allowed everybody to use everything, if you did not discourage in any way the consumption of grain, you would shortly find yourself in a situation where they were extremely short, and you would have price difficulties.

Right now, if people continue to conserve on the supplies of grains, if they do not feed hogs beyond reasonable weights, if they do not fatten cattle to top finished grades, if you do not allow unlimited amounts to distillers and brewers, and others, we have a sufficient supply. What the demand would be if you took off all restrictions and all suggestions, and all attempts to bring about conservation, I do not know. Therefore, I hate to have legislation that says I must stop and find which things are in short supply. They are all interrelated, a great many of them are, and you might have a bountiful supply of cottonseed oil, and great shortage of lard, but that shortage of lard would have its effect on the cottonseed-oil supply very quickly. If you cut off the imports of copra, it would see its effect on the cottonseed oil supply shortly. Therefore, would I be justified in saying when we have the greatest supply of cottonseed oil that it is in short supply? People would say I was doing something absolutely contrary to Congress, intent. It is not in short supply. It is in relation to other world demands and substitution of other products.

Mr. JARMAN. You do not think it would be beneficial to the program or the country for such an amendment to pass?

Secretary ANDERSON. I never tried to tell the Congress what I think it ought to do. But I would be glad to say it is a bad amendment to pass just as I thought an amendment restricting the amount of carry-over was a bad amendment. It had to be considered in connection with what the next crop was. The amount of carry-over does not mean a thing; 150,000,000 bushels, with an absolute failure of the wheat crop, does not mean a thing; 150,000,000 bushels, with a whale of a wheat crop, is a huge supply; 80,000,000 bushels, with a big wheat crop, is ample; 150,000,000 bushels, with a small wheat crop, is far too small.

Mr. JARMAN. Another amendment vigorously pursued when that was under consideration was to prevent the shipment of fertilizer and machinery, farm machinery as long as they were in short supply, something of that kind. The burden of the argument was, as I recall, that our farmers could not produce the food because they did not have the fertilizer and the machinery. Of course, the argument on the other side was that it would be better to let them produce a little over these than for our farmers to continue to have to do it. What do you think about an amendment like that as to the program?

Secretary ANDERSON. I think that is an amendment where the matter of individual judgment comes in very heavily. You can

argue both sides of that, and we do argue both sides of it in the Department. It is pretty persuasive on both sides. I opposed, for example, the shipment of large quantities of tractors by UNRRA on the ground I did not think those tractors were going into the hands of people who had the know-how to operate them. It seems to be a simple thing to operate a tractor in these United States where youngsters are brought up with a kit of tools in one hand and learn what to do with a model T Ford early in life. It is something else to people who happen to use animals for their motive power for a long time. They do not understand what a magneto is supposed to do. Some of those tractors were wasted, and that has been amply proved. Unless you have the skilled people who can start off those tractors and see that they are serviced properly, utilized, that the fields are large enough to use the type of tractors shipped, then, it is a waste to send that tractor there, and we in the Department have vigorously opposed large wholesale exportation of American tractors in the present program. The number of tractors will be substantially limited. Therefore, I say to you that wholesale permission to export large quantities of tractors would be a very bad thing. A limitation on how many tractors you can send is something that would require a tremendous lot of knowledge of the situation by the persons putting on the limitation. I doubt if it could be easily done. I mean to say that I doubt that the information is quickly available to the Members of Congress.

For instance, it is pretty hard to say how many tractors you can put into France that will be well used or how many can be put into Italy and be well used. I questioned the other day tractors going into Norway. I did not think it possible for those tractors to be used. I have an explanation back as to why they are being used. I am not completely satisfied as to that. We fight those things as vigorously as they need to be fought out. I say it is a doubtful area and, as to fertilizers, I am on a little better ground. We are not shipping large quantities of fertilizer. Something like 8 percent of the commercial nitrogen and small quantities of phosphate. When you ship a ton of fertilizer, you eliminate the necessity of shipping 6 or 7 tons of food. To the extent we need that fertilizer, it can be well used and we ought to ship limited quantities of it. We are providing for the shipment of limited quantities of it. I do not think that the shipment of all fertilizers could with wisdom be barred by the Congress because the immense amount of food to be shipped would need to be even larger. All of the economy is on the side of a small shipment of food and of a large amount of fertilizer.

Mr. JARMAN. That is the position I took against those amendments, and there was one fertilizer, only 1.7 percent of the supply of which was contemplated in the program. I believe it was nitrate.

Secretary ANDERSON. I testified so much, but I believe 8 percent is about right.

Mr. JARMAN. I say that was the other program, not UNRRA. As to the interim aid, I further took the position that while the farmers of our country might, by being required to continue to produce this food at high prices, might profit somewhat by it, I did not believe they were that selfish. What prompted this question was a statement you made awhile ago, which I am not sure I got, to the effect that, but for this program, what would happen to the farmers. Do you remember what you said? It seems to be contrary to what I had in mind in my argument.

Secretary ANDERSON. I said this: Someone says: "Why do we not quit all this and let Europe get back on its own feet?" I think one of the answers is: Because of the requirements of war, and the requirements of postwar support, that we have asked our farmers to produce present quantities of a great many things. They are geared now, and they have their seed in the ground for the largest winter-wheat acreage we have ever known in the country. It is the largest we have ever sown. In any event, it is an extremely large acreage of winter wheat. The farmer cannot be suddenly told that we do not want that much production. You can stop a factory half way, stop the assembly line, and start up again in a few days, but once you put that wheat in the ground, you have to go on through and harvest it. If that all came through, and there was no program of support whatever, I think we would have some very serious repercussions in agriculture. My limited knowledge tells me that you cannot have that happen without tearing down every business institution in the country. We found it out twice, and we will find it out quickly again. My concern is that it would destroy a great many businesses of all kinds, the people of Europe would lose their example as well as their food. I think it is a great thing to have a country agriculturally and industrially alert to point to as to how democracy works. I mean that more than anything else. The American farmers are in pretty good shape financially, perhaps better than some others, but the cutting off of these agricultural commodities would have, I think, serious repercussions on our whole industrial life.

Chairman EATON. The time of the gentleman has expired.

Mrs. Bolton.

Mrs. BOLTON. Mr. Secretary, am I right in thinking that you said that the prices here are not affected by the exports, and that there is an ample amount of feed, corn, and so on for this country?

Secretary ANDERSON. I am sure I did not say that.

Mrs. BOLTON. Please correct me. That is why I am asking the question.

Secretary ANDERSON. There is no provision for the export of corn, and there is a shortage of corn and feed corn.

Mrs. BOLTON. I was well aware of it.

Secretary ANDERSON. Yes.

Mrs. BOLTON. I want to ask you quite definitely what method do you have, or do you not do it at all, to follow the home food and the foreign food program, and if you check in the different countries on the use of food and fertilizer, or is that done by some other agency?

Secretary ANDERSON. It is done primarily—and it depends on the program. In the UNRRA program they were checked by UNRRA. In the State Department program they are checked by the State Department.

Mrs. BOLTON. In this new program, who checks?

Secretary ANDERSON. In this new program I am not able to say to you if it is the Secretary of State or is checked by the State Department. When you have agriculture attachés in these countries who report primarily to the State Department, it is secondary to us. They are agriculture people, however, but their services are available to the State Department, and they are primarily the ones.

Mrs. BOLTON. You have no responsibility in the matter of decision as to how much food shall go?

Secretary ANDERSON. We have the responsibility of the decision as to how much food shall go.

Mrs. BOLTON. You do not follow it when it gets over there?

Secretary ANDERSON. No. We do not set up two organizations to follow it. The State Department is supposedly following it, and I think it is.

Mrs. BOLTON. What relation do you have envisaged with this new organization and the State Department plan of organization for this new program? What do you envisage as your relation to the Administrator?

Secretary ANDERSON. On the production side, I would think that we would have available to him a staff of people most of whom we could very quickly recruit, and most of whom are probably now available, who would examine production plans in these areas to see if they are producing the things essential to their own food source. It is pretty hard to illustrate except by an examination. When we made the examination of Poland last July, we tried to determine whether the wheat shipments proposed to Poland were essential. We found Poland was placing primary emphasis on sugar for export and rehabilitation of her livestock industry. Therefore, we knew it was not grain that was greatly needed for her own people. If its people were hungry, they would have been trying to feed them first with grain and not trying to get sugar for export. Upon that knowledge of their emphasis, we were able to draw some conclusions about their needs for wheat which subsequent months have proven to be very accurate.

Now, the Poles show up with fairly good supplies. We have tried to go in to some of these countries to find if we thought it would help to meet the goals we have set out. If it would not, we would not attempt to remedy it ourselves. It would be our responsibility to go to the Administrator, as he has the responsibility in this connection because he is the one who is going to be able to say we will or will not supply these things, depending on their cooperation with the program.

Mrs. BOLTON. Do you have responsibility to keep him informed?

Secretary ANDERSON. We would have a responsibility to keep him informed as to their program, not as to their compliance with it.

Mrs. BOLTON. Then, he is responsible for checking their compliance with it?

Secretary ANDERSON. I would think so, because that is a situation in which we find ourselves in Germany now. We have made certain recommendations and laid out certain programs, but the responsibility for carrying it out comes to the administrator in that area.

As to the shipment of foods, we feel it should be our responsibility to get together these agricultural supplies and see that they are shipped and landed where the Administrator requires them. We do not think we ought to have the responsibility for distribution.

Mrs. BOLTON. So far as I can find out in my study of the bill, none of that is spelled out in the State Department bill as submitted to this committee.

Secretary ANDERSON. I think that is true, and that is why I have stressed it in my testimony, and stressed it before the Senate. I feel it would be extremely unwise to have another procurement group. I base that upon some experience I had in the closing days of the war when we were dealing with two or three agencies that had some

responsibility. Mr. Crowley had a general plan and UNRRA had one, and we had one, and when we tried to put them all together, we might have found certain stocks and there had been competition there under unusually distressing circumstances.

Mrs. BOLTON. Do you represent the United States in the International Food group?

Secretary ANDERSON. Yes.

Mrs. BOLTON. In that group, has there been a study made of the places from which western Europe can hope for food supplies if they are developed?

Secretary ANDERSON. Yes; but not as much in the International Food Council as in the Food and Agricultural Organization. The International Emergency Food Council has now become the International Food Committee and has been merged with the Food and Agricultural Organization. Theoretically and practically, probably it was the function of the International Emergency Food Council to deal with shortages and try to find ways of plugging up these present groups. Food and Agriculture Organization was to look for the long-range program.

Mrs. BOLTON. In the long-range program, and in the studies made by that group, what consideration, what share was the Near East to have in that?

Secretary ANDERSON. In the supplying of food?

Mrs. BOLTON. You have the greatest value in the long-range program.

Secretary ANDERSON. In the long-range program the great emphasis was placed on rice production in Burma, Siam, and French Indochina.

Mrs. BOLTON. What about the closer and nearer land of the Near East which is fabulously rich?

Secretary ANDERSON. I am not sure, because in an area like Saudi Arabia it will require irrigation projects.

Mrs. BOLTON. But rather simple ones and simple ones in which you have the greatest value?

Secretary ANDERSON. Not simple from what I saw. They run into hundreds of millions of dollars.

Mrs. BOLTON. The original one?

Secretary ANDERSON. There are a great many simple possibilities for improvement of food supply in that area. That is Food and Agriculture Organization's province, and Food and Agriculture Organization does have a group in that area working now in that question of food supply.

Mrs. BOLTON. That has been taken into consideration with the food supply for western Europe?

Secretary ANDERSON. Yes; although western Europe does not depend on that area and probably will not depend on that area for its supplies of food. That area has need for those supplies in their own land, if adequate diet should become available. We have looked to the possibility that western Europe will depend on Canada and Argentina.

Mrs. BOLTON. And the development of North Africa?

Secretary ANDERSON. The British are trying to remedy their fats and oil situation. There is a project there now which is somewhat started out of a suggestion made by the Department of Agriculture. We just told them that they could not continue to depend on large quantities from us.

Mrs. BOLTON. You are to be commended.

Secretary ANDERSON. The British went down and tried to put it in operation and they have had some unusual problems.

Mrs. BOLTON. What about the French in North Africa?

Secretary ANDERSON. They are doing something but not as yet operating with the same vigor as the British.

Mrs. BOLTON. It is not your responsibility and, under the new arrangements, it will be the responsibility of the State Department to fulfill those responsibilities.

Secretary ANDERSON. Not as to North Africa. I do not think the economic recovery program would touch the State Department's responsibilities in North Africa. I think that is still Food and Agriculture Organization's responsibility and not the State Department. It is an interesting field that I would like to further discuss that we, as a nation and part of the United Nations, should continue.

Chairman EATON. We will hear from Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, in your opinion would the enactment of this legislation contribute much toward the inflationary spiral now in effect in this country?

Secretary ANDERSON. If you would ask me whether it need add anything to the inflationary spiral, I can answer that quite easily, by saying that it need not. I also recognize, and I think we all recognize, that as soon as a program is announced, that envisions the export of 10,000,000 bales of cotton in the next 4 years, that has a strengthening influence on the cotton market. It does not mean that it needs to have one because we know, as a practical matter, that this country has always exported cotton. We will undoubtedly be exporting cotton again, but some sort of export arrangement will be made for the export of cotton regardless, and, if that does not happen, it would be disastrous to a great section of our whole economy. The fact that you announce that sort of an export program does strengthen the market. If you announced that we were going to export 350,000,000 bushels of wheat, that would have, for a while, a little stimulating influence on the market. If you stopped, then, and showed that would not be at all an unusual amount of wheat for us to ship in connection with our present supplies, that story does not seem to have much influence on the market. For some reason or other, the optimism runs high in the grain exchanges and, as soon as you give them one encouraging word, it seems to move things along well.

Mr. MANSFIELD. Looking at this legislation practically, then, we can assume that it will undoubtedly contribute to inflationary processes now in effect in the country?

Secretary ANDERSON. No, I do not say that will contribute to them. I think it will not contribute to those things that might break our industrial and agricultural prices substantially, namely a sort of turn-down in all of our present level of high national income. There is nothing in it that I see that causes real trouble. Our real great difficulty today in the domestic field is the high price of meat, butter, and eggs, and none of those things would be affected by this program.

Mr. MANSFIELD. You stated also that if there was no foreign market for these extremely good crops that we have been having that the result would be surpluses, naturally, and the further result would be deflation in agriculture which, in turn, would spread itself out to other fields.

little plots of ground into wheat. He had the most disastrous weather he ever had.

Mr. SMITH. Is it true, is it not, that considerable grain is still being held by the farmers who refuse to take it to market?

Secretary ANDERSON. In Europe?

Mr. SMITH. In Europe, yes.

Secretary ANDERSON. I am not sure. I wish I could answer that question correctly. I would say that I have an impression that—and only an impression—in Germany the collections have been much poorer than we anticipated. They are based to some degree on inability to collect, not solely crop failures.

The French Government last July established a price for grain which was more appealing to the farmers and has brought increasing quantities of grain from the farmers there.

Mr. SMITH. Considerable grain, however, has gone into the feeding of cattle, has it not? I believe in the testimony that we have on the interim aid bill, that in Italy alone cattle had increased 25 percent.

Secretary ANDERSON. It is like a man who has only one necktie. When he gets an extra one, he has increased 100 percent. Italy is like a fellow with two neckties. The Italian livestock situation is notoriously bad. They have increased a little bit, by a big percentage, but not a significant increase in quantity.

Mr. SMITH. It is not a fact in the interim-aid bill we provided millions of dollars to pay farmers to get their grain on the market?

Secretary ANDERSON. I do not know that.

Mr. SMITH. I think you will find that to be the fact.

Secretary ANDERSON. Would you tell me where I could find that?

Mr. SMITH. This was incentive goods. Mr. Mansfield referred to the matter. We get more production if we give the farmers incentives.

Secretary ANDERSON. I subscribe to that. I understand the interim-aid bill authorizes not to exceed 5 percent of available funds to be used for procurement of incentive goods.

Mr. SMITH. Mrs. Bolton reminds me there are 80,000,000 dollars for that purpose alone, for the purpose of incentive payments.

In that matter of collections, have you been satisfied with them as we have gone along?

Secretary ANDERSON. In other countries?

Mr. SMITH. Yes.

Secretary ANDERSON. No.

Mr. SMITH. Do you recommend any way whereby we can help that situation so that the American taxpayer is not paying the bill for European countries.

Secretary ANDERSON. I was just going to say in the case of the mission which went over to see the people in Japan, we were not happy at all over the fact that there came in a request to us from headquarters over there for a very substantial quantity of grain at a time when it was extremely difficult for us to scrape any more grain out of the American barrel. A mission went to Japan, and I think two members of that mission are here this morning, and they made a survey and found out that our collection methods were bad. The grain was not coming out. The matter was rather heatedly discussed with members of General MacArthur's staff, and finally it came to the attention of the general himself. A new project was set up to better the collection program in Japan. This year that is working well. We are collecting above the amount that they have

set aside for their goal. That has been a success. On the contrary, the situation in Germany has been a disintegration of the collection machinery because we are not able to believe that the potato crop has failed as greatly as the figures indicate, nor led to believe that the collection of grain has failed as greatly. We think it cannot be solved by saying that neighbors must get together and solve this. We think there must be some strong method, as adopted in Japan, if we are to have decent collections there.

Mr. SMITH. Does that apply to Italy and France, also?

Secretary ANDERSON. I think there are other factors in Italy.

Mr. SMITH. Just one more question. Mr. Secretary, with reference to the matter of tractors: It is my understanding that the tractor industry in the country has been called upon for a set-aside of a certain percentage of production this year.

Secretary ANDERSON. I have no knowledge of that. I am sure there is no such thing as that.

Mr. SMITH. I would like, Mr. Chairman, to ask unanimous consent to place in the record, at this point, a request that has been made showing that many tractors are expected to be taken from our production for overseas shipment.

Secretary ANDERSON. Let me see it, too, because it is news to me.

Chairman EATON. No objection?

Mr. BLOOM. Let us all see it.

Secretary ANDERSON. I am certain there could not be. It would be well for me to comment on it here.

Mr. SMITH. I do not have it here.

Mr. SMITH. Do you believe there ought to be an allocation of tractors?

Secretary ANDERSON. Yes.

Mr. SMITH. For overseas use?

Secretary ANDERSON. Yes.

Mr. SMITH. To what extent would you say? What percentage of production?

Secretary ANDERSON. Probably around 10 percent for the ERP countries.

Chairman EATON. The gentleman's time has expired.

Mr. JAVITS. Mr. Secretary, have you made any estimate of the demand for meat per capita in the United States for 1947 as contrasted with the supply?

Secretary ANDERSON. The Bureau of Agricultural Economics worked up some figures that I would rather they introduce because I know they have calculated how much we are now consuming, if there were all the meat we wanted within what we might regard as reasonable prices.

Mr. JAVITS. Would you be good enough to introduce that calculation into the record?

Secretary ANDERSON. Mr. Wells, I am sure, could testify right now.

Mr. JAVITS. Could you give it to us briefly?

Mr. WELLS. Average per capita consumption during the last year was 155 or 156 pounds, we have generally estimated with reasonable prices American consumers might buy 165 pounds per capita if they could get it. It appears that the supply for this year will not be more than 145 to 146.

Mr. JAVITS. Mr. Secretary, are there material diversions of grain to feed cattle?

Secretary ANDERSON. There is a certain amount of normal use of grain for the feeding of cattle. That is not as large as you might anticipate because of unfavorable feeding ratios. For instance, the last few days cattle prices turned down nearly a dollar, and when wheat prices move up and cattle prices down, you intensify the unfavorable ratio.

Mr. JAVITS. Does the pressure of grain demand for feeding increase the price of grain?

Secretary ANDERSON. Yes, the high price of meat naturally attracts grain to that feeding, but not much wheat. The price of wheat is such that it is not a desirable feed at \$3 a bushel.

Mr. JAVITS. I note that you plan to export 100,000,000 bushels of other grains. Does it affect the prices of those other grains?

Secretary ANDERSON. Yes, sir.

Mr. JAVITS. Do you believe that it is advisable that the use of grain, for feed, should be enhanced in order to take up eventually the difference between what we are now exporting to Europe and what we will export to Europe at a time when the need there diminishes, or do you believe that curtailment should take place at that time through reduction of the acreage allocated to grain?

Secretary ANDERSON. I am not sure that I understand exactly what you mean. I know this: There will be an increased consumption of grain in the cattle industry as soon as we can afford to use those grains for that purpose. We, in the Department, are conscientiously trying to bring about the increased grain consumption. Temporarily, that goal has to be put aside. We hope to get to livestock as quickly as we can.

Mr. JAVITS. For a constructive agricultural policy under present circumstances to bring it in accord with the ERP, that goal of increased grain consumption should be deferred?

Secretary ANDERSON. That is right.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Secretary, I was interested in your statement on page 10 where you say:

I do not anticipate that exports in these amounts would add to the inflationary pressure in this country, or call for any undue sacrifice on the part of our consumers.

I do not quite know what you mean by an undue sacrifice.

In interrogating Mr. Clayton on this matter, I find that this is what he said:

We produced last year 1,400,000,000 bushels of wheat. The human beings in this country cannot use over half of that, to save their lives, and they do not eat over half of that. Of course, we feed a certain amount to animals, which is unfortunate, and you have a lot of wheat you have to export.

Mr. LODGE. Yet the price of wheat goes up?

Mr. CLAYTON. And yet the price of wheat goes up, because there is such an enormous demand over the world for it. The production of wheat in other countries has declined so much that they have to have our wheat.

The point I am trying to get at is this: I favor the principle of the European recovery program, but I would like to know from such an eminent authority as you, do you really feel certain that that statement of yours on page 10 is exactly what you want to say about these inflationary effects of these exports of wheat? I think the American people can take their medicine, they have shown that in the past.

Secretary ANDERSON. I will say what I said before. I cannot understand what makes the price of wheat jump in the manner that it sometimes does. From 1930 to 1946, the total use or distribution of wheat in this country has averaged 770,000,000 bushels. That from the 1,450,000,000 bushels leaves 680,000,000 bushels for export and carry-over. Knowing that we are going to export at least 450,000,000 bushels, that would leave 230,000,000. If we export 500,000,000 bushels, that would still leave 180,000,000 bushels for carry-over and additional use in this country. You would think this quantity would drive down the price of wheat. Yet they pay no attention to it. The speculative market seems to feel that the important figure is 450,000,000 bushels. Every time you announce something about it, the price of wheat drops. It dropped a little because we said we have only 50 to 80 million bushels to acquire.

Mr. LODGE. That is what you said to Mr. Mansfield. That it need not, but it does. Your statement therefore is not in conflict with Mr. Clayton. You do not say that it will not.

Secretary ANDERSON. I say that it need not.

Mr. LODGE. In further regard to this question, I have here a statement which has been gathered from the Agricultural Department statistics, the statement and letter are from Dr. Fitzgerald of the Foreign Agricultural Commission, and corroborated by the State Department. It points out there would be a carry-over of only 25,000,000 bushels at the end of the year on the basis of those estimates.

Secretary ANDERSON. I am sure that is not right. There is a mistake there somewhere.

Mr. LODGE. Apparently, Mr. Secretary, there is some conflict between your figures and the Department of Agriculture figures.

Secretary ANDERSON. There is no Department of Agriculture figure in existence that indicates the carry-over of 25,000,000 bushels. Someone has made a mistake.

Mr. LODGE. It is indicated on this statement that according to Department of Agriculture the figure for feed is 325,000,000 bushels, whereas you apparently put that at 250,000,000 bushels. I wonder whether you could comment on that so that we can reconcile the figures.

Secretary ANDERSON. Surely. At the time that 325,000,000 bushel figure got into existence, it was based on the possibility that wheat prices would remain low, corn would be scarce, and that thereby a great deal of wheat would be diverted into feeding of livestock. You can feed wheat to cattle at \$2.06 a bushel which was about the export price at that time. You cannot afford it at \$3. Immediately after the announcement of goals, this looked like a possible use. We took figures from everybody in the Department. We have different groups, including the Bureau of Agricultural Economics, and the Production and Marketing Administration. They all had made an estimate and this was a sort of a median figure. After we got our first reports, this was made well in advance, after we got our first report in the year, it became evident we should scale that down to 250,000,000 bushels. Now we are getting indications that it might run as low as 200,000,000 bushels.

Mr. LODGE. In other words, there is no conflict between the Department's figures and yours?

Secretary ANDERSON. No, the trouble is that we set out a set of figures shortly thereafter after the BAE conference, one of Mr. Wells' people got up and revised that figure substantially, and revised it in the right direction.

Mr. LODGE. The reason for the apparent disparity between the two figures is that a different time was taken?

Secretary ANDERSON. That is right.

Mr. LODGE. There is, in fact, then, no difference between your estimates and your Department's estimates?

Secretary ANDERSON. No, because I am using the very figures which Mr. Wells supplies to me. I have to. It is the only place I can get figures I can rely on. There is a change as time goes on. Very shortly we have additional figures and disparities. Those could jump the other way. As we get more and more information, as we go along in the year, then, we know more and more how much is going to be used in the year.

Mr. LODGE. Then, would you say that 25,000,000 carry-over is a very unlikely estimate, would you?

Secretary ANDERSON. Yes.

Mr. LODGE. You would say a 25,000,000 carry-over would have inflationary effects?

Secretary ANDERSON. Very definitely. It is impossible to get a 25,000,000 carry-over. You need so much for warehousing, so much in docks, terminal elevators. The day will never come when you can shrink it to 25,000,000 bushels.

Mr. LODGE. I am glad to have that for the record.

Chairman EATON. Mr. Jackson.

Mr. JACKSON. Mr. Secretary, if my question is a little nonrural, it is because the agriculture in our district comes from window boxes.

Secretary ANDERSON. Victory gardens there are important.

Mr. JACKSON. And small.

What are the latest estimates you have, Mr. Secretary, relative to the crop, the wheat crop for next year? What are the prospects?

Secretary ANDERSON. The last figure indicates a total crop somewhere in the neighborhood of a billion to a billion two hundred million bushels. The acreage is there to produce that much wheat. Whether or not the crop conditions are there to produce that much wheat, I do not know. The conditions have improved very materially. We got rain when we needed it. You have to have continued good rain to save it permanently.

Mr. JACKSON. How did that compare with last year?

Secretary ANDERSON. One billion four hundred million. The average is way, way below that. These are very unusual and extreme crops. The thing that it does do is to make an attractive price for wheat. Farmers gamble for \$3 wheat when they do not for \$2 wheat.

Mr. JACKSON. So do other people. Percentagewise, what is the amount of the total United States wheat shipments sent in the form of flour?

Secretary ANDERSON. Last year about half was shipped as flour. This year there will be well under half in flour. We expected to ship about a third, and it is running at about that figure. The reason we tried to get more and more into whole wheat was that they have a higher extraction ratio than we do. They will put 90 to 96 percent

of that flour—or wheat into actual flour whereas we will put 68 or 72 percent into it. We will get certain byproducts of shorts and middlings if we manufacture the flour here. They would like to have it as human food over there and they desire us to ship it over there that way.

Mr. JACKSON. The coarse grain itself?

Secretary ANDERSON. That is right.

Mr. JACKSON. I am sure that all of us in Europe were struck by the amount of white bread available. White bread in France, white bread in Italy, and in many cases, and certainly the nutritive value declines considerably.

Secretary ANDERSON. It depends a whole lot on whether you are in the home of the ordinary family or whether you are in the resort hotels and restaurants because they do, as could be expected, they realize the heavy dark bread is not popular in restaurants and would serve you in a hotel what is more expensive. Generally speaking, many of the countries in Europe have kept their flour extraction ratios running 90 percent and over. Most of the countries in Europe, for their ordinary trade, do utilize fully the kernel of wheat. We do ship some flours in all of those areas, and some of it has found its way into hotels and served on this basis.

Mr. JACKSON. Would it not be desirable to send all of it in grain?

Secretary ANDERSON. No, not entirely, because sometimes when you get to sending it all in grain, it gets used for livestock as well.

Mr. JACKSON. That would be true of all of it?

Secretary ANDERSON. That is true, in part, but once it is sent in flour we know it is used for human food. We have done what we think is desirable. We have reversed the ratio. This year we have sent a large portion of it in grain. That phase of that varies, when the country has asked us to change our policy and send more and more in grain than we did before this year.

Mr. JACKSON. Relative to the prices of grain and with particular reference to wheat, there have been several reasons advanced for the high prices of wheat. Would you care to comment as to what the effect on the price of wheat speculation of the grain market has been?

Secretary ANDERSON. No, sir. I say that this year's supply was so ample that, taking out the whole export program, there was more grain left than we were going to use, and we put a small amount in surplus. Normally when that happens, that has a depressing effect upon the market. Every time we would announce that we were going to buy, every time the ticker out of Washington the night before said that Commodity Credit Corporation would take bids tomorrow morning, that had a nice wholesome or strengthening effect on the grain market. Why that should happen, I do not know, unless hope does keep springing eternally. That means higher prices. There was nothing in the total amount of purchases that need have driven up the price of wheat too high. However, you may recall that a very well known wheat producer is reported to have said the price of wheat would get above \$4 and \$4.50, as he left an interview at the White House. I challenged that statement immediately because I saw nothing in the picture to permit it to go there. I am glad that subsequent events proved it cannot go there. The way the grain market is worked, I could not guarantee it would not. We have found that Commodity Credit Corporation moves into the market to buy rather limited

amounts of flour, and the whole flour market seems to move up in response to that.

Mr. JACKSON. Does it have a direct effect? Large scale Government purchases do have an effect on the price.

Secretary ANDERSON. We are going to buy less grain here on out the rest of the year than the flour mills will be buying. Why should not the large-scale flour-mill purchases of the General Mills or Pillsbury affect the market, buying a large quantity of grain? That does not change the bid. If we go in and buy a comparable amount, that does.

Mr. JONKMAN. Mr. Maloney.

Mr. MALONEY. Mr. Secretary, in the last few days there was an announcement in the press that a quantity of Idaho potatoes was on the dock and consigned to Scotland.

Scotland refused them and other countries refused them. Was that statement true, and if so, why?

Secretary ANDERSON. I do not know.

Mr. MALONEY. You have no knowledge of that?

Secretary ANDERSON. No, I cannot tell you. We have a large purchasing operation going on all of the time. If it was operated, I have not heard about it.

Mr. MALONEY. Yesterday.

Secretary ANDERSON. We do ship potatoes abroad, and we ship them abroad under favorable price limits. However, the shipment of potatoes at this time of year is a hazardous business. There was a possibility of their freezing in transit on the docks, or freezing in the cars, and the countries do prefer to have wheat.

Mr. MALONEY. Mr. Hoover sent a message yesterday to the Senate in which he advocated limiting the time of this aid to 1 year. Now, there are several vantage points to that. I want to point out one to you and see what you think about it. If we have this long-range aid and we tell Europe what we are going to give them in grain next year and the year after, would that not be likely to limit the farmers in their efforts to produce? Would they not rest on their oars and say: "Here we are getting so much grain from America or Argentina, and we do not produce, or it will not be necessary for us to produce?" There are other questions, but that is purely an agricultural question on the 1-year aid. What is your thought on that?

Secretary ANDERSON. My thought is that telling them they shall have a little smaller degree of starvation by doing that would not appeal to them. What I mean is this: We are not sending them enough grain to relieve their actual needs for cereals, at best. We are not sending them enough to restore their livestock populations. Nearly every country over there would like additional supplies of grain. The fact that we are making some contribution—and their total is still below their needs—I do not think ought to restrain them from going ahead and doing the best they know how. It is, to me, similar to what you might say to a young man going away to school—if he were your boy, you can say to him: "I am going to send you so much money a month. With what you have coming, that ought to see you through in reasonably good fashion." It does not mean he will drop every source of revenue because a portion of it comes to him. He might want enough to sustain himself decently. I think the countries of Europe are in that situation. They would like

enough so their people can live decently. They have to increase their efforts if the plan is to be successful at all.

Mr. MALONEY. Then you do not approve of the 1-year plan?

Secretary ANDERSON. No; I think it is much better if they can count on what is coming over for a reasonable period of time.

Mr. MALONEY. On page 10 you say:

Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

I was wondering what situation you were thinking of.

Secretary ANDERSON. If we should have, in 1948, another 3,300,000,000-bushel corn crop, as in 1946, instead of 2,400,000,000, as we had in 1947, then we could safely say to the American farmer—or he would do it automatically—"Greatly increase your output of pork." There are two ways you increase the meat supply. You can increase it very rapidly through pork. Increase of beef is a slow process, and probably we cannot expect much improvement in the beef situation for years to come. You can expand pork tremendously almost overnight. That would be available sometime in 1949. If we had another big corn crop, you could have large quantities of pork by 1950. Therefore, at the end of 2 years we might know whether we would be able to send them some pork.

Mr. MALONEY. What I am interested in is that it would depend on our own situation rather than the European situation?

Secretary ANDERSON. That is right.

Mr. JONKMAN. Mr. Jarman is recognized for a question or two.

Mr. JARMAN. Mr. Secretary, referring back to Mr. Bloom's question to you wherein he drew a distinction between supplies for food to prevent starvation and leather and other goods that would be manufactured into products—and he felt we should be paid for the leather—is not the nubbin of that proposition the fact that this is a recovery program and an indirect effort to preserve permanent peace rather than a relief proposition? We do not regret our part in the recovery, for the world recovery, and contributions for world peace that we hope continues.

Secretary ANDERSON. The decision would be one for the administrative program to decide—how quickly they needed a payment, basing it upon the speed of recovery or factors of recovery we could look at. We do not extract it all at once, the total amount of food that you can get out of an area. In that connection, I think if you would read some of the statements Mr. Hoover made about Russia's program, of taking reparations out of the current food production, you will find he strongly deplored their action. He said, very correctly, they defeated the very things we were trying to accomplish.

Mr. JARMAN. You referred, on page 12, to this 60-day wait for approval of Congress and urge that it be changed. I am not sure that I understand it.

Secretary ANDERSON. Here is what I mean: Suppose we should find in the next few weeks there was an arrangement that we could make would be advantageous. I wish the thing would be affirmatively approved. When you draft a treaty it can be submitted to the Senate, and the Senate could, if it wanted to, approve it that day, if it were urgent. If we should find that we can enter into negotiations with another group that was satisfactory, I wish there would be changes

that permit an immediate affirmative approval by the two Foreign Relations Committees, Senate and House, by the Appropriations Committee perhaps of the Senate and House, by somebody who could say to me at once, "Go ahead and finish it up."

If you wait 60 days, things get cold. I am not trying to take away full congressional approval. I said to Senator Taft, "I fully subscribe to the plans in any respect being approved by Congress." I still simply say when you are in a trade, I wish there were some similar provision that said if I could submit the matter—and, I would hope, in executive session—to the two Foreign Relations Committees, I mean the committees of the House and Senate dealing with foreign matters, and they might give me committee approval, and I could then proceed. If you want to have that checked by the Appropriations Committees, fine. We want the chance to move quickly.

Mr. JARMAN. I can understand the undesirability of that wait. That provision is in the bill.

Secretary ANDERSON. I sent that in to the so-called anti-inflation bill.

Mr. JARMAN. Which has become law.

Secretary ANDERSON. That is right. I did not object to it, and I do not object to it now. Although if we had a chance to see it in advance, we would have recommended that the provision be one to give a possibility of affirmative action. I am perfectly willing to have congressional approval, if it should be necessary, but I would so much rather have a right to bring it to the committee. explain it to the committee, and have them say, "Yes; we would like to have you do it," or, "No; we do not want you to go ahead." That is all I mean by that.

Mrs. BOLTON. Mr. Secretary, you said in the beginning of your prepared statement that the farmers have a stake in the foreign market.

Secretary ANDERSON. Yes.

Mrs. BOLTON. With this I agree. They have been deeply disturbed over the destruction of food supplies, the burning of the potatoes and the destruction of citrus fruits at different times when there are starving people in the world and when food costs are up, I find them utterly unsympathetic to the reasons that are given. They ask why potatoes cannot be reduced to potato flour so that they could be shipped—the idea being that the potatoes in the bottom of the hold rot. The reasons given them were that this was too expensive a process for the amount of food value in the potatoes when it was made into bread. My women are very unsympathetic to that. They say potato flour bread is better than no bread. What are we going to do about that sort of thing?

Secretary ANDERSON. On the question of potatoes, we have offered to give them away to these areas. The shipments of potatoes being made at the present time are required under the export program, based at prices virtually giving them away.

Mrs. BOLTON. It seems very reasonable to me that women should object to such waste.

Secretary ANDERSON. No; you have a time exporting potatoes. It is not an easy thing to explain. You have a type of potato that carries 70 or 75 percent water. When you start to ship that abroad you have to decide whether it is better to take the criticism of people who see them destroyed or ship something of real value.

Mrs. BOLTON. The 30 percent which is not water could be made into potato flour.

Secretary ANDERSON. It can be, at a price well above what wheat flour would cost.

Mrs. BOLTON. Exactly; but when there is no wheat flour?

Secretary ANDERSON. You were dealing at that time with another government which had very limited dollar funds, and which tried to get the greatest possible value out of its dollar. The foreign government had to decide whether it wanted potatoes or wheat. We did not have the authority to say they must take potatoes.

Mrs. BOLTON. Also, right nearby, potatoes were difficult to get in our own markets. That was another objection that I had from the women.

Secretary ANDERSON. They have been plentiful all over the country.

Mrs. BOLTON. Yes; but not distributed so they could be obtained.

Secretary ANDERSON. I do not know. I think the marketing records show there are potatoes available all over the country in plentiful supply.

Mrs. BOLTON. Perhaps the records might not have covered all the areas. Am I to understand that the reason they are not being sent abroad is the refusal of the country there to accept them at the price; is that it?

Secretary ANDERSON. First of all, we tried to make disposition of them. They were offered to charitable institutions. The institutions get, after awhile, all they can handle. Then we offered them for industrial uses. They are offered to people who make starch, people who make many other products. Then they are offered to livestock feeders. There is only a limited amount of the potatoes that you can feed direct to the livestock. Then they do not want them. When you have exhausted those channels, there is very little you can do with them. I have furnished this total figure as against the total crop of 384,000,000 bushels; when you get down to the distribution of a million bushels, it is not a large figure. It looms large in a photograph. I realize that. I got enough copies of that picture. Any destruction of potatoes in 1947 is going to be no larger than the destruction of potatoes in 1937. Nobody worried about it then. Any time you get one of those unusual situations—the same thing happened to butter during the period when we were buying butter, and they printed pictures of some butter destroyed in Philadelphia. Mrs. Bolton, you know that butter goes rancid every day in the year, in every kitchen in the country.

Mrs. BOLTON. I send it back to my grocer when it does.

Secretary ANDERSON. I congratulate you on that. The grocer has nobody he can send it back to.

Mrs. BOLTON. He will send it to you.

Secretary ANDERSON. He sends me a copy of the picture, but it is a hard problem. We destroyed tremendous quantities of potatoes in 1946. We destroyed tremendous quantities of it; but out of the 1947 crop we will have about the normal percentage of destruction or shrinkage. A certain amount of them always go out of condition. Cars are not available when the farmers want them. That goes right along. We are trying to see they are not wasted.

Mrs. BOLTON. Can you assure me that the farmers understand that they have a stake in export trade?

Secretary ANDERSON. No; I cannot assure you, but I can assure you that we have done everything we can. I have been surprised how many of them understand it. You notice the regular list of the American Farm Bureau on it every day.

Mrs. BOLTON. Ohio farmers did a good job, too.

Secretary ANDERSON. They saw conditions and reported honestly and favorably what they saw.

Mrs. BOLTON. Thank you.

Mr. LODGE. Mr. Secretary, the Krug and Harriman reports both stress the need of fertilizer as an A-1 priority.

Secretary ANDERSON. Yes.

Mr. LODGE. The report stated that you were able to satisfy or to meet only about three-quarters of world requirements. In these circumstances does it seem wise to you to dismantle nitrogen plants in Hochbau in the French zone of Germany?

Secretary ANDERSON. You see, you have the best of me, Mr. Lodge, because I am not sure that I know the particular plants to which you are referring. I do say to you in general that we have felt it extremely unwise to dismantle any of these nitrogen plants. I do know that last summer I tried to get a situation straightened out where one of the plants we were very much interested in would be back in production. It had not been our fault that that plant had gone out of production. We made a three-cornered deal that should have put it into production. We carried out our part. The British carried out their part.

Mr. LODGE. Where was that?

Secretary ANDERSON. It was the old I. G. Farben plant at Höchst, in the United States zone. And its operation depended on liquid nitrogen that it got from a plant in the French zone at Ludwigshaven. We agreed that we would send additional quantities of food in the Ruhr to permit the British to mine additional coal, and send the additional coal to Ludwigshaven, and then send the liquid from there to make fertilizer. It is that sort of horse trading that you have to do there. The British delivered the extra coal, the French made the extra ammonia water, and promptly shipped it in to the French. They have problems of their own, the French do.

Mr. LODGE. I am in sympathy with the problems the French have faced. I have no doubt that one of the things we must do under the European recovery program is to integrate the various elements in these matters in order to achieve what I believe to be a worthy objective, which is an Economic Federation of Europe. Obviously, we are going to ship wheat into France. They are going to get it. Surely we cannot take a formalistic attitude and say, because this is in the French zone, we cannot make a suggestion as to the dismantling. I am sure that the French authorities would respond understandingly to a suggestion from us that these nitrogen plants which are multiple and important at Hochbau in the French zone should not be dismantled. I would appreciate it very much if you would present a memorandum to this committee on this subject because that is one of the things that many of the people find hard to understand. An opinion from you would be very valuable to us, indeed.

Secretary ANDERSON. I would be very glad to do that, because one of the things that we have worked on as hard as any single thing I can think of is that these plants built by the Army should not be dismantled and tossed aside. They should be used.

(The information is as follows:)

In undertaking to ascertain the exact status of plants located in the French zone of Germany which are capable of being used for the manufacture of fertilizer, I have asked the Department of the Army for a statement upon the matter. Following is the information received from the Army, which I understand is based upon official reports received from OMGUS:

"With regard to bizonal Germany, United States/United Kingdom zones, there has been no destruction or dismantling of fertilizer plants since the cessation of hostilities, and destruction or dismantling is not contemplated.

"Two plants, one designed to produce concentrated nitric acid, and the other to produce synthetic fuels, are being converted to the production of nitrogenous fertilizers.

"Two new plants for the production of Rhenania phosphate have been placed in operation.

"French zone production of nitrogenous fertilizer has been indicated by the French to be 44,000 metric tons of nitrogen per year at the present time. The French are not operating the calcium nitrate plant or the ammonium sulfate plant at the Oppau works. The first could be placed in operation in 6 months and the second in 18 months. The combined capacity is 55,000 tons of nitrogen per year. This possible increase is reflected in French Marshall-plan figures.

"Soviets have destroyed potash mines in the U. S. S. R. zone, but they have stated in the Allied Control Council that the mines destroyed were exhausted mines that had been used for the underground production of war materials.

"No fertilizer plants in Germany have or will be declared for reparations. Synthetic ammonia was set aside as a prohibited industry. However, the Allied Control Council authorized production of synthetic ammonia for Germany's peacetime requirements until such time as exports could pay for all imports.

"Some persons have claimed that the dismantling of steel plants and blast furnaces capable of producing basic slag involves dismantling and destruction of fertilizer plants. We are unable to classify steel plants as fertilizer plants. Obviously, the need for basic slag cannot justify the retention of steel plants above the required level."

Mr. LODGE. May I say to that, insofar as there might be disagreement within the President's Cabinet, I am on your side.

Secretary ANDERSON. Thank you very much.

Mr. LODGE. Mr. Secretary, on page 6 you compare requirements to availabilities. That is a very interesting comparison, and the thought that arises in my mind is this: Are these availabilities going to be sufficient to maintain even the austerity rations which are essential in order for these governments to survive? If the bread ration in Italy goes down at all, the de Gasperi government will be in very grave danger. We cannot ship any more than we have; but does not this mean that perhaps we should cudgel our brain to find some other way of adding to the rations—perhaps not the bread ration, but some other rations—in order to give these people a diet which will protect these governments and thereby protect American security?

Secretary ANDERSON. Yes; I think so, and I think possibly the answer comes in two parts. I think that not enough was done with the fishing situation. I think substantially greater quantities of fish could have been available with just a little bit of the right type of cooperative planning. We allowed ourselves to get into a situation where we missed some of that because of an argument over a few dollars in one country. I still feel it might have been avoided. As to the bread ration in Italy, I do not think that is as much at stake as food levels in some other areas which have been out of line with the very different situation in France and Italy.

Mr. LODGE. You mean that the Italians have not been able to import what they otherwise would have been able to import?

Secretary ANDERSON. I mean that we have a higher bread ration in France than we have in Belgium and Italy. We have scaled some of those down more than we have the Italians.

A very good crop seems to be coming on in Argentina and a greater export potential in Australia. We may be able to do what you have suggested, substantially.

Mr. LODGE. I am glad to hear you say that, Mr. Secretary, because, as the Secretary of State intimated, if we did not appropriate enough, we might lose the benefit of what we did appropriate. I believe that unless we can go this extra step of providing an adequate ration, we may find that the political situation in Italy will become very threatening, indeed. It is now the most threatening spot in Europe, and I would be tremendously interested in some kind of a program which would look toward meeting that situation. Since we are making the great effort, let us try to make it effectively, and in the light of grim realities.

I have one more question, Mr. Secretary, and that is, when I was in France, I found that meat was unobtainable at the controlled price. The only place you can buy meat in France is on the black market where the Government cannot tax it. Is it your opinion that price controls should be maintained in France on meat?

Secretary ANDERSON. I hope you will be satisfied with this answer: I think you realize it would be highly improper for a member of the Cabinet in this country to comment on the situation in France. I do not believe I should do it.

Mr. LODGE. May I ask you if, in your opinion, the Administrator of this program should refrain from making any comments to the governments of the several participating countries as to the management of their internal affairs?

Secretary ANDERSON. I would reply that he should not refrain. That he should be very vocal.

Mr. LODGE. It seems to me that we must be tactful, of course, but many Europeans have said to me: "Please urge us into doing the right thing to achieve this economic federation. We look to you to be the catalyzing agent to precipitate a proper state of affairs because we are bound down by certain obsolete traditions and we recognize that." You would think it quite proper for an Administrator to comment on that?

Secretary ANDERSON. I am sure it would be proper, and I am very sure I saw some things that a strong pointing out of what was involved would have resulted in beneficial effects many months ago.

Mr. LODGE. You would not say that the removal of price controls on meat in France would necessarily be a poor thing?

Secretary ANDERSON. I believe I stand by my other answer, Mr. Lodge. I do not think it is proper for me to comment on what takes place in another country.

Mr. LODGE. I thought it was an interesting question, Mr. Secretary, because of the fact that it seems to me foreign affairs and domestic affairs are so very much linked. I wondered whether this administration was going to take the attitude with respect to the other countries, in the matter of inflation, as the President took in his message on the state of the Union regarding inflation in the United States. Would you say this: Insofar as foreign affairs are very much linked with domestic affairs, you certainly would approve of a non-partisan attitude in both connections?

Secretary ANDERSON. Yes; I think that I have tried to welcome an unpartisan attitude in the administration of this plan.

Mr. LODGE. I am glad to get that opinion.

Mr. JONKMAN. Are there any further questions?

Mr. JONKMAN. Mr. Secretary, you have been very helpful. Thank you for your valuable time.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

Chairman EATON. The committee will come to order.

STATEMENT OF HON. J. A. KRUG, SECRETARY OF THE INTERIOR

Secretary KRUG. I would like to say, Mr. Chairman, that I very much appreciate your committee accommodating its schedule to my time.

That is a very unusual courtesy nowadays for Cabinet officers to receive.

Chairman EATON. Our committee welcomes an opportunity to please.

Secretary KRUG. I might explain the documents that are before you. I brought along for the information of the committee a copy of the report I made in the Senate. I have also distributed copies of the National Resources and Foreign Aid Report, and copies of the hearings before the subcommittee of the Committee on Public Lands, investigating our national resources.

I think those three reports will give you some helpful background data on the resources of the country as they relate to the foreign aid program.

If I may, I would like to read a comparatively short statement, and then, of course, submit myself for questioning.

Chairman EATON. Please proceed.

Secretary KRUG. I support the European recovery program not only for its fine humanitarian purposes but as a sound investment in world recovery and our own future well-being.

Our resources and facilities are adequate to do the job; in fact, the export burden under the program is not likely to be as great as the one we handled last year.

I think people frequently forget that and look upon this as a superimposed burden. The total exports should not be as great as the total for last year.

There will be some difficult supply problems in a few basic commodities but they will diminish as the world economy gets into production. These are the conclusions of the Report on National Resources and Foreign Aid made under my supervision last fall. They are even more valid today. We must do the job because we want to assure peace and plenty for ourselves and for the world.

Before the Senate Foreign Relations Committee last week, I elaborated my reasons for supporting the European recovery program. To conserve your time, I have made available to the members of the committee copies of that statement and will summarize some of the points before moving on to discuss those aspects of the program of particular concern to my Department.

In brief, I made the following points:

1. Our long-run interests lie in getting world production into gear and in restoring world trade in order that our own industries and our own resources can be intelligently developed and their products effectively exchanged for those of the rest of the world.

This conclusion is based upon a recognition that our own resources must be supplemented from abroad. Recovery of European production is essential to restoration of multilateral trade throughout the world and therefore of course to our own well-being and security.

2. With the economy of the United States operating at highest peacetime levels and exceeding wartime peaks in many instances, our agricultural and industrial facilities are being heavily strained and this itself is creating problems that must be solved.

Obviously any program of exports would superimpose an additional load, but we had better begin to solve the problems created by the present load on the camel's back rather than attempt to label the final straw. Foreign aid requirements may augment but do not create our difficulties.

3. For the most part, the problem today lies in certain basic world shortages that must be cured if the world economy is to get off dead center. These include wheat, fertilizer, coal, petroleum, steel, and certain items of equipment made of steel.

The supply of those basic commodities must be used during the next few years in such a manner that they will have the greatest effect in solving the problem of world shortages, so that these shortages will not continue indefinitely.

Energy resources: Basic to European recovery and to world development, as well as to our own economy, are the energy resources: coal, petroleum, and water power. Europe's major energy source has been coal and its productive economy is keyed to coal even more closely than our own. Its basic iron and steel, fertilizer, chemical, textile, metalworking, and transportation industries have been crippled by coal shortages, and the lag in these industries has dragged down the entire economy. Without coal, European recovery is impossible.

Europe is not short of coal resources, any more than we are. Coal production is down because coal production depends upon the productivity of the rest of the economy, including food, and that, in turn, depends on coal.

To break this vicious circle, temporary imports of coal are essential. The European nations have set maximum coal production goals for themselves during the next 4 years and are stringently limiting its use.

Their goals can be obtained only with intense and uninterrupted effort. The result of that effort will be that the requirements of coal from the United States even this year will be below Europe's imports of our coal in 1947, which totaled 40,696,000 net tons, and will taper off rapidly after the winter of 1948-49.

European requirements will therefore not seriously affect our own coal supplies if our industry can maintain its current high productivity. The peak requirements will amount to 6.8 percent of our monthly production at present production rates. During 1950-51, requirements will drop to 2.5 percent of our monthly production—based upon current production rates—and during 1951-52 to 0.9 percent. Thus, the coal requirements are small in terms of our total production. They are insignificant in terms of our vast coal resources.

Petroleum is Europe's other major source of energy and must be supplied if European recovery is to be achieved. Together with electric power, petroleum is rationed in practically all of the participating countries and the program assumes that consumption, except for the most essential uses, will continue to be drastically controlled.

European air and road transport and some of its rail and water transportation are dependent upon petroleum. The European food program requires motorized agriculture. For industrial and domestic fuel, petroleum products are essential. And lubricating oil particularly is vital to industrial activity.

The current world shortage of oil must be relieved by expanding production and refining facilities throughout the world. The European recovery program is a part of this effort, particularly through the rehabilitation of European refineries that will make possible the more effective use of oil from the Middle East.

The sources of oil for European requirements cannot be predicted for the entire period, but with the rehabilitation of European facilities the great bulk will come from the Middle East and Caribbean.

One point on our own exports should be emphasized: Not one drop of oil or oil products will be supplied by the United States which will not be more than offset by our own imports of petroleum.

During the early part of the recovery period, exports to Europe from the United States are not expected to exceed 150,000 barrels a day, or 2 to 3 percent of our available supply. This is less than the average of about 175,000 barrels daily exported to Europe in 1947. Moreover, they will drop off to an average of 50,000 barrels per day at the end of the program, which is less than 1 percent of our production.

In 1948, our imports are expected to exceed our exports by at least 24,000,000 barrels, and domestic production is expected to be increased by 95,000,000 barrels.

The present shortages of petroleum here at home are due, not to current exports, but to an unprecedented and still increasing domestic demand resulting from our peak industrial and business activity. Our per capita consumption today is more than 608 gallons as compared with 367 gallons in 1941. A fantastic increase.

A total increase in United States consumption of 115,000,000 barrels is expected in 1948. To be sure, continued exports to Europe and other traditional areas of export of American petroleum products will aggravate our own shortages but the world is dependent upon our highly refined petroleum products.

The availability of export controls in this country will assure a continuing opportunity to appraise the relative need for American oil exports and to reduce them at any time it appears that they are being used for nonessential purposes.

In this connection, I shall continue to call upon the National Petroleum Council, which is meeting here today, which consists of representatives of the oil industry and has been advising me on petroleum matters.

This group will be of great value in aiding the Department of the Interior in meeting its responsibilities of assisting the Administrator of the European recovery program with technical advice on production and distribution problems that arise in the participating countries and on the ability of our domestic economy and production to meet the demands of the program.

In order to protect our own petroleum consumers against continuing, and possibly more aggravated, domestic oil shortages and to do our part in supplying necessary products to Europe, we must take every step to increase oil supplies here and abroad and to curtail the non-essential uses of oil. This will require the cooperation of the Government, industry, and the public.

Future of American energy sources: In addition to action to break supply bottlenecks and effect curtailment of consumption, we must go forward with intelligent and intensive programs to develop additional sources of energy for our expanding production and our future higher levels of living.

We cannot maintain our current levels of consumption—quite aside from any foreign rehabilitation program—unless we accelerate programs to conserve and develop our own natural resources for energy production. Today's advanced techniques in the transformation of energy forms permit the ready substitution of one form of energy for another; for example, hydroelectric power for coal or oil.

The availability of all forms of energy sources will to an increasing degree in the future, constitute a primary index of the industrial production and the standard of living of a country such as ours.

The petroleum situation, which I have outlined to you, brings home the clear lesson that we must consider this problem together with our coal and water-power resources.

We should continue the development of our water power potentialities in order that the kilowatts thus generated take their rightful proportion of the load imposed by our increased power requirements.

The development of the Federal water-conservation projects now under construction or authorized by the Congress will prevent from wasting down the river annually, coal, oil, and other natural resources equivalent to 50,000,000 barrels of oil.

Such hydroelectric development carries with it appreciable benefits in flood control, navigation, and irrigation, which in turn have a direct effect upon food production and the fertility of our lands.

Even the most sanguine proponent of water-power conservation would not support that this alone will meet our increasing fuel needs. We must develop programs for the increased exploration and production of natural crudes and for furthering the possibilities of synthetic liquid fuels.

But the development of these fuels cannot be accomplished overnight and for that very reason we should expand our research and investigations in these technologies.

We already have under way experimental projects for the production of synthetic liquid fuels from natural gas, bituminous coal, lignite, and oil shale.

About 20 percent of the total coal reserves in the United States are in the form of lignite.

These lignite deposits would have a conversion value to synthetic liquid fuels of approximately 500 billion barrels, or about 25 times the present proved petroleum reserves of the United States. Our oil shale reserves are estimated as capable of yielding over 90 billion barrels of crude oil, or about five times our proved petroleum reserves.

Experimental work is also being undertaken by combined oil and coal industrial interests for the gasification of bituminous coal and the manufacture of synthetic liquid fuels. These programs of both in-

dustry and Government add up to efforts to effect a long-term solution to our energy problem. They must be expanded.

I have elaborated upon the energy problems because they are crucial to the European recovery program and to our own future and because they fell into the area where the Department of the Interior will be concerned, not only in giving technical assistance in the administration of the program, but also in guiding the development of long-range measures to increase our supplies. In this connection, I am appointing a National Coal Advisory Council, as a counterpart of the Petroleum Council I have mentioned, to provide advice from industry on these matters.

We also have a Minerals Council which works in the minerals field.

We must also consider the mineral base of our industrial economy.

The problem of these nonrenewable assets of iron, copper, lead, zinc, and the other materials basic to our civilization convinces me that we must play a double-header today if we are to remain in the running tomorrow.

We must first stimulate search for new mineral deposits through the use of modern ore-finding techniques. Means must also be found for the more economic utilization of low-grade ores. We must then make every effort along the lines of the European recovery program to create a world in which we will have access to materials elsewhere, and we should encourage their development.

We should not attempt to rely either upon domestic or foreign sources of raw materials alone, but should assure ourselves that both are available to us.

Our industrial economy has everything to gain by accenting greater production. I agree with Mr. Baruch that an "all-out production drive here and in the rest of the world" is needed at this time. I do not fear overproduction because a needy world will be greedy for our products. In no other field is this clearer than in that of minerals. Our own need for mineral raw materials is unsatisfied by current world production. For this reason, I will outline our current production and reserve positions.

No other great power within its home borders has so far been able to match the self-sufficiency in minerals that we have enjoyed for generations.

At the same time, we have been extracting our minerals at a far greater rate than any other nation, and since mineral deposits are irreplaceable, we must face the fact that we will be confronted with the problem of maintaining our economy with a declining supply of raw materials available at home.

As a matter of fact, during the last war we were hard-pressed to meet requirements and were forced to go abroad for several minerals which we formerly never needed to import.

With a view to summarizing the available information on this point, the Bureau of Mines and the Geological Survey undertook a study of the Nation's mineral reserves at the close of the war.

The results of this study recently were published as an appendix to the hearings before a subcommittee of the Senate Committee on Public Lands and I am making copies of it available to you.

The report shows that since 1870 the yearly value of production of minerals increased from about 200 million dollars to 12.4 billion dollar dollars, a sixtyfold increase. The physical volume of production

was greater in 1947 than in any other year in our history. The end of this upward trend in the demand for mineral raw materials is not in sight.

To meet these requirements, we must develop a dynamic program of exploration and research that will continually bring into production new resources to replace those that we exhaust. We must also look to world sources.

We already are dependent on foreign sources of supply for substantial proportions of many important industrial minerals. The minerals in which we have been able to maintain a large measure of self-sufficiency in the past, fortunately include coal and iron ore, the two minerals most fundamental to the maintenance of our industrial machine.

But the report shows that we have imported in varying proportions minerals that are extremely important such as lead, bauxite, tungsten, manganese, nickel, chromite, and tin.

While in some recent years we have been able to improve our position in a few commodities, notably nitrates, mercury and potash, our greatly increased demand has exceeded our ability to produce, and our self-sufficiency in copper, zinc, lead, and other minerals has declined materially.

We shall continue, as in the past, to rely on foreign sources for those minerals that cannot be produced in adequate quantities within our own borders. The European recovery program will make a major contribution in this direction. Economic recovery abroad will stimulate the production of raw materials which in time will facilitate importation into the United States of minerals that are in short supply.

In summary, I repeat my endorsement of the European recovery program for world recovery and world peace. It is essential to our own continued productivity and prosperity.

I believe that the underdeveloped areas of the world including those in our own country must be brought into production quickly and effectively.

I am not afraid of overproduction. I believe that we can do the job because we have demonstrated that we can do those things that we set out to do.

That, Mr. Chairman, is my formal statement.

Chairman EATON. Thank you very much, Mr. Secretary. I am sorry that a vote is being called downstairs.

You lay great emphasis on the petroleum situation. What grounds have you for being sure that in this 4-year period the necessity for exports from this country will diminish?

Secretary KRUG. Well, Mr. Chairman, we cannot be certain of that. The conclusion is based on rehabilitating the European refineries and constructing some new ones and getting a crude source from the Middle East, and from South America.

I think you will be interested in the charts attached here which show that. So that if during this period, we, for any reason are blocked out of any of those oil-producing areas, then the exports from this country would have to continue at a higher level. This shows the gradual reduction in our share of European requirements, as the Middle East expands its production.

Chairman EATON. Of course, that depends upon the freedom of Middle East production from outside control.

Secretary KRUG. Yes, indeed.

Chairman EATON. I am turning you over to Mrs. Bolton. You will excuse me.

(At this point, Chairman Eaton left the meeting and Mrs. Bolton presided.)

Secretary KRUG. Thank you.

Mrs. BOLTON. I am sorry to have missed the reading of your statement. I am particularly interested in what I judge was your statement in the matter of the crude coming from the Middle East, the starting of refineries elsewhere to refine such crude oils. Will not the cutting of the Aramco pipe line, which I understand has been done in two places in the last week, have quite a major impact on the plan?

Secretary KRUG. I do not think that in itself would. If the unsettlement in the Middle East is to continue for any time it will have a direct bearing.

Mrs. BOLTON. It is an expectation of what may continue?

Secretary KRUG. I hope not. I would not want to see the Middle East cut out of its function of providing the world supply for a continuing period of time.

Mr. BOLTON. Am I right in thinking that this whole plan of European Recovery counts very largely on the Near East and the Middle East oil supply?

Secretary KRUG. It is planned that way at the present time. However, if necessary, we could make up the difference from other sources. I hope we do not have to do that.

Mrs. BOLTON. What other sources?

Secretary KRUG. We have to expand our own production. We have to curtail some of our uses.

Mrs. BOLTON. We are supposed to have a limited amount of crude in reserve. Then we will be drawing on those reserves, will we not?

Secretary KRUG. Yes.

Mrs. BOLTON. Then what happens to us?

Secretary KRUG. It will bring the day sooner when we will have to rely on coal, lignite, and shale for our liquid fuels. In my formal statement I tried to outline steps in that program which I feel are essential anyway, if we are going to take care of our own future, whether or not we have this foreign-aid program.

Mrs. BOLTON. I am glad you feel that way. But the possibility of the new hemisphere, as I understand it will supply the new hemisphere over a long period but it cannot supply the world.

Secretary KRUG. Yes. There are tremendous resources in the Eastern Hemisphere. If they were properly utilized they would take care of all the requirements of the Eastern Hemisphere for a long time to come. In the Western Hemisphere our demands are so high that I am fearful unless we develop synthetic fuels we will exhaust our petroleum.

Mrs. BOLTON. Am I right in thinking that in the last war we took top-grade octane?

Secretary KRUG. We made the very best we could.

Mrs. BOLTON. Then in the development of jet propulsion of all sorts and kinds, we do not take the top. We take something a little lower down.

Secretary KRUG. That is right.

Mrs. BOLTON. That is the kind of fuel that is important to the civilian population?

Secretary KRUG. But when you start out with crude you can come out with any finished product you need.

Mrs. BOLTON. Exactly. But you would have to have octane. We have not gone beyond the need of that, have we?

Secretary KRUG. We will need both.

Mrs. BOLTON. In increasingly large quantities?

Secretary KRUG. Yes.

Mrs. BOLTON. Because we are going off coal in a great many places. Diesel engines are being used increasingly in our transportation systems. Will we not run into the possible danger of being held up in our transportation?

Secretary KRUG. I do not believe so, if we promptly take the steps we should be taking to prepare a future. We cannot do these things overnight.

I think it will take about 10 years to get into substantial production of synthetic liquid fuels. So if we are going to need synthetic liquid fuels 10 years from now we have to start right now.

Mrs. BOLTON. You feel secure in the situation in the Near East today?

Secretary KRUG. I do not.

Mrs. BOLTON. Then would you be very reluctant to rely upon that if you were this committee, sitting around this table trying to work out a recovery program for Europe with the insecurity to very life at the moment? Would you feel that we would be wise to plan either a different tempo of recovery or an entirely different field from which to draw for fuel?

Secretary KRUG. Well, I think we must plan the European recovery with the best information we have available now. We should have in it the flexibility for meeting what we might encounter during the course of it.

One of the uncertainties is the Middle East oil. If for any reason we cannot make that available for the oil refineries in Europe, then we will have to find some other system. I think we certainly can do it either way.

Needless to say, if you have uncertainty in the Middle East for any extended period it is going to reflect against the ERP. It is based on trying to get these countries at peace and at work.

Mrs. BOLTON. In the South American countries, are they inclined at this moment to give concessions to American firms?

Secretary KRUG. Yes; I think they are. The difficulty at the moment is that any development in South America requires American steel. Right now we do not have enough steel for our own expansion. It is very difficult to get any steel for development work in South American countries.

Mrs. BOLTON. Also of course the pipe lines?

Secretary KRUG. Yes, pipe lines; oil-country goods and refineries.

Mrs. BOLTON. If the security situation is such in the Near East that the pipe lines cannot be continued there do you think there would be any way of reimporting the pipe or bringing it to those places where it might be of use to the western world?

Secretary KRUG. Yes; I think it would be possible. A pipe line alone, however, would not be particularly helpful in the problem in South America.

Mrs. BOLTON. It might be for us?

Secretary KRUG. It might be in this country.

Mrs. BOLTON. We are short, are we not?

Secretary KRUG. Yes; we are short of pipe lines, too. If we are not using it there we certainly should be using it at home.

One of my colleagues points out that there is a water route to the Middle East. You can get it with tankers.

Mrs. BOLTON. I understand that. If we only had T-2's, those would cost us about \$450,000 to build, and there is not the steel to build them with. If we had those making round trips, it would be nice, would it not?

Secretary KRUG. The Navy Department advised me that they estimate the cost of a T-2 tanker to be approximately $4\frac{1}{2}$ million dollars on a basis of current labor, material, and construction costs.

The tankers would require a lot more steel and a lot more material than the pipe line. I hope we can get the pipe line.

Mrs. BOLTON. Do you know what the time would be for building those, even if we could get priorities on them?

Secretary KRUG. I would say it would take a year.

Mrs. BOLTON. That would mean no strikes, sufficient steel, and plenty of labor.

Secretary KRUG. You would have to divert the steel from something else.

Mrs. BOLTON. That would be another matter that would need control?

Secretary KRUG. Yes. I do not think you should venture to build them without the steel.

Mrs. BOLTON. So it would be difficult.

Secretary KRUG. It would be difficult to substitute tankers for pipe lines.

Mrs. BOLTON. And we do not have enough of the tankers.

Secretary KRUG. That is right.

Mrs. BOLTON. I think I have used up my 5 minutes.

Mr. JAVITS, you are next on the list.

Mr. JAVITS. Mr. Secretary, as I read your chart, is it not a fact that today the ERP will get its oil largely from the Caribbean area?

Secretary KRUG. No. You see, from the chart with the circles on it, at the present time the center circle indicates the situation as of today. In the segment or "piece of pie" at the top it shows the Western Hemisphere other than the United States is a little larger, having 4.3 percent, or 17.3 million metric tons. The United States is 9 million metric tons. The Middle East, 8.6.

Mr. JAVITS. In other words, from now until the projected period of 1951, the ERP will get 50 percent of its oil from the Caribbean, roughly, and about 25 percent from the United States, and only the remaining 25 percent from the Middle East?

Secretary KRUG. That is right. That is the way it starts out. Now, it would be expected during this period you would gradually shift over some; at the end of it the Middle East would be carrying most of the load.

Mr. JAVITS. Then toward the end the Middle East reserves, it is assumed, will be more developed than ours?

Secretary KRUG. Yes. It requires two things: development of the Middle East pipe lines and construction of refineries in those countries.

Mr. JAVITS. Now, as far as the Middle East is concerned, for their future development, Mr. Secretary, do you believe that the Middle Eastern countries concerned are interested in having their oil resources developed?

Secretary KRUG. Yes; they are. They would stand to gain very materially in having them developed.

Mr. JAVITS. Do you consider it very essential to their own economies that their oil resources be developed?

Secretary KRUG. Yes, without a doubt, their oil resources, their oil reserves are their most dominant natural reserves.

Mr. JAVITS. Do you know how much of the annual government expenditure budget of Saudi Arabia comes out of the royalties that Saudi Arabia gets for oil?

Secretary KRUG. I do not have that figure but I would imagine it to be a very high percentage.

Mr. JAVITS. Would you give us that figure?

Secretary KRUG. It is 90 percent.

Mr. JAVITS. What is the same figure for Iraq?

Secretary KRUG. I would have to get that figure.

(The information is as follows:)

The Near Eastern Affairs Desk of the Department of State estimate that the following percentages of the total revenues of the countries as noted are derived from the development of their oil resources: Iraq, 19 percent; Iran, 12 percent; Suria 0, Saudi Arabia, 75 percent.

Mr. JAVITS. If you would be good enough to do that; also the same figure for Iran and for Syria. But for Saudi Arabia you say it is 90 percent?

Secretary KRUG. Yes, sir.

Mr. JAVITS. If you have no opinion on this, feel free to say so, but do you believe that at this time it is at least as important for the United States to endeavor to sustain the UN decision with respect to Palestine as it is to make available Middle Eastern oil production? I am speaking of this time, right now.

Secretary KRUG. I am afraid that is a question that my opinion would be pretty much worthless on.

Mr. JAVITS. But you will produce for us these figures on the other things?

Secretary KRUG. Yes, indeed.

Mrs. BOLTON. Mr. Richards.

Mr. RICHARDS. Mr. Secretary, you mentioned two or three times in your very admirable statement just now that you were not afraid of overproduction in this country. I imagine you predicated that upon the theory that European buying power is going to be sustained?

Secretary KRUG. I predicated it on the assumption we are going to get the world back at work again.

Mr. RICHARDS. And they could buy our materials?

Secretary KRUG. That is right; some of it.

Mr. RICHARDS. They cannot buy our materials unless they too are able to produce. They cannot get dollar exchange without having something to sell to us.

Secretary KRUG. Either directly or through some other country.

Mr. RICHARDS. Then you developed the idea, I thought very strongly, that if our people are going to be provided with jobs a sound

economy in Europe must here in the United States be a part of the picture.

You also mentioned shortages in this country of certain raw materials.

Secretary KRUG. Yes.

Mr. RICHARDS. I believe you mentioned zinc, chromite, manganese, and tin—or did you mention tin?

Secretary KRUG. Yes; we have to import all of our tin.

Mr. RICHARDS. Where are we getting most of our replacements in those articles?

Secretary KRUG. They come from various countries of the world. Of course the tin comes mostly from the Dutch East Indies and from Java, including Malaya.

We get various materials from South America. We get copper, of course, in very large quantities from Chile. We get substantial quantities of material from Africa.

Unfortunately, with the world production so low, these materials are short for everybody. There is a tremendous competition in the world markets for the materials in short supply. Before the war I think we considered about 5 materials as critical; now there are over 50. By that I mean that they are materials that you cannot meet all your requirements with:

In tin the demands of the military stock pile have gone unsatisfied because we have not been able to buy enough tin to take care of industrial uses.

Mr. RICHARDS. What about chromite? Where do we get most of our chromite from now? That is a very essential material in steel production.

Secretary KRUG. We will leave this copy with you.

I will recite some of the figures.

Copper: The principal place is Mexico, Canada, Rhodesia, and Peru.

Cordage fibers: Panama, Philippines, and the Netherlands East Indies.

I will skip to some of the better-known ones.

Nickel. Some comes from Canada, a little from Cuba.

We have some—

Mr. RICHARDS. Do you have those figures on chromite handy?

Secretary KRUG. Yes; we will find it for you.

Mr. RICHARDS. I want particularly the figure on how much chromite we import from Russia.

Are these short, critical materials you mentioned produced to any degree in the 16-country area in Europe?

Secretary KRUG. Not in quantities that could be exported. They will need practically all of their raw materials for their own industry and will have to import some on top of that. So if we are going to bolster our position it will have to come from other countries.

That is why I say we need the restoration of world trade, the European countries sending equipment and know-how and South America and Africa, China, India providing raw materials.

We have the sources but not the quantities of chrome. If you want the quantities you will have to wait.

Mr. RICHARDS. If you will put that in the record, it will be all right.

Secretary KRUG. Very well.

(The information is as follows:)

The quantities of chromite imported into the United States from all sources for the years 1944, 1945, 1946, and the first 11 months of 1947 were as follows:

Chromite imported into the United States

[In short tons]

Country	1944	1945	1946	11 months, 1947
Cuba.....	349,059	297,820	204,268	131,650
New Caledonia ¹	34,492	34,391	21,007	18,396
Philippines, Republic of.....			30,465	175,515
Sierra Leone ²		6,397	32,912	16,480
Southern Rhodesia.....	187,781	221,555	99,557	58,474
Turkey.....	96,777	70,845	9,015	36,149
Union of South Africa.....	40,376	110,415	235,340	204,082
U. S. S. R.....	112,315	166,142	98,982	217,467
Other countries.....	25,690	6,900	25,875	27,846
Total.....	848,390	914,765	757,391	888,956

¹ French Pacific Islands.

² British West Africa.

With further reference to your inquiry as to the principal foreign sources of supply of major strategic materials imported by the United States, I should like to submit for the record a listing of the better known minerals and the sources of supply for each of these minerals.

Principal foreign sources of supply of the major strategic minerals that are listed for stock-pile procurement by the U. S. Government

Material	Source	Material	Source
Antimony.....	Mexico, Bolivia, Peru, China.	Mica.....	India, Brazil, Madagascar, Argentina.
Asbestos.....	Southern Rhodesia, Union of South Africa.	Monazite.....	India, Brazil.
Bauxite.....	Surinam, Netherlands Indies.	Nickel.....	Canada, New Caledonia.
Chromite.....	Union of South Africa, USSR, Philippine Islands, Cuba.	Platinum.....	Canada, Colombia, U. S. S. R.
Cobalt.....	Belgian Congo, French Morocco, Northern Rhodesia.	Quartz crystals.....	Brazil.
Copper.....	Chile, Mexico, Peru, Canada.	Talc, steatite.....	India, Italy.
Diamonds.....	Belgian Congo, Union of South Africa, Gold Coast.	Tantalite.....	Belgian Congo, Brazil, South Rhodesia, Australia.
Graphite.....	Ceylon, Madagascar.	Tin.....	Bolivia, Netherlands East Indies, British Malaya, China.
Lead.....	Mexico, Canada, Newfoundland, Australia, Peru.	Tungsten.....	China, Bolivia, Brazil, Argentina, Burma.
Manganese ore.....	India, U. S. S. R., Union of South Africa.	Vanadium.....	Peru.
Mercury.....	Mexico, Italy, Spain.	Zinc.....	Mexico, Canada, Peru, Bolivia, Australia.

Mr. RICHARDS. Do you think that production of any of these short materials could be developed to the point where they are surplus to the needs of Europe and that area?

Secretary KRUG. I doubt very much whether you could safely take raw materials out of the European countries, with the populations they have and the kind of industry they must have to support that population. I think they will need their own raw materials.

Mr. RICHARDS. If it develops that production can be developed beyond domestic needs and ordinary commercial transactions, do you think that those things should be turned over to us in part payment for this aid?

Secretary KRUG. Yes. I agree with what Mr. Baruch said the other day—that we ought to offer to buy raw materials of every description we need, not required in the countries of their origination.

On the other hand, we want to protect our domestic mining industry. We cannot afford to ruin it. We need a careful balance between what we import and what we produce at home.

Mr. RICHARDS. You do not think any of the money provided here should be used as part of the purchase price for any of those materials?

Secretary KRUG. I doubt very much if any of these particular countries will be able to return part of this money in raw materials.

Mr. RICHARDS. Take Great Britain. Of course Great Britain has no tin in the United Kingdom, but they do have in their so-called Empire.

Secretary KRUG. That is what I referred to before. While we cannot get it from those countries, there are other countries in which those countries have an interest. We do have probabilities there.

Mr. RICHARDS. You agree that in these negotiations we should keep constantly in mind the needs of the United States along that line and get what we can for this country?

Secretary KRUG. Yes, indeed. I think that will be one of the great contributions of the recovery program to our own economy. It will put us in a position to get the raw materials we need for an expanding economy.

Mr. RICHARDS. What do you think about the method of administration of this European recovery program?

Secretary KRUG. I think there has been a tempest over the question. My own feelings are that if you are the right man for the job you do not have to worry too much about these organization charts. Whenever I find somebody paying too much attention to his lines of jurisdiction I find he usually is not doing a good job. I think if the President, with the approval of Congress, finds the right man for that job he will do a good job and will work out the questions that seem perplexing at the moment as to his relations with the State and other Government departments which must necessarily have an interest in this program.

Mr. RICHARDS. What would you think about a plan that envisages the President or the Secretary of State setting the foreign policy course in this thing and then have a clear line of demarcation and a corporation to administer the law?

Secretary KRUG. We need a business management of this program, and I do not think the business management will have any trouble following the foreign policy laid down by Secretary Marshall.

I had experience with that in many years of the war, and the relations in those programs were far more complex than they are in this one. We had very little trouble working it out.

Mr. RICHARDS. If we cannot work it out it is just a weakness of the democratic form of government and not the act itself?

Secretary KRUG. Yes. In our Government you cannot put any one man in any position where he has complete authority to do what he wants to do. It is too complex. You have to work with other men as a team.

Mr. RICHARDS. As a matter of fact, an absolute dictatorship, from the standpoint of efficiency of operation, might be better?

Secretary KRUG. I doubt it myself.

Mr. RICHARDS. I am inclined to agree with you.

Secretary KRUG. You know they used to say earlier in the war that if we had a dictatorship we would do a better job. I do not

think experience demonstrated that and those of us who knew about Germany frankly admitted that we could do a better job of mobilizing for the war than they did and certainly better than the Russians.

Mr. RICHARDS. Maybe we did not do a better job immediately, but in the long haul the democratic institutions did a better job.

Secretary KRUG. There is not the slightest question in my mind, either for the long haul or for any of the short-time jobs.

Mr. RICHARDS. Thank you, Mr. Secretary. That is all, Mr. Chairman.

Mr. VORYS. I have no questions at this time.

Mr. JONKMAN. Mr. Jarman, do you have any questions?

Mr. JARMAN. I am sorry, Mr. Secretary, that we have been interrupted, as I am sure my colleagues are. You have been interrupted by a roll call. That is part of the democratic system, even though it does disturb us.

I have one question. Although you feel that it naturally behooves us to look out for our interest about these strategic materials—that is, watch out and get them wherever we can—I take it, if I understood you correctly, that you do not feel that we should tie down in this bill, as a part of the payment for the \$6,800,000,000, a provision to require the countries to return strategic materials to us gratis as part payment for this.

Secretary KRUG. I do not think we should tie it down that way. I think the Administrator should be instructed to make whatever arrangements he can to get raw materials into this country and repayments as soon as possible for the amounts expended.

But if you are to tie this down to any current exchange of raw materials for money you ruin the entire program because the program is based on the best utilization of their resources that they have been able to work out and that our exports so far have been able to contribute to. If we take out of their economy some additional amounts we will just have to put in more money.

Mr. JARMAN. That is right. Those materials are already figured?

Secretary KRUG. They are already counted once.

Mr. JARMAN. We would just be taking money out of one pocket and putting it in the other.

Secretary KRUG. Yes. Of course, 10, 20, 30 years from now, if we get these economies working again, then we will be in a position to get raw materials from various countries in Africa, South America, and the East; and I am sure that we will get paid many times just for having the opportunity to reestablish world trade and replenish our supply, the materials we need, to support our standard of living.

Mr. JARMAN. I could not more thoroughly agree with you. But to make it clear I know you would not want to stipulate in this legislation anything about 20 or 30 years.

Secretary KRUG. No, sir; I would not want to put anything like that in because we might again put the burden in the wrong place and break them down rather than put them back on their feet.

Mr. JARMAN. And create a situation similar to the one we are trying to get them out of?

Secretary KRUG. Yes.

Mr. JARMAN. Thank you very much.

Mr. JONKMAN. Mr. Lodge is recognized until the ringing of the next bell, or thereabouts.

Mr. LODGE. I do not believe I will have time to ask many questions of the Secretary.

Mr. Secretary, in connection with the last point brought out by the gentleman from Alabama, I understood you to tell Mr. Richards that there were not many strategic materials which could be imported from the 16 nations which participated in this program.

Secretary KRUG. That is from those countries in Europe.

Mr. LODGE. Would that include their colonies?

Secretary KRUG. No. Their colonies do have materials which, with the right development, will give us the source for material supply.

Mr. LODGE. Would you see any objection to writing into this legislation a provision which would provide that at a time when there were no dollar deficits in any of these countries, or in the country which happened to be involved, strategic materials would be turned over to the United States in part repayment of some of the funds turned over under this program?

Secretary KRUG. I would not want to see it made that inflexible. I think the Administrator should make the best business deal he can for this country, but I would not want him put in a strait-jacket so that he might be forced to do something which added an economic burden that one of these countries could not stand.

Mr. LODGE. There is nothing magic or sacred, is there, in the amount which it is now proposed to be required as strategic materials from the 16 countries?

Secretary KRUG. No, sir. And you would not know until you move along and find out how their production steps up, what they need in their own economy and what they have left over.

Mr. LODGE. Now, Mr. Secretary, with respect to oil, which, of course, is the most strategic material of all, since we are providing roughly two-thirds of the oil and since we produce roughly one-third; is that reasonably accurate?

Secretary KRUG. We are using a ratio of two-thirds of the world's use and we have reserves of about one-third of the world's reserves.

Mr. LODGE. What would you think of capping some of our oil wells within the next 5 or 10 years and then provide that we shall be repaid, in 1951 or thereafter, at a time when the Middle East oil production has attained a large production, by oil reserves from those sources? I have in mind particularly the question of naval reserves of oil.

Secretary KRUG. I feel very strongly about that. We want to protect and safeguard a strong petroleum industry in this country. We need that as the backbone of our modern industry. Over and above that, I think we ought to import all the oil we can lay our hands on because it is, as you say, the most strategic of all of these materials.

Mr. LODGE. Then could we adapt to this question of oil the suggestion which I made a little while back on strategic materials in general and provide that with respect to oil, after a certain level of production had been attained in the Middle East, we would be repaid and, in the meantime, that we cap some of our oil wells—or within 5 or 10 years—and lay in a stock of reserves for naval and other purposes?

Secretary KRUG. I am not sure just how practical it would be to set up a definite formula as to when you could hope to get repayment of some of these advances from countries that have interests in the Middle East reserves. I assume that in working out this program the

Administrator is going to lay a firm foundation of repayment which will fit in with the economic revival of the countries.

Mr. LODGE. Are you asking us to assume the same thing, Mr. Secretary? Do you think we should make those assumptions?

Secretary KRUG. Yes. I am afraid if you tried to specify how the Administrator is to get repayment of the amounts proposed under this plan you are going to put him in a strait-jacket which will make it impossible for him to do his job, and instead of getting the recovery of the economy for the expenditure we will just have the expenditure.

Mr. LODGE. This would be after the expiration of the European recovery program. I do not see how it would put the Administrator in a strait-jacket.

Secretary KRUG. Because he would not know, or will not know, until he gets into this in great detail, just what years in their expanding economy they can start repaying in oil or other materials. We certainly do not know at the moment. It depends on how rapidly they move forward, and if you put the burden on even 10 years from now and they are unable to take it you have wrecked the purposes of the formula.

Mr. LODGE. Not if you have a formula whereby they would have to attain a certain level before they would make this transfer of oil.

Secretary KRUG. It might be possible to find that formula. What I have been trying to say is that I have not been able to devise one and I have not seen any that I would consider workable.

Mr. LODGE. I would be glad to have your opinion on that.

Mr. VORYS. You suggest that this be left to the Administrator. If the Administrator takes the view that all of the witnesses from the Cabinet have taken, and other witnesses so far, no administrator will ever make a deal to be repaid in raw materials—ever—because he will be so fearful that we would hurt somebody by attempting to secure repayment.

Now, just a few minutes ago on the floor of the House it was decided that in reclamation projects in this country we are going to have a 50-year limit for repayment from communities and people that cannot pay now, or could not pay in 4 years, or possibly not in 10 years, but they are going to get 50 years. What is wrong with asking that of nations that have potential resources when we are going to furnish the means of their existing and of their opening up those resources?

Secretary KRUG. We have been able to make pretty good estimates on reclamation projects as to what you can expect in the way of repayment and what is required. Even there, with our own farmers and an area we know something about, there is wide disagreement as to what the period should be.

I personally feel that 50 years is too short. It ought to be longer. The Congress, in its judgment, picked a different figure.

In our own country, if we find disagreement as to what that should be for an irrigation project, when we know the future of our own agriculture the way we do, you can understand the difficulties of applying a formula of that kind to the economy of these other countries.

Mr. VORYS. We have learned, here, that western Europe paid for about 25 percent of its imports by returns from investments of various sorts. Those investments, in general, furnished money to countries and people at the time they needed it and then were arranged to be paid back a long while afterward, so that as Europe's natural resources

were depleted, before the war, Europe had a means of paying for 25 percent of its needs.

This picture you have drawn shows that we are, in a period of years, to become depleted in our natural resources. But, as I understand it, you do not propose that we make arrangements so that we do the same that western Europe did and some day, when we are in need, through simply providing for long-time loans that are bearable and are honorable, get back some of the things we need when we need them.

Secretary KRUG. I do not think I said that, and, if I did, I did not mean it. What I am trying to say is that you should not try to put a formula into the bill because I do not see how you can write one at this time. I think you should put in a policy instruction to the Administrator to make the soundest business arrangements that he can, not only for the 4 or 5 years but for a longer period of time, in getting us back the materials and money that we have to put into this thing.

I do not know of any way of saying in what period of years each one of these countries should be expected to make a return of this amount of money. I do not think anybody else does.

Mr. JARMAN. Will the gentleman yield?

Mr. VORYS. I yield.

Mr. JARMAN. Is there not also this difference between that situation of the irrigation projects, the beneficiaries of which are on an individual basis, and this program? Is there not this vast difference of the dollar exchange situation, which does not exist between one irrigation man and another?

Secretary KRUG. This is infinitely more complicated. When you find that you are now arguing for hours about the question of what period you will have on an irrigation project you have some idea of what you would do if you were trying to figure out what term to put on these loans or what kinds of material to get repaid with during what period of time.

Mr. JARMAN. And fine and beneficial though the project may be, there is no comparison, I believe, between its effect on the future of this country and the peace of the world. There is no comparison between that irrigation project and this program for Europe.

Secretary KRUG. I think irrigation projects are pretty important as you know, but I think this is a different category altogether.

Mr. JARMAN. I agree with you. There just really is no comparison.

Secretary KRUG. No, sir.

Mr. JARMAN. Thank you, sir.

Mr. JONKMAN. I may have misunderstood you entirely, but did you mention that there should be no reduction of this amount of \$6,800,000,000?

Secretary KRUG. I did not testify on that at all, I was talking about the repayment of whatever amounts are appropriated.

Mr. JONKMAN. This may be entirely out of your jurisdiction, inasmuch as you treat with available supplies rather than where they are going to. For instance, I see in here the Netherlands is down for \$705,000,000. Have you any idea what that is to be?

Secretary KRUG. I personally do not have that information. The people who studied the matter went over it very carefully. But even at this time there would have to be a further specification before you

would know how many farm implements of what kinds and types are included.

MR. JONKMAN. I have asked for such a statement and we expect to get it from the State Department.

That is all I have in mind.

I think, by way of filibuster, that Dr. Elliott would like to ask a question or two.

DR. ELLIOTT. It would give me great pleasure to ask a question of my old boss in the WPB.

Secretary KRUG. I did not know I was your boss.

DR. ELLIOTT. It was an official relationship, and well sustained, I hope.

Secretary KRUG. Thank you.

DR. ELLIOTT. This whole question of stock piling is, of course, of vital interest to you, as I can tell from your continued interest in it for many years. This question I want to address to you is largely to clarify one or two points that continually have come up and are so likely to be misunderstood.

Suppose I put it this way: It is manifestly impossible to get any large amounts of raw materials of a critical or strategic nature at a time when the whole world is experiencing shortages and therefore there is no possibility of making any sensible exchange, in the immediate future, against American loans or grants or anything else.

That, I think, is common ground, to start off with. And any kind of proposals of that sort are, on their face, ridiculous. You would not be assisting anybody by merely taking back that kind of goods which we are now paying for and spending more dollars. So that is clear.

Secretary KRUG. Yes.

DR. ELLIOTT. Now, sir, on the other hand, viewing it as Mr. Vorys and others have put it to you, and as you have put it yourself in terms of a long-run proposition, it obviously would be possible, if these countries are ever to achieve solvency and balance, to put their assets on the table in repayment, by developing, above and beyond commercial uses, new resources; would that not be true?

Secretary KRUG. Yes; indeed. I think that is an essential part of this program.

DR. ELLIOTT. So that, in that way, repayment of some considerable part of the advances, whether they be in the form of grants or in the forms of loans made or that might be made, might have a bearing on the amount of advances that was put in as grants or as loans.

Secretary KRUG. Yes. I think there is another factor that is frequently lost sight of. At the present time, with materials short, the price is extremely high. If you have got production up to the level of world demand, and with a little margin to spare, prices would come down. So we in effect would get repayment of this loan many times if we can get world prices stabilized at a more reasonable level.

DR. ELLIOTT. I think that is a very important point for the record, Mr. Chairman, and I hope it will be fully noted because that in itself would have an anti-inflationary effect to the degree that we could develop additional resources and bring down world levels of prices.

On the specific point of minerals, as you will recall, sir, when I used to have to report to you on these minerals there were about 200 items, in total, in the stock pile list, and perhaps 40 of them were minerals not produced in adequate quantities for war purposes in the United States.

Secretary KRUG. At least 40.

Dr. ELLIOTT. These are widely distributed in the colonies and territories possessed by the 16 countries. In particular, they are extremely widely distributed in the Belgian Congo, British African territories, and many other territories, including Rhodesia, taking in East Africa; and great quantities of copper and some very interesting minerals that we do not talk about very much, not only uranium but tantalite and columbite, very important war minerals, cobalt, carborundum; and these things that used to give us so many headaches, such as strategic grades of asbestos that we had such heavy sinkings of during the war and had difficulty keeping up with.

Our reserves, as your own experts in the Bureau of Mines have shown, are extremely limited. In some of those we have 6 months' supply and in some no supply. In those that we do have supply they run from 2, 4, 5 years, at the prewar rates of use.

Therefore, from the point of view of building up our natural resources, there need be no limit on the amount of these minerals that we could take and stock pile on a sterilized basis, keeping them off commercial account just as natural resources reserves—just as good above ground as under ground.

Would that be accurate?

Secretary KRUG. There are none that I can think of.

Dr. ELLIOTT. So that if we could arrange to find over a long period the imports for repayment purposes as a condition of these loans, leaving the details to be worked out, giving the administrator a directive and making it one of those conditions which he was to attach to those countries where it was practicable, I believe that would be an equitable protection of the national interest. I do not know how long the period would be. It might run 20, 30, 40, or 50 years?

Secretary KRUG. Yes, where it was up to his judgment.

Dr. ELLIOTT. He would obviously have to proceed in each individual country. If they had little or no minerals of this character, as is the case of Italy, now deprived of her colonies, there is not much to use. Italy would have some sulfur, and steatite talc, but they are negligible in terms of repayment.

Greece and Turkey have considerable mineral resources, directly in the countries themselves. These might well be developed as a long-run proposition.

Secretary KRUG. Yes.

Dr. ELLIOTT. Now, on the question of oil, and I turn back to Congressman Lodge with this introductory statement to bring him up to date.

Mr. LODGE. Please.

Dr. ELLIOTT. I hope we will have testimony before the committee from experts, perhaps your own and outside experts who served in the P. A. W. during the war, about the feasibility of capping certain fields. This would not be possible, because the world shortage of oil is in my judgment the most serious shortage I have been able to find in a study of this European program. It looks to be 40 or 50 percent short, in terms of availability, of meeting the CEEC figures unless we can develop pipe lines and get German pipe into the Middle East and refineries and tankers going faster than now planned.

Your own department cuts down those CEEC requested figures greatly but if the Middle Eastern pipe lines remain cut, or anything of that sort happens often, a very serious situation is created.

Over a long period I think what is back in our mind and what we need help in thinking out is that conditions should be attached to those countries which, like Britain, Holland, in some measure, particularly in the Far East and certainly France, which through their holdings have extremely large reserves of oil.

Those deliveries might well be made over and above the production that they need to carry their own economies over a very long-time period in the same way, barrel for barrel, against the reserves that were kept capped in this country. The exchange could be effected by having this Government pay in advance for taking over a field. I am told the estimates of reserves are now possible on a commercial basis.

Secretary KRUG. I do not think you have to cap fields. The oil wells are running out every day. You reach a point where you do not have to drill as many new ones. I doubt whether we could ever import enough oil so you would want to close down oil fields in this country.

Dr. ELLIOTT. Let me suggest a possible reason for it. The capping of a field with the rigs up in a stand-by condition is a very useful way to keep a potential stock pile of oil because it can be gotten at any time. It is on tap at need.

That deserves thinking about, surely. From the standpoint of a naval oil reserve it does not have to be drilled and a rig set up. This proposition is something to be explored and it is on that line that we like very much, if it were available, to have testimony (a) as to the practicality of whether or not estimates as to commercial reserves were feasible. Would it be possible to estimate these United States within commercial limits? Settlements might be made on such estimates because you would obviously have to pay the owners of capped wells in oil from abroad either by supplying them with equivalent values. If those figures could be worked out in practical relationships, the repayment might be made by debtor countries in kind.

The estimates that were prepared for the Select Committee on Foreign Aid do not differ very greatly from the State Department's estimate for the other minerals that could be produced by foreign countries for our stock piles.

I believe the State Department figured perhaps 160 or 170 million dollars annually over and above commercial needs in minerals might be put in. The estimates prepared by Simon Strauss, who was working during the war for Metals Reserve, for the select committee, ran perhaps 200,000,000 at '45 prices or nearer 250 million at present prices.

Secretary KRUG. I have seen those figures. Frankly, Dr. Elliott, I do not believe we have the information to reach any very accurate conclusion. I think it requires a tremendous amount of additional study.

It should be done, and the Administrator ought to have that as one of his responsibilities, pointing out what this world economy can do and where we are going to get it.

Dr. ELLIOTT. I would respectfully beg leave to suggest that those "order of magnitude" guesses in the minerals field made by experts with some knowledge of the developmental possibilities of the world are at least as accurate as the CEEC figures and some figures submitted by the Administration as the basis for loans or European aid grants to be advanced by this country.

I think, as you have indicated, both have to be screened.

I would not have any doubts about that at all.

Mr. LODGE. Your idea is that what is sauce for the goose is sauce for the gander?

Dr. ELLIOTT. That is right. If this oil proposition could be developed carefully, and it is on that we were looking for some study—it may be that it is an impractical idea—but if it has practical implications and reserves could be figured out and such deals made, after 5 to 10 years some of our oil fields might be kept in a standby condition for naval oil reserves. It might well be possible, under those conditions, to have European countries repay three or four hundred million dollars a year out of oil to this country.

That would be a very substantial item, the two figures added together, \$200,000,000 for strategic minerals plus perhaps another \$300,000,000 for oil payments.

Secretary KRUG. We would certainly be happy to give that more study.

Dr. ELLIOTT. If you would get figures on that it would be of considerable use to us.

Secretary KRUG. Yes, sir.

Mr. ELLIOTT. Thank you very much.

(The information is as follows:)

Because of the numerous variables and the complexities of this situation, a categorical answer cannot be given at this time and I seriously doubt the practicality of an answer which would have to be based upon broad assumptions, the accuracy of which would certainly be open to question. For example, the technical problem of "capping" oil wells is a most difficult one, which involves considerable risk. Unless all the wells in a field or a pool are tightly cased and cemented, the reservoir sands might be damaged. In addition, there are also very real difficulties of an economic and a legal nature, which would make it extremely difficult to require the capping of specific wells. It would also seem to me that such a program of capping our domestic production would at least have a psychologically ill effect on a program designed to accomplish the utmost in new exploration and development, which is so essential at this time.

Concerning the return flow of oil as a repayment feature of the European recovery program, I doubt very much the practicality of attempting to work out the details of such a problem at this time. Basically, the objective of the establishment of adequate refining and transportation capacity in the participating countries is sound and, if successful, it will permit the flow of crude oil from the Near and Middle East directly to these refineries. The net result of such a procedure would be to make available to the United States an additional equivalent amount of crude oil at least from the more adjacent Caribbean areas and thus accomplish a desirable benefit insofar as the United States is concerned. In addition thereto, it would also have merit from the standpoint of security. The entire problem, however, as I have pointed out, is one which will require skillful and efficient administration throughout the life of the program, and I do not recommend an attempt be made at this time to formulate the specific methods by which such objectives can be achieved.

Dr. ELLIOTT. Those were just fill-ins. Now, the members have come back.

Would it be possible to say one final thing, that the estimates of the CEEC figures for petroleum requirements, reasonable as they may be from the point of view of development schemes they are trying to put into effect, are not likely to be filled with available world oil resources, including every export possibility from the United States, by a very large amount?

Mr. LEVY. These estimates have been reduced by about 22 percent by the U. S. Executive Branch.

Dr. ELLIOTT. In the statement submitted to the President?

Mr. LEVY. Yes, sir.

Dr. ELLIOTT. And providing the development proceeds according to your best hopes, including tanker figures?

Mr. LEVY. Yes, sir.

Dr. ELLIOTT. Are refining capacity and pipe lines being put in?

Secretary KRUG. Yes, sir.

Dr. ELLIOTT. The pipe lines to the Middle East in most instances do not seem to be available. Will they be available later?

Secretary KRUG. In 1950 or 1951 they will be.

Dr. ELLIOTT. So the middle-eastern increases will not in most cases have an important effect?

Secretary KRUG. Crude oil will be shipped by tankers.

Dr. ELLIOTT. But the other oil will be there too. Additional oil will be available if lines are laid into the Kirkuk fields?

Secretary KRUG. Yes.

Dr. ELLIOTT. Are you counting on the Kirkuk fields being opened up to reach that efficiency instead of the figures of the Herter report?

Secretary KRUG. Yes, sir; in fact Kirkuk field is liable to come in next year.

Dr. ELLIOTT. Thank you. I have no further questions.

Mr. LODGE. Mr. Secretary, with respect to this vital question of oil, there are certain plants in Germany which are going to be dismantled, according to present plans, and which manufacture pipe. I have it here that—

Among the doomed pipe-producing plants are some of the most modern and most efficient units in Europe, four large units of Mannesmann in Gelsenkirchen, Duisburg, Dusseldorf, and Witten, and that these plants are especially equipped for welding of large-diameter pipe.

This type of plant has been given top priority by the Herter committee as essential to alleviate the delivery of oil and gas in the United States as well as to provide Europe with critically needed oil products from the Middle East.

I would be interested to have your comment as to whether you think that there are valid and sufficient reasons for going ahead with the dismantling of these plants.

Secretary KRUG. I made no study of the matter whatever and hardly am in a position to give you an informed answer. I would say if the other material necessary to operate those plants can be made available, we certainly have short pipe all over the world and we ought to have the pipe lines to operate them.

Mr. LODGE. If the other material necessary to operate them cannot be made available in Germany it would have to be made available wherever the plants are sent and the value of the plant after dismantling is estimated at 8 percent of its predismantling value.

Secretary KRUG. That dismantling of plants is not a very good proposition. I have found that out from experience.

Mr. LODGE. I believe it is very important for this committee to have your view on that dismantling business. There are many of us here who do not quite understand why it is going on at this particular juncture. Several of us feel it might have been a good thing to withhold at least temporarily the dismantling of many of these plants, particularly this type and the nitrogen-producing plants, at least until the full implications of the whole situation had been fully explored, with particular regard to the European recovery program.

I should like to ask you if you will be so kind as to submit to this committee a statement giving your opinion as to the dismantling of this type of plant.

Secretary KRUG. I am afraid I could not give an opinion without making a pretty detailed study of what plants are being dismantled and why, and I assume from all the discussions of the question that a study of that kind would take a very considerable period of time.

Mr. LODGE. On the other hand, many of us in Congress think it is very important in connection with this program, and I am sure you would not want to delay action.

Secretary KRUG. I am happy to do anything you want me to do. I am reasonably busy with the Interior problems and it seems to me what they do in Germany is in a field somewhat foreign to my own.

Mr. LODGE. Well, that of course is a question on which I could hardly comment, except to point out that insofar as you are testifying on the world oil situation with respect to the ERP, the question of these plants has a very direct and pertinent bearing. It seemed to me that you were not just testifying on the problem within the United States.

Secretary KRUG. I would like to know more about why they are dismantling those plants.

Mr. LODGE. I quite understand that you would not want to answer it now.

I was in hopes that you would be able to give us an answer, sometime at your convenience.

Secretary KRUG. I would be happy to make a study of it.

(The information supplied by Secretary of Interior Krug is as follows:)

I have studied the data and information available to me on this subject in the Department of State and in the Department of the Army. I think I should make it very clear, however, that I have only a general knowledge of the conditions existing in Germany, and that I have not heretofore concerned myself in any way with the German reparation program.

From the information furnished me, I find that, when it became evident that the Soviet Union was not prepared to agree to any practical measures to restore Germany's economic unity, General Clay was instructed to prepare, in collaboration with his British colleagues, a revised level of industry plan for the combined United States-United Kingdom zones in Germany. This revised plan, the preparation of which was begun in the spring of 1947, was published on August 29, and the list of plants selected for removal thereunder was published on October 16, 1947.

The revised plan was designed to insure the retention in the bizonal area of sufficient industrial capacity to afford the basis for the development of a reasonable standard of living, and for a substantial German contribution to European recovery through exports of manufactured products. Its general effect was to provide for the retention of a capacity adequate to sustain a level of industrial production comparable to that which prevailed in 1936. On a per capita basis, this level was estimated to be approximately 75 percent of that of 1936, but provides for a volume of exports 15 percent greater than that of 1936. It is my understanding that the list of plants selected for removal as reparation was drawn up on the basis of the revised level of industry plan, and that the dismantling program has been carried on on the basis of this list.

I find that careful consideration was given to the question of the availability of labor, housing, transportation, fuel, power, and raw materials; and that serious shortages in several of these essentials were important factors in arriving at a decision on the dismantling of these plants. It seems apparent that these shortages will continue for several years to come. The material available to me discloses that these shortages are such as to make it practically impossible to utilize fully before 1951 even the capacity scheduled for retention under the revised level of industry plan.

I further find that consideration was given to the importing of additional coal from the United States in order to bring into production the plants scheduled for dismantling, but that a decision was reached that transportation, labor, and other shortages would make such imports of little, if any, value.

There is further evidence from the material supplied me that, quite aside from any moral obligation which may exist to replace through a reparation program facilities in other countries which had been destroyed by German aggression careful consideration was given to the question whether the recipient countries, would have the necessary transportation, fuel, labor, housing, etc., to utilize these facilities efficiently, and to place them in production with reasonable promptness. I further find that, in making the decision, consideration was given to the costs and the delivery time of new facilities which might substitute for the reestablishment of German dismantled facilities in other countries. It was determined that similar new facilities and equipment were not available from other sources; would in any circumstance involve considerable additional costs, largely in terms of scarce dollars; and that such new facilities could in large part not be procured and placed into operation in a comparable period of time.

In summary on the basis of the evidence available to me, it appears that all significant factors were carefully considered in the preparation of revised level of industry plan, and of the list of plants to be dismantled thereunder.

The data available in Washington do not, of course, completely fill the requirement of a technical investigation with respect to specific and individual plants. Investigations of this character necessarily fall within the operating responsibility of the military authorities in Germany. Such experience as I have had with industrial production in this country convinces me that technical opinions of this kind are dangerous and misleading unless they are prepared upon a basis of complete and detailed information and total familiarity with the subject, such as could only be obtained through operational experience in the field.

Such evidence as is available in Washington, however, indicates that in the selection of individual plants for removal full attention was paid both to Germany's domestic needs and to the needs of European countries for industrial exports from Germany. Since your question was directed specifically to certain pipe-welding or pipe-fabricating facilities, I was much interested in the available information on this specific subject. This information indicates that technical representatives of the contractors for the Near East oil pipe lines were called in to examine these facilities and report upon their possible contribution to the petroleum development and pipe-line construction in that area. It was their opinion that the facilities in question were incapable of manufacturing any materials needed for the near eastern oil development.

I do not like to labor the point that my own unfamiliarity with situation and lack of complete data make it impossible for me to give categorical answers to your queries. While I doubt, however, if my statements have added anything to the material already available to you and your committee, a more definite answer to such a specific question could only be supplied after a careful and detailed examination of the entire subject. Such an examination would require the availability of information as to inventories, personnel, methods, transportation, housing, raw materials, supplies, energy sources, and similar data concerning all of the industrial plants. In addition, it would require a careful survey of the plants on the site in order that related factors might be given consideration.

It is my understanding that the Department of State and the Department of the Army are now collecting additional information for your committee, and that detailed consideration is being given to the question of whether certain plants technically capable of producing items in critically short supply might make a greater contribution to European recovery if retained in Germany. I understand that this information will be furnished to your committee at the earliest possible date.

Mr. LODGE. The same thing applies to the dismantling of many of the other steel plants and where that would have a bearing on your department is with respect to coal.

It seemed to me that it might be worth considering not to dismantle all of these sheet and steel rolling-mill plants in Germany, but to provide them with the coal to function and in that way we could export less steel, which is in relatively short supply here, as I understand it, and much more expensive; we could instead, export more

coal to the French and German plants which now have not got enough coal to operate.

I wonder whether you would care to comment on that?

Secretary KRUG. It is perfectly clear to me that the speediest way to get more steel production would be to put back into production the capacity wherever it is located, which is already available, and I would urge strongly that if there is steel capacity in Germany which can be made productive, and by "can be" I mean coal, Congressman, coke, and the other things that go with it, that we ought to be using that capacity to help out in this program and not diluting our already short supply in this country to take care of the demands in Europe.

Mr. LODGE. I am glad to hear you say that, Mr. Secretary.

Mr. VORYS. I wondered, Mr. Secretary, if this is in your line, as to whether we should ship coal over to Europe, or use measures to stimulate their own production of coal? It has occurred to me that with our coal at about \$22 a ton, delivered over there, we could spend considerably less than that in incentive goods, or certainly in food if it was available, to stimulate the production of more coal over there.

Secretary KRUG. You are right on the principle. Certainly it is better to get the coal there. This program, however, takes into account the maximum stimulation, which is considered practical. My own view is that it is optimistic and they will not be able to make those goals, and we will have to ship more coal rather than less.

In other words, with all-out drive to get more coal production in Europe and in England they will fall short of their projected goals, so that this amount which makes up only the deficit will probably be insufficient. A somewhat larger amount will be needed when this plan is finally worked out.

Mr. VORYS. Now, on timber, we have got in here a considerable amount of timber for the next 15 months.

What are our resources of timber compared to those of western Europe, do you know?

Secretary KRUG. No; I do not, offhand. I do know that our own resources of timber are hardly sufficient for our own needs, and any inclusion of timber in this program would only be on the basis that it is absolutely essential to the program and cannot be obtained from cutting their own forests in Europe.

Mr. VORYS. When we were in Germany the Germans said that they had in their requests timber, and having driven through vast and magnificent, orderly forests there, which was an unusual sight to me from central Ohio, I said, "Why don't you cut your own timber?" They said, "That would mean cutting ahead so that we would be going into our natural resources."

Well, I suggested that we had had to dip into our natural resources to finish the war they started and if they had the timber, I was wondering whether it might not be a good idea for them to dip ahead for a few years through this period.

I wonder whether we are going to have to cut ahead into our natural resources in order to supply them with timber so they will not have to cut ahead into their natural resources.

Do you know what the balance is on timber?

Secretary KRUG. I do not know, to be quite frank with you about it. I certainly would oppose our cutting ahead to any greater degree

than they have. We are already cutting ahead in this country and have been for many years.

Mr. VORYS. I appreciate our questions to you should be directed to what we have here in this country, not the comparisons.

Secretary KRUG. I would be happy to try to find out.

Mr. VORYS. We have to make those comparisons in the committee and therefore we are searching for all the light we can get.

Secretary KRUG. We will give you a report on that.

Mr. VORYS. I think it would be fine to have it in the record at this point.

(The information referred to is as follows:)

WESTERN GERMANY

Complete information is not available at this time. The forestry section of the military government, however, estimates that in the American zone of occupation 21,839,000 cubic meters of timber was cut in 1947, which is approximately twice the estimated growth (10,919,000 cubic meters). This cut timber consisted of approximately 5,480,000 cords of fuel wood; 395,000 cords of pulpwood; 33,000,000 cubic feet of pit props; and 2,080,000,000 board feet of saw timber used for lumber, ties, poles, etc. It is estimated that the ratio of cut to growth is at least 2 to 1.

Information from the same source as it relates to the bizonal areas indicates that the cutting program for 1948 will total 30,000,000 cubic meters while the growth for the same period is estimated at 15,500,000 cubic meters. This cut will consist of approximately 3,743,000,000 board feet of saw timber; 911,000 cords of pulpwood; 118,000,000 cubic feet of pit props; and 4,475,000 cords of fuel wood. The reduction in fuel wood estimated above as compared with 1947 and approximating 18 percent is based on the assumption that increased coal production will make such reduction possible.

In general it is estimated that "overcutting" in the American zone is less serious than in the other three zones. The forests in the French and Soviet zones particularly have suffered great damage from snow and ice, bark beetles and other pests, and to some degree, fires. This has necessitated heavier cutting than would have been normally required. This condition has been aggravated by the necessity of cutting more timber into fuel wood which would otherwise have been suitable for lumber, pit props, pulpwood, etc.

Prior to the war, the normal productive capacity of the German forests, on a sustained-yield basis, was estimated at about 38,000,000 cubic meters, which included both industrial timber and fuel wood. With the advent of Nazi control, Goering ordered the increased cutting in the Prussian State forests in 1933, which policy was soon extended to include the public forests of the other states and later to private forests. In 1933 the ratio of reported cut to normal cut (38,000,000 cubic meters) was 128 percent and in 1937-38 this same ratio was increased to 161 percent. It declined to 130 percent in 1940-41; raised again to 140 percent in 1941-42; reached 150 percent in the next 2 years; and reached 160 percent in 1944-45.

In general it is estimated that the total timber stand in Germany as of 1933 was reduced by 200,000,000 to 250,000,000 cubic meters by "overcutting" from that date to the end of the war. This does not include destruction from military operations concerning which complete information is not available. The reduction from 1945 to date might amount to a 5-percent reduction. The fact that there are still some good stands of timber left in Germany is due to a sound policy of conservation that was followed for many years before the war.

PARTICIPATING COUNTRIES

Data relating to lumber production and standing timber are fragmentary and rather incomplete with respect to the 16 participating countries. Not all of these countries accumulated accurate data and there are many variations in their methods of reporting and the classifications included thereunder. This is particularly true of "standing timber" on which estimates are generally made at rather long intervals and in many countries are not made at all. The following table sets forth the best available data, which, however, is in the nature of an estimate.

Estimated stand of timber; about 1935

Country	Volume of all timber	Volume of saw timber ¹
	<i>Million cubic feet</i>	<i>Billion board feet</i>
Germany (all).....	58,610	200-235
Great Britain.....	2,260	7
Norway.....	11,390	36
Sweden.....	50,050	167

¹ Saw timber includes trees large enough to be sawn for lumber; in the United States these minimum diameters vary from 9 to 15 inches; in Europe, those of 8 inches and over. Norway and Sweden figures are from International Yearbook of Forestry Statistics 1933-35. All-timber volume for Germany is from TIDO Report 30, German Forest Resources and Forest Products Industries; saw-timber volume is calculated. All-timber volume for Great Britain is from International Yearbook; saw-timber volume is calculated.

With respect to lumber production, figures are more readily available although they are not to be considered as other than estimates. The following table sets forth these data as they concern the participating countries.

Lumber production¹ of participating countries for selected years

[All figures are million board feet]

Country	1934-38 average	1948	1951	Country	1934-38 average	1948	1951
Austria.....	815	739	726	Portugal.....	477	477	477
Belgium.....	165	203	203	Sweden.....	3,146	2,898	2,898
Denmark.....	168	156	177	Switzerland.....	376	357	357
France.....	1,795	2,450	2,471	Turkey.....	192	103	103
Greece.....	37	45	81	United Kingdom.....	268	323	94
Iceland.....							
Ireland.....	19	24	14	Subtotal.....	9,013	9,121	8,780
Italy.....	782	480	337	Western Germany.....	3,236	3,700	3,882
Luxembourg.....	6	8	7				
Netherlands.....	49	29	24	Total western Europe.....	12,249	12,821	12,662
Norway.....	717	829	811				

¹ Includes sawn lumber and railroad ties.

NOTE.—Figures are based on CEEC report.

UNITED STATES

The rate of timber cutting in the United States has been much greater than the rate of growth for at least 50 and probably 100 years or more. The stand of saw timber has been reduced by more than 40 percent in the last 40 years. Although the total drain and growth of all wood are now almost in balance, the drain on saw-timber supplies (trees large enough to yield sawlogs) still exceeds the growth by more than 50 percent.

In 1938, the saw-timber volume was estimated at 1,764 billion board feet while in 1945 this same estimate approximated 1,601 billion board feet. By calculation, giving allowances for rates of cutting and other drain of growth, the stand in 1928 is estimated at about 1,850 billion board feet, in 1947 at 1,575 billion board feet, and in 1951 at about 1,500 to 1,530 billion board feet.

Estimated stand of timber in United States, about 1935

Volume of all timber.....	cubic feet.....	520,000,000,000
Volume of saw-timber.....	board feet.....	1,765,000,000,000

On a basis of the Forest Service and census for the United States, the following data reflect lumber production in selected years.

Lumber¹ production of United States for selected years

[All figures are million board feet]

1934-38 average.....	24,645
1947.....	38,000
1951.....	34,000-36,000

¹ Includes sawn lumber and railroad ties.

For convenience, I have treated western Germany in all of the tables given above as one of the participating countries under the European recovery program.

Mr. LODGE. In connection with this steel question, I quite understand the natural fears which many people have. However, I feel that the most imminent threat today in Europe is not Germany. I feel also that an impoverished, distressed and diseased Germany is much more of an imminent threat than an undismantled Germany. It seems to me that if we take the proper police methods to handle the situation, perhaps by internationalization of certain areas or by other means, we can save ourselves a great deal in the export of steel. Let us, therefore, look very carefully, into the question of whether these steel plants should all be dismantled.

Secretary KRUG. While my opinion was never solicited on that question, I certainly as a private citizen have felt that demolishing a big segment of German industry is a very poor preventive for another war.

Mr. LODGE. I think you will agree that almost everything which we use is war potential in an absolute sense. We could say that wheat is a war potential.

Secretary KRUG. Certainly.

Mr. LODGE. Does not it seem to you that the important thing is to get an international organization which could handle this thing, rather than try to decide which plants are war potential and which are not?

Secretary KRUG. That is my feeling.

Mr. LODGE. Mr. Secretary, in view of this shortage of oil, do you anticipate that it may be necessary to ration or price control oil in this country?

Secretary KRUG. Yes, sir.

Mr. LODGE. Would that be in the near future?

Secretary KRUG. It is too late to do anything about it this winter, but it looks to me quite likely that we will have to ration fuel oil next winter.

Mr. LODGE. Would we have to do that even if we did not have ERP?

Secretary KRUG. Even if we did not have ERP; yes, sir.

Mr. LODGE. In other words, you make that quite clear, that it is not because of the ERP that we may have to have rationing of all petroleum products and not just fuel oil?

Secretary KRUG. That is not necessarily true. We finally, during the war, rationed gasoline and fuel oil. We did not ration other petroleum products. It may be possible. If you recall, during the war there were periods when the gasoline rationing was lifted and then put down. You may have a time when you do not have to ration gasoline when you would ration fuel oil. But it is a thing we are watching closely in this cooperative program with the industry to see if by voluntary means we can get consumption down. The oil industry is spending about a million and a half on that program, and they are very hopeful that it will produce the desired result. I certainly hope that it does. But I am not at all certain it will, and rather than have people go cold next winter I think we should take steps, that are necessary.

Mr. LODGE. Do you think that rationing without price control is a practical method of dealing with the situation?

Secretary KRUG. I think it is preferable to have both. .

Mr. LODGE. It is pretty hard to have rationing without price controls according to you?

Secretary KRUG. I think it is difficult, although during the war we had price control on coal. We never rationed coal.

We had price control on petroleum, and it was rationed.

Mr. LODGE. Thank you very much, Mr. Secretary. I am very much obliged to you.

Mr. JONKMAN. Mr. Jackson.

Mr. JACKSON. Mr. Secretary, I am very sorry we have been running in and out of here all afternoon and I do not know what has been touched on and what has not, so if I ask some questions that are already in the record, I can undoubtedly look them up rather than have you answer them again.

Would you care to comment or hazard a suggestion, Mr. Secretary, as to how long our proven domestic reserves will be sufficient for American consumption in a peacetime economy?

Secretary KRUG. Well, those calculations are really a bit misleading because the proven reserves as of any date are the reserves you just happen to know of at that time. Obviously, there is a lot of oil we do not know about at this time.

If you take the oil we know about, it is 20,000,000,000 barrels, which will last for 10 years at the rate we are going now.

But I do not want to give the impression our oil will be gone in 10 years because if we did not find another barrel we would not be able to draw it out of the ground in a 10-year period.

We would have to find substitutes and it would run for a considerable period of years.

Mr. JACKSON. Assuming the same proven reserves, how long would that last us in a total all-out war effort such as the last war?

Secretary KRUG. As it happens, our peacetime economy is using more oil than our all-out war economy.

Mr. JACKSON. More than we shipped overseas?

Secretary KRUG. We are using more petroleum today by at least 10 percent than the maximum of the war years.

Mr. JACKSON. That was for ourselves and for our allies, all the oil we used?

Secretary KRUG. That is right.

Mr. JACKSON. The reason I brought this up is because of the fact that during the debate on aid to Greece and Turkey it was stressed very strongly that free access to the oil in the Middle East was essential to our national security, that we could not afford to have access to the oil in the Middle East denied to us.

That is the reason I brought this up about our domestic problem.

Secretary KRUG. I think that is entirely true. If we had to superimpose another war on the uses we are now making of petroleum we would find it impossible to get it from our domestic sources.

We were fortunate at the start of the last war to have productive capacity in excess of our then consumption, so we drew on the extra capacity to meet the war needs and drilled our new wells too.

Now, we are using every drop of our available capacity. We could draw a little more by exhausting the wells sooner than they should be, but we are drawing now at the maximum economic rate of production

from all the wells, and if we had another war, we could not get more from our existing wells, except by shortening the life of those wells.

Mr. JACKSON. Now, further, with reference to timber, as Mr. Vorys mentioned awhile ago: Is it not possible that there might be a much more economical and feasible plan to cut timber in Africa, in the colonies, rather than deplete our available supply, or cut ahead, as you put it?

Secretary KRUG. I think that might be possible several years from now. Fortunately if we are going to cut timber in any quantity you need a lot of equipment.

Heavy trucks, sawmills, roads, heavy equipment for handling it, and that equipment is not available in areas of the world where perhaps the timber is.

I would say it would take at least 3 or 4 years to get any considerable expansion of timber production in other parts of the world.

Mr. JACKSON. But certainly, it is a very desirable goal to work for?

Secretary KRUG. Yes, indeed. I think it is perhaps our most extravagant of all wastes the way we have used up our timber reserves in this country.

Mr. JACKSON. To go back, I know the matter of stock piling materials was touched on here. Unfortunately I did not get your entire comment on it. I know in the case of New Caledonia, for instance, they furnished us, all the allies, a considerable amount of nickel, during the war.

Secretary KRUG. Yes, sir.

Mr. JACKSON. A great many of us should like to see some provision written into the act which would give us some future use, as distinguished from current production, which would, of course, discount the balance-of-trade estimates, something that might insure future return in new development and exploitation of new sources of supply. And I wonder if you would comment on that?

Secretary KRUG. We have discussed it at considerable length. In summary, my view is this: Certainly that ought to be done but I would not like to see you put into the bill anything that would put the Administrator in a strait-jacket, so he might be forced to make a deal with somebody which in itself would pull down the structure we are trying to build, which is a sound, healthy world economy.

I think whatever you put into it should be to the effect "You make the wisest business deals you can for this country, with particular consideration to replenishing our storehouse of materials" is all right, and Congress ought to have the Administrator up here very 3 or 4 months to find out what he is doing about it.

I do not think you can write language or formulas that will fit it.

If you do, I am afraid the result will be the ruination of the program.

I have tried to contrive a formula and I have not been able to find one. I think I said before I have not been able to find any other formula by anyone else that seemed to me workable.

Mr. JACKSON. Of course, I cannot subscribe, unfortunately, to the theory that we cannot condition this program, any more than a banker cannot condition a loan. If you went to a banker and you owe him \$10,000 and you want to borrow another \$10,000 he will tell you to quit hitting the bottle, and hitting your wife, and stopping some things you have been doing, and possibly do some other things.

We all know the situation: "That is fine; sometime in the future. We have got the Greece-Turkey bill; don't do it in this bill; let's do

it in the \$342,000,000 bill. The relief bill came along; this is not the time to do it, but possibly in the interim-aid bill we can work it. Now is not the time to do it, but possibly sometime in the future we will be able to work out a detailed plan to get something back for the billions of dollars we are pouring out."

The only natural question that occurs to a lot of us is: Just when are we going to take some concrete steps to see if we cannot get back something in material return for these billions of dollars, without fatally handicapping any program of aid?

Secretary KRUG. Tell the Administrator to do that, but do not tell him how to do that; then check on him.

Mr. JACKSON. It would be all right in the law to tell him it should be done, without laying out any specific details?

Secretary KRUG. That is right. A statement of policy that you would like to get this money back, if possible, should be included. That is his job.

Mr. JACKSON. Thank you very much.

Mr. VORYS. Mrs. Bolton.

Mrs. BOLTON. If I might return to one or two things: You were speaking, I think, about the administration of this program and suggesting that the man was what mattered, and then you left him free to do what he chose.

Under the State Department suggestion, that would be one man; and you would be reluctant to have us set up any different arrangement, would you?

Secretary KRUG. I think it would be one man. He should have an advisory board. I do not think that would handicap his program; perhaps members of the Cabinet could be helpful to him and perhaps a group of citizens.

We had a WPB advisory board during the war that I found very helpful to me. That Board included only Government officials. We also had hundreds of advisory committees that included the best brains we could get in every industry.

I assume he would like to work with groups of that kind in administering this program.

Mrs. BOLTON. Do you think it would be possible to get a really top-flight man without having the thing written up a little more as to what he is getting into?

Secretary KRUG. The natural question of anyone being requested to take a Government job is, "What is the job?" But, as I said before, whenever they start worrying too much about what is the job, they are not going to do a good job, anyway.

Mrs. BOLTON. But any man in business, if he is asked to do a job, will want to know what the job is. This, of course, would look very much like an under secretary of state as far as the general set-up is concerned, would it not?

Secretary KRUG. I would not think so. Personally, I am not sticking for any particular one. We followed throughout the war the principal that the State Department controlled the WPB on policy, as to foreign matters.

We kept them in their field and had no trouble with them.

Mrs. BOLTON. Did you have an adequate definition of foreign policy?

Secretary KRUG. We defined it as we went along; and if we tried to spell it out at any predetermined point, I am sure we would have been in trouble.

Dr. ELLIOTT. I would like to ask a question that I think will bring out a difficulty if foreign policy is to be the only touchstone applied, and at the discretion of the Secretary of State.

For instance, when the State Department worked with you, Mr. Secretary, or your predecessor as Program Vice Chairman of the WPB on the subject of gold mining machinery to South Africa, the State Department took the view that gold mining machinery could not be cut off because of the effect on the political situation. The WPB, on the other hand, asked South Africa to export 200,000 tons of coal more a month to Europe, if railroad cars and mining machinery were sent by the United States to South Africa. The WPB, as I recall it, stuck to its guns and said that unless 200,000 tons of coal a month more were exported from South Africa—

We will not only cease buying low grade manganese and low grade chrome in South Africa, but we will not export gold mining machinery to South Africa. Since we ourselves have stopped gold production in the United States, we want coal, not more gold, to be produced by South Africa.

That was a business proposition, and in the end the WPB view stuck and the 200,000 more tons of coal a month were forthcoming.

They were extra. But that tough bargain could have been defined under the President's bill, could it not, as foreign policy? And it could have been stopped. In other words, it was the position of the Chairman of the WPB—and I believe that may be what you are bringing out—that enabled him to speak with authority on that, because he had to protect the resources of the war as a whole.

Secretary KRUG. During the war we never resolved it in writing. I am sure we could not. It is the State Department's sphere of operation as against the WPB sphere of operation, that is.

We had a number of instances where they thought foreign policy required something, and we did not think so. I do not recall a single one that was not finally worked out between the Chairman of the WPB and the Secretary of State; and we did not win all of these, you remember.

Dr. ELLIOTT. No; but we won a sizeable percentage of them; and the position was not that you had to take a directive from the Secretary of State. But this matter, affecting foreign policy, had to be acted on on both grounds. That is the point I had. The WPB chairman was an equal, not a subordinate. He could argue and had Cabinet rank.

Mrs. BOLTON. Mr. Secretary, in the matter of keeping closely in touch with the Congress, you have suggested that the Administrator come up every 3 or 4 months to inform Congress.

Secretary KRUG. Probably more frequently than that.

Mrs. BOLTON. What would be your feeling if, in order to keep the Congress very intimately informed, a committee of Congress, this special committee, be appointed somewhat similar to the Atomic Energy Committee, which meets very frequently?

Secretary KRUG. I think that might well be a good idea. During the war I found committees of Congress that dealt especially with war-production problems to be very helpful.

I met with them, not once every 3 or 4 months, but every 2 or 3 weeks.

Mrs. BOLTON. My thought was, at least once a week; and in that way we would be more able to follow our own instructions under the new organization bill, which is that whatever we do we must follow.

Secretary KRUG. I certainly will not see any objection to that, and I think it would have many advantages.

Mrs. BOLTON. Now, to go back to the Administrator: If everything was pinned upon the man, supposing something happens to that man? Then what do we have left?

Secretary KRUG. You will need more than one man; and I assume, if he is the right kind of a man, he will have around him a number of people who can take his place.

Mrs. BOLTON. Thank you.

Mr. Richards, do you have a question?

Mr. RICHARDS. We have had our say.

Mr. JACKSON. I have one additional question: From time to time, Mr. Secretary—and I suppose this is characteristic of all Members of Congress—we get letters demanding to know why two or three tankers are loaded with oil for the Soviet Union. Is any oil being shipped at the present time?

Secretary KRUG. I do not believe so.

Mr. FENTRESS. The principal petroleum products under export controls have no allocation for Russia at this time. There are one or two products not under control, and small shipments are going to Russia.

Mr. JACKSON. But not oil or petroleum?

Mr. FENTRESS. The principal products—aviation gasoline, heating oils of all kinds—are under control.

Mrs. BOLTON. That holds good of the Middle East, Bahrein areas?

Mr. FENTRESS. That holds good only within the United States.

Mrs. BOLTON. That is a very different situation.

Mr. JACKSON. Now, of course, much of the oil in Saudi Arabia we do control and we buy. That means that oil under our control is not being shipped?

Secretary KRUG. We are not controlling foreign oil at all, whether American companies happen to be developing it or not. The only controls we have any power to enforce are over exports out of this country.

Mr. JACKSON. But oil belonging to those countries may be shipped directly from the port of debarkation to any country?

Secretary KRUG. If it does not originate within the United States.

Mr. LODGE. Is it contemplated that any petroleum products of any nature will be shipped to the Soviet Union?

Secretary KRUG. Not to the best of my knowledge. The Secretary of Commerce handles that. We give advice only with respect to availabilities.

We have been strongly advocating that exports be held at the absolute minimum.

Mr. LODGE. With particular reference to Soviet Russia?

Secretary KRUG. With reference to everyone.

Mr. LODGE. Do you feel that a different theory should be taken with respect to Soviet Russia than with respect to other nations?

Secretary KRUG. I think Russia is in a position to take care of its own oil requirements if it wants to get in and do the job.

Mr. LODGE. Therefore, in view of our present shortage and particularly the shortage in New England, it would not seem well to stop shipments to Russia?

Secretary KRUG. That is what I would conclude.

Mr. JAVITS. Is there any way in which the Department of the Interior would tie into the proposals under the ERP for these 16 nations and their colonies and dependencies—I emphasize that—to engage in oil exploration, to see if they can find new resources?

Secretary KRUG. We would expect, under this arrangement, to be the technical brains of the Administrator in the petroleum field, and we would be doing our best to influence him at all times to keep the exports of petroleum at a minimum—to make sure they go to essential purposes and to develop all the petroleum he can any place in the world.

Mr. JAVITS. Do you find under this bill any section which gives you an official connection with that effort?

Secretary KRUG. We have no authority under the bill to tell the Administrator to do anything.

Mr. JAVITS. It would then be informal?

Secretary KRUG. Yes.

Mr. LODGE. The Secretary of Commerce advocated that the Administrator should have nothing whatsoever to do with questions of American internal economy, questions of availabilities. Questions of what we could afford would be up to the heads of the departments. If you subscribe to that view, and that becomes the law, then the Administrator would have to come to you?

Secretary KRUG. He would come to us and say: "Can I get this much oil in the United States for shipment to France, Belgium, or Holland?" And we would tell him whether or not he could. If he insisted that he had to have oil, which we felt was more urgently needed here, Averell Harriman and the Department of Commerce would have the controls over the exports. His program could be blocked. Then it would be an appeal to the President.

But I would not expect any contingencies of that kind developing. It would seem to me that is up to the various department heads.

The Secretary of Agriculture for food, Interior for coal and oil, and Commerce for other commodities and equipment, would be able to sit down with him and work out a program that would do his job, with the minimum impact on our own domestic economy. Obviously you could not have him in a position to go out and take some oil equipment or pipe capacity that was desperately needed for our own industry and ship that abroad.

Mr. LODGE. Exactly.

Mrs. BOLTON. What do you think of the Foreign Aid Council set up under the Herter bill for just that purpose?

Secretary KRUG. I have not had a chance to make a careful comparison between the bill proposed by the President and the bill proposed by Mr. Herter, and my own feeling on the administration end of it is that it is given far too much prominence.

The difficulties, I think, are largely imaginary if we get the right kind of people to administer the program; and if we do not get the right kind of people, it will not work anyhow, regardless of the type of organization chart you have worked out.

Mrs. BOLTON. I wondered if we might ask Mr. Elliott?

Dr. ELLIOTT. Mr. Vorys suggested before he left that I put a question to you.

The shortage of both gasoline and fuel oil has increased, we are told, by the recycling processes to increase the octane ratings of gasoline, which has been put up to a very high point, according to Mr. Frey in the report he wrote for the Select Committee on Foreign Aid, by a race between the oil companies.

Is that not capable of being cured now by the powers which I believe would be vested in you, sir, with the Justice Department, in consultation with the industry to work out arrangements to limit that high octane race that is going on? If this race produces new motorcars that require higher octane content, will not that still further deplete our supply of gas and fuel oil?

Secretary KRUG. There has been that kind of a race and it did have that result. Fortunately the tremendous demands on the industry automatically reversed it, so for the past 3 or 4 months the trend is the other way.

We have a committee of industry working with us on that and they have promised complete cooperation to get the maximum of petroleum products to do the job.

Dr. ELLIOTT. Under the new law you would have the right to do that to any extent you and the Department of Justice would agree?

Secretary KRUG. No, we have no power. If the industry is willing to do it, it is all right. We would get the industry together and ask them if they would do it but if one member or if the industry says no, we have no power to require it.

Mr. LODGE. With respect to our national defense, we read in the paper about the insufficiency of petroleum products.

In particular it is my understanding there is just barely enough at this time to run our very much diminished Navy. Suppose we were called upon in the interest of national security and to maintain the peace to demothball some of our ships and suppose we get 70 air groups, which is my devout hope, what are you going to do?

Secretary KRUG. We would immediately have to ration fuel oil and gasoline. We found out after the trial that all other schemes were of no avail. The other alternative is to cut down on the demand where you can cut down without hurting people.

We have to do that immediately, if we have a substantial increase in the military requirements.

At the present time they are running about 4 percent of total consumption. During the war at one time I think they were up to 32 and 33 percent.

Mr. LODGE. In other words, with a certain amount of sacrifice on the part of the American people, and they have always been willing to make sacrifices, and with sacrifices that would not be too painful, we could still expand our armed forces, even without substantial imports of petroleum products?

Secretary KRUG. We would have to do a more drastic job of rationing then we did during the war, if we had to carry on any major defense operations.

Mr. LODGE. It could be done?

Secretary KRUG. Yes.

Mr. LODGE. I am very glad to hear that, sir. Thank you very much.

Mr. VORYS. Are there any other questions?

Mr. MANSFIELD. Mr. Secretary, the question I had in my mind was answered on my arrival here by the questions put to you by my colleague, Mr. Jackson, relative to our own national resources.

However, there has been some talk here about petroleum. Could you give us, offhand, if you can, the amount of petroleum and petroleum products which we are exporting now, and the amount we are importing?

Secretary KRUG. Yes. At the present time, taking the past year as an example, we exported about 450,000 barrels a day to all countries, including Canada, and we imported about the same amount. That is gradually shifting so we are importing a little more than we are exporting and in the current year we would expect to import about 24,000,000 barrels in excess of what we export.

So the imports are gradually working up and the exports have been gradually working down.

Mr. MANSFIELD. Is it true that as far as our Navy and armed forces are concerned, outside the continental limits of the United States, that they receive the major portion, if not all, of the petroleum and petroleum products which they need from either the Middle East or from South America?

Secretary KRUG. They use large quantities from the Middle East and South America.

Mr. MANSFIELD. So consequently there is the least possible strain upon our oil economy under the circumstances?

Secretary KRUG. Yes. Military requirements, as I mentioned, amount to 3 or 4 percent of our total oil consumption, as against 32 percent during the war.

Mr. MANSFIELD. But most of the military consumption, especially in the Navy, is brought in from outside sources, and in the western Pacific, it all comes, I believe, from the Persian Gulf area?

Secretary KRUG. I believe that is right, but I would not be certain. I am told that is right.

Mr. MANSFIELD. The point I wanted to make is that as far as the Government is concerned, we are trying to do everything we possibly can to see that all the oil is retained in this country for the use of its civilian population and its industries?

Secretary KRUG. Yes, we have been doing everything possible with the limited authority we have.

The industry on its own has been doing, I think, a very remarkable job, when you figure the consumption in this country has almost doubled per capita since before the war.

They have kept abreast of it. Everybody is shifting from coal to an oil burner, and naturally you cannot get new oil wells, new refineries, new pipe lines overnight.

Mr. RICHARDS. Mr. Secretary, what part of our imports now—not talking about what the Navy uses, but imports for organized commercial transactions in this country—comes from the Middle East?

Mr. LEVY. Practically nothing. Most of it comes from Latin America.

Mr. RICHARDS. Where do most of the imports in oil come from?

Secretary KRUG. Practically all of it from Latin America and the Caribbean area.

Mr. RICHARDS. That is all.

Mr. MANSFIELD. That is all.

Mr. VORYS. Mr. Secretary, I want to thank you and to apologize for this in-and-out performance which was not of our doing but because of roll calls. You have been very good-natured and patient in taking part in this chain reaction around the table here.

Secretary KRUG. Thank you. I had a very pleasant afternoon.

Mr. VORYS. There will be a short executive session of the committee as soon as we have the room to ourselves.

(Whereupon, at 4:30 p. m., the committee went into executive session.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 27, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met, pursuant to notice, at 10:30 a. m., Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order. It is with peculiar delight that I am able to present to the committee my old-time colleague and beloved friend, Phil Reed, who became chairman of the board of General Electric on his fortieth birthday. Enough said.

Mr. Reed.

STATEMENT OF PHILIP D. REED, CHAIRMAN OF THE BOARD OF DIRECTORS, GENERAL ELECTRIC CO.

Mr. REED. Mr. Chairman and gentlemen, my name is Philip D. Reed and I am chairman of the board of General Electric Co. Four of the past seven years I spent in Government service—a year and a half with the War Production Board in Washington and two and a half years in England, first as Deputy and then as Chief of the United States Mission For Economic Affairs in London. I have made four trips to Europe since the war.

My approach to the problem of the European recovery program is that of a businessman. Approximately 94 percent General Electric Co.'s production is sold here in the United States. On the average, about 6 percent of our production is exported to various countries of the world, particularly South America. I give you this background for such use as it may be in evaluating my testimony.

The importance of reaching a sound decision on the European recovery program can scarcely be overestimated.

Shall we go through with it? Where do our best interests lie? Can we afford it, or can we afford not to proceed with it? We have already, as you know, given or loaned 10 or 11 billion dollars to these 16 countries. Would more be sending good money after bad; would it in fact be "operation rathole"?

Let's assume for the moment that we decide to make no further grants or loans to the so-called Marshall-plan countries and that we limit our exports to what those countries can pay for currently with goods, services, and such dollars as they have left. What would that decision mean to these countries? They would, of course, be forced immediately to reduce their standard of living to new low levels

that could be supported by their present production. Food supplies, already very low, would drop drastically. In Austria, for example, the daily diet is around 1,500 calories, and in other countries it varies from that level to a top of 2,700 calories in Great Britain, compared, you will recall, with almost 3,500 calories per day here at home.

People cannot live and work on 1,500 calories a day; and at the higher levels—1,900, 2,100, 2,400—in other western European countries there is in all cases a serious deficiency from the standpoint of maintaining good health and efficient production. A sharp reduction from these levels would confront millions with starvation and so weaken and discourage the rest as to reduce their productivity, destroy their hope, and set the stage for complete collapse. If we assume, as we must, that heavy cuts would also be necessary in imports and consumption of fuel, raw materials, and machinery, it requires no stretch of the imagination to picture western Europe as a political and economic concentration camp.

This in a very real sense is what we face if we go onto a cash-and-carry basis with Europe. Police states would be necessary to maintain order and to keep any government in power. You may judge for yourself whether this is precisely what Russia wants to happen and whether these police states would be Communist-controlled.

What, then, would our position be?

First, can there be any doubt that our expenditures for military defense—Army, Navy, and Air Force—would be increased by many billions every year? It would be surprising to me if the increased exposure and risk of war resulting from the conditions I have described did not justify a 50-percent increase in our military appropriations. This, as you know, would mean more than an additional 5 billions per year.

Second, trade with Europe and with other areas of the world would be greatly reduced and our standard of living here at home would suffer accordingly.

Third, such trade as took place—and there would be some because we require many raw materials and products from Europe and her colonies—would be carried on with official representatives of police states, not as heretofore with thousands of private producers and traders in those countries. It would not be long before the private exporters and importers here in America would find it necessary to join forces in order to bargain effectively with the foreign government monopolies. At this point our Government would, of necessity, step in to legalize and supervise the operation, and from that moment our free-enterprise system in foreign trade would disappear indefinitely.

The step, gentlemen, from Government participation in and control of America's foreign trade to a far larger degree of regulation and control of our home market and production is indeed a short and human one.

Although much more could be said, my fourth and final point on what our position would be, if we elect to go on a cash basis with western Europe is this: We are a decent, sympathetic, humanitarian people. It is my best guess that if Europe found herself in the plight I have described, with millions suffering and starving, the churches, schools, and relief agencies of this country, and not improbably the Government itself, would be raising huge sums of money for the relief of these unfortunate peoples. In other words, we as individuals are

going to do what we can in any event, as a matter of good conscience, to relieve suffering abroad. To whatever extent we would do this—and I leave it to you to say how much it would be—we would be spending our American dollars year after year to alleviate the results of economic collapse which the European recovery program is designed to prevent.

So much then for what would happen if we don't go through with the European recovery program. Now let's add up a few of the plus items if we do go through with it. In general they are the points I have already mentioned but expressed in reverse.

Our expenditures for Army, Navy, and Air Force would not have to be increased many billions because of the collapse and communitization of Europe. Indeed, if the European recovery plan achieves its ends, conditions in Europe, political as well as economic, would be infinitely more conducive than they are today to the achievement of lasting world peace and a strong, effective United Nations. Under these circumstances we might reasonably look for a substantial reduction, rather than an increase, in the cost of our Military Establishment.

If we successfully prosecute the European recovery program we can look forward to a mutually beneficial exchange of goods with Europe and other foreign areas at a level commensurate with their improved economic condition. This would lift our standard of living and contribute to high employment.

Again, the European recovery program would go far toward preventing the creation of police states in western Europe which might well force our Government into the practices and exercise of controls which by their very nature are destructive of private competitive enterprise.

And, finally, by helping western Europe to restore her production and regain her economic and political feet we minimize and perhaps avoid the necessity of continually passing the hat for the relief of starving Europe.

From all this it would seem clear that America stands to gain or lose a very great deal indeed by what happens in Europe in the next few years. No one questions the absolute truth of the statement that the most unhelpful thing we could do to the friendly nations of the world is to so strain or inflate our own economy as to bring on a depression in this country. That, of course, is what Russia is waiting for. And it must be our prime objective so to conduct our affairs that it will not happen.

But to say we cannot afford the European recovery program because of its inflationary effect here at home requires careful analysis. We must remind ourselves of all we stand to lose and of the inflationary effect of increased military expenditures we face if we do not go through with the program. We must recognize that while the exporting of scarce commodities is undoubtedly inflationary, exports under the proposed European recovery program would be no more so in 1948 than were our exports in 1947—indeed, they are estimated to be less. And we must face the fact that our exports are not the sole cause, are not even the major cause, of our inflation here at home.

In view, therefore, of the tremendous stake we have in European recovery and the preservation of her democratic institutions, I am convinced that we must proceed with the program, recognizing that it

adds to the inflationary pressures at home and makes all the more imperative an intelligent, comprehensive, and courageous set of measures designed to relieve inflationary pressures and hold our economy in balance through this difficult and terribly important period.

Now, assuming we decide to go ahead, what would it cost us? My answer is that no one knows within \$5,000,000,000 above or below any given estimate of what it would cost. Here are some of the variables that make it impossible to fix a figure:

1. Our price level hasn't stabilized yet. Who knows whether it will be 10 percent up or the same amount down, or some other figure up or down, 2 or 3 years from now? The difference in the cost of European aid at different American price levels could affect the total by billions of dollars.

2. Consider how much less food Europe will require from us if European weather conditions are excellent during the next couple of years and bumper crops result. And consider, on the other hand, how much more we will have to supply if crop weather abroad is unusually bad as it was last year. Here again the difference would run into billions of dollars. The same, incidentally, applies to our ability to supply food if we should have had crop weather in our country.

3. Russia will do everything in her power to sabotage our program, and we can be quite sure it will be done well and with imagination. Until we see what methods she will use, what tricks she will try, who can say to what extent these efforts will neutralize our program? This is war, gentlemen, economic and political war, and the cost of war is importantly affected by what moves the enemy makes and what we must do to counteract them.

There are other matters that will influence the cost of the European recovery program, but perhaps I have said enough to demonstrate that it cannot be determined at this stage.

I recommend, therefore, that Congress, after taking note of the various estimates that have been made by several responsible groups, make no attempt to agree upon an over-all amount. The important thing is that the program be undertaken with full recognition that it will cost us many billions and that the prospects are good that those billions will have been well spent if we proceed promptly, intelligently, and realistically, being neither penurious, on the one hand, nor profligate, on the other.

Having authorized the program without naming a specific amount, I believe the Congress should appropriate the 6.8 billions requested by the President for the first 15 months. Thereafter additional appropriations can be considered in the light of conditions and accomplishments as they may appear. Holding the purse strings, Congress will have ample control over the program beyond the initial appropriation. Whether the 6.8 billions is exactly right for the initial period I do not know. As I have indicated, the variables are too great to permit close estimates. We do know, however, that to appropriate too little would be very serious. And if we provide for administration of the program that will be competent and efficient, any overage in the appropriation will not be wasted but will be available for later use.

Before leaving this phase of the matter I want to emphasize the extreme importance of the psychological effect of what Congress does

at this time. I have been told repeatedly by Europeans in whose judgment on reactions, both east and west of the iron curtain I have the greatest confidence, that prompt action by Congress on this matter and the appropriation of a fully adequate amount for the first period would have an enormous psychological impact throughout Europe.

I need not remind you that timing is often more important than the act itself. In this case, where quite apart from our central objective of helping European recovery we have in Russia an avowed and active enemy of that objective, an early announcement of prompt and full support would give Russia less time to mobilize her counteroffensive and might well require her to move prematurely and unwisely in western Europe. I am convinced that prompt action on our part has special value to the effectiveness and ultimate cost of the program.

The next question is, How should the program be administered and what limitations and conditions should be imposed by statute on the Administrator? Here again it is exceedingly important that we take the right course. It will be clear to all that effective and efficient administration of a European program can be achieved only if wide latitude and freedom of action are given to the Administrator. Each of the 16 participating countries has different conditions, resources, and problems. The character of the aid required, the production goals to be established, the steps to be taken by the foreign governments to restore economic and monetary stability, the capacity of each country to pay in whole or in part for American aid, and the things each country must do as a part of the over-all program of economic cooperation between the participating states, will vary widely from country to country.

It is most important, therefore, that the enabling legislation shall impose no unnecessary restrictions on the Administrator in working out the over-all program with each country and in carrying out the broad purposes of the act. Indeed, the success of the entire program may well depend on the flexibility and scope of the administrator's authority in dealing with the participating countries.

Accordingly, the act itself should be expressed in terms of broad basic principles and objectives. It may well, however, include by way of guidance and suggestion as distinguished from mandatory requirement, points to be considered by the Administrator and, if appropriate, included in the agreements to be worked out with participating countries. I yield to no one in my desire to minimize the cost of this program to the United States, but we must not lose sight of our basic objective, nor risk failure by insisting on the inclusion of provisions that would profit us little and might jeopardize all.

Two bills are now before the Congress, the so-called Herter bill and the administration measure. The Herter bill would place responsibility for administration of the program in a new corporate agency to be known as the Emergency Foreign Reconstruction Authority. This agency would have broad powers, including procurement, export controls, investment of foreign currencies, and so forth, and would be headed by an administrator and directed by a bipartisan board appointed by the President with the advice and consent of the Senate. This administrative set-up gives a minimum of voice and influence to the State Department in the handling of the program.

The administration bill, on the other hand, provides for an Administrator appointed by the President, as in the Herter bill, but gives him

no board, much less authority, and provides for most operating matters to be handled by the regular Government departments. Also, it makes the Administrator subject to the direction and control of the Secretary of State on all matters affecting foreign policy and provides for an ambassador to handle all negotiations with the participating countries.

In my opinion the proper organizational set-up lies somewhere between the two bills. There is no doubt that the State Department has a vital interest in the European recovery program. It is equally clear that important domestic questions are involved which are not within the jurisdiction of the State Department. Organizationally, therefore, it is a split job which will call for the closest kind of cooperation between the various interested departments, including State, Treasury, Agriculture, and Commerce, under the over-all direction of the Administrator. If important differences of opinion arise, the President will have to decide.

In my view the Administrator should report direct to the President and should have an advisory board presided over by the Secretary of State and made up of the Administrator, the Secretaries of the Treasury, Agriculture, and Commerce, the head of the Export-Import Bank, and the United States representatives on the Monetary Fund and International Bank. An ambassador at large appointed by the President, approved by the Senate, and responsible equally to the Administrator and the Secretary of State should head and coordinate the activities of the European recovery program in Europe.

The Administrator's staff should be small and of exceptional competence. A considerable part of it will have to be borrowed on a temporary basis from business, and its job will be to formulate recovery programs with each participating country, clear them with all interested departments, obtain Presidential approval and then see that the programs are fully and promptly carried out.

Although the Administrator's power to operate and break bottlenecks should be broad, normal operations such as procurement, export control and loan transactions, and so forth, should insofar as practicable be handled by the Government departments or agencies now performing these functions.

The Administrator in cooperation with the State Department must arrange for suitable personnel to follow the progress of the program in each country. This will include seeing that all commodities and equipment furnished under the program reach their destination and are put to the intended use, checking on the performance by the foreign governments of all terms of agreements with our Government, including production targets and steps to be taken to restore economic and monetary stability.

In the long run American private investment abroad will be a potent factor in maintaining a healthy balanced world economy. This fact should be prominent in the minds of the Congress and the Administrator to the end that all possible encouragement be given to the flow of private investment funds into Europe and other countries.

I cannot leave this discussion of the Administrator's responsibility without mention of Germany. Although, strictly speaking, it is not one of the Marshall plan countries, it is a country for which we as an occupying power have direct responsibility and it is also a country whose economic well-being is probably the key to European prosperity.

Again, although the problems are many, more production is the basic one. Incentives for the German people, not in worthless marks, but in food and fuel, in certainty as to their status and in opportunity to work their way to better things, must be provided if the German economy is to get off dead center. We have waited too long for Russian agreement. Western Germany must now be included in the program of European recovery, and the planning and procurement of American aid should be the responsibility of the Administrator of the European aid program. In addition, as the principal occupying power we must promptly take the steps—monetary reform, organization of a German government, and so forth—which will restore incentive and vitality to a normally hard working but now hopeless and lethargic people. These things are fully as important to European recovery as a program of aid for the 16 participating countries.

More production, and this applies to other European countries as well as to Germany, must be our central objective; it must be a condition of our aid and a test of whether that aid shall be continued beyond the initial stage. Although we cannot, it seems clear to me, dictate to a sovereign power or a sovereign people the economic system they shall use, we can and in our own interests must make production performance and the achievement of predetermined goals a condition of our continued assistance.

I spoke earlier of the need for early action by the Congress for psychological and timing reasons. I now urge it again on grounds of effective administration of the program. The Administrator will have an enormous task on his hands, and the sooner he can get organized and functioning the better it will be for all of us. There must not be a hiatus between the interim aid and the European recovery program.

My final point on this matter of European recovery is of capital importance. It stems from the fact that the people of Europe—west as well as east of the iron curtain, barring only Great Britain—are in very great ignorance of America's intentions, motives, plans, and assistance given to date. In most countries the newspapers carry next to nothing about us. Newsprint is in very short supply. In some countries, including France, most of the newspapers are Communist-controlled and, in accordance with the Communist line, present a distorted and critical picture of us. American books and magazines are very scarce, radios are relatively few and programs concerning America are both limited and inadequate.

If we are to go through with the European recovery program we must not fail to get all the benefits that are in it for us. One of them is that the people of Europe be fully aware that we are helping them and in what way and to what extent. Another is to demonstrate by every means at our command that our intentions are not imperialistic and that we seek only a peaceful, prosperous world of free people. Again we shall have a tremendous opportunity to show, by the very aid we are giving, the merits and advantages of our way of life as compared with communism, especially as measured by the status and standard of living of the average man and woman.

To do these things we must plan and organize just as in any business, having built a fine product, we must advertise and promote its sale. Fortunately, the ground work has been laid for the kind of a selling

organization we so badly need. The bill authorizing United States Foreign Information Service has passed both Houses of Congress unanimously and is about to become a law. Appropriation of adequate funds to operate this Information Service is no less important than approval and implementation of the European recovery program itself.

Chairman EATON. Mr. Reed, we thank you for your very, very statesmanlike analysis of this tremendously important and difficult situation.

Mr. REED. Thank you.

Chairman EATON. I am sorry that Mr. Mundt is not here to enjoy your endorsement of the Voice program, although I am not surprised that you so endorse it. I have had so many opportunities of asking you questions that I will not take the time on this occasion. We have a rule here now so as to give everyone an opportunity of going around, of limiting each member to 5 minutes, and I will ask that Mr. Vorys begin the questioning on the 5-minute basis.

Mr. VORYS. Mr. Reed, you certainly presented a fine analysis of our problem and the answer. I remember talking with you on this organizational problem in 1944 in London, when you were lend-lease officer over there, and asking you about whether the program should be under the State Department or separate. You said, as I remember it, that although there was a separate Lend-Lease Administration, you were functioning very satisfactorily officially under the Ambassador there. Is that the way that you would contemplate that this program would be operated in the various countries?

Mr. REED. Mr. Vorys, it seems clear to me, based on the experience that I had abroad during the war, that the worst thing this country could do would be to provide two separate and independent channels from our Government to any foreign government. The moment there are two doors open to a foreign government they can play one against the other. Therefore, I believe that our embassy in each country must be the official point of contact with the foreign government.

Now, having said that, it does not necessarily follow that the foreign embassy or foreign ambassador should have complete control of what passes through that office to the foreign government. That must be the amalgamation of thinking and planning and responsibility of our Government generally in terms of this foreign job.

As I see it, the European recovery program placed, as I have recommended and as is contemplated by both of the bills we have mentioned, under an administrator who reports direct to the President, must be in terms of the formulation of the separate agreements with these 16 countries worked out by the administrator, in close contact and communion at all times with the State Department; and, if there are differences between the State Department and the administrator as to what shall be included in the program or what our official point of view shall be, then that must be resolved before it gets to the foreign government. It just must not go with differences of view to London or Paris or to any other foreign government. They must be resolved, and if necessary the President must resolve them before the project is presented to the foreign premier, or whoever it happens to be.

The mission we had in London did not have one boss, or two bosses. We had five bosses. We represented in London the Lend-Lease Administration, the War Shipping Administration, the Petroleum

Administration for War, the War Food Administration, and the War Production Board. In addition to that we did many things for the State Department. We frequently had instructions on that same subject from as many as three of those Departments which were inconsistent in themselves, to do so-and-so with the British in connection with the working out of the particular program, and it was our job to compose those differences and to see that before they reached 10 Downing Street, or wherever it may have been, that the American front was together.

That can be done, and we did it under conditions which seem to me to be much more difficult than those that confront us now, and I do not have any doubt, Mr. Vorys, but what it can be worked out along the line I have suggested. I am afraid that is a very long answer to your question.

Mr. VORYS. Well, a lot of these answers have to be long. Is this not the important thing: That in any foreign country we must present a united front to the foreign government and therefore you can have only one top boss in that country, and that would be the ambassador, but that the representative of, say, the European recovery program must have the right when he disagrees with the ambassador to report back to Washington to somebody, so that you do not have the ambassador controlling the flow of information back here? Now I am not telling you, but I am merely asking you.

Mr. REED. That is absolutely so, and one of the reasons, one of the strong reasons, why I say the importance of a sort of ambassador at large for the European recovery program is to accomplish the very thing you are talking about. If an ambassador of that type were appointed who had a roving commission covering each of the 16 countries, if you let him concentrate on the problems of European recovery program, he could and would, I believe, if he were the right type, so lubricate the machinery of the 16 different embassies and the ambassador in each of those countries—and they vary tremendously in personality, in competence, and everything else—that he could and would, being a State Department man, and also answering to the Administrator, smooth that whole operation out in a way that the Administrator's people would get cooperation from the embassy.

The presentation and the convincing of the local ambassador that this was the right course to take, coming from the ambassador at large as well as the administrator, would, I think, enormously lubricate that whole machinery.

Chairman EATON. The time of the gentleman has expired.

Mr. REED. I am afraid that is largely my fault.

Chairman EATON. Mr. Bloom.

Mr. BLOOM. No questions.

Chairman EATON. Why, Mr. Bloom!

Mr. BLOOM. I am satisfied. I am ready to vote right now.

Chairman EATON. Mr. Mundt.

Mr. MUNDT. Mr. Reed, I am sorry I did not get an opportunity to hear your fine statement, but I have skimmed through part of it and several people have pointed out several sterling and estimable statements on page 16 especially, which I assure you I concur with heartily. I remember you spoke before a committee of Congress over on the Senate side, favoring our information bill. The testimony was so persuasive that after you finally permeated the minds of the Members of the other body, they voted unanimously for the bill.

It took some time to sink in, possibly because of your large words, I guess. It took 6 months' time.

Mr. REED. I heard your testimony, and I thought it was wonderful.

Mr. MUNDT. I do not think that helped so much, but there was a lot of testimony from the outside, which is really what helped. I did not hear the questions Mr. Vorys asked, and he probably went into the matter of how you felt this administrative set-up should be handled over there. If you went into this other portion of it you need not answer again, but I feel we can best serve the purpose stated in this act if we have behind it as great an element of the American population as possible.

That means, since we are divided politically into two parties, that we must bring into harness the best principals of the two parties of an advisory capacity, or a directive capacity, or in some capacity in this bill. Then I think it will be on sounder ground. I wonder if you have commented on that either in your statement or in interrogatories by Mr. Vorys.

Mr. REED. I am not sure I entirely understand your question.

Mr. MUNDT. You have not commented on that question, have you?

Mr. REED. I have recommended an administrative set-up to deal with this program which is neither the Eaton bill nor the Herter bill, but it runs down between the two.

Mr. MUNDT. Does it provide some place in this administrative organization for a bipartisan advisory board of that type?

Mr. REED. No; it does not. It provides that an administrator shall be appointed with the nomination of the President and with the advice and consent of the Senate. That administrator would be guided by an advisory board which, in my judgment, should be headed by the Secretary of State because of the enormous interest of the State Department in these matters, and it would then be filled out with the administrator and Secretaries of Treasury, Commerce, Agriculture, Export-Import Bank head, our representatives on the International Fund, and the bank.

That board, incidentally, would not in my judgment have power to approve or disapprove specifically programs formulated by the administrator. Their job would be to assist him and consult with him, and to fulfill their responsibility of developing a sound program. The President, however, would have to approve each program before it was promulgated or implemented. Of course, the advisory board I speak of would, I have no doubt, be consulted by the President before he approved any program.

Mr. MUNDT. Such support as that would not bring into focus at all the advisers and counselors of the minority party, whether they happen to be the Republican Party as it is now, or the Democratic Party, as it is likely to be after next January 1. Either way it does not bring that into the picture.

Mr. REED. No. That is quite true.

Mr. MUNDT. Do you not think, from the standpoint of the two factions, one holding the support of the American public, that it is important that members of both those major parties feel they are sharing in the administration and the advising of this project; and more important perhaps, the European people and leaders who do not understand our political system any too well, might feel that this has more continuity and that they can bet on it more confidently if it has

a bipartisan aspect rather than it being the administrative creature of one Administration which might be changed after the November election?

Mr. REED. Would this bipartisan board you have in mind have the power to determine what the programs would be, or would it simply be advisory?

Mr. MUNDT. It would be advisory with some administrative authority. I mean, it would have nothing to do with foreign policy. That reposes in the President and in the Secretary of State. It deals with the economic aspects.

Mr. REED. It goes without saying that bipartisan support is always desirable, but the executive agency in our governmental set-up must be given responsibility for the execution of the will of Congress. Congress, having set out in the statute the objectives it seeks, and they being obviously bipartisan, otherwise it would not be passed, would then assume that the executive must be given responsibility for carrying it out. Anything that suggests additional legislative activity at the level of operation and implementation of the statute does not seem to me to be entirely consistent, and I am afraid it might develop into slow-downs resulting from differences in view, or possibly political reasons that might interfere. Maybe I am wrong.

Mr. MUNDT. The chairman has signaled that I have just a minute of my time left.

Mr. REED. Excuse me.

Mr. MUNDT. I would like to get the next point in. The difficulty of these programs is this: They are bipartisan all right during the legislative process, but when they get to the administrative level they become one party entirely. I am trying to find a way in which you can retain the values, as I see them, of marshaling the strength and the intelligence of both parties in this program, all the way through, and not short-circuiting it as soon as the bill is signed.

Chairman EATON. Could we not fix that by having a Republican administration in Congress?

Mr. MUNDT. No; I do not think so. You would still have the same Congress.

Mr. BLOOM. A good idea.

Mr. MUNDT. I am for the eventuality you described though, Mr. Chairman. I think it is a fine idea.

Chairman EATON. The time of the gentleman has expired. Mr. Kee.

Mr. KEE. Mr. Reed, I was interested in your discussion of the amount of the appropriation to implement the proposed program in the event it is decided that the program shall be inaugurated. As I understand it you approve of the Administration's estimate of \$6,800,000,000 and would advise that that amount be fixed as the minimum?

Mr. REED. I indicated in my statement that I do not know whether it is right or not. I don't think anybody can say whether that precise figure is the correct one. I would throw the responsibility right back into the executive side of this Government myself. If the administration is good and efficient, the money is not going to be wasted if too much is appropriated. If too little is appropriated, great danger lies, it seems to me, in that deficiency. I do not think we can tell whether 6.8 is the figure. Certainly, I cannot, but I did approve it on the

theory that it is the result at least of careful study and I would then place all my study and debate on seeing to it that we had an efficient, hard-hitting administration to deal with the expenditure of those funds, and put my reliance there rather than try at this stage to put our finger on the exact amount it is going to cost for 15 months, because I do not think anybody can make that determination.

Mr. KEE. You understand this committee's authority with reference to the amount of the appropriation is extremely limited. We can fix the maximum beyond which the Appropriations Committee cannot go, but we cannot put a floor under the appropriation by that committee. Personally it would be my view, and I hope you will agree with me, that inasmuch as the State Department and practically all of the officials of the Government, after long study of this proposition, have adopted the figure of \$6,800,000,000, which as they say is the minimum of what it will take to carry on this program, and the entire matter will have to go to the Appropriations Committee anyhow in the long run, with a chance that it will be very closely scrutinized by that committee, that that amount should be the amount fixed by this bill when it is reported out. Is that your view also?

Mr. REED. That is my view.

Mr. KEE. With reference to your discussion of the administrative machinery, the Herter bill, I believe, provides for the appointment of eight members as a board of directors of the organization to assist the executive director in the administration of the program. Those eight members shall be, as required by the Herter bill, composed of four members each of the major political parties in the United States. Fourteen members of the organization are provided by the Herter bill, of which eight would be these civilian appointees, who are non-partisan appointees. The other six would be officials of the Government in certain capacities.

Would you think that that is an idea that should be adopted and carried into the legislation; that is, that we should have a bipartisan organization that would be established and given full corporate powers with eight nonpartisan directors?

Mr. REED. As I indicated in answer to Congressman Mundt's question, I had not recommended that. Perhaps I do not understand all of the reasons why that type of an organizational set-up should be used. I have talked with Congressman Herter and with others who are interested in his bill, but it seems to me that the kind of organizational scheme I have suggested is more consistent with our theory of government operation, and that on the whole, although I recognize full well Congressman Mundt's point that the maximum of obvious and evident bipartisan support is desirable here, nevertheless, I believe that the effective, rapid, and efficient administration of the program would be greater under a kind of a scheme that I have talked about, than the kind of a scheme he has talked about. I think there would be more debate and delay under that kind of a scheme than under this one.

Mr. KEE. Thank you.

Chairman EATON. The time of the gentleman has expired.

Mrs. Bolton.

Mrs. BOLTON. Mr. Chairman, Mr. Jonkman will be back shortly. He had to testify before another committee.

Mr. Reed, in considering the amount of \$6,800,000,000, have you considered it at all from the standpoint of doing the job, but on the

basis of doing as little as it is humanly possible to do by way of dollars, and still be effective and not putting all one's trust in dollars?

Mr. REED. Yes. I think it is unfortunate for us to think in terms of dollars at all, if we can avoid it. We have in the last analysis to translate these things into dollars because that is our unit and the common denominator of the measure of value, but I think we can think of it in terms of tons of steel and food and machinery and other items that are required to accomplish a specific and a clear objective; the objective being much more easy to state than it is to achieve and to analyze the real need.

Mrs. BOLTON. The objective would be definitely the setting up of security?

Mr. REED. Exactly.

Mrs. BOLTON. Not security. That is a bad word for final security would bring a static condition precluding growth.

Mr. REED. That is the ultimate.

Mrs. BOLTON. I mean what we generally mean by it.

Mr. REED. That is right. I quite agree. I think we must keep bringing ourselves back to the consideration of physical things that are going to be furnished under this program.

Mrs. BOLTON. And the morale?

Mr. REED. Absolutely.

Mrs. BOLTON. You spoke of the Germans and others. What is your view of them? Are they hopelessly discouraged?

Mr. REED. Yes; I think they are.

Mrs. BOLTON. Very hopelessly so?

Mr. REED. Yes.

Mrs. BOLTON. Is it just discouragement, or is it a deep, secret sense as some people tell us that they will come back and do it again?

Mr. REED. No. I think it is a hopelessness and a frustration and a lethargy that has resulted from almost 3 years now of not only very low diet—that did not bother me at all for the first year and a half or so; I think it was perhaps a good rather than a bad thing—and with complete uncertainty as to their status. Hundreds of thousands of them still are not permitted to work. They have not been cleared yet under the denazification scheme that has been going through. I think it has been slow and it has been a difficult job, but the result of it has been that substantially all the German people who have any ability based on previous experience to operate, to plan, and to act in executive capacities are immobilized, and the long time that it has taken to release them and either to classify them as bad or to say, "All right, you are all right and you may now proceed," has taken so long that that category, which, as you know, are the leaders in terms of production and economic activity, has just bogged down.

Mrs. BOLTON. You feel they are an important factor in the reestablishment of western Europe?

Mr. REED. Oh, yes; terribly important.

Mrs. BOLTON. Have you any reactions that you would express in the matter of the French franc in the past 48 hours, Mr. Reed?

Mr. REED. No; I am not sufficiently expert, Mrs. Bolton, in those matters. Just from the curbstone—

Mrs. BOLTON. I am speaking from the curbstone, too.

Mr. REED. My question on that is as to timing and not as to the desirability of the act. Certainly it was inevitable and certainly it is

realistic as viewed from my standpoint. Whether the timing of it in relation to other countries and the Monetary Fund was the best, I am just not competent to form an opinion on.

Mrs. BOLTON. Is it possible that the Monetary Fund and the World Bank itself should be reviewed? We are going to insist on the reestablishment of the fund currencies. They have taken a step to do that in their own country. Perhaps, if it runs counter to the Monetary Fund and various other things in the Bretton Woods agreement, it would seem as though we should study those in relation to all the currencies of Europe.

Mr. REED. Yes, indeed. That is what the Monetary Fund, of course, was created to do.

Mrs. BOLTON. Exactly, and of course if it does not do it we have to find out; do we not?

Mr. REED. To prevent competition in devaluation among the countries, which was so common during the thirties—that is its objective. As I say, I am just not sufficiently acquainted with the details of that and the background of that situation to have a view about it, but I certainly think that our members of the Monetary Fund should have a very strong view about it.

Mrs. BOLTON. In the matter of the method by which bipartisan interest and control might perhaps be secured in this legislation, would it seem to you that there might be a place for the group that Mr. Herter sets up, not on the operations but more in the advisory echelon?

Mr. REED. That would help. It seems to me if it were not purely advisory it would be almost sure to slow down the work and it would be definitely inconsistent with our theory of Government operation.

Mrs. BOLTON. Yes.

Mr. REED. I have not mentioned it here, but it seems to me that the Administrator would want to set up a number of advisory groups drawn from industry and the segments of industry where he is going to need the most help.

Mrs. BOLTON. He might, but I am speaking of what Congress would want to set up.

Mr. REED. Isn't it true that under the Taft-Hartley Act a continuing joint committee of the House and Senate was set up to watch very closely those operations and to see how it was going and to be able to act quickly if it seemed to be desirable to do something about it? I think that is the kind of a committee, perhaps as a standing committee, to work closely with the legislative body. To do that would be perfectly within the authority of Congress and I think perhaps a very desirable thing.

Mrs. BOLTON. Like the Atomic Energy Commission?

Chairman EATON. The time of the lady has expired. Mr. Jarman.

Mr. JARMAN. Mr. Reed, we are always happy to have you before this committee.

Mr. REED. Thank you.

Mr. JARMAN. Just as any other committee of the Congress must feel, because your testimony is always so able and beneficial.

Mr. REED. Thank you.

Mr. JARMAN. I want to express my appreciation of your presence here. Do you believe any considerable number of the people of the United States consider politics in connection with this effort to save the world? I mean American politics.

Mr. REED. Outside of Washington, you mean?

Mr. JARMAN. Yes.

Mr. REED. I do not know quite how to answer that. I would say, generally speaking, "no." I think they are trying to determine what really is right and whether our interests will be served or whether we are just again being made a Santa Claus.

Mr. JARMAN. There is no doubt in the world in my mind of the correctness of your opinion, and my mail indicates that to be true. That being the case, I do not share this fear about whether we have a bipartisan proposition or not. We have one party in control of the Congress and one in control of the Executive. It seems to me the way to make this thing bipartisan is for both Houses of the Congress to pass a bill with well-nigh unanimity and then for the Appropriations Committee not to quibble about the amount but to appropriate the amount you suggest with unanimity and then the other party, of course, and the Secretaries of the different departments will be on this Board that you suggest to administer it. It seems to me that is not only enough nonpartisanship, but I believe it is as much as people outside of Washington, as you say, want.

In fact, I cannot help but feel it is beneath the dignity and righteousness and the high level of the purpose of this program to be quibbling about how many Democrats and how many Republicans we will have in charge of it. I just cannot get that, to save my neck.

Mr. REED. The Congress would have the right and would be required to approve the two principal operating figures in the program—the Administrator and the Ambassador who head it up.

Mr. JARMAN. As far as I am concerned, I do not care whether they are two Republicans or two Democrats. I believe they will be good men and I do not care anything about what party they belong to. I would not insist upon one of them being a Republican and one of them being a Democrat. You touched, in answer to some other question, on what I think is one of the main objections to this, that is—you referred to it, although you did not say it in these words, but time is of the essence in this thing and you referred to the necessity of speed, and the more boards of directors and the more corporations we get, particularly when we have these regular departments of Government represented by men who are skilled in doing these things, it is bound to slow it up. To that extent I fear it will reduce the effectiveness of it. I believe that is practically what you said, and I thoroughly agree with it.

I want to confirm the expression of your opinion when you said this would mean more than an additional \$5,000,000,000 for the military.

Mr. REED. If 50 percent were added on.

Mr. JARMAN. Yes.

Mr. REED. I believe that is enough.

Mr. JARMAN. I believe Secretary Forrester's testimony in answer to questions by me not only fully confirmed your prediction, but he indicated there would be that much this year and a great deal more during the years to come. In other words, you can feel perfectly safe on your prediction. Of course, as you said, no one can know whether \$6,800,000,000 or \$6,700,000,000 or \$6,900,000,000 would do it, but you referred in your testimony to the danger that this might increase inflation in this country. There is a danger here.

Mr. REED. It certainly continues inflationary pressures on this economy to export any goods in short supply. There is no doubt about that.

Mr. JARMAN. And with prices going up, as we see them in buying meals from day to day, and because of the fact that it will probably cost so much more the month after next, or 4 months from now, to buy something, is it not reasonable to fear that \$6,800,000,000 would be too little at that time rather than too much?

Mr. REED. I am a little unhappy about your premise. I hope the price level is not going to go up that much more.

Mr. JARMAN. I certainly share your hope.

Mr. REED. If it does, that would be true. To the extent that it does, the 6.8 would be in effect reducing itself as the price level increased in terms of its purchasing power. There is no doubt about that.

Mr. JARMAN. The very shipment and the very export of these goods is bound to tend in that direction. Of course I hope, and I am sure you share my hope, that the Congress will do something to retard that inflationary spiral, and that that will not happen, but with the facts before us now I am afraid the chances are that that might be too little instead of too great, and I thoroughly agree with your opinion of the necessity of not throwing money in a rat hole by appropriating too little.

That is all, Mr. Chairman.

Chairman EATON. Thank you, Mr. Jarman. Mr. Smith.

Mr. SMITH. Mr. Reed, do you consider that this problem is worldwide, or is it confined solely to the European area?

Mr. REED. You mean, do we have problems in other areas?

Mr. SMITH. Yes.

Mr. REED. We do indeed; of course we do.

Mr. SMITH. Do you think the approach of this committee and the Congress should be to consider the over-all problem so that the people of this country might have a complete picture?

Mr. REED. I think it would be desirable, Mr. Smith, were it possible to do that. Had we all the facts, and had our policy a course of action that was crystallized in all areas of the world as it has in connection with the European picture, it would be well to have brought it all together and laid it on the table. On the other hand, I am so sure that our program is right and I am so sure that it is urgent in terms of Europe that I do not think we can afford to delay that segment of our activity until we have debated or made up our minds, or received recommendations from the executive side of the Government as to what we should do in other areas.

Mr. SMITH. Do you think that the program can be successful, without the cooperation of the so-called iron curtain countries in Europe?

Mr. REED. Yes, I think it can.

Mr. SMITH. Do you believe that production is the problem that confronts Europe today?

Mr. REED. I think production is the common denominator of the problem of every country in the world today.

Mr. SMITH. How will this program assist production, in your own words? You have had a lot of experience in the foreign service.

Mr. REED. This program, if it is properly worked out with each of the 16 countries, would be implemented only if and to the extent that

the Administrator is satisfied that the provision of the items to be included in an agreement with the particular country will have an important effect in lifting the production of that country. The same applies to each of the 16, and applies not only to the direct and immediate results of what we ship to them, but it also and very importantly would depend on those countries laying out a program designed to this same target, and to reach the same end, so that it will dovetail with what we are doing, and together it will produce the kind of a result we are talking about.

I believe that can be done and if in any case we were clear that that result would not follow, I would not make the agreement.

Mr. SMITH. You would be in favor of tying some strings to this program in some way to insist that certain objectives be set out?

Mr. REED. Yes; I think the Administrator has got to go to these countries and should go with a broad and flexible franchise which will permit him to trade and to insist upon whatever he analyzes that particular situation as showing to be necessary, and that will vary enormously from country to country. That is my difficulty with the statute itself. It would be fine if conditions were identical in all countries and the Congress could write into the statutes specific instructions, specific conditions, and specific limitations that would be applicable to all of them, but I am afraid that will not be so, and I am so very much afraid that they will write things in that will hamstring an Administrator when he comes to a particular country.

Mr. SMITH. Do you think we can get back to a free economy in Europe under this program? I have some fear, Mr. Reed, that all we are doing under this program is merely implementing the present system of rationing and allocation. It has been quite obvious that we have not gotten production. The CEEC report that we have states that up until 1946 the countries of Europe had attained a pre-war level of production. The falling off apparently occurred in 1947. How will this program that we are talking about here get these people back to a free economy again?

Mr. REED. There are two questions. One is whether it will assist production.

Mr. SMITH. Yes.

Mr. REED. I think it will and I think it can and I think unless it is clear in each country that that will be the result, that we ought not to undertake it because that to me is 80 percent of the job of getting rationing out of the way and getting controls out of the way. Those things always result from a scarcity of goods. Therefore the obvious thing to do is to get more goods and get more production, and with that will come a lightening of the pressures on prices and the need for rationing and controls. I believe we can make a tremendous contribution to those countries to achieve that end.

Mr. SMITH. But we do have in England today, or in Britain, rather, plenty of coal. We have in France and North Africa great agricultural areas. In other words, the things that they are asking from us can be obtained there.

Mr. REED. Britain in the last 6 months has made very signal gains in coal production. You say that they have plenty. Only now do they have enough to balance their own requirements with their production. A year ago they certainly did not. The Continent is still terribly short of coal and they are short of many items, raw materials

and commodities to be processed. They are short of equipment to produce bottleneck things. A ton of the right kind of equipment aid will produce, in terms of leverage, many, many tons of additional output.

In other words, there are many cases where there are facilities which need only some little gap to be filled in order to make the whole thing more productive, so that it is not like putting in a brand-new plant in Europe. It is supplying the items that are missing in order to make the whole step itself up in production, and the leverage should be and will apply, I think, if it is done intelligently and carefully.

Chairman EATON. Mr. Courtney.

Mr. COURTNEY. I have no questions.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Reed, I am very much interested in your statement about the fact that this program has to have a business aspect, especially insofar as it is going to result in vastly increased production. Do you believe that under the form of organization which you have suggested, businessmen and business managers and technicians will actually go into the service of the Administrator for the purpose of doing this job, and will you tell us from your experience with the War Production Board just how you figure that out? What resources in American production skill will be made available to the Administrator under the idea for organization which you have in mind?

Mr. REED. I think, that in the last analysis is going to be the Administrator's first and greatest job. If the right kind of Administrator is selected and if he gets the right kind of help—from here and from the White House in presenting a picture of urgency and need to American business, there will result as happened in wartime, people separating themselves from their current activities and devoting a certain amount of time to this kind of job. It is not going to be easy and it is not going to be nearly as easy as it was during the war. To what extent the Administrator will be able to bring around him a body of men of the quality that is required remains to be seen, but certainly that is the No. 1 job, as I see it, for that individual.

Mr. JAVITS. Do you consider that one of the principal things or perhaps you consider it the principal thing which would make the program successful is this enlistment in its operations of the best American management skill. Would you express yourself on that?

Mr. REED. Assuming that the Administrator's franchise is right, then I have no question about agreeing with your statement.

Mr. JAVITS. Would you say it would be the most important thing?

Mr. REED. I can see the Administrator licked before he starts by having in terms of the law a franchise that is too limited or that gives him inadequate leeway in making his deals abroad, and all the rest of it, but assuming he has reasonable flexibility and enough money to spend, then there is no question about it. The quality of the personnel that are assigned to do that job with and for him is the No. 1 item.

Mr. JAVITS. Do you think they ought to be dollar-a-year men, or on salary as regular Government employees?

Mr. REED. I think that has to be determined as the organization is developed and as his needs appear. My personal view of it is that it would be far easier for the Administrator to gather around him a limited number of experts in certain areas and fields on corporate leave from their regular employment by borrowing them for a period of time from those companies, than by requiring them to resign and

cut off their career there with only the hope of getting back and coming down on a strictly temporary job into the Government service.

Mr. JAVITS. You feel, therefore, that an administrator could do better and could get better personnel on a dollar-a-year basis?

Mr. REED. I do not think there is any doubt about it.

Mr. JAVITS. In your opinion, will American industry consider this European recovery program as filling sufficient of an emergency need so that they will come forward and volunteer to do this job?

Mr. REED. No; I do not think that they will come forward. I think they will have to be pried out, myself. A few will come forward, but we have to take a good look at those. The ones you really want you will have to go and get.

Mr. JAVITS. Do you think American business management will consider this as equivalent to the war emergency?

Mr. REED. No. I am afraid they will not and that is what concerns me. That is why I say we are going to need strong backing from the Hill and the White House and other places in order to create the kind of environment and sense of urgency that is going to produce this result. I quite agree with you.

Mr. JAVITS. You state here in your statement that G. E.'s business is only 6 percent for overseas sale. Is that 6 percent critical to the company? Would you answer that in the light of our general interest in world trade as affecting American prosperity?

Mr. REED. Right now we could sell it all right here at home. But either one is in the export business or one is not. You cannot, it seems to us, use export markets as a dumping ground for surpluses when your domestic demand has been filled. You have either got to provide continuity for that business and your international organization has to get its fair share of the productive output of the factories in good times and bad, or you will have a weak and probably a profitless operation.

Mr. JAVITS. Do you consider it important in cushioning recessions? Right now you say you can sell everything you make right here.

Mr. REED. In terms of the future; yes. As of today, not at all. As of tomorrow, or some time, it would be very desirable.

Mr. JAVITS. Do you consider subsection (3) of section 7 (b) of this bill—and I will describe it to you—it purports to make certain guaranties of investments overseas by American industry in the types of recovery projects contemplated by the ERP—do you consider that practical? Would your company be interested?

Mr. REED. I do not think that is spelled out in a way that I quite understand. Let me put it this way. I know that some thought has been given by a good many people to try to find ways and means of stimulating the flow of private investment abroad.

Mr. JAVITS. Let me tell you that the bill provides that 5 percent of the amount appropriated may be used to guarantee first the exchangeability into dollars of the avails of foreign investments of American nationals, and protects them against losses due to nationalization of their investments. It is sort of an insurance against that for projects approved by the Administrator. That is the fact.

Mr. REED. I personally think if that is to be undertaken it should be given a good deal more thought and study than is going to be possible before this program should get under way. I have questioned whether, if that type of thing is to be undertaken, it should

be done on the limited basis of a European recovery program. I think thought should be given to its application to South America and to the Far East. It is a deep and important policy matter. To hook it to this urgent bill dealing with European recovery seems to me not to give adequate time to study it out and to be quite sure that we want it and that we want it applicable in all the areas where American products can go in the years ahead.

Mr. JAVITS. Mr. Reed, my time has expired, but perhaps one of my colleagues will get your personal views on what we should do about this phase of the Administration's program. Thank you very much.

Chairman EATON. Mr. Reed, do you not think it is a safe plan to have the Government guarantee General Electric's profit from abroad?

Mr. BLOOM. It does not say that. It does not guarantee profit.

Chairman EATON. It guarantees against loss.

Mr. BLOOM. It guarantees only 5 percent of the sales.

Mr. MALONEY. Five percent of the amount appropriated can be used.

Mr. REED. Of 100 percent.

Mr. BLOOM. That is what I brought up some time ago. Five percent of the full amount is \$340,000,000 or more.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. In regard to that question which Mr. Javits brought up it appears that the 5 percent is one of the most desirable features of the bill because it certainly offers an incentive to American business to go into this particular area, and if it is successful it will take that much of a burden off the shoulders of the Government. You were asked a question, if in your opinion the problem which faces us in considering the present situation in Europe is world-wide. Your answer was "Yes." Do you think that this country has the resources to go into a Marshall plan for the rest of the world?

Mr. REED. I never knew what the Marshall plan was until these bills began to spell it out. I would not have any more idea what you were thinking about when you said a Marshall plan for the rest of the world, so I cannot answer that question. I do not know how much we would accomplish by trying to answer it. These matters will come to us in sequence and it seems to me we have got to do what we consider to be urgent and doable on a particular program at a particular time. I don't mean that we must lose sight of the fact that there are other areas of the world that need our help, and in our own best interests we probably will have to take steps and provide things, but to delay what seems to be a perfectly clear need with a perfectly gain to us on the European program because of doubts as to our ability perhaps to implelement some great need in some other area later on would simply let the whole thing fall. In other words, we would not even get the clear benefit of the program that is before us, and I cannot see holding that up or disapproving it simply because we might find ourselves unable to implement some other program in some other part of the world at some other time.

Mr. MANSFIELD. What I have in mind is this: Do you think that the western European area is the point which should be given immediate consideration along the lines suggested by the European reconstruction plan?

Mr. REED. Yes. I think it requires immediate consideration.

Mr. MANSFIELD. There are other areas in the world which are likewise being considered and the point that enters my mind is this: One, can we allocate money to those areas and at the same time do so without depleting our resources still further? Secondly, can we afford to appropriate funds for other areas without having in return some such sort of a specific proposal from those other areas as is contained in the proposals of the 16 western European nations? That is the question in my mind because I realize that the resources which this country possesses are not able to go on forever. We have to conserve them. We have to evaluate each step we make and as I see it that point enters in very much into this program.

Could we, in your opinion as a businessman and one vitally interested in this question, be able to carry on the ERP along the lines suggested by you with an initial appropriation of \$6,800,000,000, and at the same time reduce taxes in this country to the extent of \$5,000,000,000 to \$6,000,000,000?

Mr. REED. That is quite another question.

Mr. MANSFIELD. They are tied in together. Where is the money coming from, as Mr. Rich says?

Chairman EATON. That is high authority.

Mr. REED. I have not said that I was favorable to tax reductions.

Mr. MANSFIELD. I know you did not, but I am trying to bring in the two because we are faced with these two proposals.

Mr. REED. I quite agree that we must consider all of these questions—expenditure as well as income, before we deal with the tax-reduction program.

Mr. MANSFIELD. Would it be cheaper or to the better interests of our country to go ahead with a program of this sort and for the time being sidetrack legislation seeking to reduce the payment of income taxes?

Chairman EATON. That is a question which is up before the House at this time.

Mr. MANSFIELD. All right. I will pass it up then.

Mrs. BOLTON. One might say that it is undergoing bipartisan consideration.

Mr. MUNDT. I think you should have told Mr. Reed what the revenues are.

Mr. MANSFIELD. I think he knows it. You mentioned the fact that if this plan fails that the alternative would be an increased expenditure for military purposes. What other alternatives are there in your mind, as far as this country is concerned, in its relations with Europe as a whole?

Mr. REED. What other alternatives?

Mr. MANSFIELD. Yes.

Mr. REED. You mean either we do it or we don't?

Mr. MANSFIELD. That is right. Now suppose we either do not do it or do not go far enough. What is going to be the result of these European countries vis-à-vis in their relations to us?

Mr. REED. In my opening statement I tried to express my view on that. If we do not go through with this program, or, to put it in another way, if we say to Europe, "From now on you are on a cash-and-carry basis. We will ship to you and export to your areas only those things that you can pay for currently out of your current production." What would the result be? The result would be that there would be

a tremendous lowering of their standard of living right away in order to balance their imports with their ability to export, which at the moment is very low.

It seems to me on the food front and on the commodity and machinery fronts that the adjustment downward would be so drastic that it is very easy indeed to visualize Europe as an economic and political concentration camp. I doubt whether there is a government on the Continent that could withstand that rapid downward adjustment in their standards of living if we insist that from now on they pay us currently for whatever they get from us.

If that is so, then you can decide for yourself whether that is not exactly what Russia wants us to do and you can decide for yourself whether if there are changes in government throughout western Europe, those governments will not be Communist-dominated. If you decide they will be, then I think it follows instantly that the military needs of this country for defense and war preparation would be stepped up by an amount greater than what we are talking about spending for the European recovery program.

Mr. MANSFIELD. The result might be, you would say, an accentuation of the present trend toward a state economy and we might very well lose western Europe by default to communism and we would have deflation in this country because we did not find a market for our surpluses?

Mr. REED. Yes, sir; I agree with you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Reed, I have a statement that will take me a good 5 minutes to put to you as a question and it will not leave you much time for the answer. There has been considerable discussion about stock piling. Let me say first, the objection to acquiring stock piles has been that recipient nations have already figured that they will get so many dollars for the production which will lessen the need for dollars from us and, if we are going to ask them to give it to us, they will need more dollars anyway. It is not quite clear if they want to get that out of loans or out of grants.

As I see it, if they are going to get it out of loans there is no need of making any provision for it because the average country would be glad to pay in commodities rather than in dollars at any future time. It seems to me what the proponents are seeking to do is to save some of these grants-in-aid. We are told by the State Department that the loans will run from 20 to 40 percent. Let us split the difference and call it 30 percent. That leaves 70 percent of this \$6,800,000,000 that will be in grants-in-aid, of which of course nothing will come back to us.

The bills provide they should create a special account when we give to the government and they sell for local currency. This local currency should be put in a special account. There is further considerable difference as to what we are going to do with that money; 70 percent of \$6,800,000,000 would be \$4,760,000,000, or close to \$5,000,000,000. It has already been intimated that we should use this to stabilize the currency. In other words, burn it up and deplete the currency. Of course, they might replace it with other printed currency. However, after all it is \$5,000,000,000 there.

What I want to ask is, Would it be a feasible plan when that currency accumulates there for the United States to invest that local currency in additional enterprises?

Mr. REED. In additional private enterprises in those countries?

Mr. JONKMAN. Yes.

Mr. REED. I do not think so. As you said, that is an enormous amount of money and if the United States Government undertook to take the currency, the local currency proceeds of the sale of grants-in-aid and invested them in private industrial activities for the production of whatever those countries are able to produce, I think in a matter of 2 or 3 or 4 years we would find the American Government possessed of controlling interests in so many productive enterprises of those countries as to put us in an exceedingly embarrassing position. I think we would be charged with doing precisely what Russia is doing behind the iron curtain today. I do not think it would gain us in the end, because there is still the problem of getting those funds out in dollars.

It might be profitable in local currency, but I think it would be an invasion, if you like, by American imperialism, and it certainly would be classified that way, into the heart's blood and the productive facilities of these 16 countries to a degree so large that it would do us in the end a great deal more harm than it would do us good.

Now, if private enterprise as distinguished from the American Government developed our foreign interests, it would not go into any such quantities as that, and, if it were to find its way in smaller amounts into those countries, I would consider it a very healthy and desirable thing because our American technique would go with it. But for the Government to contemplate the investing in productive enterprise in those countries, to me is a flagrant thing and I think it would be a mistake.

Mr. JONKMAN. In a way you have answered the question with a statement I like.

Mr. REED. I am glad of that.

Mr. JONKMAN. You said it would result in so many profitable enterprises that there would not be any end to it. Is there something objectionable to increasing the production of Europe?

Mr. REED. But not to make the 16 countries subsidiaries of America.

Mr. JONKMAN. I realize that there is that one objection that we would be imperializing and it would be called imperialism.

Mr. REED. Yes.

Mr. JONKMAN. But nevertheless it would remain a revolving fund and all you could ever get out of it would be local currencies. You would not care about it but it would be a revolving fund that would be constantly encouraging production in those countries while your alternative is that you do not know what to do with that \$5,000,000,000 except to give it to the administration in power. In other words, to create revenue for them. That, at all events, is what we are doing if we let them keep that currency.

Mr. REED. I think we ought to retain the veto power on the use of those funds; very definitely. But that is very different from suggesting that the right to, and the interest and return from, those funds shall belong to the American Government and then shall be used for the creation of factories and productive enterprises.

Mr. JONKMAN. I do not say they shall necessarily belong to the American Government. I presume maybe that would be the result. My idea is to create a revolving fund where it is used continually for the investment in new enterprises.

Mr. REED. I think that might be done, without our having any connection at all in the situation. In other words, I think it is a good idea, but I would not make it a firm and absolute rule on the Administrator, but I think on occasion it probably would be a good idea for the foreign government in connection with this food and other materials that are given to them, as distinguished from that on the loan basis, to set aside the fair local currency value of that material in an account which the foreign government could not spend without our approval. The funds would not be our funds in the sense that we could use them independently of the foreign government, but a joint agreement must be reached as to their use.

The results of the expenditure, however, would be for the benefit of the country and not for the benefit of the United States. On that basis we could have the veto power and we could say on this productive enterprise, all right, and on that one, no. We would use our rights, but we would not be chargeable with attempting to enrich ourselves by infiltrating, through the productive mechanisms of that foreign country, officially as a government.

Mr. JONKMAN. I managed to get both the question and answer in. Thank you very much.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Reed, it came to my attention some months ago that certain electrical equipment which was going to Oak Ridge was also going to Russia. I make no comment as to whether that was desirable or undesirable, because I am not especially familiar with that particular electrical equipment. but I wonder if it would not be an indiscretion for me to ask you whether out of that 6 percent any equipment is going to Russia which has anything to do with nuclear fission?

Mr. REED. No. The answer is emphatically and positively "no." We have a technician of the Atomic Energy Commission in Schenectady where all of our foreign orders are screened, to be absolutely certain that nothing that has application to the development of the production of fissionable material is allowed out. We think we know something about the production of that material ourselves but, in order to be dead sure, we have a representative of the Atomic Energy Commission there just to clear that very point.

Mr. LODGE. I am very glad to hear that. I presumed, of course, there might be such items as generators which could be used either for that, or something else.

Mr. REED. General-purpose equipment; yes.

Mr. LODGE. There is some of that going to Soviet Russia?

Mr. REED. Yes. There is no new business coming in. But we have orders taken as far back as 1945 from Russia at a time when the policy of this Government was not simply to acquiesce in but to urge American business to enter into commercial relations with Russia.

Mr. LODGE. What would your opinion be as to the desirability of continuing to send any electrical equipment to Russia from General Electric?

Mr. REED. I can tell you what our viewpoint is with reference to the uncompleted portion of old contracts that we have with them.

Mr. LODGE. I would be glad to have that view.

Mr. REED. Those contracts were made at arms length, in good faith, and at more than the acquiescence—at the urging of our Gov-

ernment—and we believe there is still some importance in preserving the integrity of contracts. From the standpoint of the General Electric Co. the contracts we have calling for the completion of shipments to Russia, we are meeting, unless our Government says, "We don't want you to do it."

Because there has been too little, by and large for a good many years now, integrity in connection with the maintenance of contracts both on a public and private level, we think it is our job to complete those contracts. If and when our Government says, "No. For top policy reasons we reverse ourselves. We now don't want you to ship"—they can through the exercise of export license controls tell us not to ship—of course, we won't do it. But for us unilaterally to say, "No. We have made a contract but we are not going to keep it," would mean that we would be making the foreign policy of the United States, and we are not going to do that.

Mr. LODGE. That is an excellent answer. Are you contemplating any further contracts with Soviet Russia?

Mr. REED. No. We are not.

Mr. LODGE. Mr. Reed, you suggested the idea of internal force on page 8, where you made what I consider a very interesting statement:

Who can say to what extent these efforts will neutralize our program? This is war, gentlemen—

I think you are entirely right. That brings up the question of internal force, because strikes and riots contribute to the expense of the program, and I believe recent strikes and riots in France were estimated to have cost the French something under 3 months' production. This is a burden on the American taxpayer.

Do you feel that the European recovery program in and of itself will be enough to protect the Governments of France and Italy from these attempts to capture their Governments by internal force, and do you recommend that we use any means other than the ERP to help these Governments in that connection?

Mr. REED. I think ERP would be enormously helpful to those Governments. I know it would be helpful to them—enormously helpful in stiffening them and making it possible for them to deal with their own people and with their minorities. No one can guarantee that the program is going to assure the recovery of Europe or the prevention of infiltration.

Mr. LODGE. I realize that and I wondered if you thought we should take any other steps besides ERP?

Mr. REED. What type of steps do you have in mind?

Mr. LODGE. Well, there are other things we could do to help these governments and to help the police of these governments. You realize, of course, that the Communist Party in these countries is heavily financed by Russia and that the amount necessary to combat these communist disruptions would be but a fraction of ERP.

Mr. REED. I think I indicated at the end of my statement that I believe it is just as important as the ERP itself that we provide adequate appropriations for the United States Information Service Program.

Mr. LODGE. I should like to say, Mr. Reed, that I am in thorough agreement with your very eloquent statement in that connection. My thought is that, aside from the information program and aside from ERP, there are other things which could be done to meet a threat,

things which have nothing to do either with propaganda or with economic aid, but which have to do with brute force, exercised internally in these countries. I wondered whether you would care to comment on that.

Mr. REED. No. I do not care to comment on it. I haven't any view except what my reaction is, and that would be totally negative.

Mr. LODGE. That is the type of war the Russians are waging now?

Mr. REED. That is right.

Mr. LODGE. You feel that we must not use any weapons to counteract that particular aspect of the cold war?

Mr. REED. In the way of arming the police forces. Is that the sort of thing you are talking about?

Mr. LODGE. That would be one thing.

Mr. REED. As far as I know they have not even asked for it.

Mr. BLOOM. Will the gentleman yield for a question?

Mr. LODGE. I have only 5 minutes.

Chairman EATON. Your 5 minutes is up.

Mr. BLOOM. I mean to say, you could not do that under the United Nations Charter if you wanted to, anyway.

Chairman EATON. That question has been settled anyway. Now, Mr. Jackson.

Mr. JACKSON. Not permanently, Mr. Chairman, because I am going to revert back to that question. Is it not true, Mr. Reed, that we have been carrying on in Greece something in the way of a miniature ERP, and that we have been experiencing an organized attack by Communist-led bandit forces to take over the legal government of the country by extra-legal methods. If this is indeed a demonstration of what we may expect from ERP in the other countries to whom it is proposed aid be given, it raises very serious doubt in my mind whether or not the program can be carried forward successfully without augmenting the economic help with some other manifestations of assistance as may be found necessary to implement our assistance.

Chairman EATON. You mean by "material help," militarily?

Mr. JACKSON. By whatever means may be considered necessary to carry out what we are trying to do.

Mr. REED. If the western European countries were physically and temperamentally and spiritually in the condition that Greece is in I would share your doubts very much. I do not consider them to be in that shape and I do not believe we are going to have the kind of difficulty with guerrilla warfare, and so forth, and with the terribly weak government that we are confronted with in Greece. I think your question is a good one. I don't know the answer, but I am inclined to think that the differences in the facts, as they confront us with the western European countries, themselves distinguished between the problem there and the problem in Greece.

Mr. JACKSON. Although, as a matter of fact, the minority concerned in Greece is probably not greater, if as great, as the active minorities in France and in Italy. Eighteen thousand ill-fed and ill-equipped bandits have been able to keep Greece in a state of turmoil for many, many months, and have actually won considerable ground.

Mr. REED. Many, many years, I guess.

Mr. JACKSON. For many and many years, taking refuge in the mountains against oppression, real or imagined, has been considered

an ancient and honorable profession in Greece, but in the present instance I think that the possibility of like activity in other recipient countries should be given very serious consideration in connection with the passage of this legislation. With further reference to Mr. Jonkman's statement on strategic materials and the possibility of some return to us in the way of stock piles of such materials, I suppose you know that in many instances we are a have-not nation.

Mr. REED. I am not sure that I have your question in mind now. You say there are short-supply items?

Mr. JACKSON. So we are led to believe by all the witnesses we have heard.

Mr. REED. That would be moving abroad? Yes. Food also.

Mr. JACKSON. What would be your idea on what Mr. Jonkman was saying? I was thinking of inserting something of this sort in the bill:

In order to speed up the productive capacities of the countries concerned and in order to bring in and develop new media of production—

something along this line—

that not more than 2 percent of the funds herein appropriated, or its equivalent in local currency shall be made available to recipient governments, only for the purpose of exploration, exploitation and development of new sources of supply for production of minerals, ores, timbers, chemicals, salts, industrial quartz and diamonds, or any other item of a like nature in world short supply which may be mutually agreed upon between the Administrator and the government of a recipient country.

Mr. REED. Well, that is permissive, is it, up to that amount? Does it require that that amount be requested?

Mr. JACKSON. That it shall.

Mr. REED. If you apply that to each of the 16 countries I think you will find in some countries you would be just that much short of available funds, because there just are not the raw materials in which we have an interest or in which we would want to make that kind of an investment.

Mr. JACKSON. We may put through specific authority to do that.

Mr. REED. All right, but the bill may well contain it not in terms of peremptory and mandatory instructions, but in terms of strong suggestions to the Administrator and give him authority to do these things. Then, if appropriate, he can fit them into the pattern of the agreements with the 16 countries wherever they fit normally. But to make it a flat, straight-out horizontal requirement, is in my judgment a mistake as I think it will corset him in a way that is going to hurt the bill.

Mr. JACKSON. Thank you very much, Mr. Reed.

Mr. MALONEY. Mr. Reed, in my opinion this program has two phases: One, the rehabilitation of industry in Europe; and the other is the relief of the people of Europe. That is, furnishing them food.

Mr. REED. And building rehabilitation.

Mr. MALONEY. Yes; and building rehabilitation. Do you think it would be feasible to separate in the bill these two phases? That is, separating even the administration into the two phases?

Mr. REED. No; I do not, sir.

Mr. MALONEY. Why not?

Mr. REED. Rehabilitation of industry involves three things, it seems to me. First, a study of the plant necessities to put the machin-

ery into a position where it can function effectively; second, it means seeing to it that the people who are working or who are going to work in those factories receive adequate nourishment in order that they can function adequately; and third, it requires that the pipe line of raw materials and components which would be fabricated in those physical facilities shall also be provided. So that the thing is one task really and all you are talking about in essence is that you provide men able to work and you provide facilities which are designed to do the job and you see that the flow of materials into the plants is there and ready to be worked on and put into the machines.

I do not think you can separate them. You might say on a strictly relief proposition, in the nonindustrial cities, you might separate that, but I do not think it would gain you anything.

Mr. MALONEY. There is one other question here. On page 8 you referred to economic and political war. I am wondering whether the American public really realizes that, in your opinion, we are in an economic war?

Mr. REED. I think the appreciation is growing.

Mr. MALONEY. Is there any way that that can be accelerated at all? I believe if we were in a shooting war the American public would rise up with patriotic efforts to back everything that the Government would do. In this situation they do not seem to know what is going on. Is there anything that we can do to make the American public feel the situation as it exists?

Mr. REED. My own view is that Russia will do it for us. I think she will continue to make bad mistakes in terms of her relations with America and that if that is properly publicized it is going to continue just as it has in the last almost 3 years now to build a greater and greater and most unhappy barrier between us and Russia.

Mr. MALONEY. You do feel, however, that it is unfortunate that the American people do not realize that more?

Mr. REED. Yes, sir; I do.

Mr. MALONEY. That is all. Thank you very much.

Chairman EATON. Dr. Judd.

Mr. JUDD. No questions.

Chairman EATON. Now, Mr. Reed—

Mr. VORYS. Have we finished?

Chairman EATON. We have finished the 5-minute rule. I would like to say before anything overtakes us, that we consider your testimony in reply to our questions the most illuminating and helpful we have.

Mr. REED. Thank you, sir.

Chairman EATON. I hope they will increase your salary. Does anyone want to begin again?

Mr. VORYS. I have a couple of questions. Mr. Reed, on this matter of a corporate set-up, you are chairman of the board of the General Electric Co. That is the board of directors, isn't that correct?

Mr. REED. That is correct.

Mr. VORYS. And I presume that GE like any other corporation is run by its board of directors? That is, they lay down the policies. Is that correct?

Mr. REED. That is true.

Mr. VORYS. Does your board of directors cripple or hamper the necessary executive activities of General Electric?

Mr. REED. No; but they very quickly could and would if they should undertake to operate it.

Mr. VORYS. You have a working understanding of the kind of directives that a board of directors gives and the limits upon the amount of detailed direction they give to an executive do you not?

Mr. REED. Yes.

Mr. VORYS. Why could not that same mechanism which is so thoroughly understood by American business be applied to this program? Why could not the Congress set up a board of directors, let us say exactly the same number. Possibly not of the same caliber, but as near it as we could come, to the board of directors of the G. E. and have them proceed to guide the administration of this thing the way a board of directors should? How would that cripple anything?

Mr. REED. In that case you would not go to the President. You would go to the board—this bipartisan board—and get your clearance and approval from them.

Mr. VORYS. That is right.

Mr. REED. Rather than go to the President.

Mr. VORYS. That is right.

Mr. REED. It could be done. Personally I think it would be contrary to the whole theory of government operation, and I think the program would move less rapidly under that kind of a scheme than under the kind of a scheme I have suggested, but it could be done. There is no question about that.

Mr. VORYS. And it would have continuity, as Mr. Mundt was mentioning, far more than some activity that was just the activity of the administration, or as they say in Europe, of the government then in power. Is that true?

Mr. REED. If I understand your question, I cannot quite see the advantages of it or the need for it in this case, and not in a great many other cases of very important projects that the Congress has authorized. If you do this there will be many other occasions in which you will want to do the same thing and I cannot see why you should short-circuit the responsibility and the authority of the executive side of our Government. To me it is unsound.

Mr. VORYS. As you say, this might be different from anything we ever did. This Marshall proposal is different from anything we have ever done. Is that not true? Remember, we are not talking now, or at least I hope we are not, about some emergency situation in war-time. We are talking about something now where whatever we do is going to be a pattern and a precedent for the dim and distant future. Is that not true?

Mr. REED. I hope not, sir.

Mr. VORYS. Do you mean to say that you think there is going to be a time 4 years from now when we can then heave a sigh of relief and have our Government and the American people quit worrying about the rest of the world and their economic condition, and the combination of economic, political, and ideological developments all over the world? I do not think so. I think the trouble is that too many of us, and possibly you, are thinking of an emergency situation that is going to be over shortly. I do not think that is true. I think whatever we do here is going to be a pattern for years, and years, and years. I would like your comment rather than just mine.

Mr. REED. That may be, Congressman. I would hope certainly that America would grow up to the leadership that has been forced upon us, and literally it is that; and I hope that through the years we will most actively provide the leadership around the world, both economic and political, which will be needed. However, that we are going to have to part year after year with part of our production in order to hold on to that leadership, I do not think follows. I do not mean to say that I do not believe we are going to have to pay the price of leadership, because there is always a price attached to it.

Mr. VORYS. That is right.

Mr. REED. Even if it were only in maintaining a large Military Establishment, but I do not in my own mind contemplate an indefinite subsidy of the economy of Europe, for example. If I did I would be very much concerned about this whole program. I do not think it will be necessary. I think if we do not do something here pretty soon that we may have to do something of that sort, and do it through a military machine.

Mr. VORYS. You consider whatever we do here an investment, do you not?

Mr. REED. I consider it very importantly in the interests of this country. In other words, say it is a good investment.

Mr. VORYS. A good investment?

Mr. REED. Yes, sir.

Mr. VORYS. And on an investment you expect to secure returns of some kind, whether they are precisely measured in dollars and cents or not. Is that right?

Mr. REED. Yes. I do not regard it as an investment from the dollars standpoint at all. I regard it as an investment in the negative sense; that it will save us expenditures far larger and it will hold very real promise of providing a peaceful world and a successful United Nations, which I cannot see on any other basis.

Mr. VORYS. The board of directors of General Electric are not all elected at one time; are they? You provide for different terms of service so that you have a continuity of the board?

Mr. REED. No. They are all reelected each year at the annual stockholders' meeting.

Mr. VORYS. Then I am wrong about GE. You have a tradition, however, do you not, of not changing the whole board every year?

Mr. REED. Yes, sir. I hope that tradition continues.

Mr. VORYS. Particularly the chairman. One other question. You mentioned that we have to have 16 separate agreements.

Mr. REED. The problems, the conditions and the resources. I think those are the three words I used. They will in the various countries differ widely.

Mr. VORYS. When General Marshall made his announcement, on June 5, he talked about a joint activity over there. It was my hope that this time we would have not a whole lot of separate agreements such as we had under lend-lease, but a multilateral agreement with this new organization. Would there not be some advantage in pressing toward unity in Europe with that type of activity?

Mr. REED. I see exactly what you mean. As I understand it, steps will be taken in that direction and have been taken by the organization of a Commission—I forget what they call it—of the 16 countries, on which we will sit, and whose job it will be to try to

develop an over-all program to begin to integrate much more closely the economy of these several countries.

If it were possible to sit down and work out one multilateral agreement with all the countries, and with all of the conditions back and forth, and multilaterally set forth in it, I think there might be some advantage in it, theoretically at least. But practically I do not think it is possible. I think we have got to make our agreements bilateral agreements so that we can in the case of each individual country deal with them at the end of the 15 months or a year individually, and hold them responsible for their performance under that agreement.

If you have a great multilateral deal, I do not think you could hold anybody responsible really, except the whole group, and that does not make a great deal of sense. I think there are great advantages to having bilateral agreements, but having them consistent with and fitting into a pattern which is the over-all pattern of cooperation. You may well provide in each of the agreements that each country shall do certain things in relation to other countries that will help implement that cooperation.

Mr. VORYS. I am not sure that I see what you mean. What I remember is that lend-lease started out as a matter of separate agreements. We soon arrived at a master agreement, which was a stock pattern from then on.

Mr. REED. But bilateral. It was a master agreement, but it was entered into bilaterally.

Mr. VORYS. Yes. Our experience in settlements under lend-lease makes me hope that this will have a different type of result in the long run. I do not see where we get by having so many different agreements and by having each of 16 countries seeking a little different or a little better terms than the other country gets, dealing with the one supplying country. But perhaps I should not labor that point.

Chairman EATON. Will the gentleman yield?

Mr. VORYS. I yield.

Chairman EATON. I would like to have this cleared up in my mind. I got the impression that Mr. Vorys in the back of his mind had the notion if we could turn this whole thing over to the board of directors and the men of General Electric, that it would be well done. Would you be willing to take that responsibility?

Mr. REED. Mr. Vorys is not close enough to General Electric. With all the tasks we have here at home, I do not think he would vote for that if he were really close to it.

Mr. VORYS. You gained the correct impression, Doctor. Let me say one more thing, not to trespass on your time and that of the committee too much. You mentioned here that the board of General Electric, a private institution, in its dealings with reference to Russia will be guided by what the Chief Executive, the President, orders with reference to our foreign policy. Is that true?

Mr. REED. Yes, sir. Of course.

Mr. VORYS. Of course. Can you conceive of a government corporation where the Board of Directors would not also be, of course, subject to the foreign policy of the United States?

Mr. MALONEY. Mr. Vorys, will you yield on that point?

Mr. VORYS. I yield.

Mr. MALONEY. Right along the line you were speaking of, in Section 11 (b) of the Herter bill it says that—

The Council shall from time to time (1) advise and consult with the President with respect to the establishment by him, within the limits of available funds and subject to this act.

Now, it presupposes that the President will be advised and consulted with on all these matters.

Mr. REED. Yes, but his approval is not required. There is a significant difference there.

Dr. ELLIOTT. I beg your pardon, but may I set the record straight on a point of fact. In the Herter bill the President's approval is required. The language is explicit on that. All directives, all programs, all policies.

Mr. REED. The postulate here was that this was not so and that the Bipartisan Board would have the authority to make a decision as to a program quite apart from Executive approval.

Dr. ELLIOTT. I understood you were addressing yourself to the postulate, but I want to correct the impression that the Herter bill does not make that explicit that all programs, policy and administration shall be set by the President with the advice of the Foreign Aid Council which contains these principal Cabinet members, and the Chairman of which is the Secretary of State, as well as the directors of the corporations; and the directors of the corporations by the terms of the bill have no power whatever, except in the implementing of this policy.

Chairman EATON. That does not mean at this point that the Herter bill is 100 percent perfect.

Dr. ELLIOTT. No. It simply clarifies the language.

Mr. VORYS. Mr. Chairman, I think I should say my questions to you were not attempting to draw an analogy between a private corporation and a Government corporation. You are perfectly correct. I was not confining myself to the terms of the Herter bill.

Mr. JARMAN. This question may sound far-fetched at first, Mr. Reed, but I do not believe it will be when I comment further on it. How many men do you have on your board of directors?

Mr. REED. 17 currently. They are a variable number.

Mr. JARMAN. Do you happen to know offhand how many of them are Republicans and how many are Democrats?

Mr. REED. I have not the remotest idea.

Mr. JARMAN. That is exactly the way I want to see this. You do not know and you do not care.

Mr. REED. That is right.

Mr. JARMAN. I want to see this program run that way and I want to see Governor Griswold in it. He is doing a good job in Greece. He is a former Republican Governor of some State. That is the way I want to see this program run. Without stooping to what I regard as petty political considerations on a tremendous world program which is especially very beneficial to us, such as this is.

Chairman EATON. Are there any other questions? We will adjourn until 2 o'clock when we will have Mr. Hazlitt.

Mr. LODGE. I apologize to the chairman. That is, may I say, one of the disadvantages of juniority.

Chairman EATON. Yes.

Mr. LODGE. I simply wanted to ask Mr. Reed this: I am sure that you feel, sir, that foreign affairs are intimately and inextricably tied up with domestic affairs and therefore it is perhaps as important to be nonpartisan in our attitude in domestic matters as in our attitude toward foreign affairs.

Mr. REED. They are fairly general premises, but you are right.

Mr. LODGE. On that basis, Mr. Reed, I wonder if you would care to comment on this: If you were Administrator of this program, would you advocate to the governments of the countries participating that they should base their fight against inflation on the same principles as those advocated by the President of the United States for combating inflation within the United States?

Mr. REED. That is a rather political question, I think. Are you asking me if I agree with the President?

Mr. LODGE. It does not seem political to me, Mr. Reed, because I cannot for myself divorce foreign affairs from domestic affairs. I am impressed with the fact that this whole enterprise is part of a composite picture and I cannot seem to think of it piecemeal. I feel that you cannot think of it piecemeal either because in your large enterprise you must be constantly reminded of the interdependence of these various elements. I think you will agree with General Marshall that this program is impossible of success unless there is a certain amount of reciprocal self-help from these countries. This involves the reduction of trade barriers, the stabilization of the currency, the reform of the tax structure, and what not.

Mr. REED. That is right.

Mr. LODGE. These reforms are so necessary to their existence that they will be influenced by what the Administrator may recommend in that connection. Naturally, therefore, I am very much interested in what philosophy the Administrator might have with respect to combating inflation and restoring stability and achieving a maximum amount of reciprocal self-help. I would be tremendously interested in your view as one of our most eminent businessmen, on that particular subject.

Mr. REED. As I say, I hope that the Administrator's recommendations would receive the most careful consideration by each of these foreign countries in any matter relating to the recovery of their economy. That would include tax policy and anti-inflation policy.

Mr. LODGE. That is unquestionable. I think it will.

Mr. REED. Now, your next question, as I understand it, is whether the Administrator will follow the lead or the recommendations in these various countries that the President recommends with reference to the domestic situation. Do I understand you correctly?

Mr. LODGE. My question was whether you, personally, Mr. Reed, if you were the Administrator of this program—

Mr. REED. I am not, sir, and I do not expect to be.

Mr. LODGE. I would like you, however, to consider that hypothesis, if you do not mind.

Mr. REED. Thank you.

Mr. LODGE. Whether you would advise these governments to combat inflation, to restore fiscal stability, to reform their tax structures, and all these other measures which are proposed, on the basis of the same principles as those advocated by the President of the United States in his message on the state of the Union for combating

inflation and promoting economic stability within the United States. That is my question, Mr. Reed.

Mr. REED. Many of the recommendations which the President made at the opening of the emergency session and again in the opening message on the state of the Union, I do not agree with.

Mr. LODGE. Do you believe there will be any danger that the Administrator will have a tendency to follow the President's economic philosophy with respect to those internal problems?

Mr. REED. I do not know the answer to that. I would hope that the Administrator would, in consultation with his Board, approach the problems in each country on the basis of the conditions there. I think we all understand basically what the principles are and they are not going to have Presidential years in each of these 16 countries as these things are being worked out.

Mr. LODGE. You do not think you would necessarily advocate a \$40 tax cut as a method of combating inflation?

Mr. REED. I would very definitely hope not.

Mr. LODGE. Thank you very much, Mr. Reed.

Mr. JONKMAN. Are there any further questions?

Mr. KEE. Just a moment. Dr. Elliott made a statement awhile back about the Herter bill providing for the absolute approval of the President on the policies. I have very carefully considered the Herter bill and on page 4, paragraph (b), of section 11, it provides that—

The Council shall from time to time advise and consult with the President with respect to the establishment by him, within the limits of available funds and subject to this act, of the programs of United States aid to foreign countries * * *.

That section does not provide for any approval by the President of any decision of the Council or the Chairman of the Council, but on page 5 in subsection (c) in defining what are the duties of the Chairman of the Board it says that in—

formulating for the consideration of the Council proposed programs of United States aid to such countries and proposed policies in connection therewith, and (3) providing for the efficient execution of any programs of foreign aid and policies in connection therewith by issuing, with the approval of the President and after advising and consulting with the Council—

directives not as to the policies but directives as to carrying out the policies which he formulates.

There is no place where it says in the bill that the President should approve the policies. He only has the right to approve the directives issued by the Chairman in carrying out those policies. I found no place in the bill where the President is required to approve the policies formulated by the Council and Chairman. I would be glad to have it pointed out.

Dr. ELLIOTT. I suppose that Mr. Reed may want me to answer that, since it was my language not his. May I suggest that if the language requires redrafting, and I suggest that it might, that that might be done, but the language was intended by the legal draftsman to accomplish that. It says—

with respect to the establishment by him—

that is the President, in subsection (b). I take it there is no question about that—

It says that the Council shall advise and consult with the executive director regarding the execution of such programs and policies, but the

language "by him" refers exclusively to the President, where it says, "the establishment by him" meaning the President, of programs and policies.

Mr. KEE. The policies are formulated by the Council under that section and it provides that the President only approves the directives issued by the Chairman for the execution of the policies.

Dr. ELLIOTT. The other language, in the section you read, says—and that is part 3 of subsection (c) on page 5—"with the approval of the President." No directive can be issued without the approval of the President.

Mr. KEE. That is right. The directive as to how the policies are carried out.

Dr. ELLIOTT. Yes.

Mr. KEE. But nowhere does it say that the President has to approve the policy.

Dr. ELLIOTT. The President establishes the policies in section (b). Isn't the language clear there? Perhaps it may need to be clarified there.

Mr. KEE. It says he shall—

advise and consult with the President with respect to the establishment by him,

By whom? The Council?

Dr. ELLIOTT. The President.

Mr. KEE. Oh, no.

Dr. ELLIOTT. The language could only mean the President.

Consult with the President with respect to the establishment by him,

As it is, up to that part there has been no mention of the executive director in any way. The language clearly refers to the President, but as I suggested in my staff reports it would have to be clarified and nailed down.

Mr. KEE. It will have to be.

Mr. REED. That was definitely the intention, was it?

Dr. ELLIOTT. Yes.

Mr. REED. There has been some doubt in the minds of people about it.

Mr. KEE. There was a very grave question in my mind.

Dr. ELLIOTT. Mr. Herter attempted to clear it up himself in a letter to the Washington Post.

Mr. KEE. I have that.

Dr. ELLIOTT. But there could be no question that the language of the bill up to that time never referred to the Chairman of the Board of Directors at all as the executive director so that that could only mean consult with the President with respect to the establishment by the President. It is just not thought necessary to repeat the phrasing. "By him" could only refer to the President, but I agree with you, sir, that any remaining doubts should be certainly clarified in the language of the bill.

Chairman EATON. We will adjourn until 2 p. m.

(Whereupon, at 12:35 p. m. the Committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

Chairman EATON. The committee will kindly come to order.

I have to be outside. I will ask our distinguished colleague, Mrs. Bolton, to take the chair this afternoon.

Mrs. BOLTON (presiding). Should we go ahead?

Mr. KEE. Unless someone suggests the absence of a quorum, I suggest we go along.

Mrs. BOLTON. Mr. Hazlitt, we are very happy to have you here. We have been looking forward to this very much. You made your pronouncements on several occasions. We are looking forward very much to your development of your own ideas for us, knowing you will give us a great deal to think of.

STATEMENT OF HENRY HAZLITT, BUSINESS COLUMNIST OF NEWSWEEK MAGAZINE

Mr. HAZLITT. Thank you, Madam Chairman.

I am greatly honored by the invitation to testify on the proposed European recovery program before your distinguished committee. I have already dealt at length with the basic facts and principles involved in the proposed program of foreign aid in a book which some of you may have read called *Will Dollars Save the World?* I should like here, therefore, to confine myself to suggestions for a positive program, with only an incidental explanation of some of the reasons for these suggestions.

1. Marshall plan or no Marshall plan, Europe will not recover as long as European governments retain the economic policies they have been following since the end of the war. Europe has driven more of its own private capital underground than the total amount it is asking from us. As long as socialization, nationalization, unbalanced budgets, monetary debasement, general price fixing, exchange control, and the whole collectivist network of government prohibitions, permits, licenses, and orders are retained, any amount of dollars we pour into Europe will be more than offset and nullified by stifled production and chronic crises. Our experience with Great Britain will only be repeated on a much vaster scale. Europe will be in a much worse situation after our help is poured in than it was before it began.

Whether or not we decide to impose any conditions with our help, therefore, this basic economic situation must in some way be brought home by Congress to the American people and to the people of Europe. What is most important to the revival of Europe is not American loans but a complete change in the internal economic policies of Europe. Unless the political conditions of revival exist in Europe itself, Europe will not revive. There is only one way to restore production, and that is to restore the freedom to produce and the incentives to produce.

This is the central point that Congress must emphasize in its foreign-aid program. It is more important than any other. If it is thought impracticable to write this central point into the legislation itself, or in a preamble to it, the point ought certainly to be emphasized and underlined, for the sake of the record, in the report of this committee to the House.

Once we recognize this central point, we must recognize also the completely arbitrary and unscientific nature of the calculations of Europe's needs for American aid, either in their own figures or those of the State Department. It is frequently said that if Congress cuts down the \$6,800,000,000 that the State Department asks for the first 15 months, or the \$17,000,000,000 that it originally proposed for 4 years,

we should be giving only enough for "relief" and not enough for "recovery." Secretary Marshall has told Congress that it should "either undertake to meet the requirements of the problem or don't undertake it at all." The implication of this is that any sum under the amount requested by the State Department will not meet the requirements of the problem. But there is no real basis for this view. Whether or not Europe recovers economically in the next few years has little to do with the exact amount of money and goods we send her; it depends primarily upon the policies followed within Europe itself. If those policies continue to be those of the last 2 years, then even if we pour in the whole \$29,000,000,000 that Europe originally asked for it would not bring European revival; it would only weaken and imperil our own economy. Unless Congress recognizes this point in advance, and makes it clear in its legislation or in its reports, it will be blamed for any failure of the program. Congress will be told that the program failed because it gave too little, or because it did not accept the exact organizational set-up proposed by the administration. Yet the real reason for the failure will be the economic policies of Europe itself.

The State Department repeatedly contends that the dollar amounts it proposes to pour into Europe under the Marshall plan have been closely and scientifically calculated. The truth is, as I have already pointed out, that there is no scientific foundation whatever for these estimates. They are completely arbitrary. To recognize their a priori and arbitrary character, we have only to recall a little of the history of how they were compiled.

I might begin by reminding this committee of a fact whose significance seems to have gone virtually unnoticed. On June 12 of last year, just one week after Secretary Marshall's first hint of his plan at Harvard, Benjamin V. Cohen, then counselor to the State Department, and surely a responsible spokesman, made a speech at Long Beach, Calif., in which he declared that Europe needed from us \$5,000,000,000 or \$6,000,000,000 a year for the next 3 or 4 years. This meant a top figure of \$24,000,000,000 and a minimum of \$15,000,000,000. Now, all succeeding estimates since then have kept the Marshall plan figures precisely within that range. The 16 European countries asked for \$22,000,000,000; our own administration reduced the figure to \$17,000,000,000. The proposed life of the plan is still 4 years, as it was in Mr. Cohen's speech. All this may show remarkable prescience on the part of Mr. Cohen. But I suggest that there is a simpler explanation: The nations of Europe were publicly tipped off last June by an official of the State Department concerning how much they could ask for.

In putting together the total of their alleged needs, the European governments used what we may call the balance-of-payments approach. That is to say, they added up all the imports they thought they needed from us and the rest of the world, set against them the exports they thought they could sell; and asked us for the difference. I need hardly point out that this whole procedure was utterly arbitrary and unscientific. No nation, not completely totalitarian, can know exactly how much it is going to have to import or be able to export even a year ahead. As a statistician would say, there are too many dependent, independent, and indeterminable variables. There is no such thing as a predestined trade deficit independent of loans

from the outside, of internal inflation, of price fixing, of tariff policies, of trade controls, of domestic production, of price levels, and of foreign-exchange rates.

To take simply the first of these factors—loans from outside—it should be obvious that the economic causation is precisely the reverse of what the 16 nations' report tacitly assumes it to be.

It is only gifts, credits, or loans from outside that permit a trade deficit to continue.

Otherwise the only trade deficit that is possible is one that is paid for by the sale of foreign securities or foreign currencies previously held, or by the direct shipment of gold. In the long run imports and exports must balance, simply because people insist upon getting paid for what they sell. If we extend no further gifts or credit, the outside world cannot continue to have a trade deficit.

It is the loans and gifts themselves that will chiefly determine the future European net trade deficit with us.

In short, even if we accept all the economic and political assumptions of the Marshall plan, we must recognize that the \$6,800,000,000 figure is completely arbitrary. It is sheer guesswork. There is no foundation whatever for presenting it as a figure which represents the difference between chaos and recovery, or the difference between communism and free enterprise, or communism and democracy, or war and peace, or any of the other frightful alternatives that have been put forward as the consequences of not giving precisely this sum.

2. One of the most important controls in Europe, particularly as it affects the United States, is the pegging of exchange rates at levels far above the real values of European currencies. It is made a crime in Europe for anyone to buy or sell these currencies at less than their official value. The effect of this is systematically to stimulate imports to Europe and to discourage or prevent exports from Europe, by making them prohibitively high in terms of dollars. European exchange control has brought about the present chronic deficit in European trade.

Here is something that the United States does have some power to control. It would be folly to extend foreign aid even a month longer unless we first of all insist on the repeal in the Bretton Woods agreements of the provision (art. IV, secs. 3 and 4) which makes it obligatory for all member governments in the International Fund to prevent free markets in their currencies. The fund agreement, fortunately, permits any nation to withdraw from the fund at any time without advance notice. In insisting on minimum reforms, the United States could quietly point out to other governments the existence of this withdrawal clause. It would be a major error from our standpoint or from the world standpoint to retain the Bretton Woods exchange-control provision any longer. If the administration fails to act of itself, Congress should insist on this minimum reform in its aid program.

When I first analyzed the effects of this European exchange control in my book and in articles several months ago, it was receiving practically no attention whatever from supporters of the Marshall plan. Suggestions that this exchange control should be terminated were dismissed as irrelevant and even heartless. But now, fortunately, the subject is beginning to attract the attention it deserves. The harmful consequences of overvalued European currencies have since been

pointed out, for example, both by the Harriman committee and by Bernard Baruch. In their own interest several European countries have been moving toward reform. Italy, about 2 months ago, announced that it would allow its currency unit to seek its approximate free market level. France is now proposing to adopt a 2-franc system, with an official franc valued at 214 to the dollar compared with the former rate of 119, and a relatively free franc whose value would be determined in a free market.

We may question the wisdom of the particular shape that these reforms have taken. But they are significant as a recognition of the impossibility of retaining rigid control of European currencies at overvalued levels. The United States has been paying heavily, and under the Marshall plan it would continue to pay heavily, for the maintenance of this vicious exchange-control system which until now virtually all Europe has been imitating from the Schachtian system in Nazi Germany. The abolition of this system is one of the minimum reforms that America should insist upon immediately in return for its aid program.

3. For good or evil, the industrial heart of Europe before the war was Germany. The German economic collapse is one of the chief reasons for the present economic stagnation in Europe. But this collapse has been largely imposed, not only by the policies of Russia and of France and Great Britain but by our own policies in Germany. In addition to the misconceived level-of-industry plan, we have imposed on Germany a continuation of the Schachtian controls over wages and prices under conditions which paralyze German production. This paralysis of German production has not only been costly to us directly, by forcing us to support our former enemies, and to pour in hundreds of millions of dollars to make up for the imposed deficiency in output, but it is responsible for causing a large part of the demands for aid from us in other European countries.

By our own insistence, Germany is today, second only to Russia, the outstanding collectivist country in the world. Here, where we have control, is the place to show Europe, by an example in its very heart, what a return to private enterprise can do for recovery. Only the restoration of a free economy in Germany, subject to American oversight and reasonable income reparations, can solve this problem. Congress must insist that the Germans work and be permitted to work, not merely to support themselves but to help make restitution to the neighboring countries of Europe which they looted and to which they brought so much destruction. A reform of our policy in Germany would alone save us billions of the proposed expenditures under the Marshall plan. It would do more; for it would increase world production and not merely redistribute world shortages.

4. It would be a great mistake at this time to initiate any explicit or even implied "4-year program" for Europe. The situation is too unpredictable to work that far ahead. If European governments make the economic reforms they should, the present proposed 15-month aid program may be all that we reasonably need to undertake. In any case, we should not commit ourselves to European aid, either directly or by implication, for more than these 15 months. In order to exercise whatever control is reasonably possible, and to act in accordance with the situation as it develops, we should leave ourselves free to see how it looks a year from now before committing

ourselves further. If it is argued that European nations must know what our contribution is going to be for 4 years ahead so that they can "make their plans," the answer is that we must know what use they make of our first year's help before we can know whether it is worth while offering more.

The proposal for limiting commitments both legally and morally to no more than the first 15 months has already been made by the Harriman committee, by former President Hoover, and by many others. I think it advisable for Congress to go even further. It should explicitly state that this legislation is not to be taken to imply further aid at the end of the 15 months, but that the United States will wait to see what Europe has done for itself in the meantime and what its needs are at the end of that period. Congress is already being told that it must go through with the European aid program because that program has already been promised to Europe by the Secretary of State. There is certainly no good reason why this Congress should impose any obligation, explicit or implied, on the next Congress or the one after that.

5. In the demands of the 16 European governments upon us, we should separate their requests for food from their other requests. We should try to meet the food needs of Europe as far as we reasonably can. And we should meet these needs so far as possible by gifts, and not by loans. I am sure that no American would hesitate to make sacrifices to keep the hungry and distressed going as long as we have the food to share with them.

I feel bound to point out, however, that in recent discussions of the Marshall plan both our surplus of food and Europe's need have been overstated. Before the war the United States produced less than 9 percent of the world's food supply in terms of calories; it produces even today only about 12 percent. Before the war we were on net balance a food-importing country; in the years from 1936 to 1940 we exported an average of \$294,000,000 of foodstuffs a year; we imported an average of \$665,000,000.

On the European side, to cite but a single example, Secretary Marshall, in testifying before the Senate Foreign Relations Committee, made the astonishing statement that the war had "destroyed livestock herds" in Europe. "Destroyed" is a big word. Yet volume II of the report of the 16 nations published by the Department of State, shows among other things that cattle on the hoof in those nations is in excess of 64,000,000 as compared with an average of less than 62,700,000 in the 4 years before the war. Furthermore, though the European governments put the blame solely on the war and on bad weather, the truth is that a great part of the present European food shortage is the result of their own bad policies. They have not allowed the price system to work; they have destroyed the incentive of farmers to sell crops to legal markets or to produce them at all; they have made it profitable for farmers to feed wheat wastefully to livestock; and so on.

But the European food shortage exists, and we should do our best to alleviate it.

I suggest that the best agency to do this might be the International Red Cross. If this is not thought suitable, then we should set up a new American Relief Administration. This administration should distribute food in Europe directly, making use of private European

personnel as well as Americans. It should study the manner in which Herbert Hoover distributed American food in Belgium in the First World War.

Some European governments may insist that most or all of the food we contribute must pass through their rationing system, to be sold by them to their own people while the governments retain the monetary proceeds. In this case all that we would be doing would be to reduce the tax bill of Europeans, or to make available to their governments money for expenditures for other and perhaps undesirable activities. To the extent that European governments insist that they should sell the food our Government sends them, we should insist in our turn that the foreign currencies received from the part of our food contribution which the governments sell must be deposited locally to the account of the United States Government. These funds can then be used by us partly to make Export-Import Bank loans to European private industries and partly to buy European goods to import into the United States.

6. With the food problem thus taken care of, there is no reason why the rest of the problem of European rehabilitation cannot be dealt with on a strictly business basis. We are constantly told that the way to put Europe economically back on its feet is to lend its manufacturers raw materials on credit that they can turn into finished goods to sell to us and the rest of the world. If such loans would really do all this, then it would be sound for private investors to risk their own funds in them. It cannot be argued that private funds do not exist in sufficient quantities. Our own Government has no funds that it does not ultimately take from private funds. Congress should therefore do what it can in removing any remaining legal impediments to the restoration of private credits to Europe. It should see that any red tape or unreasonable requirements on the part of SEC, for example, are removed.

It will necessarily take time, even under the best conditions, for private lending in substantial volume to get under way. Therefore Congress may wish to consider bridging the gap in the following manner: It might enlarge and extend for 15 months the loan authorizations of the Export-Import Bank. It should do this only as a means of ultimately preparing the way, however, for private credits. Therefore it should make the requirements for obtaining such loans essentially what they would be for obtaining private credits. The Export-Import Bank should not be authorized to make loans to foreign governments, but only to European private industries or business firms, and only on the strictest business terms. If the bank were authorized to make any so-called "business loans" either directly to socialistic governments or to their nationalized industries, it would merely underwrite and subsidize the deficits of those industries. In this way we would be directly supporting socialization and so retarding European recovery.

Congress should write the basic conditions for foreign loans into the new Export-Import authorization. It should provide that the past record of the borrowing firm, and its existing facilities, must be such as to give reasonable prospect that the loan will be repaid. The American loan must be an obligation prior to other outstanding obligations except to the extent that the borrower is prevented by previous contract from making it so.

Even if loans are made only to private industries and firms, however—or at least only to such nationalized industries as can affirmatively prove that they are not operating at an open or concealed deficit—the government of the borrowers should be called upon to establish certain minimum conditions if their nationals are to be eligible to receive these loans. The governments must agree in advance, for example, not to socialize, nationalize, or expropriate the borrowing industry or firm during the life of the loans. They must agree not to prevent the conversion into dollars of any repayments on the loans. They must agree not to impose any fresh wage or price regulations which will imperil or wipe out the ability of the borrowers to repay the loans. They must agree to permit free exchange rates, so as to make possible free conversion of local currencies into dollars.

One further possibility that might be considered: On and after January 1 of next year, for example, the Export-Import Bank might not be authorized to make any additional loans in the following 6 months unless there were at least a 10 percent participation on the part of a European lending institution. In this way the American risk would be shared by European creditors who would know more than we possibly could about the individual credit-worthiness of applicants for loans.

I do not pretend to know what volume of loans would be made under these conditions. What we can be sure of, however, is that loans made without such conditions would not only be money thrown away by us, but would fail to bring the recovery we are seeking.

The committee will notice that the proposals I have made here are similar in important respects to the proposals of former President Hoover. They put gifts and loans into entirely separate categories. The gifts would be made by one organization, the loans by another. This is important. Any single organization will find it impossible to mix charity and business. The two things call not only for different techniques but quite different mental approaches. It will be fatal either to the aims of charity or to the aims of business to try to mix them in a single organization.

8. May I remind the committee, as a final point, that the International Bank for Reconstruction and Development was set up specifically to take care of everything that the Marshall plan proposes apart from its purely charitable aspects. To the extent that we now make use of both of them, therefore, the International Bank and the Export-Import Bank should be directed to clear proposed loans with each other so that they do not find themselves duplicating, overlapping, or competing.

I should like to end by underlining once more the point I made at the beginning—that the decisive factor in European recovery in the next year or 4 years will not be the amount of American governmental aid, but the economic and political policies followed by the governments of Europe themselves.

Mrs. BOLTON. That is a very challenging bit of work, Mr. Hazlitt, and I know we are very grateful.

Mr. HAZLITT. Thank you.

Mrs. BOLTON. We have a little system here so that everybody may question you. We have 5-minute periods for the questions from each one, and I am going to leave mine for later in the afternoon and ask Mr. Jonkman whether he will begin.

Mr. JONKMAN. Mr. Hazlitt, in the next-to-last paragraph of your statement, speaking about loans and grants you say:

To the extent we now make use of both of them, therefore, the International Bank and the Export-Import Bank should be directed to clear proposed loans with each other so they do not find themselves duplicating, overlapping—and so forth.

Would you say that loans have no place in the Marshall plan? that they should be carried on by the International Bank and the Export-Import Bank?

Mr. HAZLITT. Well, it depends of course on how you define the Marshall plan. If you define the Marshall plan merely as the grant part of it, merely as the relief part of it, then this will be outside the Marshall plan. If you define the Marshall plan as a plan that originally contemplated both grants and loans, then this might be interpreted as a modification of the Marshall plan. I think it is just a question of definition of what is the Marshall plan.

Mr. JONKMAN. To get at what I want, may I carry the point further? Should the Marshall plan embrace the matter of loans where we have the Export-Import Bank and the International Bank?

Mr. HAZLITT. Well, if you are going to set out to increase the authorizations of the Export-Import Bank, then I do not see where you need any of the loan provisions of the plan as presently constituted.

Mr. JONKMAN. I would be inclined to agree with you. I think the loan element of the Marshall plan is really superfluous; in other words, should be handled by the bank. It, the bank, was created for that very purpose.

The committee has heretofore paid some attention to the matter that you dwell upon, the double standard of currency, illegal currency, and the free-market or black-market currency.

Would you care to comment on the effect of the devaluation of the franc by France in the last 3 or 4 days?

Mr. HAZLITT. Well, I think the most significant part of it is that it is the first major crack. Of course, the Italian situation was also one. But France is a much more important Nation in international trade. It is the first major crack in that respect in the whole system of control of overvalued currency.

Now, the French system is a complicated one, the one that they are setting up now. You cannot call it either a free or controlled system. It is somewhat an attempt to mix the two. It sets a value that is lower for the franc than the present value but that is not a realistic value any more than the 119 is. That is to say, I don't think the French themselves believe the franc has a real going market value of 216. The market rate might be 275, or something more like that. Why they changed the official rate at all I do not know.

They might have achieved their end just by having a free rate.

This "free" rate they have is not entirely a free rate because they are still going to have imports and exports subject to licenses, and so forth. So through their licensing system they will control the demand for foreign currencies.

So it is not a completely free system and it is a little hard to say what it will do. For example, it is a little hard to say whether this will actually lead to any substantial repatriation of French capital

because the people who are expected to repatriate may not have any faith in the value of the present franc, even of the readjusted franc.

They may not have faith in the policy of the Government and they have to pay in any case a 25-percent tax. So how much it will bring back is hard to say. But the chief thing about it is that it is a public recognition now on the part of the French Government that the previous rate of the franc was completely unrealistic, that it did not permit them to export. It made export prices prohibitive in terms of dollars, so it prevented French exportation. Now, the consequence of that was that imports were overencouraged by this artificial rate. Exports were also restricted. As to the difference, the 16 nations have come to us in effect and said "You have to make it up."

The United States has to pay the difference. If we get realistic exchange rates then the trade balances of these countries tend automatically to come to a balance, except for whatever securities they may have to offer or whatever gold they may have to pay for the excess of imports.

So that that in itself would make a tremendous difference in the demands upon us.

Mr. JONKMAN. In other words, you mean it will have a tendency to increase their exports and decrease their imports.

Mr. HAZLITT. That is right. So that the difference is that we will be called upon to finance less of their imports under such a system.

That is the chief result of it. Now of course you have the same problem here in France that you had with the British with sterling. The British objected to this devaluation principally because it will show up the pound. It will show up the fictitious nature of the pound value. It will put great pressure on them to reform.

Mr. JONKMAN. May I ask whether or not it would also create an unfavorable trade relation for the United Kingdom in that the tendency of France to increase exports or decrease imports would work also upon the United Kingdom?

Mr. HAZLITT. It will do that in a dual way. It is sort of a complicated thing. Dealers can engage in arbitrage transactions. The French can import from the United Kingdom at one rate, the official rate for the franc, and resell to us at the free rate. The exports of Britain might go out through that channel then.

In other words, it causes leaks in the whole British system, and the question of how Britain is going to keep those leaks in repair becomes a very serious question once the French do this.

Mr. JONKMAN. But all those leaks are fundamental fallacies in their set-up?

Mr. HAZLITT. They fundamentally result from the fact that the pound-dollar rate is a completely fictitious rate. That comes back to the point you raised a moment ago about the effect of this French reform. When the British made sterling convertible, the convertibility lasted for only 5 weeks. The reason for that was that they made it convertible at this completely fictitious rate of \$4.03 to the pound.

Now, that meant that anybody who had a pound wanted \$4 for it and nobody who had \$4 wanted a pound for it.

So the flow all went one way. It went out and had to be stopped. You cannot have a system half planned and half free. It does not work. It just leaks. So then the British blamed the convertibility feature, rather than the overvaluation feature. In the same way

this French system may possibly break down. They are trying to have a free market within a whole network of controls. Remember, they are still controlling their imports and exports; the whole thing is subject to licenses. It is a little hard to say in advance where the leak is going to come or where the thing is going to crack.

They either have to go further toward free markets or retreat, as I see it. It will be a free system or retreat back to controls.

Mr. JONKMAN. I think you would say it is the first step? A necessary readjustment that must come sometime anyway, before we can be of any help to them.

In other words, the bottom of the barrel is out as long as they have managed currencies?

Mr. HAZLITT. That is right, sir. We have in effect been financing overvalued currencies and helping to keep them overvalued. By keeping them overvalued we have helped to keep world trade unbalanced. We have helped to keep ourselves in a situation where we have to continue the aid.

Mrs. BOLTON. The time of the gentleman has expired.

Judge Kee?

Mr. KEE. Mr. Hazlitt, I understand this situation to be that Western Europe is sick. The United States feels that it is necessary to our safety and the security of our people that it recover.

We want to try to help it recover. You say, as I understand it, that it is impossible for Europe to recover unless the policies of her present governments are changed. Is that correct?

Mr. HAZLITT. Yes, sir.

Mr. KEY. How long do you think it will take for the policies of those governments to be changed, if at all possible?

Mr. HAZLITT. Well, of course, some of these changes come with dramatic suddenness, as the French exchange "decontrol" came, as the Italian changes came.

As I say, once they go to a free system in one place, then they are faced with a dilemma of either freeing more of their economy or going back and recontrolling again. We have a good chance. We have a fighting chance now of having them in their own interests go toward a freer economy.

Mr. KEE. Do you honestly believe that without any outside help whatever any recovery can take place in European affairs?

Mr. HAZLITT. Yes, I do. I am not myself suggesting no outside help whatever. I suggest we give them all the food that we reasonably can.

But answering your question I do think they could have a very great recovery without any outside help whatever, if by outside help you mean help from our Government, which I assume you do, and not private credits. Yes, I think they can. There is no reason, for example, why Germany cannot have an immense recovery if we just let her have the recovery.

Germany is the heart of Europe. Whether we like it or not, Germany has an immense effect on the other countries of Europe. The situation in Holland, Belgium, Switzerland, Sweden, and so on, all the countries surrounding Germany, might change overnight if the German situation changed. So there is a place where we are deliberately preventing recovery by our own policies or by insisting

the Germans follow completely unrealistic policies on wage fixing, price fixing, currency, and so forth.

Here again, there can be a great recovery in France with a free franc. They can give their exports great stimulation. I do not want to stick my neck out and say this thing will work out with the system they have because it is a very complicated arrangement, sir, that they have. It is a curious mixture of freedom and a controlled system. But the Italians have had pretty good results from their devaluation, or rather from their allowing a free market. Europe has been tied up in knots. The governments are tying their people also up in knots by the kind of regulations they impose. I have never argued, "Let them go to work." The people of Europe want to go to work. Their governments will not let them go to work. That is the thing I feel is important.

Mr. KEE. I beg your pardon, but it seems to me that when you say there is a chance of them recovering without any outside help, you are taking the position that we should help only when they change their policy and that if they change their policy they could recover without our help. Therefore what is the use of us doing anything except attempting to change their policies?

Mr. HAZLITT. Well, in the case of food their policies have been in large part responsible for the shortage of food. But the shortage does exist and therefore I feel that we ought to meet a need of that sort and hope that they will not get into it again.

Of course, if we give help and if they make drastic reforms to get our help, they will recover faster with our help.

Our original question was not how fast they would recover but whether they would recover. I can say they would recover. Of course, the amount of aid might control the speed. The chief thing will be the reforms they make to get the aid and not the aid itself.

Mr. KEE. My idea is that you are taking the position that notwithstanding the fact that Europe is sick, and needs help for recovery, yet we have no business going in there to help until she does recover.

Mr. HAZLITT. If you take the case of a dipsomaniac and you try to do something for him and he keeps secretly drinking himself to death, there is not much you can do for him.

My position is that they are doing so much to prevent themselves from recovery that they are going to block the effect of our help.

That is the real problem as I see it. We cannot help them as long as they continue these policies. We did that with England. We have already been through that. We lent the British three and three-quarter billion dollars.

We put conditions on it that they could not fulfill because they followed policies that made it impossible to recover.

As a result of their system they used up in a year and a half almost all that was supposed to last them 5 years and they were in a deeper crisis at the end of the period than they were when the loans were made. That is the prelude, I think. It is an indication of what will be the result of our aid unless they have very radical reforms in Europe.

Mr. KEE. You say in your statement here:

As long as socialization, nationalization, unbalanced budgets, monetary debasement, exchange control, and the whole network of government prohibitions, permits, licenses, and orders are retained, any amount of dollars we pour into Europe will be more than offset and nullified by stifled production and chronic crises.

Then according to your statement, until all those things are changed there is absolutely no use rendering any help?

Mr. HAZLITT. I did not quite say that, Congressman. I said as long as they keep this whole system, it will be more than nullified. If they remove a few of their controls, they will be a little bit better off than if they keep all of them. In other words, if they removed all of them they would be best off of all.

But if they remove a few of them they would be better off than with all of them. I see no contradiction in that.

Mr. KEE. According to your views promptness in going to the aid of these people is not essential. We must give them time to recover. Do you not feel if we take out time sufficient for them to recover they will all be dead before we get around to helping the sick?

Mr. HAZLITT. It is already more than 2 years since the end of the war. The European nations were better off in some respects at the end of the war than they are now. If their troubles had been caused solely by the war, then we would expect that you would see a gradual improvement year by year.

We have not seen that. The 16 European nations themselves in their report declared the condition was much worse than it was 6 months before.

In other words, they had failed to guess 6 months ahead what their condition would be and yet they went confidently on to predict what their condition would be 4 years ahead, after they admitted in the same report that they could not even guess 6 months ahead. The reason they could not guess 6 months ahead was not because of the war, for the war was over. Why were they worse off 6 months later? They were worse off in part because they did have very bad luck on weather. They did have a severe frost and drought. They were worse off mainly, even so, because of the policies they had followed in the meanwhile.

These policies of restrictions have not been discontinued. They have grown greater.

That has been the chief cause of the failure of Europe to recover.

Mr. KEE. Do you not think if we wait until those European nations change their policies there is going to be a hopeless task and a hopeless, chaotic condition over there?

Mr. HAZLITT. If we throw in our funds while they retain their policies there will be a hopeless, chaotic condition over there. I would like to say something about the extent of our funds. President Truman in his message to Congress said that it would equal about 5 percent of their national incomes, this money we were asked to contribute. In the State Department report they say maybe 5 percent but perhaps nearer 3 percent.

So what we are proposing to do is to reform Europe or to restore Europe by adding 3 to 5 percent to its national income. Now, it is quite obvious that what is most important is not what happens to that 3 or 5 percent, not whether that goes up or down a little bit, but what happens to the 95 to 97 percent that is within the European control—in other words, the market that they are creating themselves.

If there is a 10 percent increase in their home production that will be greater than the whole amount that we are asked to put in for 4 years in the Marshall plan. That increase in their own production cannot come except by a difference in their own policies. We cannot save Europe if it is determined to follow present policies.

Mr. KEE. That is all.

Mrs. BOLTON. Mr. Smith.

Mr. SMITH. Mr. Hazlitt, I am very much intrigued with your presentation, and I feel as you do about the general situation, that there must be governmental reform before we can pour our money in there so it will be effective.

You have emphasized this matter of private loans or commercial loans, but you have a big gap to make up in the matter of production, do you not? How about that?

Mr. HAZLITT. That is a very debatable point. Everybody has been arguing on both sides of that question. The supporters of the Marshall plan sometimes say that Europe deserves our help because it has done so well. Then they sometimes say that Europe deserves our help because it has done so badly. The indexes of production average something like 90 percent of the prewar figure.

Those indexes are not, I think, very reliable for all sorts of reasons. If you take the index of coal output alone, which I looked into at the time I was in France, it showed quite favorably at that time, I think, 85 percent of prewar.

But when you examined it you found the weight of the coal was 85 percent of prewar, but the burning power of the coal was not, because it had a lot of slag and they were washing it in poorer ways, and so forth.

So a lot of these figures have a large measure of debatability about them. But if they have already achieved 90 percent of their prewar production there is no reason to suppose that they cannot go on to achieve a higher percentage through their own efforts.

Mr. SMITH. Now, then, it is my understanding, as I read the report which these 16 countries presented to the State Department that up until the end of 1946 they had reached a prewar level of production in Europe.

Now, I do not quite understand how this severe deterioration set in during 1946 except at the end of the year when there was this severe winter condition.

Of course, last summer we had the drought situation. Have you any explanation of that situation?

Mr. HAZLITT. Of course, they did have this very severe situation in their crops. Whether it was sufficient to account for the downturn I do not know. I would like to point out something about these European crops. It raises an important question.

We ourselves had what we might call a crop disaster. Our corn crop fell from 3,200,000,000 bushels to about 2,400,000,000 in one year. That is a "disastrous" drop. It was due to the weather conditions. However, that 2,400,000,000 is only 200,000,000 less than the 10-year average preceding which was 2,600,000,000, and it is actually greater than the prewar 10-year average in this country.

In other words, we had a disaster in our corn crop. Nevertheless even with that disaster we had a greater-than-prewar production, the reason being that we started with very heavy plantings. We started with a big effort, whereas if you start with a subnormal crop, if you plant a subnormal crop, and have a disaster, then it will be a real disaster. That has been the situation in Europe. It does not take too much of a disaster to knock over a nation that does not start well in the first place. Take this whole British situation. In the coal crisis

they had last winter, before the winter started the coal stocks of October 1 of Britain were the lowest on record.

So they started with the lowest coal stocks on record before the winter came. Then with a severe winter it was more of a disaster.

That point has to be kept in mind in calculating the causes for this set-back. I think that in large part, a very large part of the set-back was due to their conditions of control.

Mr. SMITH. Thank you. That is all.

Mrs. BOLTON. Mr. Jarman.

Mr. JARMAN. Mr. Hazlitt, did you ridicule the possibility of the 16 countries stating exactly the amount of their imports and exports? Of course I cannot but agree with that because they could not do it exactly.

But you do not ridicule the idea of them on past experiences, resources, the experience of hundreds of years, the possibilities of assuming a normal weather and of course that might go wrong, but you do not ridicule the idea of them approaching the amount of their exports and imports, do you?

Mr. HAZLITT. Well, as I say, there is no such thing as a pre-determined trade deficit, a trade deficit known in advance. It depends upon the conditions that you are going to have, that you are going to get to. Now, prewar Europe did not have, or these 16 nations did not have, a deficit in trade. A lot of them may have had a deficit in the visible trade balance, but they made it up in invisible items. In other words, a balance of payments existed. They are predicting an unfavorable balance of payments over the next 4 years. If you take this one item alone, it makes a tremendous difference whether France has a devalued franc or whether France has a franc at 119. If the French franc goes on the free market, let's say to 300, then we can buy French goods over here for a third of the price of what they now cost us.

That means an immense difference in France's exports.

Therefore the currency policy alone makes a terrific difference. It makes a terrific difference in the trade balance of these countries in the next 4 years. And they cannot predict what is going to happen, irrespective of that policy.

Again, if you take things like price fixing: When we had price fixing in this country, price fixing of lumber, for instance, a certain unit of lumber sold for a dollar here and you could get \$1.60 for it in exports. Then if we did not put on export controls the whole lumber supply might have moved out of the country.

They have those sorts of things. Price fixing has a tremendous effect on the trade balance. Any one of these things that I mentioned makes more than incidental and minor changes in the trade balance. They are of the first importance. Internal inflation is of the first importance, in the effect that it will have on the trade balance, tariff policies, and of course, direct trade controls. Here these countries put direct prohibitions on imports from America. That has a tremendous effect on trade. The domestic production, of course, what that is going to be, has a tremendous effect. In other words, you have to try to predict too many things at once and there isn't anybody smart enough to do that.

Mr. JARMAN. Is there anybody smart enough to predict positively anything? Nobody could predict how long I live or you live, but

they can take actuary reports and estimate how long we should live on past experience.

Mr. HAZLITT. Well, what they can predict is that if you take good care of yourself you will live longer than if you do not.

Mr. JARMAN. Speaking about this policy: Is it your thought we should dictate the policies of these countries internally?

Mr. HAZLITT. No, I think that is impossible. But we can set eligibility requirements, which are a quite different thing. Not only does a private bank set eligibility requirements but Government banks do so. If you want to borrow or a private firm wants to borrow from the RFC it has to go through a pretty tough inspection and it has to hypothecate almost everything it has to get a loan from the RFC.

If a government wants one of its nationals to get a loan he has to be eligible. We have certain requirements that he meets. That is all I am suggesting. We give them certain requirements that they meet. If they say "We cannot meet those requirements" we will say you do not have to; only if you want to meet them do you get the loans.

We are just offering loans to industries and to nations which will meet these eligibility requirements.

If they say "You are trying to dictate our internal affairs" we will say, "Nothing of the kind. You can have any internal affair you want."

But we are not subsidizing those.

Mr. JARMAN. You could say you do not meet the requirements and you cannot have the loan. But you have this question. I notice you emphasize the humanitarian phase of it. Am I correct in getting the impression that you do not think this country is going to profit by this endeavor any more than just doing a good turn to starving people in a humanitarian way?

Mr. HAZLITT. You mean by giving the food?

Mr. JARMAN. No, the general approach. I had in mind the other, more than the food. I mean, is the only purpose or benefit that we as a country are going to obtain from this program just the humanitarian good that we do by keeping some people from starving?

Mr. HAZLITT. I am analyzing this program in its economic aspects. Considering its political aspects, I did not mean to go into political aspects of the question, but it seems to me that the Marshall plan considered in its political aspects is an attempt to implement a foreign policy that is so vague that nobody knows exactly what it is, and it seems to me that the real requirements are a much firmer and more definite attitude toward Russia, for example.

I do not think we can buy friendship by this plan. We did not buy British friendship by our loan. The leading economic journals of Britain have denounced the loan from one end to the other. They have attributed their lack of recovery to this loan. We did not make friends of the British with our loan. We certainly did not make friends with the Russians by giving them 11 billion dollars of lend-lease.

We did not make friends with Jugoslavia by throwing in hundreds of millions of dollars of UNRRA.

Mr. JARMAN. That lend-lease was war. We were looking for victory, not friends. Russia contributed per part of the victory finally on account of that \$11,000,000,000.

Mr. HAZLITT. But we could have put some conditions on that if we had not been so tender. We could have gotten a great deal more out of that \$11,000,000,000.

Mr. JARMAN. I know my time is up but I have one more question. I do not mean to impose. I have two questions. You referred to our letting Germany have her recovery. I judge you mean the United States. I want to say I cannot help but believe that Russia has had something to do with that.

Mr. HAZLITT. I mentioned Russia in that.

Mr. JARMAN. Russia may also have had something to do with not agreeing to the peace treaties, and so forth, with the fact that conditions in Europe were better 2 years ago than now.

Do you not think Russia had something to do with that?

Mr. HAZLITT. Russia did have something to do with that, but we are also responsible for part of it and particularly responsible for letting Russia have so much to do with it.

Mr. JARMAN. My time is up.

Mrs. BOLTON. This I regret for you are asking very interesting questions.

Dr. JUDD. Mr. Hazlitt, I was interested in your suggestion that we ought not to make any commitment beyond 15 months, except in return for certain changes on their part, or progress, as you would call it, in that period. On the other hand, do you not think there is a real danger in setting a termination date? As you yourself have just well said, what happens to the 95 to 97 percent of the production in their own country is infinitely more important in the long run than the 3 or 5 percent that we put in. And can we actually, knowing human nature, expect them to make an all-out effort to release the hoarded-up resources, or the held-back human energies, unless they are sure that we intend to stay in and win, jointly with them? I think that is almost the most important requirement for the success of the program: Their willingness to put their shoulders to the wheel. Will they do it on a 15-month basis?

Mr. HAZLITT. I think there are really two questions involved there. One is the economic question, and the other is the political question. I will take the economic question first. My own opinion is that if we give aid for 15 months, with no commitment on our part whatever to go any further, and with an explicit denial that there is a further commitment, then it seems to me their energies will be greater rather than less because they may think at the end of 15 months: "We may have to stand on our own feet. So the nearer we come to doing that the better off we are." They do not have to do that. If we think it advisable, based on their effort, we can again give them aid. They will have in mind the fact that they will have to stand on their own feet perhaps at the end of 15 months so they had better well try to get in that position as soon as they can.

Second, they will say to themselves, "The better effort we make, the better appearance we make, the more we do, the more America is likely to think that this program is effective."

Then the more likely they are to get further help. So those seem to me to be very strong incentives to go on. Whereas on the other hand if they have a 4-year commitment they are apt to rest on that, and say, "Well, we are going to be taken care of nicely for 4 years anyway. We do not have to make such a great effort."

I admit in dealing with the psychology of other people there are a lot of debatable elements. That is the way it strikes me. Another part of your question seems to be a political question, that is, of our

staying in there politically. That is entirely a different thing. But that is something we cannot do with the Marshall plan. That is something we have to do with our foreign policy by explicit affirmation of our intention to stay in Germany and by a policy of agreements with other nations. That seems to me to be a separate question from the Marshall plan itself.

Mr. JUDD. Are we not more likely to get success if we follow some middle road, not making any commitment beyond 15 months, but if possible, saying in the report, if not in the legislation, that we look with sympathy upon further aid, if there is evidence that it is needed and that they are making progress in the first 15 months sufficient to justify aid? I am thinking when we were in Greece; one of the chief weapons of the Communists in their propaganda was to say:

What is the use of you Greeks down in the Greek Government making an all-out effort to go along with America? There is a deadline in the bill that says this aid will end on June 30 of this year. All we have to do is wait until they have pulled out and we will take you over.

One of the ways they were keeping up the morale of the Greek guerillas was to say:

Just hang on until June 1948, then America pulls out and we can march on Athens.

I can see a disadvantage in putting a firm termination date. On the other hand I agree with you as to the disadvantage of letting them rest on us indefinitely. It seems to me if we had somewhere written in a recognition of no commitment after the 15 months but that the Congress will make its plans for the period following that 15 months in large degree on the basis of the showing that is made.

That would hold out hope and give incentive and at the same time protect us from overextending our commitments.

Does that make sense?

Mr. HAZLITT. I would see no objection to that whatever, provided the language were quite unambiguous. What I had in mind was the fear that we will be told that we have a moral commitment which we cannot escape, that this is not only a commitment to continue, but a commitment to continue with the same general terms, the same general dimensions in volume of aid.

We have gone through this now twice. You remember that after lend-lease was over, or most of us thought it was over, we learned later that the State Department was continuing to send lend-lease supplies to Russia.

Well, when Congress asked what was going on here, they said, "Why, yes, but we had a commitment."

No matter how much the Russians repudiate their commitments we live up to ours, so even when they are making a cold war on us we still give them lend-lease.

That was because of a mistake in ever making that commitment. The commitment should not have been made. Now we have the same thing happening again when Secretary Marshall makes this speech on June 5.

Up to June 4 of last year, Congress was free to decide what it wanted. But after June 5, it was not, because the Secretary of State, on behalf of the American Government, in effect promised aid, and Congress is being told now that one of the reasons it has to do this is because it cannot repudiate or let down its Secretary of State.

It seems to me that one of the corollaries of that is that the Secretary of State should have consulted the congressional leaders before he made the promise.

But anyway, I am only making that point for this reason, that we do not want to get into any more of these promises. We do not want to get into any of these things that wrap us up in the future.

As long as we are free I think that a statement of your sort would be valuable.

Mr. JUDD. His statement was not unconditional. It was a promise of assistance providing they meet certain conditions. I have one further thing on this matter of commitments. Although we fulfilled all our commitments to Russia, over public protest, the Government did not hesitate to interrupt our commitments to China. The President said we suspended those commitments. We did not want to offend a strong power, but apparently it is all right to offend a weaker power.

Mrs. BOLTON. Your time is up.

Mr. Mansfield.

Mr. MANSFIELD. Mr. Hazlitt, in listening to your statement I get the impression that you are for the Marshall plan—but—what you really advocate is another relief act with any real, sound assistance to be given in rehabilitating Europe to be done by American private enterprise.

Now, what we are trying to get away from is this idea of relief bills time after time, and to do something which would lay the foundation for a real economic rehabilitation of Europe, so that it can get on its feet and be able to take its place in the scheme of the world's economy. Is that correct? That is as regards the first part of my statement: Are you really more in favor of a relief bill than a rehabilitation or recovery proposal?

Mr. HAZLITT. I would say that the State Department has been arguing that any amount less than the 17 billion, or any amount less than the six billion eight, will be in effect mere relief and not rehabilitation.

Now, that seems to me to make the difference between relief and rehabilitation depend upon the size of the sum we give.

My own feeling is that it has very little to do with the size of the sum we give. It has to do mainly with the policies that European governments follow, after the sum has been given.

That will determine whether it is relief or rehabilitation. Europe will determine whether it is relief or rehabilitation. We cannot determine whether it is relief or rehabilitation. So it does not depend upon the size of the sum we give.

It depends upon the reforms they make. That depends in part of course on the conditions of eligibility we set up.

But it depends more on their own efforts to help themselves.

Mr. MANSFIELD. Personally I would be against the voting of any relief funds as relief funds because I feel that we have appropriated enough money in that respect. I think also that insofar as these European countries are concerned that they made very marked advances since the Secretary's speech at Harvard last June, which indicates to me at least that they are trying to do the right thing to bring about some sort of economic stabilization.

For example, you have the Benlux convention, which I will admit was thought up long before the Marshall plan, but which has come into effect recently.

You have this proposed customs union between Italy and France, and talk among the three Scandinavian countries of another customs union.

You have the recent action of the French Government in devaluating the franc. All those things indicate to me that these nations in need are making an effort to achieve economic stabilization. It is only a start. We cannot lay down all the conditions.

I think we should lay down some conditions so we will make absolutely sure that this risk which we are asked to assume will have the best possible chance for success.

You mentioned something about the decline in the British coal pile a year ago last fall. Would you blame socialization for that British coal shortage?

Mr. HAZLITT. I would blame the general controls. They had a great deal to do with it.

Mr. MANSFIELD. How would you reconcile that with the fact that prior to the war, when you did not have a socialist government in Britain, you had a type of coal economy that made it extremely difficult for it to flourish in a healthy condition? According to my information, 70 percent of the income taken out of coal mines went into the operators' pockets, and something between 20 and 30 percent went back into the mines to modernize them to a certain extent and to pay wages.

That is just the exact opposite of conditions in this country where the owners put back in, I understand, about 70 percent and the rest of it stays in their pockets and is used for other purposes.

Now, would you not say that the obsolescence of British mining machinery, the antiquated methods used, the small veins, and in a certain sense the opposition by labor against mining machinery—do you not think all those things helped to create the British coal situation as it exists today?

Mr. HAZLITT. They did. But I should like to point out that the coal production of Great Britain, poor as it was before the war was better than the present coal production. It made enough of a difference to make a tremendous difference today if Britain could restore, let's say, the 1938 coal production. Of course, it is a long history as to why the British got into this condition. One reason I think they got into it was because of the threat of socialization. That has been discussed for years in Britain. The British operator or mine owner had the feat that any capitalization he put in might be seized by the Government at a rate which he would not have much to say about.

I am not saying that is the sole factor but I think it is a factor in the situation.

Mr. MANSFIELD. Do you think the British coal system could have continued in the postwar period for an indefinite time as it had worked in the period before the war?

Mr. HAZLITT. No; as a matter of fact, the British situation has been getting steadily worse for some time, for quite natural reasons.

Their coal supplies are giving out and they have to take worse and worse veins all the time, so it is an increasing problem, sir. I do not think socialization has at all solved that problem.

The way that wages are regulated in Britain and the inability of the British miners to get goods for their pay, and so on, have reduced incentives.

That is a long story to go into.

Mr. MANSFIELD. My point is that, socialism or not, you very likely would have had the same situation as far as the coal industry is concerned that we have at present.

Mr. HAZLITT. I do not think we would have had it if we did not have the very tight controls which the British unions, for one thing, have imposed on the British economy. The union rates are not at all decided by the market there. The market has nothing to do with it. The unions decide these rates among themselves and often they do not get enough of a differentiation between coal wages and other wages.

Mr. MANSFIELD. Thank you.

Mr. LODGE. I was tremendously interested in your statement.

Specifically; I would like to refer to the statement you made on page 9 with respect to the exports and imports of foodstuffs from 1936 to 1940. With regard to the figure of \$665,000,000 of imports, to which you refer, would you not say that that figure included a great many items which are not properly foodstuffs, such as copra, palm oil, linseed oil and other oils for industry, paints, and so forth, and that the real foodstuffs imported were mostly items such as sugar and coffee?

Mr. HAZLITT. Well, these figures include both what are called crude and manufactured foodstuffs. This is not my own classification, but the classification of the Department of Commerce. If you take something like sugar—to take your example—in 1940 we exported about \$31,000,000 worth of wheat and flour and we imported, in that same year, \$137,000,000 worth of sugar. So we imported several times as much sugar alone as we exported wheat.

We tend to think of the wheat we export and forget items like sugar. I could not say offhand what items are included or excluded in these crude and manufactured foodstuffs. I do know that in both respects, both crude and manufactured foodstuffs, we imported more than we exported. As I say, the classification is that of the Department of Commerce; it is not my classification.

Mr. LODGE. I see.

I understood you to say that these participating nations are less far advanced economically now than they were at the end of the war. According to the CEEC report, by the end of 1946 industrial production in France, Belgium, and the Netherlands had recovered to 85 or 95 percent of the prewar level, while Italian industrial production was back to 80 percent of the prewar. I was wondering whether you felt that this report was inaccurate.

Mr. HAZLITT. No; I do not feel that. When I say they are behind where they were I am thinking about a lot of special situations. I am thinking of the British, for example, who are, in some respects, on their own testimony, in a worse position than they were before the loan was made. I believe the London Economist said a few weeks ago that in some respects "we are worse off than we were when the loan was made."

Professor Lionel Robbins a month or so ago said the British were worse off, in some respects.

Mr. LODGE. You do not think that applies to all countries?

Mr. HAZLITT. It depends on which index number you take. As I say, I haven't too much faith in these index numbers. They look better the farther you are away from them.

Mr. LODGE. I would like to point out one further thing. I think Mr. Jarman touched upon it. It has been estimated—and I do not know how reliable the estimate is—that the strikes and riots in France during the last weeks of last year cost the French almost 3 months' production.

Now, if we take the attitude that they must accomplish overnight what they have not been able to accomplish in centuries, and that these governments, threatened as they are by continuous Communist aggression must, under the shadow of those threats and without our aid, do things which may be unpopular in the first instance, we are going to be setting conditions which they will not be able to meet.

Therefore, I propose that we examine this thing in the light of American security. We are faced with a certain number of alternatives. It seems to me that the weakness of your thesis is that while you can perhaps prove it out on an economic chart, you fail to take into consideration the political cloud which hangs over Europe as well as over us.

What will be the net effect of our saying, "We will continue to bring you relief, but we will do nothing for recovery beyond what the World Bank, the Export-Import Bank, and private American enterprise will do"? Do you believe that these governments in these countries will be able to maintain themselves if we adopt that approach through ERP?

Mr. HAZLITT. Well, if we adopt that approach in ERP—and I think you are talking about this business of giving enough for food and making the rest available under the Export-Import Bank—I do not know what the total would be.

Mr. LODGE. My understanding is that you suggest that we should treat this legislation as a relief bill, and then, as far as any loans were concerned, they should be processed either through the World Bank; the Export-Import Bank, or by private American enterprise. I do not know whether I understood that correctly.

Mr. HAZLITT. That is right. I do not think we can make it relief or rehabilitation by naming it relief or rehabilitation. I do not care what it is named. If they do not reform, it will be relief; if they do, it will be rehabilitation. It is the consequence of the relief that is important.

Mr. LODGE. But I would point out to you that if you were in the position of De Gasperi in Italy or Schuman in France you would have to be guided not entirely by what you think is the proper medicine at that time, but which medicine you think the patient is willing to take. If the dipsomaniac to whom you referred makes the slightest bit of improvement, even though he may take an occasional drink, you may be completely warranted in helping him out.

These governments are under a constant threat. They cannot overnight make these Draconian changes which you, from your great knowledge of economics, recommend. They would be jeopardizing their whole government if they did so.

If we say we will not undertake this adventure unless they do these things first, then their governments are almost sure to collapse and you lose the opportunity to do anything.

Mr. HAZLITT. I would like to say this, Mr. Lodge: That when they do take what you call a Draconian step we are the ones that object to it. Now, here are the French, who want to reform and want to reform in the direction of free enterprise, and what happens? We object. We say, "Here, this is a bad thing. This is upsetting things." We are supporting the bad situation.

Mr. LODGE. As far as the French devaluation of the franc is concerned, I agree 100 percent. However, the State Department has I believe announced its approval. The International Monetary Fund has disapproved it. I think you are entirely right. Coordination and cooperation along these lines should be achieved.

I personally feel that it is very important to hold a conference, an international monetary conference. My only point is: Can we be so absolute as to say, "Either you do all these things which we know are good for you or we will not help you to recover. We will only feed you."

Mr. HAZLITT. I am not suggesting that we have any absolutes whatever. I am suggesting that we make loans available to Europe under certain conditions of eligibility. If they do not fulfill those conditions of eligibility we will not only not get the loans back, but the loans will not do them any good.

If the measures they take in order to be popular are the kind of measures that do not bring recovery, then they will not recover, whether those measures are popular or not.

You asked a question about the economic side of it. I have confined myself to that side because that is the side on which I mainly write. I did not want to get into the political side because it is a little bit out of my own bailiwick. But my own feeling is that, on the political side, the Marshall plan is an attempt at a substitute for what we ought to be doing vis-à-vis Russia.

Now, what we ought to have done long ago, for example, was to have taken a much firmer stand against Russia, and that is far more important than our lending money under the Marshall plan. If Russia gives me a kick, and I say, "You can't intimidate me; I will give Mr. Lodge \$5," and, if they give me another kick, I say, "I will give him \$10," that looks to me like an irrelevant answer to the Russian oppression.

Mr. LODGE. My time has expired.

Mrs. BOLTON. Mr. Colmer?

Mr. COLMER. Mr. Hazlitt, I want to specifically agree with you in that last statement. Some of us tried to get our State Department, some 2 years ago, to follow that policy—a firm policy—with Russia, which would have obviated a lot of this necessity for aid. I want you to know that I, as one member, am thoroughly in accord with that statement.

What would you think of the proposition of this Government making grants or loans the repayment of which would be by materials that were necessary for us in our stock-piling program, either now or later?

Mr. HAZLITT. Well, I do suggest something like that in relation to foodstuffs which pass through the rationing system and which are sold by the European governments. I think that those funds ought to be credited to the account of the United States Government. Of course, they would then be in the foreign currency. If France, for

example, sold our foodstuffs—the French Government—what **they** deposited would be francs and not dollars. If that were to our **account** then those funds would be available either for export-import **loans** by us or they would be available for stock-piling purposes, as **you** suggest.

I should like to add that the whole stock-piling question would **not** even arise if there were realistic exchange rates, because if there **were** such exchange rates then the goods would be purchasable at **their** market prices. They would not be blocked. It is because this **whole** system of export licenses for Europe to sell anything is involved **that** we are prevented from getting the materials. They would flow to us to any extent we wanted them if it were not for this whole network of controls.

Mr. COLMER. But, since our dealings with the particular governments are concerned, why could not a bartering arrangement be entered into whereby they would turn over so much materials **that** we needed for so much assessments?

Mr. HAZLITT. I tried to suggest here that in effect we try to **bypass** the governments of Europe as much as possible. If we give relief needs, the food needs, directly, we **bypass** them. If we make the loans to private industry, we **bypass** them. The reason for **bypassing** them is that it is so difficult and almost impossible to impose conditions of any kind—conditions that are worth anything—on the government because the government resents them.

Mr. COLMER. You suggest, though, that the way to do that is by having them change their systems and come in in accord with ours?

Mr. HAZLITT. No; I would just suggest about three or four reforms—just those necessary so that we could get our money out.

Mr. COLMER. Is that not what we did in the British loan?

You say that proved to be unpopular. We insisted on certain specifications being written into the British loan. A good many men, high in the affairs of Great Britain, objected to those provisions and said they would not work and said they would rather not have the loan. They got it, and just to what extent that contributed to the failure of the loan I do not know. I am asking you.

Mr. HAZLITT. We insisted, in that case, on the wrong conditions, to a large extent, and we did not recognize what the effect of those conditions would be, nor did the British.

In other words, asking for sterling convertibility was not a wrong condition, but a right condition. But in order that sterling should be convertible all sorts of other reforms had to be made. You cannot make sterling convertible and keep it at a fictitious rate. The two things do not go together. So as soon as they tried to make it convertible and keep it at a fictitious rate, it broke down. You cannot say 75 cents is worth a dollar and then expect that people will not exchange the 75 cents for a dollar as soon as you make it convertible. That is what happened to the British pound.

Mr. COLMER. Of course, no one can say that the prescription we write would be the proper one now, in advance. We look back now and see, possibly, these errors. But what assurance do we have that the prescription we now write would be the proper one? I make that as an observation.

Mr. HAZLITT. We cannot have absolute assurance. That is to say, there is no argument against it, as there is none for doing it.

Mr. COLMER. The big question in my mind about this whole program—and I would like to have a brief comment on it, if time will permit—is the popular objective, in a way, of the Marshall plan for the rehabilitation of Europe as a means to the stopping of pressure, not the stopping of communism but stopping totalitarianism, because that is what it is. Now, the big question is whether we can afford to go all overboard on this gigantic scale and run the risk of destroying our own economy, with the chance of gaining that objective, or will we destroy our own economy by doing so and defeat the very purpose that we seek?

In other words, if we destroy our own economy we play into the hands of Russia, which is their one hope.

Do you care to comment on that aspect of the problem?

Mr. HAZLITT. That is a very broad question, of course.

I think that there is one aspect that you raise, and that is our belief that we counter Russia by bringing economic recovery in Europe.

As I say, any economic recovery will be brought about by European policies rather than our aid. But, if you grant that, it is doubtful whether such recovery would be very much of an assurance of an anti-Russian policy on the part of Europe.

In yesterday's New York Times, after the British made the statement about a union—a western European union—there was a comment from official sources in Italy, and they said they thought it was a nice thing that Britain wanted to have this resistance to Russia, and so forth, but it would be very inadvisable for them to count on Italy because Italy was too weak a country to do anything. As a matter of fact, under present conditions of their military establishment, they would be more of a liability than an asset in any alliance. Therefore, they would beg not to be included.

I think here is a case where it is not the recovery of Italy that matters but their military preparedness, their military state.

Now, only insofar as the two things are closely connected would it help. It seems to me that as a policy against Russia the Truman doctrine was a much more realistic one, even though it had a lot of weaknesses, than the so-called Marshall plan.

Mr. COLMER. If I have time for this, I would like to ask this question: Specifically, as an economist, what is your reaction to the question that there is a danger of this country destroying its own economy in this all-out attempt to help rehabilitate Europe?

Mr. HAZLITT. Well, I think there is a great danger of our hurting ourselves, not perhaps so much in the direct way that is usually imagined but in a more indirect way.

For example, there is no doubt that our exports of foodstuffs have been one of the major causes for the rise in prices in recent months. The rise of wheat, of course, from \$2 to \$3 is one result. Now, then, we are trying to counter that here—at least the President has recommended that we counter that here—instead of by letting prices go up, by holding them down. If we put in price control in an effort to prevent this from having its effect on prices the result is going to be to unbalance and restrict our own production. Also, it will be to bring us to the very controls that have put Europe in a straightjacket.

Mr. COLMER. Are we not almost going to have to put on controls if we go out on this program?

Mr. HAZLITT. No; I do not think we have to do that. I think that the effect would be to have soaring prices. I think soaring prices would be less of an evil than controls would be because they do not distort and disrupt and restrict production. We just simply add to the evil, as I see it, when we put on price controls. But we can counter that if the program is held within certain restrictions and if the monetary policy does not allow prices in general to soar so much.

Mrs. BOLTON. The time of the gentleman has expired.

I have just one question.

I assume, from your general argument, Mr. Hazlitt, that your idea would be that if we desire the stabilization of the currencies of Europe you would wish it done by freeing them, whereas some people, when they use the word "stabilization" mean an arbitrary fixing and control of the rates, as is done in some places?

Mr. HAZLITT. Yes, Mrs. Bolton. There is a great deal of confusion of thought, it seems to me, about that subject. The only way you can stabilize rates under a free system, as I see it, is under a world gold standard.

You have a choice of only two other things. You have a choice of fluctuating paper currencies, which are bound constantly to vary with each other, bound constantly to be subject to the play of the market every day, or the choice of trying to have an appearance of stability where it does not exist by using the state's police power.

In other words, the pound is not stable at the \$4 rate. It only appears to be stable because anybody who pays less than that for a pound can be put in jail. Now, that is not my idea of stability. That is merely the fiction of stability, enforced by state police power. To substitute that for stability is not the way to bring world stability. Stability is desirable, but it can only come as a result of confidence in a currency, not as a result of a police power applied to a currency. They can only get confidence in a currency, finally, by restoration of a world gold standard.

Mrs. BOLTON. So that is your ultimate goal?

Mr. HAZLITT. Yes. But, as a transitional move, the only way a country can find out how it can stabilize its currency—what it is worth—is to first see its level in an open market. In other words, it is less of an evil for the French to have a free franc, changing its value every day, and perhaps quite violently on some days. That looks like chaos to the ordinary official who wants to impose his idea of those things. It is much less chaotic because while the rate is fluctuating trading is going on, because people are paying for francs in dollars what they are really worth in their estimation. So this is a necessary transitional move toward a real stability based on confidence rather than a fictitious stability based on coercion.

Mrs. BOLTON. It is now a quarter before 4, and we are very anxious to have Mr. Wadsworth make the statement that he wants to make to us before we finish for the afternoon.

If there are questions, I think we should have a further questioning of Mr. Hazlitt rather than change our witness.

Mr. Jonkman, do you have a question?

May I ask that you all be very considerate, each of the other?

Mr. JONKMAN. On page 10 of your statement, Mr. Hazlitt—at the bottom of the page—you say:

To the extent that European governments insist that they should sell the food our Government sends them, we should insist, in our turn, that the foreign cur-

rencies received from the part of our food contribution which the governments sell must be deposited locally to the account of the United States Government. These funds can then be used by us partly to make Export-Import Bank loans to European private industries and partly to buy European goods to import into the United States.

What would be your reaction to going a step further on that and saying that these funds could be used to buy stocks in foreign industry to promote new industry in these foreign countries? And you could state, since it was local currency, that we could invest it all right. But couldn't that help the very movement we are seeking to help—to stimulate production?

Mr. HAZLITT. You are talking about making capital loans as well as processing loans for raw materials?

Mr. JONKMAN. Use this local currency they get back from selling our gifts, which is there to be used for some purposes.

There has been reference made, I think, by the State Department, to using it to stabilize currencies by burning up a lot or by paying debts. Now, instead of using that currency for that purpose—and there is going to be pretty close to \$5,000,000,000 of it because most of this is going to be gratis—suppose we use it to put it into local industries and promote them?

Here in this country we have often said that undertakings are made by the Government that private capital cannot afford. Now it is going to be tremendously helpful there if, for instance, part of the investments are made with these funds so as to encourage the others to put their money into it.

The question is, flatly, to use these local currencies to invest in local industries or promote local industries still to be controlled by the local government and the United States Government.

Mr. HAZLITT. Well, I am inclined to think that that is a rather dubious use of these funds; that the foreign government, if it is at the direction of the foreign government, tends always to favor industries that make the country strong in a military sense. They always have their own political needs as a government in mind. We would just be building up the military potential of Europe without recognizing that that was what we were doing.

If the loans are going to be directed by the foreign government, then they will want to build up the industries that either militarize the country or make it stronger in a military sense or that are insisted on by certain pressure groups.

If we did anything like that I think there should be a minimum safeguard of not going into any such situation except with some contribution from European private capital. And also, again, I think we should insist that the conditions be such that the governments permit European capital to go into it, because if it does not, the thing is no good and will not bring recovery. The European governments have driven more capital underground by their own actions than they are asking for from us. This would help them to get the capital overground, or help them to release that capital. Then you might achieve something with it, but only if you did it, I should think, in cooperation with the European capital taking some of the risks.

Mr. JONKMAN. That is my purpose—that part of the capital of a new venture, for instance, shall be taken by local people and part by this fund. Of course the capital stock would be owned by the fund. Perhaps some would be reinvested.

Mr. HAZLITT. One suggestion that was made to me by an industrialist was that American capital be invited to take the initiative in putting in risk capital while the Export-Import Bank put in the mortgage capital.

I am very dubious about that myself. I think that if the American capitalists made any money there would be a big howl about it. I do not think that would be something that we ought to go into.

Mr. JONKMAN. Just what do you mean by your last sentence:

These funds can then be used by us partly to make Export-Import loans to European private industries.

Mr. HAZLITT. I had in mind their loans for the purchase of raw materials, to be converted into finished goods, to existing organizations. In other words, they would be the equivalent of ordinary bank loans in this country for that purpose, rather than capital loans, to set up new plants, and so forth. Now, of course, I think Congress might consider it an additional safeguard, having some European capital contributions.

Mr. JONKMAN. Then I would like a little further comment from your statement on page 5, second paragraph, the first two sentences:

In short, even if we accept all the economic and political assumptions of the Marshall plan, we must recognize that the \$6,800,000,000 figure is completely arbitrary. It is sheer guesswork.

Then you go on to say that it is your idea that this is based purely on the balance of payments basis.

Mr. HAZLITT. That is the way the 16 governments set it up, and I think that is a very shifting and doubtful basis. Moreover, all those figures are hypothetical, of course. One may think that this is accurate because it is a big guess which is the sum of a lot of little guesses. My point is that the little guesses are all wrong. Therefore, the sum is meaningless.

Mr. JONKMAN. I have been of that opinion constantly. I also think there is a balance of payments proposition. Outside of that they do not know a lot about it. In other words, it is difficult for anybody to set what is the minimum subsistence for a whole people. Still there are going to be some that are going to live in plenty and others are going to have scarcity.

Mr. HAZLITT. All these countries are on different standards of living as it is.

Mr. JONKMAN. According to the CEEC report it started out with the need for 5 billion 900 million. The first item on that was food, feed and fertilizer, \$1,452,000,000. Then they went on, for instance, with coal, in a different category, 342 million; petroleum supplies, 512 million; iron and steel supplies, 370 million; and so on.

Now, I just received a break-down of the various countries in which I find that, for instance, instead of what I put in the category of food, feed, and fertilizer being 1 billion and 452 million, it runs over 4 billion out of the amount of 6 billion 800 million. Does that not tend to verify that that is merely guesswork? In other words, here is the Paris committee that puts down food, feed, and fertilizer at 1,452 million, yet in this report in the Marshall plan they are planning on at least 4 billion 100 million of food, feed, and fertilizer. It does show that it is complete guesswork.

Mr. HAZLITT. There have been a very large number of discrepancies in the individual figures. I am sorry I have not got in mind what

particular discrepancies are or any table in front of me. They shifted estimates a good deal.

Mr. JONKMAN. Assuming they begin with the balance of payments basis, you have had long experience in economic studies and you have been a financial writer for the leading publications in the country—Could you give us any idea as to how they can arrive at some basis of what, for instance, is needed in the Marshall plan other than after having the balance-of-payments basis?

Mr. HAZLITT. I think it has to be arbitrary. It cannot be anything else but arbitrary. The only way I can illustrate that is by perhaps a somewhat frivolous illustration.

If everybody around this table or in this room figured how much the difference was between his income and his needs, if his needs were greater than his income, he would arrive at how much his deficit was. And if he turned around and figured: "Maybe my income is greater than my needs; therefore, how much of a surplus have I got to give the other people in the room to straighten things out?"

I think if each of us made that calculation we would realize that it is a completely arbitrary calculation. Nobody knows where to draw the line of where his needs are. It is a subjective, not an objective thing. It only becomes objective when you get to the subsistence level, when the question is whether a man will live or die. Then, of course, you might have a certain number of calories you can figure as an objective. But, apart from that, the whole business is necessarily a subjective business and you cannot reduce it to an objective figure. You can, but it is an arbitrary thing.

Mr. JONKMAN. Nor could they arrive at any definite conclusion as to how many calories certain persons were getting because of that same thing—that some are way above their needs.

Take, for instance, in France and Italy. I understand it is true, if you have the money, that you could buy anything you want. On the other hand, if you go into England it does not make any difference how much money you have—your rations are absolutely applied to you. So you have no final basis for figuring.

Mr. HAZLITT. They are not quite as strict in England, as I found out. There were a number of black market restaurants.

Yet there is a big difference in the tightness of the controls.

Mrs. BOLTON. Mr. Kee.

Mr. KEE. Pursuing the line of examination followed by Mr. Jonkman, in the event that his ideas were adopted, using this fund to establish industries in these countries, wouldn't that be running into great difficulty by reason of placing the United States as a partner in an industry in a country—a competitive industry with the local industry, and as a partner with the other government?

Mr. HAZLITT. Yes; it would raise a very large number of difficulties of that sort, undoubtedly.

Mr. KEE. This act or bill provides for a payment or a guaranty to investors of 5 percent of the total authorization, that may be used to guarantee outside investors who would enter into these countries for the purpose of building industries.

Do you care to comment upon that provision, as to whether or not it would take care of the situation?

Mr. HAZLITT. Well, one difficulty is, of course, one that I have touched upon a moment ago—if there is any combination of private

capital and Government capital and if the private capital, let us say, is the risk capital and all of the Government capital is the mortgage capital, in other words, if the risk is so great that it eats up the private capital, then, if the thing is a failure, there will be no complaint about it here.

In other words, let us say that the General Motors Co. wants to establish a factory in France and they would put up 10 percent of the capital and the Marshall plan, or the Export-Import Bank, or whatever, would put up 90 percent. If the General Motors Co. lost their money there nothing much would be said about it here. If it were a profitable investment and \$100 of investment became worth \$110, then it means that the General Motors would have doubled their capital and the Government would only still have its 90 dollars. Everybody would object to that. That would be used and thrown all around—that we were using this as something for exploiting American industry. The Communists would pick it up all over the world as another example of American capital infiltration and the subservience to Wall Street, and so forth and so forth.

Therefore, my own feeling is that American capital ought to be kept out of it. American private capital ought to be kept out of any mixture with Government capital.

Mr. KEE. You spoke of our permitting, instead of our entering into those countries with funds, and inducing the construction of new industries. You said that you would leave that to private capital and private investors. How many private investors do you suppose we could induce to go over and invest in any of these countries under present conditions?

Mr. HAZLITT. Well, I think there are American industrialists and big industries here who would like to set up plants abroad.

Let us call it United Motors, so as to be free of anything specific. They might want to set up a motor industry there because it is better for all sorts of reasons to have a local motor industry. Now, they would be willing to go in, I think, if they had certain protections and certain guaranties against seizures, against having their money blocked inside the country so that they could not withdraw the local currency, and so forth.

I have no idea how firm a guaranty could be given to them. I think that when governments have constantly repudiated obligations, have constantly gone back on their word as the European governments have, as in recent years, that it takes a long time to restore confidence, even if you have a good-looking set-up so far as pledges are concerned.

But that, of course, is something that they have gotten into themselves. It comes back to the point that their own policies have prevented them from getting American capital, just as it prevented them from getting European capital. European capital would not go into new industry now because it has no assurance.

Mr. KEE. Granted it is the fault of those countries, that they have made their situation themselves, that does not lessen the necessity of help.

Mr. HAZLITT. They are going to offset our help the way they have offset their own capital in the past.

Mr. KEE. Have you read the provisions of the bill we have under consideration, the one called the administration bill?

Mr. HAZLITT. I have seen the administration bill. I have it here. I have not read it all. I read part of the explanation. I have not read the whole text. At least, I do not have it fresh in my mind now.

Mr. KEE. Have you noted, on page 17 of the bill, the provisions set forth there which would require certain things to be done practically as a condition precedent to the receipt of aid by the participating countries? There are nine clauses there. They provide for bilateral agreements between representatives of this country and the participating countries. They must assume to do certain things before they become participating countries and take part in this aid. Do you not believe that those provisions throw all the safeguards around this program that are necessary?

Mr. HAZLITT. I think you have to have provisions to safeguard the program. I do not think that these particular provisions throw all the safeguards necessary around it. For example, I do not notice that these provisions—and if I am wrong, you will correct me—say anything about the termination, let us say, of price fixing, which is one of the most essential things possible to get a restoration of private industry. I do not think they say anything about the promises not to start to socialize or nationalize an industry after it is started. I do not think they say anything about blocking currencies and not allowing them to be withdrawn, and so on.

These are the kind of things you have to have. You have to have these eligibility requirements, but it seems to me they have to be tougher and more of them than here and also more explicit obligations than there are here if there is to be real protection for the funds that are put in.

Mr. KEE. Whenever you incorporate into an act of Congress, however, these restrictions and provisions, if you incorporate a provision in that before it can be enforced—must be enacted by the parliament or the legislative body of another country, you are interfering with the sovereignty of the other country. We are never in position and never will be and do not want to be in a position of telling the parliament or legislative body of another country what they must enact into law.

Mr. HAZLITT. I do not see that we are interfering with their internal policy.

Mr. KEE. If you wrote into this act something they must do as a condition precedent which before they can do it requires an act of their parliament or legislative body, then, you would be interfering.

Mr. HAZLITT. I cannot agree with you entirely on that. Suppose we say we are making certain loans eligible for private European industries. These loans will be eligible if the private industry does A, B, C, D, E; they will be eligible in such countries as have made agreements or have made or given guaranties, that A, B, C, D, E, and F will or will not be done. We are not dictating to anybody. There is the law. They can ignore it completely if they want. We are not dictating to them. They do not need to borrow the money. They do not need to come to us. If they want to become eligible, these are the conditions. If they do not do that, then, we are going to treat Europe better than we treat our citizens any place. If the Reconstruction Finance Corporation makes a loan, it has conditions of eligibility. It is not interfering with the person who borrows. He does not have to do it. If he wants to borrow, he has to conform

with requirements. We do not interfere with a veteran who gets a loan. If he wants that loan, he has to adhere to requirements A, B, C, D, E. That is all we are doing. We are not dictating.

Mr. KEE. I am sorry, I cannot agree with you, Mr. Hazlitt, because we know that the need over there is there, and the need is a serious need. I would never be in favor, if we are going to meet that need, of writing into the act conditions which we know those countries cannot fulfill.

Mr. LODGE. Will the gentleman yield?

Mr. KEE. I yield the floor.

Mr. LODGE. I would like to say this, Judge, that the problem is somewhat complicated by the fact that when the question was put to certain members of the President's Cabinet as to how we could prevent this aid from going to countries which might become Communist, the answer was that the Communists would never consent to the conditions laid down. Therefore, it becomes a quantitative rather than a qualitative question. We must lay down some conditions, not only for our own protection but simply because we do not want to give the aid to Communist-controlled countries. It is a question of degree.

Mr. SMITH. I have no questions.

Mr. JARMAN. I might bring myself to agree with your theory about those restrictions, Mr. Hazlitt, if this was a strictly business proposition like the Reconstruction Finance Corporation loan is, wherein the only benefit to be derived by this country is the interest that we receive. Then, I would thoroughly agree with you. But to my mind there are so many other correlative benefits that our country derives that I am like Judge Kee, I cannot go along with you on that. However, that is something else.

You have talked a great deal about changing policies. How can a change of policy cause stabilization in a country which cannot produce enough to feed its people in order that they might be able to work or to buy raw materials in other countries for them to work with? How can a change of policy change that?

Mr. HAZLITT. What country do you have in mind, Mr. Jarman?

Mr. JARMAN. I would say half of these 16 countries: Italy, for instance.

Mr. HAZLITT. Well, they have already, I think, achieved some gain by freeing their currency, for example. They can achieve further gains by freeing their markets. I hate to seem almost fanatic on this, but we have treated free markets lately all over the world as if they were things of the past and sort of jokes and things that anybody could kick around any way he wanted to. We have forgotten that when we put price fixing in, allocations, controls, we simply distort and disrupt profit margins everywhere and we disrupt production all over the world, wherever we do it. The price system is a marvelous mechanism. It is really a miraculous mechanism which we take for granted because it has been there for so long and grown over generations. But that decides how much of those different goods are produced, what their exchange ratio shall be, how much the quantities shall change, not only year by year, month by month, but day by day, how this adjustment of supply and demand shall be made.

That is a marvelous mechanism and a very delicate one. When you step in and say that nails can only sell for a dollar or so much, and

this can only sell for that, and you can only have this much coal because that is what you had last year, and so forth, and wages have to be so and so much, you gum up the whole process. There is no adjustment that takes place. The thing is rigid, and has to crack and break somewhere. That happened in England. It happens in all these countries that use this process. The thing busts open. It is bursting open in France on the franc control. It bursts open one place or another. But before it bursts open, it just puts the whole economy in a strait-jacket. That is the thing we have to get rid of. Loans will not do it. They will be thrown down the rat hole as European capital went down the rat hole. As long as they have these policies, they are not going to recover.

Mr. JARMAN. How many of these controls were in existence before the war?

Mr. HAZLITT. You could not count the number of controls that were in existence before or after the war. There must be 50 times as much as before the war.

Mr. JARMAN. They resulted from the war, did they not?

Mr. HAZLITT. They preceded the war; 10 percent preceded the war, and the other 90 percent came after. As to the number of controls, when this country, under the Guffey Act, was controlling what we called "the" price of coal, Dan H. Wheeler, Director of the Bituminous Coal Division, was asked by a congressional committee how many prices of coal they were fixing, and I do not know of anybody who was not there who could remember how many prices of coal they were fixing. They were fixing 350,000 prices of coal. Because there are thousands of mines, there are thousands of destinations, there are all sorts of ways of taking coal, by rail, by freight, by boat, and so forth. They were fixing prices. They had an actual schedule of 350,000 different prices of coal, before we had general price fixing. When the Office of Price Administration was asked how many prices they were fixing, they put out a figure one day. They said 8 million. Then they recalled it a month later and said they did not know. So the people that control it do not know what they are controlling. They have no idea.

Mr. JARMAN. Speaking of coal, there was a discussion a while ago about the coal situation in England. The testimony before this committee from our Ambassador to Great Britain is—I am not sure I remember it correctly, but as I recall it—while the coal situation, we all know, has been bad, I do not know which target he was talking about, but he predicted they were going to exceed the target; I do not know whether he meant this year or not.

Mr. MANSFIELD. It happens I have the figure here. The Ambassador was asked a question about coal and he answered:

The present rate of production of coal in the United Kingdom is at the annual rate of approximately 215,000,000 tons. The British themselves, for the year 1948, have set a production target, as I recall it, of 214,000,000 tons. During the year 1948, they will continue restrictions on the domestic consumption in order that there may be available for export the amount which they undertook to export during the war, which is, to my recollection, 8,000,000 tons. It is likely they will export more than that. By 1952, their program calls for a production of 249,000,000 tons of coal a year, which is greater than the annual rate of production during the period 1934 to 1938. I believe they can achieve that goal if they attack the problem with vigor and determination.

That is Mr. Douglas speaking.

Mr. JARMAN. I construe that to result from the anticipation of the Marshall plan. But maybe that is a change in one of the policies you are talking about that is the cause of that.

Mr. HAZLITT. Of course, they did change one of the policies. You remember they had a 5-day week. They changed that recently, and these figures partly follow from the present longer week. Of course, the British coal problem is partly a long-range problem, but their controls go back pretty far actually. In 1913 Britain exported 93,000,000 tons of coal. In 1929 they exported 40,000,000 tons; then she was down to this 8,000,000-ton figure; then to practically nothing. Now, the last drop was more sudden than it had reason to be. But this is a deeper situation, of course, than her controls. It is because of the coal just giving out, for one reason. I mean it is got from deeper and deeper and poorer and poorer veins and gets more and more costly all the time. But I do not know how many months that rate was based on in Ambassador Douglas' testimony. Was it based on the rate of the last few weeks multiplied to get an annual figure? That might make the figure look much larger than if you took what they had actually produced in the last 12 months.

Mr. MANSFIELD. He was speaking on the subject.

Mr. JARMAN. Do not European countries need some kind of a system to procure fuel and fertilizer and perhaps seed as well as food?

Mr. HAZLITT. My own feeling is that that could be put under the loan system rather than under the grant system. Now, I know that Congressman Herter, and the Herter committee I think perhaps as a group, have put food, fuel, and fertilizer in a group by themselves. I have some doubts whether fuel and fertilizer belong in the gift group. Fuel and fertilizer are two things on which people can make money. We think of the fuel that goes into heating homes. I do not know what the European ratio is, but in this country 80 percent of the bituminous coal goes into industrial uses; perhaps the whole average would be 70 percent, including anthracite, that goes into industrial uses and only 30 percent for house heating. If a 50-50 ratio exists in Europe, they are certainly producing enough and far more than enough for heating their homes—that is, if they did not have the industrial problem to meet. The industrial problem is their big problem, in other words.

Mrs. BOLTON. I have not been in any heated home over there.

Mr. HAZLITT. That is because the coal is used up by industry. Suppose in France 90 percent of the coal supply goes into industrial uses. It does not matter whether we furnish 10 percent of the supply or 15 or 25 percent of the supply. It makes up the same deficiency whether we give it directly to the industrial side or to the heating side. So, if we lend it to industries, then that releases just that much coal for homes. It does not matter which channel it goes into. If these industries make a profit on the coal, then they might be the subject for loans. The same thing would happen with fertilizer.

Mr. JARMAN. I have gained the impression that even some raw materials and equipment might have to be obtained by some of these countries on terms that may be included in loans, but may be on terms that the Export-Import Bank lays down, for instance. That is strictly a business matter, and while I do not believe you agree with me, I see another angle to this, that it wouldn't be considered a business loan or would not be considered a good risk, in other words.

Mr. HAZLITT. I would like to say this about the business side of it—this is a rather technical point and I do not know whether I can make it clear—when any manufacturer borrows anything, raw materials, or borrows the money to buy raw materials and makes them into finished goods, the profit he makes is the indication of his success and also of the service he performs.

If a manufacturer borrows a lower value than the value of what he sells, or a value of less than what he sells, then he has made something. He has added something of his own and therefore he has made a profit. Out of that profit he can repay the loan.

If the value of what he sells is less than the value of what he buys and he has made a loss, that means he has wasted in effect the value of what he has borrowed. It has been thrown away. In other words, if the value of what you lend a man is more than the value, the final value, of what he produces, that means that there has been a net loss not only to him but to the world. There has been a net loss in production and a waste. So if the loans which we make to Europe are not good in the sense of being repayable, they are not good for recovery. They do not being recovery.

That is a rather complicated question. I do not know whether I have made that clear.

Mr. JARMAN. That is clear. But the fact remains that Europe in order to get dollars has to export.

Mr. HAZLITT. That is quite true.

Mr. JARMAN. I suppose more than they import?

Mr. HAZLITT. That is right. The reason it has been exporting so much more than it is importing is because of the overvaluation of exchange rates. That has been changed in Italy and France in the last couple of months. Whether the reform is enough is hard to say at this stage. But it is the beginning of a very encouraging turn toward reality. The exchange rate has been a very great factor in preventing exports.

Mr. JARMAN. Thank you very much.

Mrs. BOLTON. Mr. Judd.

Mr. JUDD. Mr. Hazlitt, I want to get clear on one point. It is with respect to this taking off of controls.

The usual contention is that a country cannot take off controls until it has recovered and has achieved adequate increase in production. Of course, your contention is they cannot increase production and achieve recovery until the controls are off.

The question is the speed with which it is done. I am right, am I not, in the belief that you think that there ought to be drastic sudden removal of these restrictions that have been developed over a period of years and to which the people have become accustomed? Do you think the resulting economic benefits would offset the upset from the shock of a sudden change; or do you have in mind some gradual or progressive change?

Mr. HAZLITT. Well, the most we can hope for, Dr. Judd, is, of course, a graduate change. We cannot hope for a sudden change. We cannot try to impose a sudden change. All that I am suggesting here is that we impose certain minimum conditions of eligibility. Of course, even those conditions which I might think are moderate conditions, they will think are drastic conditions.

Mr. JUDD. You mean they must have these things done before we help, or that they embark upon a course at the same time we embark upon our help? That is, one contingent upon the other?

Mr. HAZLITT. Well, I should, think, of course, as I suggested that the food relief could be given whether or not they make any of these changes.

Mrs. BOLTON. Will the gentleman yield?

Mr. JUDD. Yes.

Mrs. BOLTON. In the item of food relief would you include fertilizer and a few machines, like plows, in those countries that would use plows and tractors?

Mr. HAZLITT. I feel this way about the fertilizer policy—and I hope I will be corrected if I am wrong. Most of the farmers of this country, wanting fertilizer have to buy it in the open market, and if they do not have the money, they have to borrow by going to a bank. They have a loan from the bank for the fertilizer.

The fertilizer is used to produce crops and out of the proceeds of the crops they can pay off the loan. I do not see why a European farmer cannot do the same thing as an American farmer is required to do. In other words, if a European farmer is going to make a profit out of fertilizer he should be able to repay a loan, and for that reason I do not see why fertilizer should be lumped with food.

Mrs. BOLTON. Only on this basis: That if, for instance, they received fertilizer in time to get a decent yield off their field this year, then our farmers would not be called upon to raise food to send over there. They would be raising their own food. Would you feel the first year's method would be a loan?

Mr. HAZLITT. There might be a combination of the two methods. There might be the ultimate intent to put the fertilizer under loans, but an authorization to the American Relief Administration, or whatever it is that carries out the gift part, to make a certain amount of emergency gifts.

Mrs. BOLTON. In order to get the load off the necks of our farmers?

Mr. HAZLITT. That is right. If they had this provision that they are ultimately to have to pay if off, it would have a good moral effect.

Mr. JARMAN. On the subject of fertilizer, the testimony before this committee, as I recall it, is that a ton of fertilizer produces sixteen-fold. I reckon that is the value; I do not know what it is.

The theory that Mrs. Bolton and I have in mind is that if by sending that ton of fertilizer you can get 16 times its value in food, it is much better than to transport 16 times that much food over there.

Mr. HAZLITT. That might come under an emergency provision.

Mrs. BOLTON. Next year perhaps they could make their own fertilizer.

Mr. HAZLITT. If I am wrong on this I would be glad to be corrected. I think we have destroyed fertilizer plants in Germany, or we are not allowing them to operate. That is one of the reasons why we are called upon to supply fertilizer.

Mr. JARMAN. I can very positively tell you that you are wrong in the opinion that fertilizer plants have been dismantled in Germany.

Mr. JUDD. The biggest one had a capacity of 700,000 tons of nitrogen a year, and now it is producing 130,000.

Mr. JONKMAN. I think Mr. Jarman is talking about bimetalism.

Mr. JUDD. I should still like, if I may, to return to the question I asked.

I think it is very important that you be understood on this. Are you or are you not insisting as a condition that they make sudden changes; for example, where you say they must agree to permit free exchange rates? Do you demand that before any assistance is given, at one stroke they give up all these controls that they have become conditioned to, or do you contemplate an agreement to the effect that, "As you move in this direction, we will do this"?

Come back to our illustration of the drunk. He comes along and says, "Give me 10 cents for a cup of coffee." If he takes the coffee and goes back to the saloon, you have lost your dime and he is no better off. You cannot help him with loans until he is out of the saloon. On the other hand, probably he cannot stay out of the saloon unless you are willing to help him. If he wants to stay out and you help him, then you can gradually correct him. If you do not help him and he has no assistance in his discouragement, he goes back and borrows and buys or steals a drink. I think some people are like that.

They have been conditioned to these things. They are opiates, You cannot stop a drug addict suddenly or you may kill him.

That is what Judge Kee was talking about. We cannot insist on recovery before we help. On the other hand, it does not do any good to help if they continue the practices, which ultimately defeat them.

Can we work out a gradual accomplishment of these objectives? I want to be sure that is what you mean, if you do.

Mr. HAZLITT. Well, I have suggested here on page 12 that certain conditions be put in as eligibility requirements. There are only three or four of them. That is all that I would suggest. I do not expect them to change rent control, price control, and a hundred other things overnight. Let them change enough things so money from repaid loans could be withdrawn. Otherwise they will never get private capital unless the lender's money is withdrawable, unless he can get the money back.

The most drastic of the conditions mentioned here is to permit free exchange rates. Italy did it overnight 2 months ago. France did it.

Mr. JUDD. They did it one-half. Do you think it better to take it half at a time?

Mr. HAZLITT. We might have a provision that would permit this half. I do not know how this half-control is going to work out. I think it will be badly.

Mr. JUDD. You think it would be better if they took the whole thing off?

Mr. JONKMAN. I think at least you would want to see them going to a restaurant instead of a saloon.

Mr. JUDD. That is right. We have to take them in sometimes, hand in hand.

I wanted your opinion on that franc devaluation. Do you think this attempt to do it gradually may not have been as good a thing as if they had turned it completely loose?

Mr. HAZLITT. That is very hard to say. You build up tremendous vested interests with these controls that are hard to break down. For example, as a result of an overvalued franc the French have been getting their imports from this country at a low price, with certain exceptions like coal and so forth—things that are uneconomic to export in the first place. Most things they have been getting at a low price in terms of francs. They want to keep that. Therefore they have two rates, one to import and one to export.

That is a little oversimplifying it. Anyway, there are a lot of advantages they are trying to hold on to in this system. Whether they can or not, I do not know. All I am saying here is that the more thoroughgoing these reforms are, the better they will be. If Congress wants to ask a lesser reform for the loans, then it is more likely to get it done; but then it also takes the chance that the loans will do less for recovery.

Mr. JUDD. I am glad to have that clear.

Now I want to ask a different type of question. You have stressed particularly your attitude toward the changes you think are necessary in the policies of each nation individually.

Do you want to make any comment as to what changes you think are necessary in the policies of these nations collectively in their attack upon the problem? Do you think, for example, that it is possible for each of these nations to become self-sufficient and self-sustaining as a completely independent economic unit, as heretofore, or must there be some group attack upon the problem?

Mr. HAZLITT. I am not sure I understand your question about "self-sustaining."

Mr. JUDD. Suppose Belgium should wind up as she was before.

Mr. HAZLITT. Do you mean ability to support themselves?

Mr. JUDD. No; I do not mean completely self-sufficient. I mean ability to become a sound economic unit.

Mr. HAZLITT. Yes.

Mr. JUDD. Do you think that even if they make these changes individually which would take place within a country, western Europe can recover with 16 economic units, in the sense that we have in this country 48 political units, but only one economic unit?

Mr. HAZLITT. Yes. They do not necessarily have to have custom's unions, for example. They can have merely moderate tariff policies. They can end the present bi-lateral system of trade treaties, and so forth, and have a system comparable with that before the war, or let us say pre-1938 or pre-1935, or whatever time you want to set.

Of course, it would be ideal if they had customs unions because you cannot have a customs union without getting rid of all of these controls. That is why the customs union has been deadlocked for a certain amount of time between Holland and Belgium. If you unify your customs rates, it does not do any good unless you also unify your currency or unless the currencies are freely convertible into each other at a fixed rate. Otherwise one has a different rate than the other. It does not work, either, if you have price fixing in one country and an absence of it in another.

When I was in Holland I was told by several persons that there was an immense amount of smuggling of cattle across the line, the border, between Holland and Belgium. The border line goes through villages and village streets and cuts through and into individual houses, and so forth. They found it impossible to stop that. The reason that happened was because Holland had a price ceiling on cattle and Belgium did not, or Holland had a lower price ceiling on cattle than Belgium, and therefore all these leaks occurred. So if you are going to set up a customs union and it is going to be a real customs union, in order for it to work you have to get rid of these nationalistic controls. I would favor that, of course. It would be a wonderful thing. It is a long range thing. The 16 nations discuss

it as a rather academic subject here, although they are very sympathetic.

Mr. JUDD. I know I was asking your opinion as an economist, whether you think that even if they make these individual changes along the lines you have suggested they would wind up other than as 16 separate units, some of which are bound to be nonsolvent, like Italy and England, which have too many people for too little land and not enough food supply or natural resources. Some of our States are economically sound and some are unsound, but they are able to survive because they are part of a whole economic system.

Mr. HAZLITT. I think England and Italy would be able to survive without customs unions if they themselves and other countries follow not too drastic a control system. After all, we have had tariffs and so on for many years. We have been able to survive that. But you get to a point where these controls are not conformable with any sort of economic recovery.

Mr. JUDD. You think the most important thing is what a nation does within itself rather than what they do between themselves?

Mr. HAZLITT. Yes.

Mr. JUDD. Over on page 7 you talk about Germany, and you say that it is the outstanding collectivist country in the world, outside of Russia. They you say, "Only the restoration of a free economy in Germany, subject to American oversight and reasonable income reparations, can solve this problem."

The thing so many of those countries are afraid of, of course, is that allowing Germany to become a free economy will permit her to militarize and throw Europe into war again. Do you think you can get what you have in mind as a free economy, Germany back at work with her economy integrated and interdependent with the free nations of western Europe, or will it allow Germany to grow up as a great self-seeking power in the center of Europe, throwing everything out of balance and running the danger of her trading off to one side or the other and plunging Europe into war?

Mr. HAZLITT. Well, that opens up a great number of very serious problems of course.

Mr. JUDD. I know.

Mr. HAZLITT. Taking the most immediate problem, if Germany has a free economy and if, so to speak, a free economy is imposed on her, which is sort of a contradiction of terms, then Germany would be bound to be integrated in a world economy.

When the Nazis wanted to make Germany a great military power they imposed autarchy on Germany so it would be self-contained. If Germany had to be part of the world economy, dependent on the outside for raw materials, and so forth, dependent for exports, a country that had, as the prewar phrase went, a country that had to export or die, or import or die, if they were that sort of a country they could not make war independently. Yet they could be prosperous; the income level could be high. Reparations ought to be imposed on the income level on Germany. But if it were tied into the world economy that way, then it would be far less of a menace in a military sense than if we allowed it to have autarchy. If we make Germany a free economy and allow that, we build up vested interests in favor of a free economy. The vested interests of today are all built up in favor of retention of controls, but if we have an export industry

which needs to continue that volume of exports, import industries which need to continue that volume of imports, we get big vested interests within Germany, insisting on retention of the system they already have.

That only answers a very small part of the question you raised. But if I were to try to answer the general problem, I would say that from time immemorial there have only been two ways of dealing with an ex-enemy. One is to annihilate it and the other is to conciliate it.

The Romans followed that policy with Carthage. They decided on annihilation and they made the job absolutely complete. I do not believe that we in America have the kind of mentality that would want to make that job absolutely complete. Therefore, it seems to me that our only hope, although this should not be taken for granted because I think we should keep our army of occupation in there almost indefinitely, but nevertheless our hope is to conciliate Germany so it does not turn in desperation to Russia.

Mr. JUDD. So that there is more to gain by staying with the western Europeans than by going the other way?

Mr. HAZLITT. Yes, especially if you tie Germany by free trade into the western economy.

Mr. JUDD. Do you think that can be done?

Mr. HAZLITT. I think it can. We have a good deal of the power to do it now.

Mr. JUDD. I am glad to hear you say that because I think that in some respects is one of the two or three crucial points in the whole matter.

That is all.

Mr. MANSFIELD. Mr. Hazlitt, on page 5 you say:

If we extend no further gifts or credit, the outside world cannot continue to have a trade deficit.

You could add to that, "Nor can much of the outside world be able to eat or produce enough for recovery," so you would get a balanced international budget. You would have a balance of international payments, but what you would have in countries like France and Italy at the present time would be starvation and communism. Do you believe that countries like Italy and Austria, for example, can produce enough to live on during the next 3 years without aid?

Mr. HAZLITT. All these guesses have a certain element of the arbitrary about them. There is nothing scientific about them. On page 69 of the Outline of the European Recovery Program, printed for the use of the Senate Committee on Foreign Affairs is a statement to the effect that "Europeans will be able to pay for about two-thirds of their imports during the next 4 years through their own efforts"; but cannot pay for the other third.

I contend that that statement is a quite arbitrary statement.

The statement is made that they cannot yet pay for all their needed imports, but that they can pay two-thirds. I think that is an arbitrary statement. I think if they could pay two-thirds, 15 months from now they can certainly pay three-thirds, and they can pay three-thirds if they bring down their rates to realistic trade rates.

Mr. MANSFIELD. You are referring to Europe and I am referring specifically to Austria and Italy, which never did have anything approaching a self-sufficient economy. Now they are both war-torn. They have suffered great damage. Italy especially has undergone

communistic upheavals because we have, if not the largest, next to the largest Communist Party in Europe in Italy at the present time.

Now can those two countries, both of them, in which we have a peculiar interest because we are the mainstay of the DeGasperi Government in Italy and in the fact the mainstay of the Government in Austria, how can they get by without outside aid? What inducements are there for an American businessman to go in there and rehabilitate those industries, or to rehabilitate industries or bring in new industries and make a profit and help put those countries on their feet?

Mr. HAZLITT. Well, in the case of Austria, I do not think that as long as Russia is in there there is going to be any recovery of Austria, any permanent recovery of Austria, Marshall plan or no Marshall plan.

Mr. MANSFIELD. Take Russia out.

Mr. HAZLITT. She is there and that is one of the big things holding Austria down. Austria and Italy would be the two countries that would need most in the way of gifts of food. They are the countries that would probably get less, although I am not sure about that, of the loans from let us say the Export-Import Bank. If they conform with the conditions they could get a loan. Italy is nearer conforming with those conditions than most other countries because she has almost a free exchange rate. There are a lot of drawbacks, but it is as free an exchange rate as anybody has. They are in a better condition to get the loans than anybody else. If the individual industries within those countries could function, then they could recover. How could they recover under present conditions, when they have a law in Italy under which an industry is not allowed to discharge any of the workers that it had at a given time in the past, and they cannot produce anything at any value at which they can export it. That is a self-imposed condition. That is compelling these companies to hold men idle. The discipline has gone down terrifically in those factories. It is part of their own controls. How does the Marshall plan overcome that?

Mr. MANSFIELD. That is a good point, but of course answering the first part of your question, the Finance Minister is an outstanding individual who has stabilized Italian currency in a remarkable manner. Insofar as those informal measurements are concerned the De Gasperi government is in a position where it cannot do anything. You have been emphasizing the economic aspects of the Marshall plan. That should be done. But in my book the most important aspect of the Marshall proposal is the political aspect, and what we have to do as I see it are threefold:

One, take care of the humanitarian aspect to a certain extent in countries where that help is needed; secondly, we have to do it on as economically feasible a plan as possible, realizing we are taking a calculated risk; but third, and most important, is the fact that this is a measure designed to contain communism. That is the important thing, not the economics of the thing, although it enters into it.

Now we know that we are taking a chance. We realize that this proposal will keep inflation going in this country. But Marshall proposal or not, as an economist you know that inflation is going to continue in this country. We realize also that it is going to raise a number of other problems. But the way we are looking at this problem, at least as far as I am concerned, is primarily from the political point of view because that is the important factor.

You can raise lots of questions, but you always come back to this answer at least, as I see it, "What is the alternative to the Marshall plan?"

What would your alternative be to the Marshall proposal?

Mr. HAZLITT. Politically?

Mr. MANSFIELD. Any way.

Mr. HAZLITT. You are putting it up as a political plan.

Mr. MANSFIELD. That is right.

Mr. HAZLITT. I have suggested the economic alternative to it here. Politically I think that there are a lot of things that ought to come before the Marshall plan and the most important one is a completely unambiguous attitude toward Russian aggression. That unambiguous attitude does not yet exist. Nobody knows precisely what we are going to do in China today to fight communism in China. Nobody knows precisely what we are going to do if the Greek rebels begin to gain on the Government, or if a lot of the Balkan countries begin to recognize them, or if Russia recognizes them.

We have let our policy become completely ambiguous in that respect, and there is where I think we ought to drive in. I do not want to go into the political side, but it seems to me that for the last 2 years we have systematically allowed the Russians to insult us, to do everything possible against us, and we have made about one answer for every 25 charges.

When Mr. Vishinski comes over here and insults the President of the United States, we make a little protest, but we do not send him out of the country. When they do things to our Ambassador over there, we do not do the equivalent to their Ambassador here.

I do not want to set forth a program, but we could bring before the United Nations the whole problem of the Russian slave camps. We should have taken aggressive measures a long while ago on this. We should have withdrawn our recognition of the Polish puppet government.

There are about 20 things I could enumerate. It seems to me that these are the things that are prior to any Marshall plan. We do not solve the problem by giving away money. That seems to me an evasion of the problem—at least of the political problem.

Actually, historically, in origin the Marshall plan as I see it was a retreat from the Truman doctrine. When President Truman announced his doctrine on Turkey and Greece, he said that it was to counter Communist aggression. He made that explicit.

A month or so later Secretary Marshall said, "This was to come to the aid of a gallant ally." Then he invited Russia to come in and share our loans under the Marshall plan, and from all outward appearances he was aggrieved by the failure of Russia to do this.

It was not we who made the Marshall plan a symbol of anticommunism; it was Russia who made it a symbol of anticommunism by attacking it.

Mrs. BOLTON. Will the gentleman yield?

Mr. MANSFIELD. Yes.

Mrs. BOLTON. I do not wish to interrupt, but I would like to say that it is a refreshing thing to have a good citizen of the United States come up here and have the courage and the sense and intelligence to put these things right out in the open. You challenge our thinking.

We are very grateful to you, Mr. Hazlitt.

Mr. MANSFIELD. I will admit that Russian opposition did give a great boost to the Marshall proposal, but after all, I think in the minds of a lot of us, at least, it appeared to be the first sensible proposal put forth by our Government that had a great deal of merit, and which was not absolutely foolproof but had a certain good chance for success. I would say it would tend to rehabilitate Europe economically and put an end to these relief loans that we have been putting out to the tune of billions of dollars since the war.

No one can guarantee the success of this loan, but I think that it is a risk that we have to take, whether we want to or not, because if we do not then I think we can just get back in our own shell, as many witnesses have said, and start putting money into national defense to a far greater extent than we have put into the rehabilitation of European economy. We could start arming ourselves and lose western Europe by default. Then where would we be?

Mrs. BOLTON. Is your point that unless we do the thing intelligently we will lose anyhow?

Mr. HAZLITT. My feeling is that we are all clinging to the Marshall plan as the symbol of anticommunism because we have not been given much more to cling to, and that it is not the most effective way to fight communism. I do not think you are going to fight communism, even if you get your recovery in Europe. In other words, the belief seems to be that if we get an economic recovery in Europe you will then get an ideological recovery and they will turn away from communism.

My feeling is that the causation is the opposite way around; that we need the ideological reform first, before we get the economic reform. We need a collapse in the faith in planned economies. That collapse is about to come, I think. There are big signs of it, and the crack in the franc is one of those signs. The removal of the controlled franc is one of those signs. I am not sure that the Marshall plan, by holding up, by propping up, these governments—the governments of planned economy and so forth—might not prolong these planned economies and thereby retard European economy and recovery.

Mr. MANSFIELD. That is a possibility. I look at it the opposite from the way you do because I think the economic aspects come first and the psychological effect has been such as of the present time to stop the spread of communism in France and Italy. That is a difference of opinion.

Mr. LODGE. This has been a very stimulating meeting this afternoon, and I want to thank you for your very notable contribution, even though I do not agree with everything you have said. You have put out some very stimulating ideas.

On the question of Russian opposition to the Marshall plan, which I think is a very interesting point, may I suggest that perhaps we measure to some extent the validity of the idea by the violent Russian opposition to it.

Now, of course, it is barely possible that that is not so, but it seems to me that the fact that they have attacked it so violently is evidence they are sincerely worried about the ability of the Marshall plan to keep them from world domination.

Mr. HAZLITT. I am not at all sure about that, Mr. Lodge, because I think they would have attacked anything that we would have done,

or did, or contemplated doing. The whole purpose of the Communist propaganda is to discredit America and therefore anything we do or think of doing has to be discredited.

If they are determined to discredit anything we think of doing, and if we go ahead and do it because they oppose it, then we never get to consider anything on its merits.

Mr. LODGE. I do not believe we should do it just because they oppose it.

Mr. HAZLITT. I would like to make this point: That we are assuming here that the Russians have made a terrific mistake. In other words, if they really did not want the Marshall plan to be put through, the most foolish thing they could have done was to oppose the plan publicly the way they have done. There is not a schoolboy or a taxi driver or anybody else in this country that does not know that the Russians' opposition to the Marshall plan has been the biggest factor in building the Marshall plan and determining the country to go ahead with it.

Mr. LODGE. Are you suggesting that the Russian opposition to the Marshall plan is tactical and strategical rather than real?

Mr. HAZLITT. I am suggesting that that possibility exists.

Mr. LODGE. That is an interesting thought.

Mr. HAZLITT. It exists, because you will notice the timing, for instance. Whenever the Marshall plan has seemed to be on the verge of not going through, Vishinski has gone to work on it. More than one reporter has written that the Russian opposition to the Marshall plan has been so "inept" as to seem almost precisely calculated to make America go through with the plan.

Mr. JUDD. Do you mean you do not think it is just plain incompetence and bungling on their part?

Mr. HAZLITT. It may be, but if it is we are assuming, first, that they are making a terrific political error; that they are making an error that, as I say, any schoolboy has seen through in this country. That is, we are assuming that they do not even know enough not to make this error. We are assuming also that they are right in their belief about what the economic consequences of the Marshall plan are going to be.

I suggest the Russians are very shrewd politically, but very stupid economically. We have been assuming that they are very shrewd economically but very stupid politically.

When you are dealing with Russian Communists and their Machiavellian politics, you cannot speculate as to what their psychology is or their purposes are. I think we would be much more clear-sighted about this if we disregarded the Russian opposition. I have no doubt, for example, if we pulled our troops out of Berlin tomorrow, or out of Germany tomorrow, which is the thing that the Russians would most of all like to see us do, as soon as we were safely out they would denounce this action. They would say, "You see; this proves the United States is the same sort of nation it always was, and it always welches; it always withdraws and always leaves you in the lurch."

Their purpose is to discredit anything we do, whether it is in their favor or not. I do not think we should take too seriously their opposition to the Marshall plan as being a sign that it might be a good thing.

Mr. LODGE. That is a very interesting answer. I would like to suggest this: That I think we, all of us, have a tendency to over-

estimate the omniscience of the Politburo. Curiously enough, it appears that in spite of the many agents they have in this country the Politburo is a relatively badly informed agency with regard to American psychology for one very good reason, and that is that most of these agents are so anxious to retain their jobs that they transmit intelligence to Russia of the kind they think their bosses will like. Therefore, you find, curiously enough, that the boys in Moscow are not so terribly well-informed about the political psychology of the American people.

Would you say, then, since you attach little importance to Russian opposition, that the fact that the De Gasperi and Schumann and other governments of Europe attach such great importance to the European recovery program is also to be heavily discounted? Surely you do not think that they are playing for strategical advantage?

Mr. HAZLITT. Oh, no. From the standpoint of any government official in Europe it is obviously an advantage to have the Marshall plan. It is an advantage to that government. There is no question about that because even if they are following a bad policy, the Marshall plan funds will help to bail them out of the policy.

Mr. LODGE. May I insert there that the Italian question is one which has particularly held my attention because I feel, and many of my colleagues agree with me, that Italy is the most sensitive and the most dangerous spot right now with the exception possibly of Greece and China, and that if Italy goes, the European recovery program cannot possibly succeed.

Most of my colleagues were in agreement with me that the Italian Government was composed of some very first-class people who are sincerely trying to pull themselves out of a hole. They are not trying to socialize Italy, but they are up against all kinds of factors with which you are doubtless familiar.

De Gasperi feels, and his government feels, that if America were not to go through with some kind of a recovery program, he would not be able to keep the Communists from power in Italy. I would just like to ask you to consider for a moment what the consequences would be to our national security if a Communist government were established in the north of Italy. Consider what the consequences would be throughout Europe, the Middle East, north Africa, and ultimately in the West, if we were to announce tomorrow that we would bring only relief, and that we have given up the recovery aspects of the European recovery program; that it is not to be the European recovery program, it is to be another European relief program, and as far as recovery is concerned, "You will have to depend as in the past on the World Bank, the Export-Import Bank, and American private lending."

Do you believe that the De Gasperi and Schumann governments would be able to withstand the threat of communism if that announcement were made from this city?

Mr. HAZLITT. Well, I think this is probably a question of semantics. If we pass a program of this sort—in other words, if we make a very substantial gift of foods, which I assume we are going to do—and if we then made this eligibility for Import-Export Bank loans on a bigger scale than in the past part of the rehabilitation program, and if we called this the Marshall plan, then the symbolic part of the thing would be carried through.

If it is a question of how much economic recovery you are going to bring to Italy, my own feeling is that the Italian situation is not going to be solved primarily by the exact extent of the Italian economic recovery. It is going to be solved by what we do, what Britain does, what the western nations do when and if Russia makes an overt move in Italy. Now that is going to present a very nasty problem and my feeling is or my fear is that we are trying to tell ourselves here that the Marshall plan is going to solve this, because it is a nasty problem and we do not like to face up to it.

Mr. LODGE. May I say there that you are pushing in an open door as far as I am concerned on that issue. I have been hammering away for a long time at the fact that the European recovery program may very well not be enough to protect the Government in Rome and the Government in Paris from a threat by internal force.

I expect a very serious attempt along those lines to come in March or April, and it does not occur to me that the European recovery program will be able to do much about that. In other words, I would say that without some kind of a recovery program western Europe is almost sure of succumbing to communism, but with it and without other strategical measures, western Europe may very well succumb. So I do not contend for a moment that from the strategical point of view the European recovery program would be enough. It has been my constant effort to bring pressure on the administration to pay some attention to the question of internal force.

The point I would like to make is, however, that if you do not pass the European recovery program, or some recovery program, will it be possible for them to resist at all?

Mr. HAZLITT. Well, my feeling is that the European recovery program is at best not the spearhead of our foreign policy or our diplomatic policy. The spearhead is the diplomatic action we take vis-à-vis Russia and what we do on the next move, or, as a matter of fact, what we should have done in past moves.

The European recovery program is at best a subordinate and secondary part of a foreign policy. In other words, it is the rear end of the spear, not the spearhead. The spearhead is something much tougher and harder than that. We have not been willing to admit in this country that we have this very nasty decision to make. We have avoided nasty decisions in the past, and we think we can do it constantly.

It is the same position that nations in Europe were in, vis-à-vis Hitler, before. They did not want to face up to Hitler before and they thought he would stop of himself.

Mr. LODGE. In other words, you think the Administration under the Marshall plan is appeasing Russia?

Mr. HAZLITT. Well, its action is a little bit stronger than it has been in the past. Yet we constantly get reassertions of what seem to be essentially appeasement doctrines. We waited 2 years before we released the text of the agreement between Hitler and Stalin.

Mr. LODGE. I agree with what you say about the administration's attitude toward Russia in the postwar period, although that is water over the dam. It does not do much good to lament it. We must face the future.

Would it be possible for you to submit to this committee figures as to what you consider should be the saving, the deduction that could

be made from the proposed figure of \$6,800,000,000 if all the currencies of all the participating countries were to be devalued? In other words, if we were not called upon to fill in a gap between the legal and real value of their money.

Mr. HAZLITT. I would not undertake to submit such figures because my own position is that such figures are essentially arbitrary and that one person's guess is as good as another's. Ex-President Hoover has but forward the figure of \$4,000,000,000, of which I think about \$3,000,000,000 were in gifts and \$1,000,000,000 in the export-import loans. I do not know whether that figure is good or not. It is necessarily an arbitrary figure. So far as I am concerned, the amount authorized is not so important.

Let us say you authorized the complete \$6,800,000,000, and you allotted \$2,800,000,000 to food and \$4,000,000,000 to loans. If the conditions of those loans were of the type that I have indicated here, and if the Administrator conformed in those loans to those conditions, I do not know how many loans would be made or what the size of them would be.

We might have a fairly liberal authorization to take care of. For example, on the authorization of foodstuffs I see nothing else to do then just take the European nations' word for it. But also give the Administrator who distributes the food the discretion to redetermine whether they do in fact need that much. In other words, this would be the limit on what he would be able to give. He would be able to give a certain amount, and no more.

Mr. LODGE. There is no question that if you had devaluation of currency you would have an increase of exports on the part of those countries, and therefore on the balance-of-payments theory you would not have such a great dollar deficit. Therefore, you would be diminishing the load on the American taxpayer.

Mr. HAZLITT. That is right.

Mr. LODGE. I think that is one of the most important factors you brought out. Many of my colleagues will agree with you.

I thought you might give us your rough estimate as to the beneficial results of that in the near future or the next 15 months. I would like to ask one more question:

With respect to the instrumentality which you suggest calling the American Relief Administration, does that mean that you feel that we should adopt neither Mr. Herter's suggestion contained in his bill or the suggestion contained in the administration's bill with respect to the agency to administer this program?

Mr. HAZLITT. Well, I feel that the suggestion in the Herter bill would be better, other things equal, than the suggestion in the State Department bill. But I feel it would be a mistake to have any organization with the power both to make gifts and to make loans. I do not think they could mix. If you set up in private industry something called the United Charities Bank, and somebody came to the President and said, "What are you, a charity or a bank," and you said, "We are both charity and bank." He would say, "I had better take the charity." You would say, "That is very nice, but there is one trouble: we have \$7,000,000,000 for charity and \$3,000,000,000 for loans and we have used up the \$7,000,000,000 for charity, but we will put you down for a loan."

You would say, "You know it will be pretty much the same as charity."

You put a man in a spot if he has to do both things. He cannot switch from one to another. He cannot be a giver and a tougher-minded lender at the same time. I think these should be two segregated institutions.

Mr. JUDD. If you segregate them he would not go to the loan part of it at all.

Mr. HAZLITT. All you get from the gift place is food and food goes to private individuals as far as possible. If the loans go to industries, then you have made your segregation on a commodity basis, so to speak.

Mrs. BOLTON. Mr. Hazlitt, we are certainly very grateful to you. I am sure that those of the committee that have been here feel very much as I do, that there is nothing so good for us as to have all our thinking challenged.

Mr. HAZLITT. I want to express my appreciation to the committee for the very great courtesy and consideration you have extended.

Mrs. BOLTON. You were very gracious to us all.

(Whereupon, at 5:12 p. m., the committee adjourned, to reconvene at 10 a. m., Wednesday, January 28, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 28, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., in the Foreign Affairs Committee Room, Capitol Building, Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order.

We have with us today a very informative and important witness, Mr. Herbert H. Schell, who is a member of the International Relations Committee of the National Association of Manufacturers. He is a man of very wide experience, and has a very, very informative statement to make to you.

Some time ago I had a discussion with our members on the opportunity to act as chairman of the committee.

We will take one of the younger members today, and I have asked Mr. Lodge to occupy the chair this morning and preside with his usual grace and dignity and introduce Mr. Schell.

Mr. Lodge, it gives me great pleasure to present you with this difficulty.

Acting Chairman LODGE. Mr. Schell, we are very much honored and pleased to have you here with us to help us with this enormously complex problem. We are glad to hear from you at this time.

STATEMENT OF HERBERT H. SCHELL, MEMBER OF INTERNATIONAL RELATIONS COMMITTEE, REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. SCHELL. My name is Herbert H. Schell. I represent the National Association of Manufacturers, which represents 85 percent of the productive manufacturing capacity of the United States, with 16,500 members in every State of the Union.

I should like to identify myself further by saying that I am the president of Sidney Blumenthal & Co., Inc. We are textile manufacturers specializing in pile fabrics—velvets and velours.

I am appearing before this committee to register with you the considered judgment of the major body of American industry on the European recovery program, also known as the Marshall plan. American industry is enthusiastically in favor of the purpose and ob-

jective of the European recovery program. As defined in one of the bills before you, these are as follows:

It is declared to be the policy of the United States that assistance be given to those countries of Europe participating in a joint European recovery program based on self-help and mutual cooperation,

and further

by furnishing material and financial assistance to the participating countries in such a way as to aid them through their own individual and concerted efforts to become independent of abnormal outside economic assistance within the period of operations under this act,

1. By promoting industrial and agricultural production in the participating countries;

2. By furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances; and

3. By facilitating and stimulating the growth of international trade of participating countries with one another and with other countries by group economies reflecting reduction of barriers which may hamper such trade.

I would like, at the outset of my testimony, to emphasize that the NAM views the European recovery program, as primarily a production problem. The greatest contribution our country can make is to assist the nations of western Europe in increasing their own production, and thus placing them on a self-sustaining basis. We feel that the record that United States industry has achieved, both during and since the war, does permit us to speak with some authority on production problems, and particularly on the climate that is necessary to achieve a high rate of production in any country. It is in the light of our experience as producers of goods that we offer to your committee the suggestions that we hope may be of some assistance to you in weighing the proposals that are before you.

Mr. Chairman, I would like to summarize, very briefly, the recommendations that the National Association of Manufacturers is offering:

That the participating nations evidence their intent to stabilize their currencies, balance their budgets, and place their fiscal policies on a sound basis.

That the countries take and enforce adequate measures to insure maximum domestic production.

That the countries work toward a restoration of free international payments.

That the countries make reasonable use of their own realizable gold and foreign exchange assets.

That the countries refrain from reexporting products received under the United States aid program, and from exporting identical products produced domestically.

That existing state enterprises in the participating countries should have a widespread measure of autonomy and not be subject to detailed political control.

That during the period of economic aid the participating countries should not undertake any further nationalization projects, or initiate projects which have the effect of destroying or impairing private competitive enterprise, and thus retard their economic progress.

That insofar as practicable, United States aid should be extended to private competitive enterprises in the foreign countries instead of to governments or their agencies.

That commodities and products advanced under the aid program should be produced in the recipient country or within the United States, except in instances where procurement elsewhere should be economically advantageous to the United States.

That countries participating in the program must accord non-discriminatory treatment to United States businessmen and investors, and also accord to representatives of the United States press freedom to visit their countries and report their observations.

That the extension of economic relief should be scheduled on a basis of ability to fulfill performance stipulation; for example, each installment of United States aid would be accompanied by a stipulation that if the recipient country did not use such aid to accomplish specified results in a designated time, further aid would not be forthcoming, and "performance" should include satisfactory accomplishment under agreement to modify and eventually eliminate price and other controls over commodity production and distribution.

American industry is convinced that there are specific conditions which should be met not only by recipient countries, but also by this country in administering the European recovery program. I shall attempt to develop these conditions in my testimony.

The recommendations I am offering were originated by the International Relations Committee of the National Association of Manufacturers, of which I am a member and a former chairman. Our committee was aided by an advisory group of authorities in the fields of international law, economics, banking, geography, diplomacy, and business. The International Relations Committee, itself, is composed of about 120 representatives of corporations having wide experience in world trade.

Their conclusions were adopted by the National Association of Manufacturers board of directors, of which I am a member, as its official position.

The National Association of Manufacturers has been actively interested in the postwar international economic situation since the early days of World War II. This interest was aroused by the firm belief that any international disorder in the postwar era would have a direct effect on our economy.

In 1943, the National Association of Manufacturers was the first to advocate the creation of an international trade organization, which is now being discussed at Habana.

In 1944, the National Association of Manufacturers was the originating sponsor of, and host to, the International Business Conference at Ryé, N. Y. This conference brought together businessmen from 52 nations. Russia was present as an observer.

In 1945, the National Association of Manufacturers, by invitation of the State Department, served as industrial consultant at the San Francisco Conference, where the Charter of the United Nations was drafted. The National Association of Manufacturers, through the executive committee of its board, became one of the first organizations of this country to publish its recommendations that the Charter be approved by the United States, and this within 3 weeks following the San Francisco Conference.

I have given you this brief historical review of the National Association of Manufacturers' interest in international problems to show

you that the recommendations I shall present are based on several years' study.

There is no doubt in the minds of the great majority of the producers of this country that the United States should do everything within its capacity to assist in righting the economic disorders of Europe. American industry sees no alternative.

The National Association of Manufacturers is convinced that it is to the advantage of this country to have a prosperous Europe. There has been much discussion about the threat of communism. The best way to prevent the spread of communism and other undesirable forms of political organization and activity is to encourage political and economic security for the peoples of the various nations of the world, and to demonstrate by example that the system of free, private, competitive enterprise and its democratic basis provides such security and well-being more efficiently.

I shall not address myself to any specific bill, because, as I understand, there are now two bills before this committee, both of which support the principles of the European recovery program. They differ on the way it is to be carried out.

Without question, it is the desire of all responsible citizens and organizations of this country to make the European recovery program effective and productive. The National Association of Manufacturers believes that the success of any recovery program authorized by this Congress will depend upon those conditions which shall be written into the final act, as well as the administration chosen.

The United States is the outstanding leader in the world for free, private enterprise.

Ironically enough, other countries practicing other economic theories come to us for aid and ask for the goods produced by our system.

We must take no action which will jeopardize any part of our own political and economic freedom. This great country was founded by people who insisted on personal freedom. On this freedom our economy has developed. We are convinced that this freedom contributes most to our great production. Therefore, we are only consistent when we do everything in our power to encourage free economies in other lands.

While it has always been our practice to help other peoples, we must be cautious that this help does not weaken the very economy which has been able to provide it, and which has proven its productive ability.

To insure the success of the European recovery program we must do everything to encourage production—production, and more production, is the key to the solution of the problem at home as well as abroad.

Greater production is necessary to meet not only our increased domestic demands but also to fulfill our stated objectives in the European recovery program and to lighten the potential inflationary impact which will result. The National Association of Manufacturers believes it would be entirely possible for the United States to pay for foreign economic aid by cutting other domestic expenditures, at the same time providing reasonable allowances for debt retirement and tax reduction. This will permit capital formation which is necessary for continued United States industrial efficiency. Should

capital formation be retarded, our ability to play a constructive role would be impaired.

As I see it, you gentlemen of Congress must be more vigilant than ever before to arrest the inflationary spiral which has already started in this country. The National Association of Manufacturers has developed an anti-inflation program which it would not be appropriate to discuss at this time and which I understand has been scheduled to be presented to your appropriations committee within a week.

Briefly, we believe we must cut Government spending, reduce individual income taxes, adopt a systematic plan for paying off the public debt, stop inflationary monetary expansion, permit interest rates to seek their own levels free of Government control, and take such other steps as are calculated to put our own economic house in order, so that we may—

- (1) Provide the amount of foreign aid the Congress approves;
- (2) maintain the standard of living of the American people; and
- (3) arrest the inflationary spiral.

In other words, gentlemen, since it is my feeling that the key to fulfillment of European aid is production, so it is that a sound and permanent remedy of our economic ills demands establishment of sound fiscal policies.

Patently, then, our first step is budget reduction of dimensions sufficient to make possible the necessary tax reduction, debt reduction, and foreign aid within the framework of a balanced budget. This gigantic program places a great strain on the American system. We must gird ourselves for it.

No European recovery program should be developed without stipulating specific conditions which should be agreed upon before economic aid is granted. The National Association of Manufacturers urges that mutuality should prevail in any aid agreement, and the time for complete frankness is before an agreement is made—not later. It must be emphasized that this country has already granted very substantial aid to some of these countries since the cessation of hostilities.

In country after country, production is being hindered because there is no medium of exchange acceptable to buyers and sellers alike. In country after country, starvation is taking place because those who have food which they would be willing to sell for sound currency are not willing to sell because of lack of faith in the present currency. Country after country have artificial currencies that have no relation to realities. This has resulted in low production which, in turn, has the effect of increasing the demand on the United States' production and decreasing the ability of other countries to export to the United States.

Therefore the National Association of Manufacturers recommends that "countries receiving economic aid from the United States should be required to adopt and enforce currency reforms which will restore international confidence and local purchasing power to their currencies, on the basis of stable exchange value in terms of a fixed standard, as an essential and integral part of their economic reconstruction.

In this connection, it may be observed that, unfortunately, countries with shattered economies cannot hope to enjoy the benefits of low interest rates. Attempts by government to control interest

rates interfere with the creation and productive investment of capital. Economic aid from the United States might be dissipated or diverted from its optimum use in countries which employ the cheap money philosophy as an instrument of government policy.

The National Association of Manufacturers further recommends that economic aid should not be given to countries which show no evidence of intent or reasonable prospect of balancing their budgets. Such budgets should be in harmony with the national income of each country and not an obstacle to reconstruction and prosperity.

Budgets should also be unified so that the precise financial status of each country can be conveniently and currently known to the organization which has the responsibility of administering American economic aid.

The need for currency reforms and balanced budgets must not be underestimated in any plan to increase the production of these recipient countries. And it must be understood that this trend must be started before any loans are pledged by this country.

This Government should not dominate or interfere in the political life of any other government. Furthermore, we have no desire to manage the economy of recipient countries. All of this would imply a responsibility which we should avoid. However, the recipient countries must make such reforms as are necessary to put their own economies on a sounder basis. Otherwise no amount of goods or money provided by us will achieve economic recovery in Europe.

For that reason, the National Association of Manufacturers recommends that as a condition of economic aid, the nations receiving such aid from the United States should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free private, competitive enterprise.

The National Association of Manufacturers is convinced that Europe should produce more and experiment less. Information is coming to us daily indicating that industries which have been nationalized recently are operating at a loss. We cannot afford to have our aid subsidize these losses. Again it is reported to us that the number of people in European government employ have increased out of all reasonable proportions. While we are making great efforts, with some success, in this country, to reduce Government employees, we must see to it that our aid is not used to increase government employment in the recipient countries.

Since, as I have stated, production is the key to the problem, I have confined myself to those conditions of economic aid which would have the effect of increasing production. Every effort should be made to make it clear to the governments and peoples of such countries that our whole program and effort in this direction is designed to increase their own productivity and to make possible an increasing standard of living.

For that reason, I should like it recorded that the manufacturers of this country heartily approve the proposal before you which provides for the dissemination by recipient countries of full and continuous publicity regarding the purpose, source, character, and amounts of aid furnished by the United States where such aid is not on the basis of commercial loans or normal commercial transactions.

The United States Government should emphatically inform countries to which aid is extended that it considers uneconomic the forma-

tion or operation of cartels of every description, both private and governmental.

The producers of this country believe that extension of economic aid should be scheduled on a basis which makes continuation of such aid dependent upon performance. This might mean, for example, that the first instalment of United States aid would be accompanied by a stipulation that, if the recipient country did not make specified usage of such aid during some designated period and accomplish certain specified results, further aid would not be forthcoming.

Performance should include satisfactory accomplishment under agreement to modify and eventually eliminate price controls and other controls over the internal production and distribution of commodities, with such modification and elimination to take place in the degree and at times considered by those charged with the administration of the European recovery program to facilitate increased production, trade, and consumption.

Now, a few words on the German situation.

Aid to western Europe and the United Kingdom cannot logically be considered separately from the German economic situation, since that represents to a large extent the industrial core of Europe, and its economic status as both a purchaser and seller has tremendous potential repercussions on the other countries of Europe. Any consideration of the economic restoration of Germany or any part of it should, however, be strictly based on the extent to which such economic reconstruction will promote the economic recovery of those countries eligible under the European recovery program.

Though we hope that there will eventually be a united Germany, the economic and other reconstruction of Germany must now be proceeded with on the basis that it is composed of two separate territories.

The level of industrial capacity in western Germany should be permitted and encouraged to rise to a point which will make it possible for German industry to make its contribution to the European recovery program. At the same time every precaution should be taken that German production be adequately supervised.

It is uneconomic to remove entire plants from western Germany to other nations. The loss and economic waste involved only in the time required is extremely great, to say nothing of the inevitable damage to both plants and equipment. The removal of these plants will of necessity result in the decrease of German production necessary for the success of the European recovery program and it will tend to disrupt the economy of western Europe composed of so many countries which customarily buy from and sell to each other.

This brings me to the administration of the European recovery program.

The organization for administering such economic aid as the United States may provide should not be any existing department or agency of the Federal Government, but a corporation which is created specifically for that purpose. However, the corporation should be in close liaison with all interested departments and agencies of Government.

We recommend that a nonpartisan board of directors be appointed by the President with the advice and consent of the Senate. Members of this board should be men of outstanding experience and recog-

nized leadership in the field of manufacturing, fuel, commerce, transportation, communication, finance, and agriculture, and they should be nominated by the President from lists submitted by representative national organizations competent in those respective fields.

In addition, the Secretary of State, Secretary of Commerce, and the head of the Export-Import Bank and perhaps the Secretary of the Interior might very well serve as ex-officio members of this board.

The board shall be presided over by a chairman appointed by the President and he shall be the chief administrator of the European recovery program. Other members need not be full-time employees.

This board should be directly responsible to the President, but should also be required to send detailed periodic reports of its activities and recommendations to the Secretary of the Senate and the Clerk of the House of Representatives, with a copy to the chairmen of the Appropriations Committees of the Senate and House.

These reports should be made not less frequently than on a quarterly basis.

The corporation's board of directors should be given all necessary powers to carry out the economic-aid program, including application of the following conditions, as well as authority to select its staff and appoint and remove administrators and other representatives in countries receiving such economic aid. This corporation could deal on a business basis with the countries receiving economic aid, and extend such aid on the basis of conditions which would protect American taxpayers on the one hand, and on the other accomplish rehabilitation within the countries which receive such economic aid.

In connection with the actual obtaining of goods to be used for reconstruction and recovery purposes in nations receiving American economic aid, all purchases, either in the United States or other countries, should so far as practicable be made by the United States organization, utilizing, however, private channels of both production and distribution in the United States and recipient countries.

A word about the cost.

The State Department has suggested a figure of \$6,800,000,000 for the first 15 months. No one else has the information to check this figure. Certainly we cannot say whether it is too much or too little.

The only position we can take, as experienced producers, is that the appropriations should be made on the not-to-exceed basis and expenditures should be limited to necessary aid.

The National Association of Manufacturers is convinced that the cost of the European recovery program will be much less if it is administered by a board well qualified through long experience in production and distribution.

In conclusion, may I say the National Association of Manufacturers recognizes in the foreign situation today the existence of a very real threat to America's welfare and security.

Under our recommended approach to this matter—which could be termed an incentive approach—the continuance of aid to eligible nations would depend upon the results achieved by them.

Certainly, if the American people are to provide the resources, they are justified in insisting upon performance.

There is always the problem of inflation which has already risen to uncomfortable heights in Europe. Should the inflationary spiral continue, disaster would be the result, and I am convinced the repercussions would be felt here in America.

The National Association of Manufacturers is all for the Marshall plan, provided proper safeguards are included.

Thank you very much.

Acting Chairman LODGE. Thank you very much, Mr. Schell, for your very interesting statement.

We have a sort of custom in the committee to start off with a 5-minute period, to allow each member to ask questions.

I will first call on Judge Kee.

Mr. KEE. Mr. Schell, I was very much interested in your statement. I think it was a very fine statement, indeed.

In looking over the list, however, that your statement contains, of the things which you believe the other participating countries should be required to do. I note that you have quite a number of items there. Some are conditions precedent to the aid and others are things that should be carried out during the time the aid is being received.

I just wondered if you have looked through what we call the administration bill, we have before us, and have noted a great number of the conditions set out by you are already covered in the bill?

Mr. SCHELL. I have examined the bill, Congressman, and I believe that these stipulations which we make are the practical answer to the economic administration of this bill.

Let me emphasize that we believe the Administrator of this bill should be prompted by purely economic and business points of view.

We believe that there are certainly very strong political implications which necessarily the Administrator in all probability would not be competent to deal with.

We believe that foreign policy, for instance, which emanates from the President, should come down through the Secretary of State and really be presented to the Administrator of the European recovery program. That would give him a foundation of foreign policy to operate within.

Then his practical application of his administration would be on purely economic grounds.

Mr. KEE. I take it you agree that if any part of the program affects foreign policy, you believe those problems should be solved by the Secretary of State, speaking for the President?

Mr. SCHELL. That is right. We believe that this board of directors with the Administrator would pass on all problems, that the Secretary of State along with the Secretaries of the other departments will sit with the board ex officio, but without vote; that they will have complete freedom in the meetings to express themselves. Any intelligent Administrator would invite and would want that. They certainly can and will, in my judgment, in a practical way, always work out their differences.

Should, however, they come into a problem that they really cannot agree on, the basis of which is foreign affairs, then in my judgment it must go to the President.

I do not foresee much of that.

Mr. KEE. Of course, that is a provision, to make the President the final arbiter of foreign policy.

You understand, Mr. Schell, that in making stipulations or conditions upon which we are furnishing this aid, it is relatively easy to make negative conditions. We can present conditions and stipulations of things these countries cannot do, but we run into difficulties

when we make a positive condition of things they must do as a condition to receiving this aid.

Whenever we impose a provision that requires legislative action on the part of these nations, we run into difficulties there.

Mr. SCHELL. We are obligating ourselves to things which we must do, too.

We have no desire to interfere with the economies of these countries. As I said before, the implication is very clear that we would be assuming the responsibility for the economic operation of those countries, which we must avoid. However, I must point out that these European countries are interfering very much with our economy and we would be doing much better if those countries could take care of themselves. Their interference with us is very pronounced. We must negotiate our problems with them, in purely an economic way, to fit within the established foreign policy which is set down by the President through the Secretary of State.

Mr. KEE. That is true but the need for this aid in Europe is very urgent at this time and if we impose a condition that requires positive action upon the part of their legislative body, before they receive this aid, we are going to run into difficulties and it may be months before they can get their parliaments to act.

Would it not be just as well if we impose the condition and get the agreement of these countries in advance that they will do these things, and furnish the aid in the interim?

Mr. SCHELL. I do agree with you. However, we are obligating ourselves positively and there is no contract in American law that would ever stand up if it did not have mutuality and we must keep our eye on that.

American businessmen have successfully done a lot of business with all countries in the world and I for one have confidence, and I am sure you gentlemen do, in their ability to negotiate on an economic basis and still keep their confidence. We must place in the hands of competent businessmen to carry out what seems to me to be a business contract. I think they will work that out.

Of course they want the good will of these people; they have always had it and they have earned it. I do not see any great difficulty in that.

Mr. KEE. I agree with you.

Acting Chairman LONGE. Mr. Jonkman.

Mr. JONKMAN. I would like to pursue that inquiry just a little further. It seems to me you have stated it very aptly on page 9 when you say:

It must be understood that this trend must be started before any loans are placed by this country.

We have had considerable discussion here as to which comes first, the hen or the egg. However, there is a feeling that either you must not give them anything until they put their house in order, or just the opposite.

What you say there is, there must be some definite steps in that direction; isn't that right?

Mr. SCHELL. That is right.

Mr. JONKMAN. So as to give a sense of guaranty that it is going to be done.

In that paragraph you speak particularly of currency reforms and balanced budgets.

Would you say, for instance, in the matter of France, the devaluation of the franc is a step in that direction and some guaranty of an intention to put their house in order?

Mr. SCHELL. Yes; I would, Congressman. I spent a good deal of my life in these countries and I know them reasonably well and I guess I have a foundation of sympathy which is broader than that of a great many other people who have not had that experience.

I was in France last year, and many of you gentlemen were, incidentally, too, and I was glad to see that you were.

Anyone who has been over there in the recent past, knows how ridiculous the official rate of the franc was. I certainly feel devaluation was a step in the right direction. My only question in connection with it is, whether it was done quite properly, and whether it was a method of circumventing the fund, and something which might embarrass the operation of the fund. I say that is a question.

Mr. JONKMAN. In order for me to fully understand what you mean by that, let me put a hypothetical case to you.

Last week, before the actual devaluation of the franc, there was of course, opposition from the United Kingdom, to that, and the claim was made some time after the step had been taken that France did it to gain commercial advantage in the export world. Would you feel that the opposition of Britain toward France might be because of this commercial advantage in foreign trade and that in that way it is not a sound step in the right direction, proceeding from the right sources?

Mr. SCHELL. Well, I do not exactly know what you mean. France is dependent on foreign trade and the thoroughly impractical rate of the franc just prohibited foreign trade.

The vintner in France today has plenty of wine but he would not sell the wine for francs because after he gets the francs and the period between, the francs lose value, and the wine has a more stable value.

If you want wine now, you have to go to the vintner and exchange the bottle because the bottle is very important to him.

Those are practical problems.

Certainly there is a ready market waiting for French wine in this country, as soon as there is a more realistic rate of exchange, so the vintner is willing to exchange his wine for something better.

When you get to the currency problem, it is my best judgment, Congressman, that the problem there is production. After all, they cannot eat this money. They cannot clothe themselves with it. They can't do anything with it. It is like a cigar coupon. If you have a lot of these coupons called money around and you do not have the production to exchange them for, it will naturally result in inflation, so we must get production going.

Mr. JONKMAN. The premise upon which the Marshall plan is based is self-help and mutual help, related to each other.

Was the attitude of England and France, in this franc matter, one of self-help, and mutual help, or was it still the old struggle for economic advantage?

Mr. SCHELL. It was obviously not mutual. That is what I pointed out. If it had operated under the fund, then I think there would have been a general devaluation. I don't know whether the devaluation is going to succeed in the long run, although I consider it a good measure.

Let us go back a few years to the functioning of the reciprocal trade agreements. If we look into the record of that we find that in practically every case where a reciprocal trade agreement was completed, that within a matter of days and weeks, each country and practically every country without exception devalued its currency, to give themselves an advantage, which the other country did a week later.

We all know how Hitler's Germany set up some 28 different valuations for the mark, until it was so complicated that no one could follow it. That was all currency manipulation. We must get that straightened out, and it is not easy. The fund is the first international attempt to do it.

Mr. JONKMAN. We should not be too complacent about accomplishing through the Marshall plan in a year or two that which has not been accomplished during hundreds of years.

Mr. SCHELL. That is right.

Acting Chairman LODGE. Mr. Jarman.

Mr. JARMAN. I am glad Judge Kee asked you about the connection of the State Department with this program because I evidently misunderstood your statement. I gained the impression that this new bureau that you suggest was to function entirely independently of the State Department. It would have a group in each country, would have no connection with our embassy and they would be two different representatives of our country.

I believe from your answer to Judge Kee, that I was mistaken in that.

Mr. SCHELL. You are, and you are not. I will try to clarify it again, Congressman, if I may.

It should not be a bureau, it should be a corporation. It should operate completely independent of the State Department on all economic matters. However, it should operate with the advice of the State Department, and if any of its approaches in any way would embarrass our foreign policy, which the State Department is protector of, then the State Department must come in and discuss the thing. If they cannot compromise their differences, they go to the President.

Insofar as the important detailed operation is concerned, as I see it, in foreign countries, I believe that ERP should have its own office representation with the embassy or with the mission and certainly they, both having the same broad interests, would work very well together.

Businessmen are accustomed to doing that and I anticipate no problems at all. Businessmen would certainly lean on the embassies for their political views and there is a great amount of political implication in these things of which we are thoroughly aware.

We do not believe necessarily that political competence would rest in the Administrator at all. Therefore, we believe he should have nothing to do with it.

Mr. JARMAN. The Administrator should have nothing to do with what?

Mr. SCHELL. With the political affairs.

Mr. JARMAN. He would look largely to the State Department for that phase of it?

Mr. SCHELL. That is right.

Mr. JARMAN. I find myself in agreement with nearly all of the desirable recommendations for improvements that you make in those

countries. I also find myself in agreement with your statement to the effect that the American welfare and security is concerned. I feel we have much more than a humanitarian stake in this thing. I mean, we are looking out for ourselves, as well as toward doing some good for those countries.

You probably would disagree with my fear of the danger that some of your suggestions might slow down the progress of the program to such an extent that Europe would crash, be dominated by communism, and if that should happen, would we not be in a better position if we did not require so many improvements?

Mr. SCHELL. There is a danger in almost all of those things you have put in your statement. There is no question about it.

My own feeling is, through experience in those countries, you must be very definite with them in your negotiations. These things in my judgment are all very desirable and should if possible be actually written into the bill. I have had a lot of experience negotiating with people over there and I know of the impracticability of a great many of those things in stipulating it beforehand, too hard-bound. However, I believe the key to this problem is selecting the proper Administrator with his advisers.

Mr. JARMAN. I thoroughly agree with you on that.

Mr. SCHELL. I have confidence in the American businessman to the extent that he can properly negotiate, because he has in the past properly negotiated and he has come out pretty well. I will place my confidence in him. He is in there on an economic basis and he will come out all right. I am not afraid of that.

Mr. JARMAN. I am in thorough accord with that.

Acting Chairman LODGE. Mr. Javits.

Mr. JAVITS. Mr. Schell, the motivation of this program being to restore European production to something in excess of 150 percent of 1939, do you see any threat to the American businessman, if we are successful?

Mr. SCHELL. No. After all, all our economies have risen tremendously. The world is progressing. There is no question of restoration over there. As you point out, you must go beyond it. You mentioned 150 as the figure. I don't know whether you mean that.

Mr. JAVITS. Of course, that varies.

Do you think we will have undue competition in the export market of the world if Europe is restored to the extent mentioned?

Mr. SCHELL. We are not afraid of competition. They are. That is why they have cartels. That is what has made American industry keen. That is why American industry can and does produce more than industry in any other country. Competition is the answer to it.

Mr. JAVITS. Do you think that marks a rather radical change in the world's economics, that the United States no longer feels it needs protection, but the Europeans feel they need it?

Mr. SCHELL. The United States does not fear competition but I did not say we did not need protection. That suggests a rather complicated tariff discussion which purely as a timesaver we should avoid I believe.

Mr. JAVITS. You feel we need have no fear of competing in the export markets with that restoration of European production?

Mr. SCHELL. Not at all.

Mr. JAVITS. Do you regard the International Trade Organization as an essential part of the European recovery program?

I noticed what you said about the NAM being in favor of that.

Mr. SCHELL. I am very much in favor of the International Trade Organization but to give you my own opinion of that, I think it has to progress slowly. I have been rather close to it. It is a tremendously complicated affair. I believe that it will accomplish a great deal over a long period of time and the greatest benefits that we will derive in the foreseeable future, are the benefits of sitting around a table, discussing our problems. However, I do not think we should come to a lot of specific conclusions for a while.

Mr. JAVITS. Do you feel it is necessary, in order to have some success with a European recovery program.

Mr. SCHELL. I think it would help a great amount, to continue.

Mr. JAVITS. I note what you say with respect to a commitment that the foreign countries will not undertake further nationalization programs. I ask you whether you would include in that, programs for the large-scale development of power, such as the French are now contemplating?

Mr. SCHELL. Of course, we industrialists in the United States believe in free private enterprise and we believe nothing should be nationalized. We have some nationalized power in this country, but we have the great majority of it in private hands. We believe and are convinced that it is far better to keep government out of active business, and to leave it to free competitive enterprise.

Mr. JAVITS. Would you have any suggestion for them if they would say, and it should appear, that they couldn't get private enterprise to undertake such a broad-scale project in that country? What could we recommend in its place?

Mr. SCHELL. I think again the businessmen of this ERP Administration that I set up, could give them very good information on that. I am convinced that there would be forthcoming from the United States, a great amount of investment willing to go over there. I refer to private investment. That is, as soon as they get their economies in some shape. We have proven that. We have private investments in other countries. I believe the American businessman is the first one to do that.

Mr. JAVITS. However, would our minds be open on that subject? In other words, we would not keep these countries from undertaking something they needed for their economies because it was just impossible to do it in the exact way we wanted it done?

Mr. SCHELL. Mr. Congressman, my experience with businessmen is that their minds are always open on every subject.

Acting Chairman LODGE. Mr. Gordon.

Mr. GORDON. Thank you very much for your statement and your views.

I have no questions, Mr. Chairman.

Acting Chairman LODGE. I would like to ask you a question or two, Mr. Schell.

On page 2, your recommendation 5, at the bottom of the page, states that the countries refrain from exporting products received under the program, and from exporting identical products produced domestically.

That raises a very interesting and complex question for two specific reasons. In the first place, it is my hope and I believe it is the hope

of many other people, that when western Europe has built up capital-goods surpluses, the agricultural surpluses of eastern Europe when they are built up will come and get those capital-goods surpluses, and in spite of the "iron curtain," a healthy restoration of trade can be achieved. ERP will have a much smaller chance of success unless that is true.

The British have negotiated an agreement with the Russians, providing for the exchange of wheat for capital goods. Would it be your intention that we could not replace those capital goods which the British deliver to the Russians or would you say that would be all right in that case, since the Russian delivery of wheat relieves us of the burden of providing more wheat, and we are in short supply of wheat?

My question is a double-barreled question; first, the general aspect of it, and secondly, the more specific aspect of it.

I would like to have your comment on that.

Mr. SCHELL. Mr. Chairman, in the first place, this paragraph means that we should not send over to England, let us say, a specific item which they would take and move to another country. We believe that that would be confusing, in taking out from our hands the actual negotiations because it is natural to suppose that we could have traded that article to that other country ourselves.

This "iron curtain" is a very interesting problem. To any student of the economies of Europe, it seems to me that it is perfectly obvious that Russia has carefully set up a division which is popularly known as the "iron curtain," between the east and the west. The east is the bread basket or food-producing area; the west is the industrial area.

The east has practically no industry. The west has practically no food.

Only one country, France, with the help of north Africa, can feed itself.

Germany had very little food and what she did have was in east Prussia, which has been amputated. So very carefully you will see that the division has been on the basis of food and industry.

I am a great believer in fundamental economics having their way, let us say, in spite of us.

Acting Chairman LODGE. Would you call yourself an advocate of laissez faire?

Mr. SCHELL. No, indeed not. I am not for laissez faire, at all.

I feel that if a fellow stands on the eastern border line with four ham sandwiches and a fellow on the other side has four hats, and the two would like to make a trade, they are going to make a trade and I do not think anything is going to stop them.

Now, this "iron curtain" affair brings this thought to my mind. I was very much in favor of the approval that came out yesterday on the "radio front," or whatever you call it, used in disseminating our information.

I think it would be a good idea to take about 50 B-29 bombers and go over every thickly-settled part of Russia, and dump tons of Sears Roebuck catalogs down to them.

I think that would be the greatest thing in the world for them.

Acting Chairman LODGE. May I say, Mr. Schell, that 1 and 2 of my colleagues here as members of the Mundt committee, will certainly consider that suggestion.

Mr. SCHELL. It seems to me a perfectly proper way of showing what available production is.

Acting Chairman LODGE. I was anxious, Mr. Schell, to raise this question. I sympathize with the preoccupation which you express in this particular paragraph, but I am inclined to think that if we were to interpret that as you have stated it, we might very well be handicapping ourselves and preventing what we, in fact, wish to accomplish. I am sure you will agree that one of the many causes which has brought Europe to its present prostration is the fact that they can no longer draw on the breadbasket of eastern Europe as they did.

Mr. SCHELL. I think we have a lot of things eastern Europe wants and if we trade intelligently we will come out all right. I have confidence in our traders if we select the right ones.

Acting Chairman LODGE. Do I understand that you would encourage the nations participating in the European recovery program, to trade their capital goods surpluses for the agricultural surpluses of eastern Europe, even though it would mean in the end—perhaps through substitution—an additional drain on our capital goods in this country? Would you subscribe to that?

Mr. SCHELL. The drain on our own capital goods in this country is set up by the limitations of the plan itself and those limitations will have to apply.

Acting Chairman LODGE. There is no obligation to spend the full amount.

Mr. SCHELL. No, indeed not.

Fundamentally, Mr. Chairman, it is a matter of foreign policy as established here today, as I understand it, that we are very much against bilateral agreements. We are for multilateral agreements. Unfortunately, there has been a maze of bilateral agreements going on all through Europe.

I was in Sweden when Sweden was negotiating with Russia, in the Russia-Sweden agreement, which of course was a bilateral agreement. However, definite and specific articles which we send to any of these countries in my judgment should not be traded out to other countries.

If, on the other hand, the Administrator—if this is set up as an economic and business administration—sees it wise in specific cases to have it done, I would feel he had good reason to do it.

Acting Chairman LODGE. If you had confidence in the Administrator, you would not write this in the legislation?

Mr. SCHELL. I do not believe so. I think these things must be accomplished through good negotiation. That is why I think it is so important for us to see that we do carefully choose the Administrator and his board.

Acting Chairman LODGE. I agree with you.

Thank you very much.

Judge Kee.

Mr. KEE. Returning to the question we were discussing a moment ago with reference to the stipulation you advise be placed in the agreement or, according to your statement, there should be changes in the governments over there before this aid is granted.

I notice you have 11 stipulations, beginning on page 2.

A while ago, I mentioned that some of these were provided for in the bill we now have under consideration.

As a matter of fact, there is only one bill providing for this program. That is what we call the administration measure, while the Herter bill merely provides for the administration of the program.

In the administration bill there are certain stipulations laid down, I think eight in number, providing for bilateral agreements to be entered into between the Administrator of the program and the various participating countries, before this aid is proffered.

The bill, I think, provides for most of the stipulations that you have here.

I think if you will read the bill carefully, you will find that the other suggestions you make can be arranged and put into the agreements bilaterally between the Administrator and these various countries. That is, where these countries cannot make the necessary changes by legislation of their parliaments, they will agree to make them, not pending the granting of this relief, but while they are receiving the relief.

Would that be satisfactory to you, do you think, to include those in the agreements?

Mr. SCHELL. As I have said, Mr. Congressman, if we choose businessmen who have had vast experience in negotiating their own business agreements there, and as I conceive this to be a business agreement, I see no reason why these fellows should come out second. I have confidence in them. I think they will do all right and I think they are going to explain these things very thoroughly and get good quid pro quo in their negotiations and agreements.

The protection they will have is definite performance. We have to start this thing off possibly with less in the way of assurances than we would want, other than with the results of their convictions of our arguments. However, after it gets going, we will have production goals which they will have to meet, I hope, and unless there is some real reason that had not been expected or anticipated and they do not make their production goals, then I think that the Administrator is going to say, "Well, now, we better get together and talk about country A, whether we will continue with them."

That is the time unquestionably that the State Department will contribute a lot from their point of view, whether there are other than economic reasons as to whether help should be continued.

Mr. KEE. That very action is contemplated in the measure. It provides for observation on the part of the agency of the United States Government and full reports of the performance under this act.

Mr. SCHELL. That is perfectly true but the big difference between our proposal and the proposal of the administration, we do have a board of directors of businessmen, per se, whereas the administration provides an advisory group including representatives of Government departments.

Acting Chairman LODGE. Will the gentleman yield?

Mr. KEE. Certainly.

Acting Chairman LODGE. I was going to ask you, Mr. Kee, whether you feel absolutely sure that the so-called Herter bill is nothing but an instrumentality bill, or whether it is not in fact a substitute for the administration proposal?

Mr. KEE. As far as the administration of the program is concerned, it is a substitute suggestion.

Acting Chairman LODGE. It covers the same field, only from a different approach.

Mr. KEE. As far as administration is concerned, it covers a different field.

Acting Chairman LODGE. You feel that it is just an instrumentality bill?

Mr. KEE. That is right. It does not cover the program itself at all, only the administration.

Mr. SCHELL. It seems to me that the economic problem is the real one in the administration, subject to the foreign policy set down by the President, through the Secretary of State.

Therefore we should reach out, in my judgment, for our best competency in business administration, which I further believe rests with industry.

Conversely, I feel that the administration, insofar as the political problems are concerned on foreign policy, the competency there rests with the State Department and with other branches of the Government. Therefore, I think they should control, insofar as foreign policy is concerned.

Mr. KEE. Then it is your opinion that as far as the execution of the program is concerned, the questions regarding foreign policy of this country must be taken through the Secretary of State to the President?

Mr. SCHELL. That is right. However, I feel the program will fail unless we have good businessmen operating the economic part of it and that is what we are trying to emphasize.

Mr. KEE. I get your idea there.

Now, specifically you are recommending the formation of a corporation; is that not true?

Mr. SCHELL. Yes, sir.

Mr. KEE. And have it chartered with all the powers of a corporation?

Mr. SCHELL. Yes, sir.

Mr. KEE. And not an independent agency of the Government?

Mr. SCHELL. No, sir.

Mr. KEE. Would you comment upon your reasons for having this instrumentality of administration, a corporation, instead of making it an independent agency of the Government, and letting Congress give it the necessary flexibility?

Mr. SCHELL. The reason we believe in having a straight corporation—which would be, of course, a Government corporation—is that we believe the administration is thoroughly an economic problem and that we should bring into that, businessmen who are accustomed to that type of negotiation. We believe that the competency rests there and we believe they are the ones who can make the administration of the ERP economically a success.

Mr. KEE. How many men would you have on its directorate?

Mr. SCHELL. I would suggest seven, representing the various branches of our economy. That is a flexible rule. You might want to add to that also. I have suggested also that there be representatives of the Secretary of State, the Secretary of Commerce, the Chairman of the Export-Import Bank, and in all probability, the Department of the Interior, as advisors, sitting on the Board without vote.

Mr. KEE. The seven Directors would be the voting section of the body?

Mr. SCHELL. That is right.

Mr. KEE. Would you make that corporation the policy-making body, as to the actual duration of the relief?

Mr. SCHELL. Oh, yes. Of course, it would be under instruction from the Congress, which will come through the bill. Anything having to do with economics, I would give them broad powers. I would recommend that.

In the last analysis, the bill that does come from the Congress will describe and circumscribe their powers.

Mr. KEE. Then your proposition includes making this Board of Directors the policy-making body in all things with the exception of questions involving foreign policy?

Mr. SCHELL. Yes, under the limitations of the act; yes, sir.

Mr. KEE. I think that is all, sir.

Acting Chairman LODGE. Mr. Jonkman.

Mr. JONKMAN. Mr. Schell, I would like to go a little further into your statements on page 10. It seems to me we will have to have a definite foreign policy there, which we have not had for a long time, or admit a contradiction.

In the second full paragraph you say:

This Government should not dominate or interfere in the political life of any other government. Furthermore, we have no desire to manage the economy. All of this would imply a responsibility which we should avoid. However, the recipient countries must make such reforms as are necessary to put their own economies on a more sound basis. Otherwise, no amount of goods or money provided by us will achieve economic recovery in Europe.

I am in full accord with that paragraph.

For that reason, the NAM recommends that as a condition of economic aid, the nations receiving such aid from the United States should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free private competing enterprise.

Now, one of the participating countries is going to receive just exactly one-fourth of this \$6,800,000,000, or in fact just a fraction more. It is \$1,720,000,000.

That country has embarked on a program of nationalization of industry policy. They have it under what they call the government there. We would call it the administration here.

Are you not vetoing the entire policy of that government with that condition and are we not getting ourselves into a difficult situation? In other words, are we prepared to carry that out and say, "No aid to any country that proceeds with nationalization of industry?"

What is your comment on that?

Mr. SCHELL. Well, Congressman, I do not think we are getting ourselves into any difficult problem. I think we are in one. I think we must leave it to these negotiators to go over there and try to sell them. I think the Americans are reasonably good salesmen. We must sell them on the idea that we are not getting our production in that way. We must urge them to stop what they are doing.

They have had little experience with this nationalization program because it has just been put into effect, and certainly they have not increased their production as a result of it.

England, to be specific, has increased her coal production from the low production of postwar. However, their coal production is not nearly up to the prewar production.

I believe that through negotiation, we have to impress our philosophies on them. However, in the last analysis, they will follow what they think best for themselves.

Let me reemphasize, however, what I said before: Production is the answer to this, and I am convinced that your negotiators, representing the United States, would set a production goal to be reached. If they reached it with their nationalization, well and good. We do not have that confidence.

If they do not reach it, then would be the time when your Administrator would get his Board together and discuss the problem of this country, and then naturally would discuss with the Secretary that if there are any other reasons to continue this, that is fine, but the economic reasons are now exhausted.

Mr. JONKMAN. I agree with your line of reasoning but are you not receding from your position that they should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free, private competitive enterprise?

Are we prepared to carry that out, or should we be?

Mr. SCHELL. Yes; if the results do not deliver the production we anticipate and which will be a part of our contract, then if their results do not produce, then I think we should carry it out. In my judgment, this will be the reason. They may not think so but I am convinced that it will be the reason. I personally do not think you can produce under that and I think I voice pretty generally the conviction of the American manufacturer, that you cannot produce through nationalization.

Mr. JONKMAN. If we project that idea, are we not saying we are with the Conservatives and not with the Labor Party?

Mr. SCHELL. We want to change it, but we do not necessarily make it a definite condition of the agreement. We proceed with that, Mr. Congressman, by setting up our production goal. If they do produce under their nationalization program, that is fine. We are convinced that they will not.

Mr. JONKMAN. Mr. Schell, the point I am making is, when we start on a definite policy, the moment we find our policy is not being complied with, will we say, "We quit."?

Take in the Greek-Turkey loan agreement, a definite policy was announced, pertaining to Russia, yet in the Marshall plan we do just the opposite. We tell Russia, "You may come in if you want to and we will give you anything you want."

Mr. SCHELL. I believe that we should have production again as a yardstick. The whole problem to me is a matter of production and it does not matter to us how that production comes. If it comes through communism—and I for one hope Russia will produce—

Mr. JONKMAN (interposing). That is true if production was the whole answer but production is not the whole answer. I tried to state here the other day that the malady in Europe is commonly called a shortage of dollars. That has been analyzed as an excess of imports or exports. In other words, that they must be able to increase their exports and decrease their imports or bring them into balance.

Even if they had production in France, which they have not, because of price control they would still have to have this currency equalization in order to be able to export because under their present system they have to charge twice as much for their exports in dollars, which puts them out of the market.

There is another element that enters in. Then we will say, "Well, go ahead and nationalize. We will put our money in just the same."

Mr. SCHELL. I do not mean to infer that I encourage nationalization. It is quite the opposite.

On the other hand, we do not want to run their economies, because as I pointed out we do not want to take the responsibility of it, and we should avoid that.

We should be very careful that we set up a production goal which must be reached in order to get the part of the relief which is next coming.

It seems very simple to me to liken it to borrowing in the building of a house. When you make a loan to build a house, you get so much when the first floor is completed, so much for the second, so much when the roof is on, so much when the plumbing is in, and so on.

When you get the second story completed, you get your second payment and if you went then and tried to get the third payment, the bank will say, "Is the roof on?"

He will say, "No."

The bank will say, "Well, you come around when it is."

If you do it like that, and they can meet those goals under nationalization, let them do it. They will be satisfying us and we will not be interfering with them.

On the other hand, we will be encouraging them and exposing to them the way this production we are giving them or helping them with, has come about under our economy.

Mr. JONKMAN. You say "unless the nationalization programs produce more than the competitive free enterprise will do," when you know it can't.

Mr. SCHELL. I think from my testimony here, you know broadly how we mean it.

Mr. JONKMAN. I believe so, yes.

Mr. SCHELL. We should say, "You shall produce, regardless of how you do it. We think you are making a mistake in nationalizing and we will tell you why."

Their prerogative is to run their own country and if they still choose to nationalize and they do not produce in accordance with the stipulated schedule, then they are going to forego our further aid.

Mr. JONKMAN. I do not think we can get away from it and with that I will conclude the questioning. I do not think we can get away from the fact that we are, if we pursue that policy, taking away the basis of the entire present government in that country at the present time.

Mr. SCHELL. We do not quite agree on that, Congressman.

Mr. JONKMAN. Thank you very much.

Acting Chairman LODGE. Mr. Jarman.

Mr. JARMAN. It so happens that I see eye to eye with both of them. There is not anybody in this room, even you, Mr. Schell, who has less regard for nationalization than I do, I am sure. Yet I share the doubt expressed by my colleague down there.

Mr. JONKMAN. Will the gentleman yield to me?

Mr. JARMAN. Yes.

Mr. JONKMAN. You cannot look in two directions with those two eyes that you have.

Mr. JARMAN. I do not believe one particle in nationalization yet I share your doubt in carrying out what Mr. Schell suggested. I mean

I share your doubt as to whether it is to the best interests of this program to do it, under the present world conditions that we in this country did not have anything to do with; that is, as far as nationalization is concerned.

Mr. JONKMAN. It should be a matter of conversation and conciliation and reconciliation.

Mr. JARMAN. I agree with that, too.

Mr. SCHELL. It seems to me perfectly clear, however, that you have the protection of the stipulated production goal, and whereas you may warn them that in your conviction and your experience they will not achieve this goal under their nationalized program, that in the last analysis, when and if they do not reach their goal, then the aid will be withdrawn.

I think that is the protection which we need and on the other hand it takes us away from the responsibility to undertake to dictate to them how they should run their governments.

Mr. JARMAN. In other words, if they can do it under nationalization, that is all right.

Mr. SCHELL. That is all right, but I do not believe they will.

Mr. KEE. If they reach their goal, it should not matter to us which road they take.

Mr. SCHELL. It would not. I am for a strong Europe and I am for a strong Russia, if you can do anything with it.

Mr. JARMAN. You are for a strong Europe. You just said "business wants a strong Europe," and I certainly agree thoroughly with that, and I heartily share your confidence in American business, too, although I have not had nearly the experience in it that you have.

Now, this statement about your confidence in the businessman trading behind the "iron curtain," do we have much trade behind the "iron curtain" now?

Mr. SCHELL. Yes; we do have considerable trading. There are still some shipments going on. Amtorg has a purchasing department here and they buy. Of course, there are certain restrictions that have not been lifted since the war, and I think that our American businessmen have come out reasonably well on that.

Another reason, outside of any emotional or sympathetic reason I have for seeing these countries strong: After all, we are looking for foreign trade and we want strong customers. Everybody wants his customers strong enough to buy well from him and pay his bills.

Mr. JARMAN. If the "iron curtain" proceeds across the rest of Europe, what effect would that have on our trade?

Mr. SCHELL. As I have said, I have been over there a lot in the last few years and I have had a reasonably good background of many years of knowing those people, and so on.

Mr. JARMAN. That is the reason I am asking this information. I wanted to get your ideas.

Mr. SCHELL. Well, it is only my opinion.

Mr. JARMAN. I understand, but it is a competent one.

Mr. SCHELL. I am one who believes that this so-called communistic surge in these countries is very much exaggerated. I remind you that in every country where there was a free election, communism went down the other way. That is the first point.

The second point is, I have sort of a conviction that most of this labeled communistic strength or weakness over in Europe is really one of these "agin the Government" moves.

The instability of European governments is the most pronounced thing today that I can think of. We do not have a stable government in all of Europe, not one. With all due respect to our good French friends, every time anyone has a new idea in France, he starts a new political party. I think they are suffering from that. There is no place where political confusion does not exist.

Mr. JARMAN. Has there been a free election behind the "iron curtain"?

Mr. SCHELL. No; not behind the "iron curtain"; no.

I think you had one in Hungary and that went very much against communism, but they took over anyway. That was a matter of force.

Mr. JARMAN. It was just before the "iron curtain" surrounded the country.

You meant the elections outside the "iron curtain"?

Mr. SCHELL. Yes.

Mr. JARMAN. With your background and as a businessman, I would like to have your opinion on this: Several of us visited six countries behind the "iron curtain." If you meant that the main trouble with the Communists in the "iron curtain" countries was unrest with the government, I cannot agree with you. There is a natural reason for that unrest, but I think the NKVD is the one thing that produces communism more than unrest, behind the "iron curtain."

Mr. SCHELL. I am afraid we in our free economy, live in a sort of a goldfish bowl. We are open for anyone to examine it. We are dependent upon statements made by high Government officials to learn about the Russian economy. From that statement we must believe, or at least we have been told that Russia's economy is far more productive than our economy, yet we find ours is in the peculiar position of being called upon to supply the production for other countries, including Russia.

There has been built up over a period of years, in my judgment, a philosophy which has no logic and which is very confusing.

I am a member of the International Labor Organization, representing the American employer. I attended the conference in Brussels last year. I had been going around to many countries, talking on free private enterprise, as we in industry in America see it.

I spoke to a large meeting in Brussels of industrialists and they were good enough to invite the 22 nations that attended the International Labor Organization conference, and as you know that is composed of representatives of labor, government, and employers.

It gave me a pretty good audience to talk to regarding private enterprise.

My major impact on that discussion, of course, as I think I have said before, was the criticism of the cartel.

We are so convinced in industry in this country that if there is anything that will defeat free private enterprise, it is the cartel. A lot of people don't think industry thinks that way but industry is convinced of that.

That, of course, was the major push of my discussion.

After I had finished, a representative of the joint cartels asked a question which really was a defense of their whole approach and it lasted for about 30 minutes. I attempted to answer it as best I could.

Then there were some other questions.

Then the ex-Prime Minister asked me the following question. This is a question from a responsible man and a serious question. He said to me:

Mr. Schell, when you in America have your next depression, how are you going to help us Belgian people?

Now, that is a startling question to have a responsible man ask you.

Now, the implication is perfectly clear, that the taxpayer's money in Fairfield, Conn., belongs in part to the people of Belgium. I am sure he would be insulted if I ever suggested to him that the taxpayer's money in Belgium belonged to the taxpayer in Fairfield.

I answered him. I said, "Mr. Prime Minister, I have been going around through these countries talking free private enterprise for some time. I am an industrialist and I am certainly not going around heralding and forecasting depressions. We American industrialists do not think depressions are necessary. However, if one overtakes us, I am so convinced that the American people are going to be busy trying to get themselves straightened out, that they are going to have little time to take care of a lot of their friends in Europe."

That was the best answer I could think of.

The astounding thing is the honesty of his question and the fact that he was a responsible man. I think that our practices in not really rigidly writing business contracts based on economics, that this is the result of it.

That is why I would like to again emphasize that I think it is so important that the operative end of ERP, the economic end of it, be handled by competent businessmen who have had lots of training and experience in international contracts.

Mr. JARMAN. I believe everyone around this table thoroughly agrees with that, and not only do I agree with you, I believe that no matter which bill we pass, I believe that will happen, too.

That is all, Mr. Chairman.

Acting Chairman LODGE. Do you believe that this legislation should contain a provision that the agreements to be entered into should provide that when certain specified goals are not met, aid will not continue to be forthcoming?

Mr. SCHELL. On economic grounds; yes. I believe that should be. I do not know how you legislators would handle that. However, I would then yield to the over-all important foreign policy.

Acting Chairman LODGE. You do believe that we should provide in the agreements that unless they reach certain production goals, further aid will not be forthcoming?

Mr. SCHELL. That is right.

Acting Chairman LODGE. Suppose a certain country fails to meet a certain production goal but in spite of that it is felt at that time that it is still to our benefit not to allow that country to sink, would not such a provision bind us to do something which might be to our own detriment?

Mr. SCHELL. No; I think I have covered that, Mr. Chairman, when I said that from an economic point of view the Administrator would say, "No; we must stop."

Then the State Department and the President would come in on the political implications and make the over-all decision as to whether it fitted in with our foreign policy.

Acting Chairman LODGE. Would you try to make it a binding matter in the agreement?

Mr. SCHELL. I do not know legislatively how you would handle that. You legislative experts must find a way.

Mr. JAVITS. Would the gentleman yield for a question?

Acting Chairman LODGE. Certainly.

Mr. JAVITS. You certainly would agree, then, that we should proceed, if production goals were not obtained, aid would not be forthcoming?

Mr. SCHELL. Yes.

Acting Chairman LODGE. That would necessarily obtain.

Mr. JAVITS. Not unless we gave ourselves the option to terminate.

Mr. SCHELL. I think we must realize there are very complicated political implications here and that there may be a very good reason why the President of the United States in the final analysis would say that for furtherance of our established foreign policy we must go on somewhat longer, in which case the Administrator would go on.

Acting Chairman LODGE. The point I have been trying to bring out, and I believe Mr. Javits as a lawyer will be sympathetic with my point, is that we will not want to write things into the agreement which might later operate to our detriment.

We should make these things permissive rather than mandatory because it is hard to foresee what the circumstances might be at that time.

Although we might decide that there are certain conditions which are indispensable to success, there are others which are simply desirable and helpful but if they are not met it might nevertheless be better for us to keep on with the aid.

I think you agree with that, do you not?

Mr. SCHELL. I thoroughly agree with you, Mr. Chairman.

Mr. JAVITS. Accepting the desirability that production and therefore technical assistance from the United States is the big consideration, will you tell us to what extent you believe American industry would cooperate by affording for the use of this corporation, or Administrator, top-notch industrial and technical brains and how we could go about getting and soliciting that kind of aid in this program?

Mr. SCHELL. I am convinced that American industry will make available the top-notch people. American industry has a great deal at stake and it has the necessary competency.

When I agreed with the chairman a moment ago on writing this bill so it might not in any way embarrass us politically in the final analysis, I wanted to add to that that the whole problem as I see it is to get the proper administration. It must be top-notch administration. It is a gigantic test to properly negotiate.

American industry recognizes that and I am sure they will make available the proper men.

Mr. JAVITS. Will they make them available on a dollar-a-year basis or will they also be available if the men go on salary?

You remember the WPB in that regard. What do you recommend along that line?

Mr. SCHELL. Mr. Javits, I think you gentlemen should be careful in writing the bill, that you keep that door wide open. That varies so much with the individual. You do not want to rule out a man because he cannot afford to work for a dollar a year.

His corporation for some reason that I cannot foresee may not be willing or may not be able to afford to continue his remuneration. They might do it in part.

Therefore, it would seem to me we would have to get the administration we want and get it the best way we know how and I would certainly bait it out with the necessary pay to attract the men we want.

This think is so big that I would let nothing stand in its way.

Mr. JAVITS. You would be opposed to forbidding dollar-a-year men?

Mr. SCHELL. Absolutely.

Mr. JAVITS. Do you feel there is anything to the argument that those men whom you hire at only a dollar a year and who continue to draw a salary from their corporation have allegiance to their corporations that carries over into their work?

Mr. SCHELL. I do not feel that will be true of the type and scale of men we will get for this. I do not worry about that.

Mr. JAVITS. Do you think there is some figure we ought to set for the top man here, whatever he is called, which would exceed the \$15,000 or \$18,000 a year level? Do you think we ought to set a salary of \$50,000? Do you think that makes any difference in getting the best man?

Mr. SCHELL. I don't believe I would set it at any extravagant figure.

Mr. JAVITS. What would you suggest?

Mr. SCHELL. \$25,000, and if he needs supplementary aid, he can get it from his own connections and possibly he would have some himself.

After all, this is a patriotic duty, and I certainly think that industry, in speaking broadly, has such a tremendous interest that they are, just for pure economic reasons, aside from the patriotic reasons, going to come forward with their best.

We have never undertaken anything in my judgment as important as this and it must be administered by competent people.

Mr. JAVITS. At the foot of page 11, I see you make a statement about the dismantling of the German plants. You say that it is uneconomic to remove entire plants from western Germany to other nations.

We happen to be very much concerned with that program, Mr. Schell. I am wondering whether you have, in the National Manufacturers Association, any economic analysis of that, based on detail? If so, I would much appreciate your submitting it to us. It would be an analysis which would bear out in facts, that opinion.

Mr. SCHELL. I will see what I can give you on it, Mr. Javits. I will have to ask the staff, to see what they have.

You must understand, the National Manufacturers Association is not a full-time job with us. I was very much amused the other day when I saw a release on my appearance here, which described me in my connection with the National Manufacturers Association, and also president of Sidney Blumenthal.

I was surprised because I spend very little time in NAM.

Mr. JAVITS. Will you try to get that information?

Mr. SCHELL. Yes.

Mr. JAVITS. When Mr. Philip Reed testified here yesterday, we asked him about that part of the Administration's bill, which is before us, which deals with guaranties to American industry which

make investments in any of the countries we propose to aid under the European Recovery Program.

Are you familiar with that section of the bill?

Mr. SCHELL. Yes.

Mr. JAVITS. What I would like to know is what you people think about that and whether you have any more specific ideas on how it can be accomplished?

Mr. SCHELL. Mr. Javits, I cannot speak for the NAM on this because they have never made a study on it.

I have personally discussed this for some years. One of the biggest problems in doing foreign business is not credits, because we have reasonably good credit files, but when it gets away from the commercial and onto the political and the governments issue decrees prohibiting convertibility or the transfer of funds.

Commercial enterprise or industry is not equipped to take that risk. I think a very exhaustive study should be made to see how it is possible to set up some sort of a fund purely to protect against those political acts that have happened.

Mr. JAVITS. Now, this paragraph to which I have called your attention, which is section 7 (b) (3) of H. R. 4840, it sets up 5 percent of the amounts appropriated under the act for insuring just such things as you refer to.

Mr. Reed did not think it belonged here, that it was too complicated an item and should be treated in a more specialized way.

Now, the NAM represents the people who would be benefited here.

Do you not agree, Mr. Schell, that it would be very valuable if they could express themselves on this particular proposition?

Mr. SCHELL. I do, Mr. Javits, but I am convinced they will not be able to properly express themselves in time to suit your calendar on this bill. I agree with Mr. Reed, it is a very complicated subject.

Mr. JAVITS. Would you prefer, therefore, to see it omitted from the bill now and dealt with in a special way, all by itself?

Mr. SCHELL. Personally, and not speaking for the NAM, I think that is the practical approach. I am most sympathetic to it.

Mr. JAVITS. I know I am and I think most of the committee members are, but we are troubled about its reception by business, what they would do with it and how they feel about it. We want to make it work.

Thank you very much.

Mr. KEE. Mr. Chairman, may I make an observation?

Acting Chairman LODGE. Certainly, Judge Kee.

Mr. KEE. Mr. Schell, my attention was arrested by a paragraph on page 7 of your statement, which I think presents a challenge to the Congress of the United States.

With the permission of the Chairman, I will read it.

Briefly, we believe we must cut Government spending, reduce individual income taxes, adopt a systematic plan for paying off the public debt, stop inflationary monetary expansion, permit interest rates to seek their own levels free of Government control, and take such other steps as are calculated to put our own economic house in order, so that we may (1) provide the amount of foreign aid the Congress approves; (2) maintain the standard of living of the American people; and (3) arrest the inflationary spiral.

I think that presents quite a challenge to the party now in power in Congress.

I want to respectfully suggest to my colleagues on the Republican side that they write that on the bulletin board and put it over on their side of the House and say to their colleagues, "There, gentlemen, is the target; shoot."

Acting Chairman LODGE. Will the gentleman yield for a question?

Mr. KEE. Yes.

Acting Chairman LODGE. Is it your view that the President of the United States would approve such a program, bearing in mind his speech on the State of the Union?

Mr. KEE. I think he would approve of your "trying" to put one through.

Acting Chairman LODGE. Do you believe that the Administrator of this particular program should present such a program for combatting inflation within these countries?

Mr. KEE. The gentleman himself would not advocate that, no.

Mr. JONKMAN. Mr. Schell, in the discussion I had with you, I meant to emphasize in my question to you, that sentence upon which it is based:

It must be understood this trend must be started before any loans are pledged by this country.

You differentiate, of course, between loans and grants when you use that statement?

Let me say this. On page 2, the paragraph that the Chairman referred to

that the countries refrain from reexporting products received under the United States aid program, and from exporting identical products produced domestically.

I take it there you are having reference to aid. In other words, they are not to ship out anything they say they can not produce themselves and that they need in the way of help?

Mr. SCHELL. That is right.

Mr. JONKMAN. But on the other hand it would be most difficult to stop them from exporting identical products. If it was a loan, they have to export, and if they exported identical products—as long as it is not aid but something they produce themselves, under loans, of course you would not have any objection to that?

Mr. SCHELL. Yes; I would. I do not think they should export anything we send them at all. If they add to it and use what we send them as a raw material then then they should be perfectly free to export it. However, it would take away from our own control, our trading this item, whatever it happens to be, to the eventual country.

Mr. JONKMAN. Are you speaking of aid?

Mr. SCHELL. I make no distinction between aids and grants.

Mr. JONKMAN. If we loan a country money, certainly what they produce with it is none of our business, because it will be repaid.

Mr. SCHELL. This doesn't involve production; this involves taking the package as it comes to them and moving it over to someone else for a consideration and I do not believe that should be permitted.

Mr. JONKMAN. I am in thorough accord with you on that.

When you speak of these other things, on page 9, are you speaking of grants as well as loans?

Mr. SCHELL. I think that has a general application all the way through. I make no distinction between grants and loans, in the end result.

Mr. JONKMAN. I wanted to know that, because when the Paris Committee made its report, as near as I was able to ascertain, only about 25 percent of the amount called for—that was \$5,900,000,000—was for foods, feeds, and fertilizers.

I think by the time we get through with this \$6,800,000,000, more than half of it is for grants in aid and I would not be surprised if it got up to two-thirds, leaving only one-third for loans.

The Administration, of course, tells us that 20 percent to 40 percent of this \$6,800,000,000 will be in the shape of loans. Split the difference and make it 30 percent, it would still be 70 percent in the nature of grants in aid or just gifts.

Mr. SCHELL. I am encouraged in seeing us face this a little more realistically than we have in the past.

I think at the time of the British loan that unfortunately we did not face it with much realism. I had many discussions with Secretary Clayton about that at the time.

Of course, you know the position that was taken by the British, that it should have been a grant in aid. Whether it should or not I am encouraged now that we are facing these things a little more realistically. We break down, in my judgment, the normal confidence in loans, if we freely make them and do not expect repayments, and I think it is wrong.

Mr. JONKMAN. That is all, Mr. Chairman.

Acting Chairman LODGE. If there are no more questions, the committee will adjourn. Thank you very much, Mr. Schell.

It has been a most illuminating and beneficial discussion.

Mr. SCHELL. Thank you, Mr. Chairman, for your patience, and I appreciate the opportunity which your committee has afforded me to appear before you.

Acting Chairman LODGE. Thank you, sir.

(Whereupon, at 12:20 p. m., the committee adjourned, to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

The committee reconvened at 2:20 p. m., at the expiration of the recess.

Chairman EATON. The committee will be in order.

We are very glad to have our good friend Dean Acheson with us.

This is not a very large number of committee members here, but it is a select group, Mr. Acheson. You can see the large audience you have, which is another tribute to your immense popularity.

STATEMENT OF HON. DEAN ACHESON, MEMBER OF THE EXECUTIVE COMMITTEE, COMMITTEE FOR THE MARSHALL PLAN

Mr. ACHESON. Mr. Chairman, and ladies and gentlemen of the committee. May I start with a less serious comment? I remember many, many years ago I used to inhabit the old boathouse at Yale University. There was an old boat rigger there, and when we would come in, he would greet us with enthusiasm and would say, "Well, well, it certainly is old-fashioned to see you."

It is certainly old-fashioned to see the faithful gathering in this committee this afternoon.

Chairman EATON. We are delighted to see you, Mr. Acheson.

Mr. ACHESON. Mr. Chairman, members of the Committee on Foreign Affairs of the House of Representatives, it is an honor to appear before you again.

This time, of course, I do not appear as a Government official, but as an individual and on behalf of the Committee for the Marshall Plan to Aid European Recovery. I offer for the record this pamphlet, A Statement of Purpose, that outlines our objectives and lists the members of our national council. As you will observe, our national council is broadly representative of all parts of our national life and all sections of our country.

Chairman EATON. The pamphlet will be included in the record at this point.

(The pamphlet referred to is as follows:)

COMMITTEE FOR THE MARSHALL PLAN TO AID EUROPEAN RECOVERY

A STATEMENT OF PURPOSE

"I am confident that if the issues are clearly presented, the American people will give the right answer."—HENRY L. STIMSON.

X The committee for the Marshall plan to aid European recovery was announced on November 17, 1947. But it was started long before that—in the minds and hearts of men and women throughout the United States. Since last spring leaders in our Government, in business, labor, and farm groups, in our colleges, churches, and other professions have sensed the growing economic crisis in Europe. Many of these people have urged that we would have to play a larger role in helping the countries of Europe restore their war-shattered industries and farms and homes. They know that "the troubles of Europe are not other people's troubles; they are ours." They know that "there are no merely foreign dangers any more." And they were waiting anxiously for someone to express their deep desire for action. Henry L. Stimson provided this voice in his now famous article *The Challenge to Americans in Foreign Affairs* of October 1947.

Mr. Stimson's conviction that "if the issues are clearly presented, the American people will give the right answer" led him to accept the national chairmanship of the committee and to invite the membership of others who believe with him that—

"The reconstruction of western Europe is a task from which Americans can decide to stand apart only if they wish to desert every principle by which they claim to live. We must take part in this work; we must take our full part; we must be sure that we do enough."

The committee that has grown from this beginning now includes among its members over three hundred eminent Americans from all parts of the country. The committee is not yet complete; it can never be completed so long as there are other business, labor, farm, and community leaders who will add their names to the list of those who accept "The Challenge to Americans" and agree that "if we act now, with vigor and understanding, with steadiness and without fear, we can peacefully safeguard our freedom."

The committee does not conceive its function to be a concern with details or the espousal of a particular solution when several equally good ones are available. It will give its support to a program which is adequate enough and prompt enough to be effective and it will oppose restraints upon our assistance which seek to distort the program's proper purpose or endanger its success.

IN brief the committee believes:

That rebuilding the economy and civilization of Europe is essential to assure prosperity and freedom for the nations of the world, including the United States itself.

That this reconstruction will require further great efforts by the European countries individually and in cooperation with each other.

That these efforts can succeed only if they are supplemented by a large-scale program of American aid for Europe.

That prompt furnishing of aid and prompt avowal of our determination to see that the task of basic reconstruction is completed will reduce the ultimate time and cost of the program.

That in aiding nations who seek reconstruction in cooperation with each other and with us, we should found our assistance on the basic principles of human dignity and on a wise understanding of national differences, and should not attempt to impose our own particular ways of working toward the common end.

That in carrying out our aid program we should bear constantly in mind that our goal is the establishment of a world where stable economic conditions will allow peace and prosperity to flourish.

That in this joint task of European reconstruction the fullest feasible use should be made of the United Nations and its associated agencies.

And the committee also believes that to accept these principles is not enough. We, here in America, must also work for our beliefs. A committee on paper is a mere exercise; a committee in action can be a national force.

The committee already has begun to work. The members of the national council throughout the country are lending their support, and with the executive committee, whose chairman is Robert P. Patterson, we are engaged in presenting the issues to the American people so that they may understand the questions and provide their answers to the challenge.

The committee is distributing printed material, arranging for speakers, and working with other existing organizations for an increasing attention to the Marshall plan and support of its legitimate objectives. A petition to the Congress is being circulated calling for legislation to provide a sound and adequate program, in the light of Secretary Marshall's proposal, to aid European recovery.

But even this is not enough. Each of the members of the committee will also have to stir the minds of people in his own community and work for the achievement of an understanding deep enough to give the Marshall plan so firm a support that we will all "Think of our prosperity, our policy and our first principles as indivisibly connected with the facts of life everywhere."

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Mr. ACHESON. That is significant because it shows the profound conviction of the great majority of Americans that American aid for European recovery is necessary. American aid is necessary not as an instinctive response, or not merely as an instinctive response to suffering abroad; it is necessary because our life and the peace and freedom on which our life depends are intimately interwoven with European recovery.

In the world which confronts us in 1948, the European recovery program is the front line of American security. When I was a boy my elders used to say the Navy was our first line of defense. We have learned in the last quarter century that vital as is the role of our military establishments, or of international military forces, our security and freedom depend in the first instance upon the actions of other nations and other peoples. These actions may gravely prejudice our security or greatly strengthen it. These actions are often forced by conditions largely or entirely beyond the control of the nations and people who take them—such as the ability to produce enough to live on. The course which the people of western Europe must take in the next 4 years is the most important decision affecting our national safety which is still open in the world today. The elemental necessity of the situation dictates that it should be a course which both they and we want.

They and we want them independent of outside dictation and of inside dictatorship, self-supporting and healthy in their individual and national lives. Our own safety is immeasurably increased if this is so. It is immeasurably weakened if any of them are weakened and fall by internal action or external pressure, or both, into the closed police, military and economic system which already stretches from the Elbe to the Pacific. It can happen. It has happened to others.

At the end of the war we thought that everyone believed that enduring peace and economic recovery from the war was most assured by political settlement and economic programs which were firmly founded on agreement between the great powers. The United Nations would, it was planned, go forward from this start on the basis of principle and organization which would bring to the settlement of international questions the conscience of mankind and the justice of laws and procedures which dealt equally with the strong and the weak.

It is now plain that the Soviet Union does not intend to join in the task of political settlement or economic recovery on any basis which the other powers, or any nation wishing to maintain its own integrity, can accept. On the contrary the Soviet Union is doing its utmost to prevent recovery in Europe. The years of delay and obstruction have

contributed to the exhaustion of resources and people and brought western Europe to the crisis stage.

The question which the Congress is now considering is whether that crisis shall be permitted to develop, or whether, in the place of the long sought and unattainable great-power leadership and unity, we shall seek the recovery of Europe through combined European-American action.

It is well to pause for a moment and consider the deeper meaning of this decision. This deeper meaning, I believe, is to be found in the tendency of one course or another to make on the one hand for an improvement in great-power relations and in the probability of peaceful development, or, on the other hand, for an increase in friction and the development of situations which vastly enhance the possibility of war.

I think two things must be clear to those who have considered Soviet policy over the past three decades. The first is that the Soviet Union accepts with complete realism a strong and stable situation and adjusts its policy accordingly. The other is that the Soviet Union, with equal realism, accepts the opportunities offered by weak and unstable situations whether they result from defeat and occupation or from the exhaustion of an ally. It was the weakness of Iran and Greece which led to pressure upon those countries. It was the crisis of western Europe which led to internal Communist pressure in Italy and France, where the Communist parties attempted to capitalize on the difficulties of the people in an effort to overthrow the governments. Such efforts will continue until there is internal stability. On the other hand the Soviet Union will, I believe, accept the fact of stability in western Europe and will adjust itself to it.

I am convinced that with a recovered self-supporting and increasingly unified western Europe, there will come improvement in the relations between the Soviet Union and the west, including the United States, not only in respect to European problems, but in respect to other questions which now appear to be insoluble. I am equally convinced that with the crumbling of the economy of western Europe will come increasing impairment of American security and quite possibly the development of situations which will hazard the maintenance of international peace.

Why is this so? Western Europe, as I shall point out in a few moments, can only maintain its present population with a tolerable standard of living by bringing within its areas goods from outside western Europe, manufacturing these goods and with the proceeds of sale abroad, maintaining the life of its people and the soundness of its industrial, agricultural and financial systems. If this process becomes impossible the situation is immediately created in which the existing population cannot survive in a tolerable manner upon the existing resources. This leads to weakness and continual change of governments, unemployment, and the break-up of employer-employee relations, the collapse of the financial system, and the immediate disappearance of that large middle class upon which has been founded the stability of western Europe.

As this process takes place, succeeding governments are forced to take more and more extreme measures, both to maintain order and to seek for some solution. These measures in turn accentuate the process of dissolution. None of them can result in the one essential

result, which is to bring in more commodities. At length by some internal coup d'etat a minority emerges in armed control which inevitably turns to the only alternative source of supply, which is the closed economic system which now extends from Poland to the Pacific.

The Communist area cannot solve the problem, but it can promise some amelioration of it. The result may well be, as it has already been with some of the countries of eastern Europe, the inclusion of still further areas within the Russian system and the extension of Russian domination still further westward.

It is obvious that such a process is highly detrimental both to western Europe and to the interests of the United States. Both the Europeans and ourselves wish to prevent it.

Thus I am convinced that the recovery of western Europe is basic for our security and I believe that most Americans share my conviction. There is, however, much uncertainty about what we must do to make European recovery possible.

There can be no clear understanding of what needs to be done without some understanding of western Europe and the nature of its economy.

Mr. Chairman, may I pause here to call to the attention of the committee the statement made by Mr. Bevin in the House of Commons within the last 10 days, which bears upon this question. Mr. Bevin in his speech said:

As regards the first principle, I am sure this House and the world will realize that if a policy is pursued by any one power to try to dominate Europe by whatever means, direct or indirect, one has to be frank—that you are driven to the conclusion that it will inevitably lead again to another world war, and I hope that idea will be discarded by all of us.

Mr. Bevin was talking in the utmost frankness to the House of Commons. I think his speech deserves the reading by every member of this committee. If there is any one thing that we can ever learn by history, it is that the attempt to dominate Europe by one power has always led to war.

Chairman EATON. And it always will.

Mr. ACHESON. It always will, I agree thoroughly.

That does not mean we accept the historic views of Europe. It means that we cannot possibly be indifferent to a consolidation of Europe under one power when that one power has shores that look across the Atlantic from the Azores to Iceland toward us.

That is the nature of the problem with which we are faced. It is not a matter of saying, as many people seem to think, that if the United States does not do what the European peoples hope they will do, the European peoples will rush out and vote the Communist ticket. That is not the situation at all. I have tried to trace out for you as calmly as I can the steps by which there can be deterioration in Europe and by which increasingly extreme governments, founded on minorities and founded on force, must turn to that great area which extends from Poland to the Pacific, for whatever hope there is; and that danger is what brings about the consolidation of Europe, the greatest goal we could achieve.

These 16 nations and the western zones of Germany before the war constituted one of the great work shops of the world—a work-shop second only to our own. Western Europe produced considerably more coal than the United States. Their production of electric

energy was 130 billion kilowatt hours as compared to 117 billion in the United States, their shipyards produced more than seven times the gross tonnage of American shipyards, and their production of textiles was considerably larger than the United States production. In the best prewar years, their steel output of about 55,000,000 tons almost equaled the very best of prewar American tonnage. Their output of machinery, electrical equipment, and the other tools of production was enormous. Their transport and their agricultural production, although not strictly comparable with that of the United States, was in the same order of magnitude. Of the basic commodities, only in such items as oil, some of the nonferrous metals, lumber, and cotton did the United States have a decisive productive advantage.

These nations had together a population of some 250,000,000 before the war, now increased to about 270,000,000 people. The committee of course realizes that that is twice the population of the United States. Clearly they could not maintain a standard of living similar to our own with a population twice as great as ours solely by use of their own natural resources. They supplemented their own resources by imports and they paid for these imports by exports of goods, by services such as shipping, and by income on foreign investments. Their imports were essential for two purposes: To augment the supplies for their own consumption, and to provide the materials which they reworked and sold to the rest of the world.

The exports of western Europe—including services and other income—balanced the imports. But this trade was not maintained by a balance of imports and exports with each country across the sea. Europe's existence expended on triangular and quadrangular trade. An unfavorable balance of trade with one area, as it is called, was balanced off by a favorable balance of trade with other areas. Western Europe was responsible for over half of all the international trade of the world.

Before the war, also, one-half of the imports of western Europe came from the Western Hemisphere, but an equivalent amount of its products did not come here. Instead, large amounts went to eastern Europe and southeast Asia which sent their products to this continent, as well as to Europe. In this way these areas paid western Europe, which could then pay us.

Now that is changed. Due to the war and the political changes and upheavals which followed it, the products of eastern Europe and southeast Asia either do not exist or are not available to western Europe. So now two-thirds of its essential imports come from the American continent and the trade which paid for them has disappeared.

But the war did far more than this to the plants and resources and people of western Europe. Its actual physical destruction was great. But even greater was the exhaustion of resources, plants, raw materials, and people. Beyond that was the disruption of trade and financial relationships that had been built up over the centuries within these countries and among them, and with eastern Europe. And the inadequate resources available to these people had to be shared among a population 10 percent greater than it was before the war.

In addition to these inevitable results of war, during the past 12 months western Europe has suffered from a series of climatic dis-

asters; flood and freeze last winter, and the worst drought in a hundred years last summer.

In spite of all these difficulties great progress has been made toward recovery.

Industrial production in 1947 equaled or surpassed 1937 production in the United Kingdom, Denmark, Norway, and Sweden. It approached 1937 production in France, Belgium, and the Netherlands. In Italy it reached about 75 percent. In Germany and Austria it lagged behind.

The recovery of exports has been equally promising. In the first 8 months of 1947 the United Kingdom was slightly above prewar, and Belgium, France, and Norway slightly below. Denmark, Italy, and Holland reached about 75 percent of prewar.

These figures show that it is false to say that the Europeans do not or will not work.

These figures also show that great results can be accomplished with our aid—for this recovery did occur with our aid.

We see then that, as a group, these countries are not far from their prewar levels of industrial production and exports. We see that they can and do work and that they have made good use of our aid.

Why then is more and larger aid needed?

First, because they have been using up their own resources and our loans. There has been a steady drain on their gold and dollar reserves until in almost all cases those reserves are at or even below the danger point. Without some dollar reserves they cannot carry on any international trade at all.

Second, because prewar levels of production and exports are not enough.

Prewar production means a catastrophic decline from prewar standards of living. Prewar production spells instability and eventual loss of freedom.

The reasons for this are not far to seek.

First: The population of this area has increased from 250 million to 270 million—10 percent. By 1951 there will be another 8 or 9 million mouths to feed. Production obviously must keep pace with population increases.

Second: These countries formerly paid for a substantial portion of their imports with income received from foreign investments, from receipts for shipping and insurance, and from tourist expenditures and emigrant remittances. Before the war they earned about one and one-half billion dollars a year in this way; now they are paying out more than half a billion dollars a year for shipping and other services.

Third: The great disturbances in southeast Asia have resulted in an annual loss of about \$1,000,000,000 in trade in that area, paid for by trade of southeast Asia with us.

Fourth: They are currently forced to obtain imports from abnormal sources of supply. These imports are expensive. For example, the French are presently paying \$25 a ton for United States coal laid down in France, whereas Polish or British coal, if available, would cost only about \$10 a ton.

Fifth: The destruction of war and the failure to maintain and replace capital equipment during the war have created a great need for imports of capital equipment. These abnormal imports, largely from the United States, should amount to more than half a billion dollars during the coming fiscal year.

I might pause here, Mr. Chairman, to say that not only did this destruction of war and failure to maintain and replace equipment cause imports from the United States, but it means that Europe must use its own production to plow back into capital equipment. Therefore, the prewar production is now drained off, in part to pay for additional imports, and expensive imports, to replace destroyed capital equipment.

Sixth. The prices of the goods that western Europe must import have gone up about 120 percent. The prices of the goods that western Europe exports have gone up only about 80 percent. In other words, a given volume of their exports brings one-quarter less of their imports than before the war.

I hope that is clear, Mr. Chairman. What it means is that in order to get the exact amount which they got before the war, they have to export a larger amount of goods to do it, because their goods are cheaper in relation to the goods they have to buy. All of this means that even though you have reached, as you almost have, the prewar production in Europe, all of these drains mean that out of that the people have a lower and lower and lower standard of living.

Some of these factors are, I hope, only temporary; for example, the situation in southeast Asia has started to improve. And an improvement there will benefit the inhabitants and simultaneously these European nations. Other factors, like the increase in population, are permanent.

If there is no improvement, except what can come directly from the efforts of these countries and ourselves, western Europe would have to double its prewar exports to maintain something approaching its prewar standard of living. If external factors do show a reasonable improvement, the volume of exports still must increase by perhaps two-thirds to four-fifths.

That is a tremendous effort for countries as devastated as those of Europe.

The progress in Europe since VE-day shows that the energy and the will to recover still exist. This winter we have seen courage and strength in the face of deliberate sabotage. Recovery to date is the result of European efforts and aid from other countries, particularly the United States.

Recovery to the point of self-support will require a further effort in Europe and further aid from the United States. We have not failed, but we have not yet succeeded.

You have now before you for consideration H. R. 4840. That bill proposes an initial appropriation for the 15 months beginning April 1, of \$6,800,000,000.

No one who has appeared before congressional committees as often as I have would be so naive or so irresponsible as to suggest that the Congress accept that recommendation without analysis or scrutiny.

I do not fear the result of analysis or scrutiny, if the objective of the program is kept constantly in view. The amount of United States aid has been screened, in Europe and here. I make no pretense to a special expertness on the figures, but I do know how the screening has been done. In a program of this magnitude, and in a world where conditions are in constant flux, any statistician can add dollars here and take them away there. But that the work is essentially sound seems clear.

I am impressed by the fact that this 15-month recommendation is the approximate equivalent, for the time period, of the Harriman committee finding—a finding substantially lower than the Paris recommendations. I am impressed by the fact that, as Mr. McCloy has observed, the staff of the International Bank has examined these figures and is concerned not that they are inflated but that they may be too low.

I have great faith that an impartial examination by the Congress will substantiate the validity of the recommendation, if—but only if—the objective of the program is kept in mind.

The arguments about the size of the program that we all read in the newspapers and hear over the radio are not really arguments about the cost of a recovery program, but about whether we should have not a recovery but a relief program. The program that has been submitted to you calls for a truly combined effort. The people and governments of western Europe will renovate and expand the workshop, turn out more power, more goods. They will put their finances in order. They will work together to do this. From us they ask help in getting for 4 years the additional food, fuel, raw materials, and machinery which will start and keep the wheels turning until the whole operation becomes self-supporting.

This is what recovery means—the recovery of self-support by producing more goods for use and sale. Relief is a wholly different operation. Relief does no more than keep people alive in an emergency. It does not bring self-support. It is costly because it may be endless.

The recommended amount of \$6,800,000,000 is intended to support the European recovery program. If enacted, this money will go to provide goods to supplement purchases which the European countries will make out of their own money, other purchases which they will make with funds advanced from the International Bank and private investment, and still other purchases which it is hoped will be financed by other countries in this hemisphere. The total import program is therefore much larger than \$6,800,000,000, and will amount to approximately \$11,000,000,000 worth of goods, much of it financed by other sources.

The goods which make up this import program have been carefully reviewed, first by representatives of the countries meeting in Paris; then by committees on which there sat most capable men outside of Government from American agriculture, industry, labor, and finance; and finally by various departments and agencies of the executive branch of our Government. The program has been reduced, either because goods were not considered available in the quantities desired or because it was thought that some of the goods could not be put to productive use in the time contemplated. The total reduction is a billion and a half dollars for the first year.

All of these goods, as I have stressed before, are for a production program. Such a program requires different quantities and different goods from a relief program. Take food, for instance. People can exist on approximately 2,000 calories a day, but they cannot work on such a diet. Therefore, a production program requires different foods and more foods than a relief program, and the whole production program will bog down if people do not have the necessary strength to work.

In the case of fuel, a similar situation exists. A production program requires that fuel be available so that factories, railways, and mines can operate. A relief program would include fuel for heating, cooking, and lighting. If the recovery fuel program is cut, production falters and may stop, since people have to be kept from freezing even though factories may not be able to run.

The same considerations affect the raw materials in a production recovery program. Here cotton, for instance, has to be provided not only to clothe the inhabitants of a particular country under consideration, but to permit the factories of that country to manufacture textiles which they can sell abroad in order to purchase more cotton and needed goods. Timber, in a production program, has to provide for pit props for mines, railway ties, packing cases for goods, as well as for shelter. If the quantity of timber is reduced, the production program suffers first.

Finally, in a production program equipment and machinery are essential. Without these items the production of more goods is impossible and self-support cannot be achieved.

In the light of these considerations you can see at once that if, as some have advocated, the amount of \$6,800,000,000 is reduced to, say, four or five billion dollars, the entire character of the program changes. It is not merely a recovery program reduced to two-thirds. It ceases to be a recovery program.

In the first place, a cut of two or three billion dollars in the help from the United States Treasury means a far larger cut because other sources of help will either be eliminated or reduced.

For instance, loans to the western European countries by the International Bank can be made only if the chances of repayment are good so that American investors will buy the bank's bonds. If items essential to bring recovery are omitted from the program, chances for repayment become poor, and the bank cannot lend. Similarly, other countries in this hemisphere will be asked to make funds available with which European countries may purchase some of their needs. These other western Hemisphere countries will regard quite differently a contribution to a recovery program, which will mean an end to assistance and a beginning of self-support, from contributions to a relief program, which might well be endless.

But the program would be reduced by even more than this if the United States Treasury aid is seriously curtailed. As I have already pointed out, much of the imports will be paid for by the European countries themselves with the proceeds of their own exports. These exports depend upon continuing and expanding production. If the amount of foreign assistance is reduced, the amount of European production is reduced, the amount of European exports is reduced, and again we descend in a vicious circle.

For this reason the argument is not really about the cost of the European recovery program, but about relief versus recovery.

The European recovery program has for its first objective self-support for the participating countries. But the more permanent results of success are even greater. For the European recovery program may well bring about the economic integration of western Europe and along with that a great measure of political union. This conclusion is not the conclusion of an American telling Europeans

what to do. It is a conclusion that the Europeans have already reached.

Last week Mr. Bevin said:

Perhaps the most important development which brought all this to a head and caused the whole issue of Europe to be focused, was the proposal by Mr. Marshall for a European recovery program.

Mr. Bevin is undertaking the formation of a European union, beginning with a Customs Union of Britain, France, and Benelux—the existing Customs Union of Belgium, Netherlands, and Luxembourg. Such a broadening of markets, such a pooling of resources cannot fail to attract other European countries, not by fear but by hope.

As I have said earlier, western Europe is a great workshop. It contains human and physical resources that if properly used can make this area one of great strength and stability. But our own experience teaches us and has taught our European friends that proper use requires union. Certainly one of the major factors in the astonishing development of our production and the gains we have made in raising our standard of living has been our great continental trading area. We live in a large country where men and goods and ideas can move without hindrance.

These European nations, if given the opportunity, may achieve economic and political union with strength and stability comparable to our own. But they will not only be comparable in strength. They will share the same beliefs in the basic freedom of men, the independence of nations, and the desire to maintain international peace and justice upon which the charter of the United Nations rests.

Chairman EATON. Mr. Acheson, we thank you for a very informative, comprehensive, and fundamental statement, which is worthy of you. That is the highest compliment I can pay you.

Mr. ACHESON. Thank you, Mr. Chairman.

Chairman EATON. I will ask Mr. Jonkman if he will begin questioning, and I see he has some questions already concealed upon his person.

Mr. JONKMAN. Mr. Acheson, I remember with approval and admiration that you blazed a certain trail in our foreign policy with the words "aggressive expansionism."

In connection with that I wonder if you would comment on your sentence on page 3, right near the bottom:

On the other hand the Soviet Union will, I believe, accept the fact of stability in western Europe and will adjust itself to it.

What is your belief on that matter?

Mr. ACHESON. First of all, what do I mean, and why do I believe it? I believe that is your question.

What I mean is, I think a study of the Soviet activity over the past 30 years indicates that the Soviet Union probes the soft spots. If there are soft spots, they continually move forward. It almost must do that from the very nature of its own organization and its own philosophy. Wherever it meets stability, it stops that effort and turns to fields which are easier and more productive.

It seems to me that you begin to see that situation coming about at the present time in western Europe, and since the war, we have seen it.

There was a very aggressive Soviet move in the direction of Turkey some time ago. That was met by quite clear statements by some of

the nations as to where we stood on the question of Soviet pressure against Turkey. Our attitude seemed to be firm and solid, and that area has not been entered by Russia.

The same thing occurred with regard to Iran. Perfectly unequivocal attitudes were taken by the various nations on the United Nations Security Council. That pressure has to a large extent relaxed, though it has not been abandoned.

I think we saw as the difficulties of the winter of 1946-47 developed, an increasing Communist pressure in Italy and in France. This came to a head as the meeting in Paris of the 16 nations took place. They were met with firmness in both Italy and France and I believe if we go further with the program which will now give those Governments more hope of obtaining stability, that that pressure will recede.

We see continued pressure existing at the present time in Greece. In other words, wherever there is an opportunity for probing, the Soviet policy seems to continue to be to continue that probing. When it seems to meet something solid, it turns elsewhere.

I think also that there is another facet of this thing I would like to present: One of the great sources of friction is to create areas of weakness or vacuums of strength in the world. If those areas do not exist, then there does not exist the opportunity of friction which they present. Anybody who is eager, as all of us are, to improve the relations between the great Soviet Nation and our own, must look, I think, if we have any realism, to the removal of areas of vacuum and weakness, rather than the continuation of those areas. If they continue, it is quite certain that trouble will grow out of them. If they disappear, then I think adjustment will bring about a new situation.

Mr. JONKMAN. You are considering the situation that as long as the Russian ideology obtains, the spirit of aggressive expansionism is going to be there, but you say if we stabilize those countries, it will, using the term relatively, have to adjust itself and not have the success it has had in the past 2 years. Is that your idea?

Mr. ACHESON. Yes.

Mr. JONKMAN. In other words, we should not mislead ourselves into believing we could absolutely stop Russia in a year or two, even if we were successful in western Europe?

Mr. ACHESON. Yes. I think, too, there are sources of movement in their foreign policy. One is the ideological cause or stimulus, and the other is the historic, immediate and practical operations.

I think of the two, the latter is the more immediate.

Mr. JONKMAN. That is the one you are aiming at?

Mr. ACHESON. Yes. We are not likely to do anything about the other, but the other only brings you to act when the opportunity occurs.

Mr. JONKMAN. Thank you.

I think on page 12 you cleared up a problem that I would like to have you dwell on just a little more: I have called attention to the fact that the Paris report, while it is not clear on that subject, seems to call for only about 25 percent of the amount—\$5,900,000,000 after our technical experts have gone over it for aid relief and the balance for economic relief. The result is that a lot of the 16 are being pooled and are receiving food that have not had it before.

Do you believe this is necessary, to bring up the economic production?

I wish you would clear that up, if you are sufficiently familiar with the relief given to the different countries.

You speak also in your report of the Harriman committee cutting down the amounts. They have cut it down only in the economic rehabilitation branches, such as electrical equipment. They cut the steel plants from \$100,000,000 to \$48,000,000, or something like that. They cut it \$367,000,000 in equipment.

Mr. Harriman told us that, as Secretary of the Department of Commerce, he controlled shipments of that kind.

I would like for you to dwell on the shipments to countries such as the Netherlands and Belgium which have not had relief from us, needing food—and they are getting a substantial amount of it—as a necessity to greater production.

Mr. ACHESON. I should say at once to the gentleman that I am not competent to testify about shipments to particular countries.

The fact that a particular country such as the Netherlands has not been sharing in the post-UNRRA relief, I think that is immaterial to what we are now discussing.

In the first place, you cannot separate these items and say “these are relief items, these are recovery items.” They are totally different programs. If you are going to have a recovery program, you must have, as I have tried to point out here, differences of food, fuel, and machinery, because what you are trying to do is increase the production of the country both in productive capacity and in the actual trading of goods.

A relief program is differently designed. It is designed to keep people alive. The post-UNRRA relief was intended to deal solely on the basis of relief, of getting food to the hungry. It was to deal with those countries having no purchasing power of any sort at all. That is why we went into that post-UNRRA relief bill of \$350,000,000.

This program deals with all the countries of western Europe. It makes a survey of their entire import programs and as I point out here, those will run almost double the amount of American aid. They will run between \$11,000,000,000 and \$12,000,000,000, and we are talking in the neighborhood of \$6,000,000,000 or \$7,000,000,000.

The rest of it is paid for in other ways. However, it is one complete and total program, and you cannot look at it in pieces or segments. You have to say “Will all of this work,” or “will none of it work?”

Some of these countries concerned will not be dealt with on a grant basis at all.

Switzerland, for instance, which is included in this survey and whose imports are considered as part of the imports of western Europe is entirely competent to pay for its own imports and no one suggests any differently.

Some of the countries, such as Portugal and Turkey can pay for their own. Others will finance them.

Others will have to have help and some will have to have grants.

You could not go very far on a loan basis with Italy, but later on it might be done.

The program set out here is separate from the method of financing. What is necessary to carry it out, that will be used in places where the countries themselves have no cash purchasing power, or where they cannot do it on a loan basis, in order to make the whole program operate.

Mr. JONKMAN. The \$6,800,000,000 includes both the loans and the grants?

Mr. ACHESON. That is the whole amount that cannot be financed by immediate cash available.

Mr. JONKMAN. It has been said here that for one agency to handle both the loans and grants, they will be under a terrific pressure to give grants where perhaps loans should be given. Would it be wise to separate the loans from the proposed administration and let the Export-Import Bank handle the loans?

Mr. ACHESON. I think it would be unwise to do that. I do not think the pressure would be any different in either case. There will be, of course, very great pressure in all cases upon whatever agency has the granting funds, to make grants.

For the purposes of administration, the administrator may choose, when he decides something should be done on a loan basis, to do it through the Export-Import Bank.

The great difficulty of trying to separate the items is that the program must be looked at as a whole. You cannot have two sides of the street. If a fellow calls one day and does not get a grant and goes over to the other side, he may or may not get a loan. It is essential that the thing must be done one way or the other.

The production of Italy keys in with what is done in France. Something concerning a loan in Italy is dependent wholly upon what is done on the basis of grants in Italy. What is done in Iceland will have a lot to do with whether fish go to Germany.

The whole thing is one entity. The whole purpose is to bring about the integration of western Europe. It seems to me you will be in very great trouble if you have more than one central point where this whole thing is surveyed, and there, at that central point they say, "This part of the program we will do by grants, this part we will do by loans, and this other part you fellows must finance with your own funds."

Chairman EATON. At 3:30, the Republican conference is supposed to meet. We have about 20 minutes between now and then. I presume the other members would like to join in the questioning, somewhat.

I wonder if Mr. Jonkman would be willing to yield to the others?

Mr. JONKMAN. I am very sorry, Mr. Chairman. I will be, very glad to yield. I was taking too much time.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. You said that it was very necessary to keep in mind the objective of this whole program. You have just spoken of it as the integration of western Europe.

Would you define it a little more fully, what your understanding of it is?

Mr. ACHESON. I made this observation in relation to this consideration: I was saying that of course the Congress ought to examine with all the care that the Congress thinks necessary, this whole program. If the Congress is not convinced that any part of the program is necessary, it has the right and duty to remove it.

However, I was urging the Congress to make its judgment in the light of the program and not in the light of extraneous considerations.

Now, you may say "such-and-such is not necessary to bring about European recovery." If that is so, it may be eliminated. But to

say, "We are going to cut this out for some other reason," because it might be desirable to reduce taxes or something else, but that kind of reduction should not be made in the light of this program.

Mrs. BOLTON. I wanted to know if you could define the goal of the program?

Mr. ACHESON. The goal of this program is to bring about, within the period of time stated, a self-supporting recovery for Europe and an independent western Europe.

The fact we are talking about western Europe is not our choice, but the choice of the Communist countries, who have included themselves out.

We are trying to bring about independent self-supporting countries in western Europe. Although we are not excluding all humanitarian considerations, the thing that seems of paramount importance is the preservation of the peace in the world and the maintenance of these nations which are the very key nations in any kind of a United Nations Organization.

The United Nations is unthinkable without these nations of western Europe. The security of the United States depends on having in western Europe a stable, strong situation, and not a disintegrated one.

Mrs. BOLTON. You speak of the 4½ years. That is an arbitrary figure, is it not?

Mr. ACHESON. It was the figure proposed to us by the 16 countries in western Europe. They have chosen it, we have not.

Mrs. BOLTON. That is purely an arbitrary figure, because it might be that they would come along faster than anyone might anticipate.

Mr. ACHESON. Let us say it is an estimate. We will not say that it is arbitrary, but all estimates are subject to error.

The period might be shorter and it might be longer.

Mrs. BOLTON. Would it be your idea that in order to establish these countries on a basis of security, it would have to be done on a basis of freedom? I am thinking of stabilizing currencies. Should that be done by freeing currency? There are two different ways to do it of course, the other one is by controls. Is our whole purpose freedom, as we understand it in America, and therefore is that a part of the goal, or is it not?

Mr. ACHESON. Do you refer to socialism as against individual enterprise?

Mrs. BOLTON. To a degree, yes.

Mr. ACHESON. I think that our whole goal is that these nations should be independent democratic and free nations.

Mrs. BOLTON. What do you mean by democratic? Russia says she is democratic.

Mr. ACHESON. I know she says she is democratic, but I would make a few simple tests of what a democracy is. One of them is whether you get a fair trial by jury, whether you are allowed to say what you want to say, or whether you are allowed to vote for whomever you want to vote for, and things of that sort.

They are perfectly simple. For example, whether you can work where you want to work, except in time of war or national crisis, or whether you have to do something else.

That is the kind of a country we want to create. We cannot do that by undertaking to dictate to these nations certain policies which they must lay down. If they accept that, they are either deceiving

us or they are not free nations. They must be guided by the will of their people. For France or the Netherlands or someone else to say "We will take some help from you, and we will do certain things internally," is, I think, not representing them as a true democratic nation.

What we can say is what we propose here: "You countries yourselves have laid out certain goals which lead to self-support and independence. We will help you as long as you are achieving and vigorously achieving those goals. If you are becoming self-supporting, increasing your production, stabilizing your currency, we go along. Now, what sort of internal ideas you have, that is your business. There is no American imperialism being used toward you. When you go to the real objectives, one of which is increased production, another stabilization of currencies and cooperation with one another, then we think the whole thing is frustrated, and we quit."

Mrs. BOLTON. If the Federation of Western Europe, of itself is set up, that should mean all the nations of western Europe, should it not?

Mr. ACHESON. Yes.

Mrs. BOLTON. What are you going to do with this little island of Spain?

Mr. ACHESON. Mrs. Bolton, that is a problem.

Mrs. BOLTON. Is it not a problem to at least be thoroughly gone into?

Mr. ACHESON. It has been gone into. In the 7 years when I was in the State Department, we went into it almost daily. You know the problems.

Mrs. BOLTON. I know several sides of the problems, I do not pretend to know them all.

Mr. ACHESON. Insofar as you attempt to put external pressure on Spain to get rid of Franco, you have the same situation as occurred with many of the States of the Union when an idea was once rampant concerning a purge.

In the case of our Senator, we elected him by the greatest majority that anyone ever got.

Mrs. BOLTON. We do business with nations that have dictators; and in view of the fact that Spain did do a lot of things for us and the Allies during the war, perhaps it is a moment when one should wash out the old and go along with what exists.

Mr. ACHESON. There is no embargo or economic pressure of that sort at the present time. We are permitted to follow out in good faith certain actions taken by the United Nations General Assembly. Whether those would be reconsidered or whether the Spanish people would take a different view and meet the United Nations halfway is something to be determined.

Mrs. BOLTON. Is it a question of the United Nations?

Mr. ACHESON. We are following the policy laid out in the last two general assemblies.

Mrs. BOLTON. You do not feel Europe would be thoroughly united until Spain comes in?

Mr. ACHESON. It would be a great absence. Spain should eventually be a part.

Mr. LODGE. Mr. Acheson, I join my colleagues in wishing you welcome here.

Mr. ACHESON. Thank you, Mr. Lodge.

Mr. LODGE. Do you consider that the Herter bill constitutes a recovery program?

Mr. ACHESON. The great difficulty in answering that question is that there is one very great lack in the Herter bill and that is that mystic figure which is left blank. We do not know how much money is involved in the Herter bill. If that was in there, I could answer the question. It might turn out to be \$3,000,000,000, \$4,000,000,000, \$6,000,000,000, or \$8,000,000,000; I do not know.

Mr. LODGE. Assuming an adequate figure.

Mr. ACHESON. If there was an adequate figure, the discussion of the Herter bill would not turn on the question of relief and recovery; it would turn on certain other questions. I could go into those if you wish.

Mr. LODGE. You would not object to the Herter bill on the ground that it was not in and of itself a measure which involved recovery as well as relief?

Mr. ACHESON. I would certainly say that—if the figure is adequate—that its objective is recovery. It would have one very serious defect even at that, because what is now provided in the Herter bill is that all of the funds which are to be made available, in one way or another, are charges upon these countries.

I believe with that provision in the bill, it just can never lead to recovery.

The Herter bill sets out in one section of it that certain items—food, fuel, fertilizer, and what is called a limited quantity of incentive goods and some other kinds of goods, production equipment—will be made available through this Corporation which is created.

For those, the United States must get equivalent value, either in strategic materials or in something else, or in local currency; but all that is to be paid for.

Everything else is to be done on a loan basis.

Now, what is to be done on a loan basis is the furnishing of those goods which are usually the subject of short-term credits.

Between the two series of commodities, some fall and are not dealt with at all. That is a minor difficulty in the bill which could be fixed up without much trouble. However, what is provided is that everything shall be paid for.

It would seem to me that any sort of an analysis of the European situation would show that you cannot have recovery in Europe if you are going to add to the burdens that the Europeans have anyway, anywhere between \$8,000,000,000 and \$17,000,000,000 of additional debt.

The most optimistic reports of the Paris Conference indicate that by 1951 they would hope Europe would be up to \$10,000,000,000 worth of exports.

Even at that, they will have \$3,500,000,000 of debts in their trade with the Western Hemisphere.

Mr. LODGE. What would you do with the foreign currencies?

Mr. ACHESON. In order to break even if currencies are not convertible, western Europe would have to get up to exports of some \$13,000,000,000 or \$14,000,000,000. They had \$4,600,000,000 before the war. Prices are nearly doubled, and they still have to double their exports.

To add to that another vast load of debt is utterly hopeless. Therefore, the fundamental repayment principal of the Herter bill would not be good.

MR. LODGE. My understanding of the Herter bill is that this Emergency Foreign Reconstruction Authority would have the power to decide when these items would be handled as grants-in-aid and when they would be handled as loans other than Export-Import Bank loans and when they would be turned over to the Export-Import Bank as loans.

Now, there is a difference between the two bills in the handling of the block currencies. But in each case the currencies must be deposited. I cannot see how that adds to the balance of payments problem; because, after all, what we are faced here with is a question of dollar deficits and not deficits in local currencies, which they can always print, and indeed they have.

MR. ACHESON. There is one simple fact that can be resolved between us by reading the bill, and that is: Does or does not the Herter bill require repayment of some sort for all items?

If it does, then my criticism is valid. If it does not, my criticism is not valid.

MR. LODGE. I think the bill of the administration also requires payments in local currencies.

MR. ACHESON. The Herter bill provides that those currencies shall be paid to the United States of America.

They belong to us. We will put them in a special account and dispose of them as the two governments agree, for the purpose of carrying out the purposes of the recovery bill.

MR. LODGE. I do not see how that adds to the debts of the countries involved, in any greater sense than it would in the administration bill. It seems to me that you still have local currencies albeit under different regulations.

In one case it requires agreement and in the other it does not. In the administration bill we have a good deal of control in the sense that we do not have to agree.

Therefore, from the point of view of increasing their debt, the point you make is not quite clear to me.

MR. ACHESON. Mr. Lodge, there is a difference between the United States owning the currency of France, which means that the United States is owed by France the equivalent of that currency, and an account being set up in the Bank of France by the French Government which would be disposed of as the two nations agreed.

MR. LODGE. There is a difference, but not the difference that you mentioned, I think. There is a difference, I agree.

MR. ACHESON. There is a difference under the Constitution of the United States and every other way.

I do not want to be technical about it.

MR. LODGE. I would, however, just like to say this—that the thought that you hinge it on is that the purpose of this program is to relieve their debt in their own currencies and under the Herter bill we would be increasing that debt. I would like to suggest there that the debt we are interested in is the dollar deficit and not a debt that they owe to themselves in their own money.

I do not know whether you agree with that or not. I would like to know.

Mr. ACHESON. I do not know whether I do or not. I do not understand it very well. Let me go back to another thing about the Herter bill that I think shows the whole cast of what is thought of here.

Take, for example, strategic materials. The whole conception of the Herter bill is that strategic materials are to be given to the United States, in return for goods which are shipped to these countries.

That just seems to me to be fundamentally opposed to any sound recovery effort in Europe. I am all for saying to the Europeans: "We want you to develop the production of goods that we need and want in the United States. Develop more and more and more of them"; but it is only insofar as dollars are made available by our buying these things that they are ever going to be free, independent, and self-supporting.

Mr. LODGE. Do you assume that this Government is going to buy all these strategic materials which the Herter bill proposes getting under ERP, and therefore that they would get the dollars which under this bill they would otherwise not get?

Mr. ACHESON. If you ever want these people to balance their payments and get free, you will never do it any other way.

Mr. LODGE. Suppose these provisions for strategic materials were made, looking to a time, after the expiration of this measure, when there would not be dollar deficits in these countries.

Mr. ACHESON. This is the further thing that I am trying to say in answer to what Mrs. Bolton said. If Congress will make its decisions on the basis of getting recovery in Europe, it will not waste its time with things like this. This is a collateral issue. It has nothing to do with the point. There will not be any such time. Everybody is deceiving themselves by trying to believe we can make a cheap solution.

It is going to cost us some money; let us pay it and be glad we get those people on their feet.

Mr. LODGE. I am always interested in getting your views, but I would like to say that as far as I am personally concerned, you are pushing in an open door with me as far as the recovery of Europe is concerned. I am for the principle involved in the European recovery program.

I was immensely interested in your statement, but I think we have come to the questions of detail in this committee, Mr. Acheson. If we cannot discuss detail, I think we have a serious situation.

I believe we have reached the point where we have to discuss detail.

Mr. ACHESON. What detail do you want to discuss?

Mr. LODGE. I have already opened one facet of it. I am not suggesting that there is a cheap way to do this, but I think that there is a good way and a bad way, and I think it is a complex and not an easy problem. That is one of the aspects of it I wanted to take up.

Mr. ACHESON. Let us take up the things you have mentioned. There is nothing complex about these foreign currencies. We either own them or we do not. You have asked my view, and I said we should not own them. They should not be the property of the United States. The United States of America does not want to have great deposits in the Bank of France which it owns. It will make for ill will, it will make for confusion, we will not be able to realize on

them, we will have to be giving away property that belongs to us, and that will be as difficult as getting rid of the war debt.

Mr. LODGE. That particular detail is very important then, is it not?

Mr. ACHESON. It is very important.

Chairman EATON. I have been listening as a layman to these two lawyers, and I am in the exact position of the lady who attended a sermon at church on the existence of God. When she came out she said she still believed in God.

We will recess at this time. There is no more constructive or fruitful witness to come before our committee than Dean Acheson.

I believe we will have to have you back later.

(Whereupon, at 3:30 p. m., the committee adjourned, to reconvene at 10 a. m. Thursday, January 29, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, JANUARY 29, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., in the Foreign Affairs committee room, Capitol Building, Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order. We did not quite finish with Mr. Acheson yesterday afternoon, and he has very graciously returned this morning for further investigation by members of the committee.

FURTHER STATEMENT OF DEAN ACHESON, MEMBER OF EXECUTIVE COMMITTEE, COMMITTEE FOR MARSHALL PLAN

Chairman EATON. Who is the first one to question the witness this morning?

Mr. ACHESON. I believe we were going into this local currency matter with Mr. Lodge. But he is not here.

Chairman EATON. Have you questioned the witness, Mr. Smith?

Mr. SMITH. I have not.

Chairman EATON. Very well, we will begin with Mr. Smith.

Mr. SMITH. I have no questions.

Mr. JACKSON. I have no questions, Mr. Chairman.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. As I said yesterday, it was my great misfortune to miss the very able testimony of the former Under Secretary, which I deeply regret. Having missed his testimony I am hardly competent to question him.

I know Mrs. Douglas missed it too.

Chairman EATON. Mr. Jarman, would you permit the chairman to present a question to you? Supposing as one good Democrat to another you would ask the gentleman as to which organization should handle this problem?

Mr. JARMAN. Very well. I imagine you mentioned that in your statement?

Mr. ACHESON. I made no reference to that, Mr. Jarman.

Chairman EATON. Have you any objection to discussing that with the committee?

Mr. ACHESON. No, Mr. Chairman. I will be glad to.

Chairman EATON. That is Mr. Jarman's question.

Mr. JARMAN. Thank you, Mr. Chairman.

Mr. ACHESON. Mr. Chairman, on all matters of organization I think that the way one has to approach it is to find that point where the

arc of perfection crosses the arc of the attainable. I don't think there is any perfect or ideal organization for anything in the Government.

Chairman EATON. Except the State Department?

Mr. ACHESON. There, there is room for improvement. I have had various ideas at different times about organization. It would seem to me, on reading the Brookings report—which I am sure members of this committee have all seen —.

Mrs. BOLTON. Mr. Acheson, would you yield at this point?

Mr. ACHESON. Yes.

Mrs. BOLTON. Did you find that simple reading?

Mr. ACHESON. No; I do not think it ranks with the best sellers.

Mrs. BOLTON. I mean it is most complicated, is it not?

Mr. ACHESON. I think they have compressed a good deal into a fairly short space.

Mrs. BOLTON. Is that it?

Mr. ACHESON. I think that is partly the reason for it.

Mrs. BOLTON. I do not want to interrupt your comments on it, because I am very much interested in it.

Chairman EATON. I read it, Mrs. Bolton, and I thought it followed the usual pattern, namely, using 1 word where 12 would do.

I would like to know what it is all about, and if you could unveil that mystery for us this morning, Mr. Acheson, it would be a great kindness.

Mr. ACHESON. I think the Brookings report sums up its conclusions on the last three or four pages of the report, beginning on page 15. What they suggest is that there should be created a new, separate, agency, and that that agency should be headed by an individual—administrator, or whatever he is called—and that he should report directly to the President.

They give the reasons why they think that a single head is better than a board, and they point out that the President, under our constitutional practice, is the head of the executive branch of the Government, and that this is a matter which will affect a great many different branches of the Government, and that it will also have a very profound effect upon the whole conduct of foreign affairs, and they think that has to be put directly under the President.

That conclusion seems to me to be sound.

I remember Governor Smith saying some years ago that a bipartisan board did not bring about nonpartisan results, but merely doubled the politics. That seems to me to have a good deal of probative value.

Also, from an administrative point of view, I do not think boards have ever been very successful. Boards can deal with rate making, the determination of cases—in other words they can do legislative and judicative work, but from the point of view of administration they are not very effective, and it is better to place the responsibility in one man who can be held responsible, and he should be under the President.

That is the first conclusion the Brookings Institution comes to.

Then they say it does not make very much difference whether this agency is a corporation or an authority, so long as, if you have that—a corporation—you do not have it run by a board of directors.

A corporation can be run by 1 man just as well as by 12. So they say that is a matter of form and not a matter of any great importance.

They then point out that this agency will have very important relations with a great many other agencies of the Government.

For instance, it will, obviously, have very close relations with and will affect, a great deal, the Department of State.

Insofar as that operates to get agricultural materials, it will have to operate through and with the Department of Agriculture and the Commodity Credit Corporation.

It will have very close relations with the Department of Commerce, which at the present time administers the export controls.

It will have very close relations with the Office of Defense Transportation in regard to internal transportation, and the Maritime Commission in regard to ocean transportation; with the Department of the Interior, in many respects, and so on.

The suggestion, therefore, is that the President should have the authority to determine the procedures as to how major matters of policy are to be resolved, and that in the last analysis any differences of view that arise between the Administrator and any other agencies of the Government have to be brought to the President and resolved by him.

There may be differences of view as to how much and what sort of agricultural materials can be produced, for example; obviously that decision cannot be made by the Administrator. He has to consult with the Secretary of Agriculture and if they have different views they will have to come to the President to decide.

Similarly in matters of far-reaching foreign policy. If there are differences of view between the Secretary of State and the Administrator the President is the only person who can resolve those differences.

When it comes to negotiations and operations, the Brookings report says that here again the President should have the authority to say who shall engage in what type of operation. They suggest that the President would be well-advised if put in the hands of the Secretary of State, with the participation of the Administrator, the making of the over-all agreements with the foreign countries involved. They think that he would also be well advised if he put in the hands of the Administrator all operations and all subsidiary negotiations and dealings with foreign countries, again with the participation of the Secretary of State so he will know what is going on.

That is very much the way the Lend-Lease Administration operated with the State Department during the war. The State Department negotiated the over-all lend-lease agreements with the various Allied countries. The State Department negotiated the concluding arrangements with those countries. But all the dealings with them, from the time that the over-all agreement was made until the matter was concluded, were conducted by the Lend-Lease Administrator.

Those involved thousands and thousands and thousands of transactions in which the Department of State had a very small interest. They involved knowledge of intricate things, such as ocean shipping, the manufacture of munitions, the supply of raw materials, fuel, petroleum—and in none of those matters was the State Department particularly concerned. It was kept advised, and if it had views of any sort they were taken into consideration.

That was the general method of operation.

Now, when it comes to organization overseas, the Brookings Institution suggests that the Administrator must have advisers and a voice in dealing with these countries, either individually or collectively, and they suggest that there should be organized in each

diplomatic mission abroad, a special mission which would represent the Administrator.

That mission may be small or large, depending on the extent of our dealings with the country concerned. It should be a part of the diplomatic mission, so that there would be only one American group abroad.

The head of it should hold a rank and have a position which would be as high as anyone in that country representing the United States except the Ambassador.

They do not suggest that the head of the special mission should be directed and controlled by the Ambassador. They say that he should keep the Ambassador fully informed of what he proposes to do and what he does. That if the Ambassador doubts the wisdom of any proposed step, or if the Ambassador makes a suggestion the wisdom of which is doubted by the special representative, that that matter be referred to Washington, settled by the Administrator and the Secretary of State, or if they still have difficulty, by the President.

Chairman EATON. May I interrupt with a question there?

Mr. ACHESON. Surely.

Chairman EATON. One of the proposals, at least, that the Administrator shall have an ambassador, one ambassador representing him, in the 16 nations. The proposal that you are discussing is to the effect that there should be 16 ambassadors representing the Administrator?

Mr. ACHESON. Not quite, Mr. Eaton. That proposal is also carried forward here in the Brookings report. The last paragraph says that there should be a special ambassador, a special man, with the rank of ambassador, who is appointed by the President, and reports to the President, but is in effect the spokesman of the Administrator.

His duty is to work with the organization or organizations created by the 16 countries to direct, supervise, the whole program.

In other words, he will have his headquarters wherever the continuing organization of the 16 countries has its headquarters.

And there he will carry on the representation, which will attempt to pull together Europe and make it an economic unit.

Now, of course, in addition to that there must be a great deal of information gotten in the individual countries, and there may be special negotiations with France or Italy or Belgium or Holland. It is necessary that there be some people who understand the Ambassador's problem and his program, in each country.

They would be attached to the diplomatic missions. Their duty would be to service the central man, giving him all the information he wants, carrying out any instructions in cooperation with the Ambassador that have to do with a single country. But one of the great hopes of this program, and one of their great promises, is that it will bring Europe together, both economically and we hope from there politically, and it is most important that we stress the desirability of as much guidance and authority as possible being placed in a continuing organization which would be created by these sixteen countries.

And there we should have the ablest man we can get, who will continually pull them together, continually suppress any rivalries between them, and get all these countries working as one great group for the recovery of the whole area.

I think, briefly stated, that is the proposal of the Brookings Institution, and it seems to me to be a workable one and as good as any that I have heard.

Mr. JARMAN. Mr. Secretary, the history of such matters, in fact, all history, tells us that a board works more slowly, generally, than one man. In view of the fact that this program is proposed to commence on April 1st, and this is practically February 1st, in addition to the reasons you have already mentioned, we can hardly afford the luxury of a board being used, can we, under these circumstances, if we can get one Administrator?

Mr. ACHESON. I should think not. I think the whole trend of administrative thinking, in the last 20 years, has been, as I suggested a moment ago, that in action programs, in programs which require administration and execution, a board is not a good instrument. That there you want one person, and there has been a tendency, for instance, to take some of the purely administrative jobs, which the so-called independent agencies have, and put those in the hands of an administrator.

For instance, that was done in the aviation field. You have the Civil Aviation Administrator, and the Civil Aviation Board.

The Board does the regulatory work, the determining of rates, the issuing of regulations. The Administrator is the man who sees that safety devices are installed, that airfields are properly equipped, that the schedules of the lines are or are not operated, in dangerous periods, and so forth.

Mr. JARMAN. Mr. Secretary, as usual, there is talk of reducing the amount. I am wondering what your opinion is.

Let us assume that the amount of \$6,800,000,000 were reduced by one-third, which would mean reducing it to about \$4,500,000,000, roughly. I am wondering if you think that the 4.5 billion dollars, which would be about two-thirds of the amount requested and I think needed, would produce two-thirds of the result that the 6.8 billion dollars would.

Mr. ACHESON. I am sure that it would not. I discussed that yesterday, Mr. Jarman, and I can very briefly sum up for you the reasons why I think it would not so operate, and I should like to add one thing which I did not say yesterday.

In the first place, I am sure you all realize that a production program, a recovery program, a program which is destined to increase production in Europe, calls for different quantities and different types of goods from a relief program.

For instance, if we were engaged solely in relief, you can keep people alive on a diet of in the neighborhood of 2,000 calories a day. If you do that too long you will develop all the diseases which come from undernourishment—tuberculosis and diseases of that sort.

You can keep people alive. They cannot work on that diet, however. A miner cannot work on a diet of much less than 4,000 calories a day. People doing much less strenuous work than that require 2,800 to 3,500. Therefore a recovery program has different amounts and different quantities of food.

The same thing happens in regard to raw materials. If you are having a relief program—cotton, for instance, is provided in the amount necessary to make clothes for the people you are relieving. If you are having a recovery program, you have enough cotton to

operate the factories and to take care of exports, so that people can buy more cotton and more materials of other sorts.

Timber, in a relief program, is sufficient for shelter. That is all you are concerned with. In a recovery program you have to have props for mines, you have to have ties for railroads, you have to have packing cases for the transportation of goods, and so forth; similarly with fuel.

If you are having a relief program, fuel is provided sufficient to heat, light, and cook. If you are having a recovery program, you have got to run the factories and trains.

Perhaps the most outstanding difference is in equipment. If you are going to have a relief program, there is very little equipment required of any sort. If it is recovery, then you have to have a great deal more machinery and equipment to run the factories.

Now, what happens to the whole program if you cut it in the amount you say? In the first place, the total import program of western Europe is not the amount furnished by the United States.

That is only a part of it. Some of it will be financed by loans from the International Bank. Some of it will be financed by the action of other countries in this hemisphere. The amount included in the present estimate is \$1,200,000 for both those purposes.

But greatly more than either of those, it will be financed by the exports of these 16 countries. All together, the import program is between \$11,000,000,000 and \$12,000,000,000, of which we would furnish aid to the extent of 6.8 billion dollars.

Now, if you cut our contribution, you immediately affect all the other sources of financing. The International Bank only can lend, if we are going to have a recovery program, because the International Bank has no funds of its own. What it does is to go out on the American market and sell the bonds. Those bonds will be salable and will be bought by insurance companies, savings banks, and so forth, if there is a good prospect of recovery in Europe so that they will be paid off.

They will not be bought if there is no prosperity.

The other countries of this hemisphere will, I think and hope, regard favorably a contribution to a recovery program, because that restores all these 16 countries as cash-paying customers for them. They will not regard favorably a contribution to a relief program which goes on and on and on.

Similarly, so far as the exports of these 16 countries are concerned, insofar as you cut what goes into the countries, you cut what comes out. It is absolutely inevitable. Sometimes the very goods are processed and brought out; sometimes it is things like fuel to run the factories.

So I should say that if you cut this program by 2 billion dollars, you will probably over-all cut the entire import program perhaps in the neighborhood of five and a half or six billion dollars.

Therefore you immediately throw it back into a relief program, because every one of these items which I have talked about, from food down to equipment, will have to be cut in some degree.

If any one is cut, the interrelations are thrown off balance.

Mrs. DOUGLAS. Would you repeat that figure? If you cut it how much?

Mr. ACHESON. This is purely an estimate, Mrs. Douglas. There is nothing scientific about it. I was saying that if you cut, say, \$2,000,-

000,000 off the United States Treasury aid, you will probably find that the total import program will shrink in the neighborhood of between five and six billion dollars.

I think you will immediately lose the 1.2 billion dollars, which would make a total cut of 3.2.

I should think that exports would decrease, easily, by \$2,000,000,000. That is the order of magnitude. I could be out quite a lot either way. But what I am getting at is that you cannot say, "Well, the entire \$11,000,000,000 program will be exactly the same except for certain items granted by the United States which will be cut out."

That will not occur. It will be quite different.

Mr. JARMAN. And if it reverts to a relief program, which you indicate it would be, that would just mean a permanent proposition. I think it would just have to be done by somebody every year; would it not?

Mr. ACHESON. Yes.

Mr. JARMAN. There would be no hope for any ending of it. If we did not do it, and if there was some other country able and willing to do it, they would have to do it, or Europe would just crumble; would it not?

Mr. ACHESON. That is true. May I add one other thing to this answer. This has caused quite a lot of confusion and I think there has been some correspondence about it between Secretary Marshall and Senator Bridges.

In the President's expenditures budget he has included 4.5 billion dollars for expenditures through fiscal 1949 on the European recovery program.

The question is asked, Why put 4.5 billion dollars in the expenditures budget when you are asking Congress for an appropriation of 6.8 billion dollars? What has happened to the difference, the 2.3 billion dollars? Is it padding, or what is it?

The explanation of that lies in the operation of the expenditures of the Federal Government, particularly in regard to export programs, and to jump to the end first, the explanation is that the actual drawing of the checks to the extent of 2.3 billion dollars is not estimated to occur until after fiscal 1949.

Mr. JARMAN. But the orders will have been made—placed?

Mr. ACHESON. All the purchases have been made, all the orders have been placed, and much of the materials will be delivered.

Now, there is a lag which occurs. For instance, when you gentlemen in Congress authorize the program and then give them the money, it takes some little time to organize an administration and place some orders.

It takes a considerable time, on some of the items, to manufacture the goods.

Whether it can be purchased and shipped right away is a factor. Other things take some time to manufacture. So there is a lag in time there.

Also, some of the goods will be delivered after the end of the fiscal year 1949. But even as to goods which are delivered within 1949, the actual payment will not occur until later.

Now, why is that? That occurs because people have to furnish their bills for what they have done. Those bills have to be audited and approved, and finally checks have to be drawn.

Now, take a matter such as railway transportation. That occurs currently. At the end of the last part of the fiscal year of 1949, every day, the railroads of the United States will be hauling all sorts of goods to the seacoast, to be shipped. There will be very, very large charges to the railroads.

Now, the railroads ordinarily do not put in their bills to the Government for anywhere from 4 to 6 months after the actual service has been performed.

When these bills are put in, very complicated auditing has to take place. That takes several more months. And it is only after a period of 8 to 10 months after the actual freight train has hauled some goods that a check is drawn. So that it might be well into the fiscal year 1950 before you are paying out the money.

But nobody can incur that expense, nobody can ship the coal or the wheat, or order the goods, unless you ladies and gentlemen have made the appropriation.

So that if you say that because you will not pay out all of the money in fiscal 1949, you will not appropriate it, then it means that things will not happen at the end of the fiscal year 1949. They will not buy wheat. They will not buy coal. They will not place orders. They will not have transportation. Because they will have no legal authority to do it.

Mr. JARMAN. In other words, when there is any program extending over a year or 15 months, as in this case—any program of any size—it is absolutely impossible to spend all the money—to draw the checks by the last day?

Mr. ACHESON. It is absolutely impossible, Mr. Jarman, and experience has shown that in this type of a program, about a third of that goes over into the succeeding year.

Mr. JARMAN. I have just one further question. I don't know anybody more competent to express an opinion on this, or anybody whose opinion I, and I believe this committee generally and the people of the United States, value more. It is quite easy for those not too familiar with such programs as this one, outside and inside Congress, to say, "Oh, well, this will just be another UNRRA, another lend-lease. They weren't any good. You know how they were." A colleague of mine from my State, was quoted to me yesterday as having made a remark similar to that. You are very familiar with this program.

I have forgotten what the total expenditure for lend-lease was. Let's say it was \$30,000,000,000.

Mr. ACHESON. It was in that neighborhood.

Mr. JARMAN. Do you think we spent, during that war, any other equal amount—let's say \$30,000,000,000—which saved as many American lives as that \$30,000,000,000 did, or whatever it was?

Mr. ACHESON. Well, I agree with the result that you are suggesting. I wouldn't be technically competent to say that the B-29's did not save a lot of lives. I am certain they did. Expenditures of that sort, expenditures in the atomic bomb development, saved a great many lives. I would not be competent to appraise the degree of importance between the assistance to our allies and development of these new and highly effective weapons.

I think there is no question about the fact that without the expenditures which we made through lend-lease, we would have had very serious collapses on many fronts, and that the military task

of the United States would have been infinitely more difficult and infinitely more costly.

Mr. JARMAN. And the Russians, the British, and French aviators, who were killed piloting some of those B-29's—Americans would have been just as dead if they had piloted them and Americans would have had to pilot them but for lend-lease; would they not?

Mr. ACHESON. Yes, and they probably could not have done it in the areas where the others were operating. No one would have been there except the enemy if our allies had collapsed.

Mr. JARMAN. In other words, lend-lease was not a failure, but was a very valuable contribution to the victory; was it not?

Mr. ACHESON. A very important contribution.

Mr. JARMAN. Now, let's take UNRRA. Of course, there are naturally mistakes made in all great endeavors, but I do not go along with this general criticism in which it is so easy to indulge, particularly if you are unfamiliar with it, to the effect that UNRRA was just throwing money away and was a complete failure.

What do you think about that?

Mr. ACHESON. I do not agree that UNRRA was throwing money away or that it was a failure. I was looking in this speech of Mr. Bevin's before the House of Commons the other day, where he makes quite an extraordinary statement about UNRRA—because as you recall, the British were on the giving end. Yet here is what he says:

If you take the sequence of events in the United States from lease-lend in the war, and I cannot let it go by though I have mentioned it before, I think it is worth calling the attention of the House again to the tremendous work in connection with UNRRA. What sort of Europe we should have had without UNRRA I really do not know, it is too horrible to contemplate. I think it would have been swept with epidemics. Everybody had a share of UNRRA, including Soviet Russia and the eastern States—everybody—and it cost the United States \$675,000,000, Canada £35,000,000, and it cost this country, even in our impoverished condition, £155,000,000. It was an event which stemmed the horrible disease we had following the 1914-18 war which most have forgotten. Therefore the European recovery program is a natural sequence in order to try to help rebuild.

I think Mr. Bevin is probably right, and even understates it.

Without the assistance that UNRRA gave to Europe, you would have had complete demoralization in those areas which received UNRRA help. Of course, the British were not one of them. Neither was France.

One of the things which has made an appraisal of UNRRA in the minds of many people difficult is that that whole idea was conceived, and the whole machinery was started at a time when it seemed possible to have complete unity among the nations in regard to relief and reconstruction. UNRRA was originally drafted and agreed on in 1943; all the procedures were laid out at that time; the Congress voted the first funds in the early part of 1944, and it was not for a year or 18 months that we began to see that it was difficult, if not impossible, to work out reconstruction and the settlements after the war, with the Soviet Union and the eastern states.

Events such as the furnishing of relief to Yugoslavia, at a time when Tito was shooting down our planes, have given many people the idea that UNRRA was a failure. It had nothing to do with UNRRA being a failure.

It had to do with the very plan which we had set up being frustrated by events. That is not UNRRA's fault. And UNRRA, I think, operated—taking it all in all, I think it is remarkable how efficient UNRRA was. If you gather together people from every one of some 42 countries, and try to build an organization out of it, it is an extremely difficult thing to do.

Mr. JARMAN. I thoroughly agree with you, and the thought occurred to me when you spoke of Mr. Bevin's reference to our contribution—how much was that?

Mr. ACHESON. About 3.2 billion dollars, I believe.

Mr. JARMAN. In addition to the result to which you refer, the chaos in Europe, I am wondering if one of two other results might not have occurred. I am wondering if it would not have been necessary or wise, or wise and necessary, for us to have commenced, if UNRRA had not been in existence, the very program we are discussing now, at least a year ago, and if it would not have cost more than 3.2 billion dollars more than it will cost?

Mr. ACHESON. I think that is right. I think it would have been difficult to commence this program several years ago, because you did not have the foundation laid.

Mr. JARMAN. I said a year.

Mr. ACHESON. I agree with you, Mr. Jarman.

FOREIGN AFFAIRS DEBATE

The following is the text of the speech delivered in the House of Commons by the Secretary of State for Foreign Affairs, Rt. Hon. E. Bevin, on January 22, 1948.

I realize that there is intense interest in the House in this debate which is to last 2 days. I am also so conscious that what I say can so easily be misinterpreted in other countries, that I propose to exercise very great care in the presentation of the Government's position.

We are indeed at a critical moment in the organization of the postwar world and decisions we now take, I realize, will be vital to the future peace of the world. What, however, I have first to put before the House is the factual background against which decisions must now be taken. I do not propose to weary the House with the long history because every Member is already conversant with it; there have been so many debates in connection with these problems. I must however recapitulate insofar as it is essential for an understanding of His Majesty's Government's proposals for the future.

The story begins with a series of conferences which were held during the war and at which many ideas were formed. Some were crystallized. Some were not. In this connection, of the political developments that have taken place, one of the main issues at that time affecting the line of subsequent policy which was connected with the future of Poland, the solution arrived at Yalta was looked upon by His Majesty's Government at that time as a sensible compromise between conflicting elements, but there is no doubt that as it has evolved it has revealed a policy on the part of the Soviet Union to use every means in their power to get Communist control in eastern Europe and, as it now appears, in the West as well. It therefore matters little how we temporize and maybe appease, or try to make arrangements. It has been quite clear, I think, that the Communist process goes ruthlessly on in each country. We have seen the game played out in Poland, Bulgaria, Hungary, more recently in Rumania, and from information in our possession other attempts may be made elsewhere. Thus the issue is not simply the organization of Poland or any other country, but the control of eastern Europe by Soviet Russia whose frontiers have in effect been advanced to Stettin, Trieste and the Elbe. One has only to look at the map to see how, since the war, Soviet Russia has expanded and now stretches from the middle of Europe to the Kurile Islands and Sakhalin. Yet all the evidence is that she is not satisfied with this tremendous expansion. In Trieste we have difficulties. We had hoped that the method of international agreement would be allowed to work but it has not been allowed to work, and so what should have been a great experiment

in postwar international collaboration has only been a continuing source of friction and bother.

Then we have the great issue in Greece, which is similar to the others I have mentioned. It has been assumed—in fact said—that the Soviet Union can wait; that the United States of America and Great Britain will get tired; and that the so-called government of Communist rebels can be recognized later on without danger; and then in the end that a Communist government will be forced upon Greece and she will be incorporated in the Soviet system of communism with the rest. Here let me make His Majesty's Government's position quite clear. We had hoped to have been out of Greece. We had hoped that after the first election a government would be formed and in time subsequent elections would take place and the whole process of democratic development would be allowed to function. But that has not been allowed because a state of virtual civil war has been perpetuated the whole time. So it is not a question of what sort of elected government there is in Greece—liberal coalition or whatever it might be—but it is a ruthless attempt constantly maintained to bring that country in the Soviet orbit.

Like Trieste, the Greek issue involves the signatures or treaties recently signed by all of us, all the Allies, including the great powers. I would remind the House that Greece had claims for an alteration of her frontiers. I came to the conclusion rightly or wrongly that probably Greece would be more secure if Great Britain did not insist upon that, and that the signatures on the peace treaty would have been a guarantee on our honor of her integrity and there would be no attempt to pursue and trouble her further. But that has not been permitted. I know that I have been pursued in this country on this Grecian question as if it were a question between a Royalist and a Socialist government or Liberal government. It is nothing of the sort and never has been. I beg all my friends in this House to face the fact; this is a dangerous situation. It is a case of power politics. We have been trying to leave Greece an independent country and to get out of it but we also want her northern neighbors and everybody else to leave her alone and to get out of it. We will do that immediately they lift their fingers and honorably agree.

I would remind the House that the United Nations have been brought in but they have been flouted by the Balkan neighbors of Greece. There is a very real danger that they and their Soviet mentors may make a great blunder over this business. In all solemnity I would advise great care. Provocations like these lead sometimes to serious developments which we, and I hope they, are anxious to avoid. It would be better to settle this matter in accordance with the decisions of the Assembly of the United Nations than in the promotion of civil war, or giving any kind of recognition to the Marcos Junta, or in attempting the methods which have been applied elsewhere. This is the Assembly's decision and if we accept Assembly decisions in other matters we should accept the decision in the case of Greece. I say no more than this, that it is dangerous in international affairs to play with fire.

We have had other examples since the war which I need not go into now, wars of nerves and pressure upon weaker neighbors. It is the considered view of His Majesty's Government that attempts to settle international affairs by political barrages and by wars of nerves, reduce the chances of finding acceptable solutions and make agreement difficult, if not impossible. Propaganda is not a contribution to the settlement of international problems. They are all so important that the only way to solve them is coolly and calmly to deal with them on their merits. So much for the brief background of eastern Europe.

I would remind the House that it is under 3 years since the war ended and I hope still, that with the right use of power and organization, these difficulties may be overcome. Meanwhile we must face the facts as they are. Our task is not to make spectacular declarations, nor to use threats or intimidation, but to proceed swiftly and resolutely with the steps we consider necessary to meet the situation which now confronts the world.

The problem in Germany.—Let me now turn to the background in Germany which has led to considerable difficulty. Here again there were recent debates so I will confine myself to a limited survey. There was a discussion at Yalta about the dismemberment of Germany. His Majesty's Government have always considered that dismemberment would inevitably start an irredentist movement causing a resurgence not of a peaceful Germany but of a spirit of war. For those reasons we have been against it. We therefore welcome the change of attitude that appeared to have evolved by the time we got to Potsdam. In a sentence I will make clear what it was. The proposal was limited to central agencies to the evolution of a new German state on a new basis; and to do it there was to be

economic unity and a gradual evolution on a four-power basis which would lead ultimately to a peace treaty and a German Government competent to sign it.

That, I think, describes in a sentence the approach to the whole problem. After we left Potsdam things began to go wrong. The central agencies did not materialize and it was not long before we discovered in the four-power conference in Berlin that the Soviet Government had taken to hurling accusations at the western Allies at meeting after meeting, instead of trying to evolve a common policy. Real progress seemed almost impossible. I do not deny that many things were done and I want to pay my tribute to the Russian representatives, who, when free to discuss things on their merits, are grand people to get on with but who, when it comes to this political business, are held up and this delay and irritation then proceeds. The military governors left to themselves could have settled far more than they did in Germany on the basis of Potsdam, if they had been permitted to do so. We have had discussions about these problems at the Council of Foreign Ministers where, at every step, we have tried to meet anything which might look like a legitimate claim. But the Moscow Conference last spring was certainly very revealing. We were there over 6 weeks. It is a matter of historical knowledge that His Majesty's Government devoted time and energy to trying to give that Conference a working basis; but any rational meeting where there was a will to do business could have done in a week everything we did in 6 weeks.

The European recovery program forces a decision.—It was very wearying and even difficult to keep one's temper at times, I must confess. Calm judgment in the conditions under which we had to work was very difficult. Then between the Moscow and London Conferences other events took place. I will not enumerate many of them but perhaps the most important development which brought all this to a head and caused the whole issue of Europe to be focused, was the proposal by Mr. Marshall for a European recovery program. That brought out what must have been there before. In other words this program brought vividly to light what must have been under the surface and what was responsible for these attitudes ever since the war and, if I may say so, for some of the remarks we had to face during the war. The conception of the unity of Europe and the preservation of Europe as the heart of western civilization is accepted by most people. The importance of this has become increasingly apparent, not only to all the European nations as a result of the postwar crises through which Europe has passed and is passing, but to the whole world. No one disputes the idea of European unity, that is not the issue. The issue is whether European unity cannot be achieved without the domination and control of one great power and that is the issue which has to be solved. I have tried on more than one occasion to set forth in this house and at international conferences, the British policy which has been carefully considered in connection with Europe. This policy has been based on three principles. The first is that no one nation should dominate Europe. The second is that the old-fashioned conception of the balance of power as an aid should be discarded if possible. The third is that there should be substituted four-power cooperation and assistance to all the states of Europe, to enable them to evolve freely each in its own way. As regards the first principle I am sure that this House and the world will realize, that if a policy is pursued by any one power to try to dominate Europe by whatever means, direct or indirect, one has to be frank—that you are driven to the conclusion that it will inevitably lead again to another world war and I hope that idea will be discarded by all of us. It is this which His Majesty's Government has striven, and will continue to strive, to prevent. With the old-fashioned balance of power, it was a question of having a series of alliances and so manipulating them as each state moved in a particular direction, it was counteracted. I have no doubt it led to intrigues and to all kinds of difficulties particularly for the smaller states, which often became the instruments of great powers. On behalf of His Majesty's Government I have stated we will not use smaller powers as instruments of policy to produce difficulties between the larger powers; thereby giving the smaller powers a chance to evolve, under the umbrella of the four powers, without the feeling of fear or conflict. His Majesty's Government cannot agree to four-power cooperation while one of those four powers proceeds to impose its political and economic system on the smaller states. On the contrary, as public opinion in those states changes, and as their economic and social development progresses, none of them will willingly submit to the great powers interfering and preventing the introduction of economic changes, or any other changes, which they deem to be for their own good.

The emergency of police states.—But there is another factor giving great cause for anxiety. It evolved largely with Hitler and Mussolini, and now, I am afraid, it has become an instrument of a very dangerous kind in Europe, and that is what

we describe as the police state. We did not imagine that this would be maintained after the war, but it is and it is carried out with ruthless efficiency. I must say, while we here talk about elections and democracy that where the police state exists, votes count for very little. It is true that the votes have not disappeared, but it is the voter himself who disappears, and the successful candidate if he dares to have an opinion of his own. As we saw in the press the other day, some Members of Parliament in Bulgaria said that they objected to the budget, and they were immediately threatened because they had objected to the taxation proposed.

The Americans and ourselves were immediately condemned and made responsible for these men's opinions about their budget. I have never known anybody welcome a budget especially when it involves increased taxation and all this is purely nonsensical. I regret these statements especially by a man like Dimitrov, the former hero of the Reichstag, who now seems to have taken to himself some of the characteristics of the bully and the braggart. This kind of thing creates very great difficulty. As another illustration we have the case of Jacob Kaiser, the leader of the German Democratic Party, the Christian Democrats, who has been prevented from leading his party in the Soviet zone of Germany for not bowing to the Soviet will. His friends have been visited in their houses and have been intimidated. The Social Democrats, I may add, had been dealt with and indeed suppressed in the Soviet zone much earlier. One would give hundreds of instances of the subtlety and cruelty of this police state instrument and I cannot see how a healthy democracy can grow up while it exists. If there was one thing that aroused Britain and made her fight so hard in the World War it was when she realized fully for the first time what the Gestapo meant. We hoped that the end of the war would mean the end of the police state as well as of all instruments of that character. We have always accepted—I would emphasize this and I repeat it now—that the friendliest relations should exist between Russia and the states on the Russian frontier—indeed not only on the frontier—we want these friendly relations with everybody. It is madness to think of anything else if we are ever to have peace.

"We have always wanted the widest conception of Europe."—That is quite a different thing from cutting off eastern Europe from the rest of the world and turning it into an exclusively self-contained bloc under the control of Moscow and Communist Party. The European recovery program brought all this to a head and made us all face up to the problem of the future organization. We did not press the western union and I know that some of our neighbors were not desirous of pressing it in the hope that when we got the German-Austrian peace settlements agreement between the four powers would close the breach between East and West and thus avoid the necessity of crystallizing Europe into separate blocs. We have always wanted the widest conception of Europe including of course Russia. It is not a new idea. The idea of closer relationship between the countries of western Europe first arose during the war and in the days of the coalition—it was discussed already in 1944—there was talk between by predecessor and the Russian Government about a western association. His Majesty's Government at that time indicated to the Soviet Government that they would put the establishment of a world organization first on their list. In any case they proposed to rely on the Anglo-Soviet alliance for the purpose of containing Germany and eventually there might be similar arrangements between France and Great Britain and France and the Soviet Union for this purpose. That was in 1944. We also indicated that it might be desirable to have defense arrangements with western Europe for the purpose of instituting a common-defense policy against the possible revival of German aggression and to determine what role each state should play in the matter of armaments and the disposal of forces. We indicated that when these matters arose we would keep the Soviet Government informed which we did. In 1945, however, there was a great deal of Soviet criticism, especially of this country, over the supposed formation of a western bloc against the Soviet Union which was quite untrue. At that time we had not even had a meeting with our western allies to discuss the matter and yet daily this criticism was poured out and the radio and in Pravda and the rest of it a constant repetition. When I was in Moscow, therefore, in December 1945 and saw Generalissimo Stalin, I explained that the United Kingdom must have security arrangements with France and other neighboring countries just as the Soviet Union had with their neighbors to which he raised no objection.

Soviet Agreement and Threats.—I stated that whatever we did would not be directed against the Soviet Union. To this he replied, "I believe you." Anything His Majesty's Government does now in this matter will not be directed against the Soviet Union or any other country but we are entitled to organize the

kindred souls of the West just as they organize their kindred souls. As late as January 1947 Stalin took a similar line with Field Marshal Montgomery. In 1946 I communicated to Mr. Molotov our intention of entering into negotiations for an Anglo-French treaty, Mr. Molotov expressed interest and asked to be kept informed. He made no comment. I kept him fully informed about the treaty of Dunkirk. I have had no communication since, about that matter. When the European recovery proposal was put forward in the same spirit it was offered to the whole of Europe including Russia. There were no grounds therefore for the fear that it was to be directed against the Soviet Union or used for any ulterior purpose. So clear was it that it was intended for the whole of Europe that in Poland we know that even the Communist Party were anxious to participate. So they were in Hungary and Rumania and Czechoslovakia even announced her intention to accept the invitation. About Yugoslavia and Bulgaria I never had any precise information; eventually all these states were ordered to abstain. What about sovereignty? We took no step to advise, we merely sent out our invitation for people to answer and come freely if they wished to. If they did not we knew they were not staying away of their own volition.

The House will remember the conversations I had with M. Bidault and Mr. Molotov. At first I was reasonably hopeful that every one including Russia would play their part in this great offer. What was the idea behind this European recovery program? First we should do what we could for ourselves and in cooperation with one another and then secure from the American people supplementary aid.

If we want to maintain our independence we have got to do all we can for ourselves. I think it is quite right when all neighbors cooperate together to see what they can do for one another. Then if they find they are stuck they can go to a pal to borrow something to help them through. I do not think that that is taking away one's independence.

In the course of the discussions in Paris there came a change as it was decided by the Soviet Union (and I have very good grounds for accepting this) that rather than risk the generosity of the United States penetrating eastern Europe and Europe itself joining in a great cooperative movement, the Soviet Union preferred to risk the western plan or western union, that is to say they risked the creation of a possible organism in the West. My further opinion is that they thought they could wreck or intimidate western Europe by political upsets, economic chaos, and even revolutionary methods.

What Mr. Molotov said at Paris to Mr. Bidault and myself on the last day when we were there was that if we proceeded with this plan it would be bad for both of us, particularly for France. As the discussions went forward since the Paris Conference last June, we knew almost the precise dates as to when these troubles were going to take place and when these upsets were likely to occur.

I must say this is rather unpalatable for me to have to do, but I suggest the world will never get right unless the thing is seen in all its nakedness and probably we will get on a better footing then.

As I have already said, it is no secret that Mr. Molotov threatened both ourselves and France that we would have to look out for these squalls if we went on with the European recovery program. My answer to him, not boastfully but quietly, was that Great Britain had been accustomed to threats and that we should face them and that they would not move us from doing what we believed to be right. We have not, nor has France or any of the other nations who assembled in Paris, deviated from that course. The best evidence that what I am saying is correct, as I am sure the Honorable Member for Mile End (Mr. Piratin) will agree, is that the Cominform came into existence very quickly. M. Zhdanov and Malenkov are closely associated with it. It has been clearly stated that the object of that body and of Soviet and Communist policy is to prevent the European recovery program succeeding. I do not object to them coming to that conclusion but because they came to that conclusion, I do not see why I should be a party to keeping Europe in chaos and starvation. I cannot accept the proposition that simply because the Cominform says it in their proposals, then everyone must accept it. The fact is that there have been great political strikes in France. Who disputes that they are behind them? The intention of the Soviets was to anticipate the interim aid from America so that by the loss of production at home American aid would be nullified. That is not the way to express love of one's country and one's own people.

European cooperation in recovery program.—Now for the steps we have taken in connection with this European recovery program. As soon as I saw it I submitted it to my colleagues and we felt that there was an opportunity of really

trying to get Europe on its feet. The House will agree that we acted with promptness in order to get it going; we had no ulterior motive at all and we did not intend to attack anyone. I should like to congratulate the staffs of the various foreign offices and governments for the magnificent way in which they worked on this plan with vigor and agreement, which I think was amazing. When the plan was completed United States officials were prompt to render the friendly aid promised by Mr. Marshall. I should like to pay my tribute to everyone who worked for the practical realization of the ideas expressed in Mr. Marshall's Harvard speech. The issue is now before the American Congress and I say no more about it than that we in Europe are not holding back, awaiting the decision of Congress. We are doing our best individually and in cooperation to help one another. We shall be able to do it still more when we know the final decision of the United States Congress.

With all these influences, the London Conference was bound up in spite of what was going on—on which our information was very good—I still went on arranging for the London Conference. In November I confess that events were not encouraging. The flood of abuse against ourselves and the world by Mr. Vishinski in New York was calculated to rouse tempers but I am glad to say it fell very flat with no effect on public opinion anywhere outside the Soviet zone of influence. We still went on trying to get the Conference on a proper basis as I reported to the House before the recess but every day when there was a proposal discussed and an effort made to reach a practical conclusion we had to waste a whole day listening to the abuse of the western powers. It is all very well but everyone in this House is a public man. I ask each one here to try to imagine what it is like to sit there hour after hour and to have thrown at one almost every invective of which one can think and not answer back. I felt very often like the boy who was asked what he would do if he were hit on the one cheek by his school teacher. He said he would turn the other. His school teacher said, that is a good boy Tommy, but supposing you were hit on the other cheek, what then? The boy replied, "then Heaven help him." I must confess that I felt very much like the schoolboy and we had to suppress our feelings.

Now we have to face a new situation. In this it is impossible to move as quickly as we would wish. We are dealing with nations which are free to take their own decisions. It is easy enough to draw up a blueprint for a united western Europe and to construct neat-looking plans on paper. While I do not wish to discourage the work done by voluntary political organizations in advocating ambitious schemes for European recovery, I must say that it is a much slower and harder job to work out a practical program which takes into account the realities which face us, and I am afraid that it will have to be done a step at a time. But surely all these developments which I have been describing point to the conclusion that the free nations of western Europe must now draw closely together. How much these countries have in common. Our sacrifices in the war, our hatred of injustice and oppression, our party democracy, our striving for economic rights, and our conception and love of liberty are common among us all. Our British approach, of which my right honorable friend the Prime Minister spoke recently, is based on principles which also appeal deeply to the overwhelming mass of the peoples of western Europe. I believe the time is ripe for a consolidation of western Europe. First in this context we think of the people of France. Like all old friends we have our differences from time to time, but I doubt whether ever before in our history there has been so much underlying good will and respect between the two peoples as now. We have a firm basis of cooperation in the Treaty of Dunkirk, we are partners in the European recovery program and I would also remind the House of the useful and practical work being done by the Anglo-French Economic Committee. Through this Committee we have already succeeded in helping one another in our economic difficulties, though at first to tell the truth neither of us had very much with which to help the other. But it was useful and the work it did was useful at a very critical moment. We are not now proposing a formal political union with France as has sometimes been suggested but we shall maintain the closest possible contact and work for ever closer unity between the two nations.

Negotiations begin with Benelux.—The time has come to find ways and means of developing our relations with the Benelux countries. I mean to begin talks with those countries in close accord with our French allies. I have to inform the House that yesterday our representatives in Brussels, The Hague, and Luxembourg were instructed to propose such talks in concert with their French colleagues. I recall that after I signed the Dunkirk Treaty on my way through Brussels to Moscow I was asked by a newspaper correspondent, "What about a treaty with

other countries including Belgium?" My reply was—I will quote it—"I hope to sign a similar one with Belgium and with all our good neighbors in the West. The Labor Government will do everything possible to prevent misunderstandings arising from which aggressions might result. You have suffered from two wars, you have twice been occupied in two wars and England has twice had to fight very hard. Great Britain is still conscious of the great role she has to play. She will do everything possible to prevent a new conflict in the West whether it will come from Germany or elsewhere."

I hope that treaties will thus be signed with our near neighbors, the Benelux countries, making with our treaty with France an important nucleus in western Europe, but we have then to go beyond the circle of our immediate neighbors. We shall have to consider the question of associating other historic members of European civilization including the new Italy, in this great conception. Their eventual participation is of course no less important than that of countries with which, if only for geographical reasons, we must deal first. We are thinking now of western Europe as a unit.

The nations of western Europe have already shown at the Paris Conference dealing with the Marshall plan their capacity for working together quickly and effectively. That is a good sign for the future. We shall do all we can to foster both the spirit and the machinery of cooperation. In this context I am glad to be able to tell the House that as a practical immediate measure to make our relations with western Europe closer, His Majesty's Government are proposing to relax the ban on tourist travel. I shall have more to say on this subject a little later.

Britain cannot stand outside Europe.—Our formal relations with the various countries may differ, but between all there should be an effective understanding bound together by common ideals for which the western powers have twice in one generation shed their blood. If we are to preserve peace and our own safety at the same time, we can only do so by the mobilization of such a moral and material force as will create confidence and energy in the West and inspire respect elsewhere, and this means that Britain cannot stand outside Europe and regard her problems as quite separate from those of her European neighbors.

Now with regard to the tourist traffic. This is a step which we propose to take pretty soon, I hope in the early summer, providing such arrangements can be made without involving us in the expenditure of gold or dollars, and I believe that this is possible to negotiate. In our view, a system can be worked out bilaterally with different countries which will enable a start to be made in the early summer. We hope to be able to publish in March a list of countries to which travel will be possible, and travel would then resume about 1st of May. We are anxious to create conditions in which the peoples of the respective countries can associate, and I know of nothing more important to serve this end than the tourist traffic. I would like to make it clear that we are not doing this merely to cater for people with lots of money. Adults will be allowed £35 and children £25 per annum. In this connection, there are a number of organizations which provide cheap holidays abroad. These organizations have handled thousands of people and have rendered a great service in this field. I myself helped to create the Workers Travel Association out of almost nothing, and in the progress of years it has grown to handling the foreign travel of many thousands of people. There is also the Polytechnic and many other bodies of a similar kind.

Therefore foreign travel is no longer a privilege of the few, it is the desire of large numbers of people. We hope to allow this exchange to take place both ways at the earliest possible moment.

Europe's potential resources.—Perhaps I may now return to the subject of the organization in respect of a western union. That is its right description. I would emphasize that I am not concerned only with Europe as a geographical conception. Europe has extended its influence throughout the world, and we have to look further afield. In the first place, we turn our eyes to Africa, where great responsibilities are shared by us with South Africa, France, Belgium, and Portugal, and equally to all overseas territories, especially of southeast Asia, with which the Dutch are closely concerned. The organization of western Europe must be economically supported. That involves the closest possible collaboration with the Commonwealth and with overseas territories, not only British but French, Dutch, Belgian, and Portuguese. These overseas territories are large primary producers, and their standard of life is evolving rapidly and is capable of great development. They have raw materials, food, and resources which can be turned to very great common advantage, both to the people of the territories themselves, to Europe, and to the world as a whole. The other two great world

powers, the United States and Soviet Russia, have tremendous resources. There is no need of conflict with them in this matter at all. If western Europe is to achieve its balance of payments and to get a world equilibrium, it is essential that those resources should be developed and made available and the exchange between them carried out in a correct and proper manner. There is no conflict between the social and economic development of those overseas territories to the advantage of their people, and their development as a source of supplies for western Europe as a contributor, as I have indicated, so essential to the balance of payments.

British colonial development.—What is to be the best method of dealing with this matter? We have been considering and planning for the territories for which we are responsible so as to establish, particularly out of our capital production year by year, and also out of our production of consumption goods, a proper proportion in the right order of priorities to assist this development. Coincident with that planning, welfare and cultural development are being pushed ahead with great speed. Therefore, if we got the plan we intend to develop the economic cooperation between western European countries step by step, to develop the resources of the territories with which we are associated, to build them up on a system of priorities which will produce the quickest, most effective, and most lasting results for the whole world. We hope that other countries with dependent territories will do the same in association with us.

We shall, then bring together resources, manpower, organization, and opportunity for millions of people. I would like to depict what it really involves in terms of population whose standard of life can be lifted. We are bringing together these tremendous resources, which stretch through Europe, the Middle East, and Africa, to the Far East. In no case would it be an exclusive effort. It would be done with the object of making the whole world richer and safer. We believe there is an opportunity and that when it is studied there will be a willingness on the part of our friends in the Commonwealth to cooperate with us in this great effort.

Friendship with the Arabs.—In the Middle East we have pursued a similar policy. We have a long-standing friendship with the Arabs. The development of the Arab countries in the 30 years of their revived national independence has been remarkable, and our own country has made a very good contribution toward it. We shall continue these efforts of believing that a system of co-operation in the economic and social fields may carry with it responsibility for mutual defense on both sides. I have repeatedly said to representatives of United States and of the Soviet Union that the Middle East is a vital factor in world peace. In addition, it is a life line for the British Commonwealth. That statement has never been challenged. I think it is accepted by all. It is in that spirit that we have worked.

I think the House welcomes with me the recent treaty with Iraq, negotiated and signed upon a basis of equality. There has been a lot of excitement in the morning papers about the reactions to the treaty. There must have been some misunderstanding in Bagdad, but the Iraq delegates should be able to remove it upon their return. The Iraq Prime Minister, in a statement issued this morning, has said that that is his confident belief. Honorable members may not have seen the statement, so I will, with the permission of the House, read it. It is as follows:

"Neither I nor the Iraq Prime Minister would have set our signatures to any document which ignored the aspirations of the people of Iraq. We assure our Iraq friends that we intend to face the problems common to us, whether they are problems of defense or of social and economic development. I hope that the treaty, which has been worked out with such care, will serve as a model, when it has been carefully studied, for other Middle East defense arrangements. I am discussing the situation first with TransJordan, whose Prime Minister is coming here to talk with us in a few days. The Emir Feisal will be here at the beginning of next month, and we shall have a talk with him, and through him with his father, King Idn Saud. I hope that other such talks will follow."

I ought to say a word about Egypt, where a different set of historical conditions have to be taken into account. I want to get away from the atmosphere of past disagreements and to concentrate upon what is mutually acceptable in the interests of both countries. I am not without hope of being able to do so at an early date, but it may take some little time.

UN leading to world understanding.—Now I turn to the United Nations. All the steps I have mentioned, in the Middle East and in the western union, are in keeping with the charter of the United Nations. When the ideological quarrel

between the powers is set aside, and it will be sooner or later, and provided that the will to peace takes its place, all the things of which I have spoken will fit into a world pattern. They are all designed upon a regional basis to fit in with the charter of the United Nations. It will be remembered that my right honorable friend, the Minister of State, attended the General Assembly of the United Nations in New York. He will deal with matters relating thereto in his speech. He will deal also with any information that honorable members may want.

I have to confess however, that the United Nations up to now has been disappointing, but it might have been under any circumstances, and it may be better to have the disappointments in the beginning than to have the enthusiasm at the start and the disappointments later on. In any case, I do not despair. There is an enormous amount of work being done in the United Nations—economic, social, cultural, and so on—all of which is leading to world understanding. At the same time, the nations have collaborated in many fields, and they have collaborated a good deal in the settlement of disputes—none of them major disputes, as we understand them—and even in the Security Council itself there have been some very good discussions and good decisions taken. It has achievements as well as failures, but it is handicapped by this ideological thing that is constantly coming up, and the extensive use of the veto which was never contemplated, I am quite sure, by anyone who took part in its creation. There have been commissions in Greece and Korea. The tasks are hard. There is one going to India and Pakistan now, and I wish them well. At last the one in Indonesia seems at least to have created a truce which may lead to a settlement and I express the hope that, notwithstanding our disappointments at the beginning, the whole country will remain behind it because we have to have some world organization in any case. We must try to make it work if we can.

Tribute to great heart of United States.—Now I want to say a word about the United States, which seems to be a sort of bogey in the minds of a good many people. Everybody has the idea that the United States has a great fund of dollars which it is trying to hurl at everybody for some ulterior motive. All I can say is that if anybody follows the hearing in Congress to try to get these appropriations, I do not think they bear that interpretation. They are a democratic country trying to look where they are going and what responsibilities they are undertaking. Our primary task, as I have said, is to build up with our friends in western Europe. We have to get resources together and repair a war-damaged continent, and we have to carry out the development of these new resources overseas. The United States and the countries of Latin America are clearly as much a part of our common western civilization as are the nations of the British Commonwealth. The power and resources of the United States—indeed, I would say the power and resources of all the countries on the continent of America—will be needed if we are to create a solid, stable, and healthy world.

When I speak of the United States, I am not thinking of the country misrepresented in propaganda as a sort of Shylock of Wall Street, but a young, vigorous, democratic people. It is a country not only of great wealth and great resources but one whose people are moved by a good will and a generosity which many of us in the Old World are apt to take for granted. American policy, like the policy of all great countries, must have regard to American interests, but it has been so often traduced as purely selfish that I think it is time to pay a tribute to the great heart of the American people which found expression in the European recovery program. I was quite convinced, and I am now, that there was no political motive behind the Marshall offer other than the valuable human motive of helping Europe to help herself and so restore the economic and political health of this world. It is of course an American interest but it is everybody's interest, it is not exclusively American. This does not make the offer less unselfish.

After relief—recovery.—If you take the sequence of events in the United States from lease-lend in the war, and I cannot let it go by though I have mentioned it before, I think it is worth calling the attention of the House again to the tremendous work in connection with UNRRA. What sort of Europe we should have had without UNRRA I really do not know, it is too horrible to contemplate. I think it would have been swept with epidemics. Everybody had a share of UNRRA, including Soviet Russia and the eastern states—everybody—and it cost the United States £675,000,000, Canada, £35,000,000, and it cost this country, even in our impoverished condition, £155,000,000. It was an event which stemmed the horrible disease we had following the 1914-18 war which most have forgotten. Therefore the European recovery program is a natural sequence in order to try to help rebuild. It is true that the Americans are as realistic as we are. They see the greatest dangers to world peace in economic chaos and starvation. It was the argument used over and over again, that we made a mistake with Germany in

leaving her in such depression that it allowed a Hitler to arise. The instinct is that it is much better to spend money now on rebuilding a healthy and self-reliant Europe than to wait for the devil of poverty and disease to create again conditions making for war and dictatorship. It is sound sense and His Majesty's Government welcomes it.

Neither can I see anything wrong in America insisting that the nations of Europe should do everything in their power to put their house in order as a condition of American aid. If we are to look for hidden political motives, than I detect them much more clearly behind the attempt to sabotage the Paris Conference than behind the great Marshall offer.

Anglo-American partnership in Germany.—I am afraid I am wearying the House, but it is a very long subject (honorable members, "No.") May I turn as quickly as possible to Germany and German organization where we and America are in partnership? In this connection I would like to call the attention of the House to the conflict over the political organization of Germany which is bound up with the zonal problem. We stand for a united Germany, not a dismembered or divided Germany. We have been in favor of a centralized German Government but not an over-centralized German Government that, in our view, could be a danger to peace. On this, I believe, the Americans, the French, and ourselves, despite slight differences between us, can reconcile our views. On the other hand, the Soviet Government are pressing for an over-centralized government, which we know could be used in the same way to develop a one-party dictatorship as has been done in the eastern European countries, and we cannot agree to it. It became clear a year ago that Germany was to be made, as a result of the series of disagreements between the great powers, a terrific financial liability on the United States and ourselves. No food was to come from the East into the West, no exchange, and hence the burden would fall upon our exchequers. I indicated that we had to make it pay by hook or by crook. We really had to make our zone go and take the liability off the taxpayers here. Then the Americans offered fusion of the two zones in 1946 and negotiations for the first fusion agreement then took place in New York.

After the failure of the Moscow Conference I was pressed very hard to agree to some kind of parliamentary instrument in the bizonal area. I opposed it then because I felt that if the step was taken it would mean probably the creation of the final division of Germany and of Europe. We therefore kept our arrangements to the economic field. While it is not bound to succeed we have tried to make this fusion work and work better by setting up an economic council. We are still hopeful in Germany, and I hope I shall not be told I am too patient, because I am not waiting, we are going on with the work. By taking the right lines in our bizonal organization in Germany I believe that in the end we shall achieve a proper organization of central Europe. We have to get the organization on our own side efficient.

Trizonal talks.—Later in 1947 we proceeded with a new fusion agreement. Now, as a result of talks between the American military governor and our military governor we have improved, expanded, and extended the economic council on an interim basis. But that is an interim matter and in a few weeks' time it is intended that the British, French, and Americans shall have an exchange of views on the three zones as well as the two. Those talks will take place at a very early date. What we have done up to now has been done as an interim arrangement.

Another big problem for Germany which we are still trying to deal with on a four-power basis is currency reform, which is absolutely imperative but very difficult to arrange. We are not going to assume that the four-power arrangement is ended at all. We are going to make our three zones work economically in order to take the load off our exchequer here. But we will go on to try to see whether in the end we can make it work. The Germans have a part to play in this. After all, the Germans are more responsible than anyone else in the world for the mess the world is in and if they are to win the respect of the world again and come back into the comity of nations they must work hard and act and administer their decisions; it cannot be given to them. I had a sense of disgust when I read of German farmers holding back food from their own kith and kin, and I can assure the House that the most resolute steps will be taken to put an end to that. But we would like the German administration to whom we have handed powers to do it, because it is important if confidence is to be established to see that it is done. General Clay and General Robertson are to be congratulated on the work carried on in the two zones.

When the Frankfurt agreement is completed, I will circulate it to Members of the House so that they can see it in its detail and I will not weary the House with it now.

I must also say that in working for this Germany recovery we have to bear in mind all the time the countries which have suffered from her attack rather than put German recovery ahead of the recovery of those who were her victims, and this we shall continue to do. We are making trade agreements between Western Germany and Eastern Europe. All kinds of steps are being taken to develop the export trade and to put Germany back on her feet. But I must say once again that if the German people are going to rely on us or act as if we are to feed them all the time, they are suffering from a delusion. Germany must work and produce like other countries.

Mr. PICKTHORN (Cambridge University). Would the right honorable gentleman permit me—I am sorry to interrupt. I am not sure but I think he inadvertently said "eastern Europe" instead of "western Europe."

Mr. BEVIN. I said trade agreements had been made between western Germany and eastern Europe. There have been agreements made with Poland and we are going on with this policy which we think a right one to follow. We are doing nothing to break down the contacts in spite of all the political difficulties. Time will not permit me to go into all the difficulties associated with Germany and I must leave it to my colleagues who will speak later.

Treaty for Austria.—We have persistently endeavored to make a treaty for Austria. I cannot understand why a great nation of 200,000,000 people like Soviet Russia should find it necessary to delay a settlement with a small country of 7,000,000. Whatever the causes may be, I think this torturing of Austria for all these years is really reprehensible. However at the end of the conference there was a sign that there was a possibility of a settlement. I seized it at once and referred it to the deputies and I have been promised a new Soviet proposal in January. I hope they will do it and let us have a chance of settling the problem.

Conference on Japan.—One other matter I must mention in passing is Japan. There is a conflict again here because it is desired by the Soviet that we should refer the peace treaty to the Council of Foreign Ministers, not a very encouraging prospect. Really it is very difficult to agree to it. Here are Australia, New Zealand, India, Pakistan, Burma, and the the Netherlands, who were all in the Japanese war from the very day of Pearl Harbor, and while I am ready to admit that the maintenance of great Russian armies in the maritime provinces probably had an effect before they came into the war, the actual time that Russia was in the Japanese war was but a few days. Yet I am asked to agree that they should take a predominant position over the allies who fought in the Japanese war all the way through. Really we cannot expect people to accept that. What we propose is that the 13 or 14 countries which were involved should form the peace conference. In this way I think we are more likely to clear up the far eastern position and I hope the Soviet Government will see their way clear to accept it and let us get on with the business of at least making one good peace treaty. That of course includes the United States, Canada, and other countries.

Burma has already been debated in the House and our relations with Burma now become the responsibility of the Foreign Office. We are looking after their interests as well as those of the other Far Eastern countries by means of the system which has been developed there.

The Foreign Office staffs so often get criticized and we are always supposed to select the wrong people but I do not want to let this occasion pass without paying a tribute to the staffs of that great office. Since the war the work has been terrific. Recently, to give an example, with the break-down of convertibility practically every agreement that we have made had to be changed before the ink was dry. Otherwise there would have been no food and no exchange. I think the other departments of state will agree that the magnificent way the ambassadors and their staffs worked to prevent any serious disturbance, either in trade or exchange, as a result of the difficulty entitles them to the praises I am giving. They had a very difficult task and I am quite certain they will continue to serve with success. They certainly deserve great credit.

Spiritual union—if not of all Europe, then of western Europe.—To conclude, His Majesty's Government have striven for the closer consolidation and economic development and eventually for the spiritual unity of Europe as a whole, but, as I have said, in eastern Europe we are presented with a fait accompli. No one there is free to speak or think or to enter into trade or other arrangements of his own free will. The sovereignty of the eastern European nations is handicapped. What of the west? Neither we nor the United States nor France is going to approach western Europe on this basis. It is not in keeping with the spirit of western civilization and if we are to have an organism in the west it must be a spiritual union. While no doubt there must be treaties or at least understandings the union

must primarily be a fusion derived from the basic freedoms and ethical principles for which we all stand. It must be on terms of equality and it must contain all the elements of freedom for which we all stand. It is the goal we are now trying to reach. It cannot be written down in a rigid thesis or in a directive. It is more of a brotherhood and less of a rigid system.

In spite of criticism leveled at her, Europe has done an amazing job since the end of the war. One has to be conversant with it to understand just what it has been like with all the economic confusion which was involved everywhere. The countries of Europe are returning now to established law and order. There had never been a war like this before. Never had it been so difficult to make peace. It is not a question of sitting down together as it was at Versailles and then at the end signing a treaty. This time it is systems, conceptions, and ideologies which are in conflict. I do not want to take an irrevocable step which will make future generations pay just because I was overanxious to gain a settlement for settlement's sake. This time it has to be a real settlement which lasts for a long time.

In this new settlement Germany, like all other European nations, must find her place, but as I have said she must not come before her recent victims. As other nations settle down, Germany can settle down but she must be prevented from becoming aggressive again. We shall welcome her return as a democratic nation. In all our efforts this is the objective for which we have been working but I must repeat to the Germans that although I am not blaming the whole German people, they were the great factor which brought the world to this condition. They must realize that as a people they have got to work hard to get their own country and the world back to a proper equilibrium. I have been glad to note the growing realization of this fact among the Germans themselves.

Despite all the artificial barriers set up and the propaganda blared out, which no doubt will increase after this debate, we shall pursue a course which will seek to reunite Europe. If the present division of Europe continues it will be by the act and the will of the Soviet Government, but such a division would be inconsistent with the statements of the highest Soviet authorities and of Stalin himself. He told Mr. Stassen in Moscow, last April that for collaboration it is not requisite that people should have an identical system. Similar statements have been made on other occasions. We have always tried and we are still trying to cooperate with the peoples of eastern Europe on this basis although the activities of the Cominform like those of its predecessor the Comintern afford the greatest hindrance to mutual confidence and understanding. However, we shall not be diverted by threats of propaganda or fifth-column methods from our aim of uniting by trade, social, cultural, and all other contacts those nations of Europe and of the world who are ready and able to cooperate. The speed of our recovery and the success of our achievements will be the answer to all attempts to divide the peoples of the world into hostile camps. I may claim for myself at least that my whole life has been devoted to uniting people and not dividing them. This remains my objective and purpose now. This is the object and purpose that His Majesty's Government, of which I am the instrument, seek to promote in dealing with other countries.

(The foregoing verbatim text is cabled and consequently subject to correction.)

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Mr. JARMAN. In other words, as far as the United States is concerned, I believe that had we not had UNRRA, this program, which I think we must carry out in self-preservation if for no other reason, would have cost as much as this program will cost, plus what we have put into UNRRA?

Mr. ACHESON. I agree with you.

Mr. JARMAN. Thank you. That is all.

Chairman EATON. Mr. Jackson.

Mr. JACKSON. Mr. Acheson, is it not true that generally speaking, we are seeking to do with these 16 European countries, and through almost exactly the same methods, so far as the economic rehabilitation end of it is concerned, what we have been trying to do in Greece?

Mr. ACHESON. No; I think the problem is different in Europe than it is in Greece. The objective is perhaps the same, which is recovery, but the situation is different.

In Greece, we have a country which was utterly torn to pieces during the war, where it was extremely difficult to establish any sort of a stable government, and where actual civil war was going on, which civil war was instigated and aided by people from the outside.

You had very little to start with in Greece. In Greece, the Greek Government needed both military assistance in order to suppress the rebellion and safeguard its borders, and it needed economic help. In the 16 countries with which we are dealing, we have governments which are firmly established.

Mr. JACKSON. You mean the 15 and Greece.

Mr. ACHESON. Fifteen and Greece, yes, sir. You have governments running all the way from the very strongly established and solvent governments of Switzerland and Sweden, to governments which are subjected to rather severe attacks from the left, as in Italy and France.

But they are all established governments. There is no civil war. There is no military problem. There is no current attack on their borders, or current rebellion against the authority of the government. The problem there is entirely economic, industrial, agricultural, financial.

Mr. JACKSON. Well, is it not true, Mr. Acheson, that had it not been for this organized attack against the legal government of Greece by less than 1 percent of the people of Greece, that we might by this time have made substantial strides toward the rehabilitation of Greece?

Mr. ACHESON. Yes; I think that is true.

Mr. JACKSON. Well, is it not also the case that the minorities currently attacking the Greek Government are fewer, numerically speaking, than they are, for instance, in France and Italy?

Mr. ACHESON. A smaller percentage, you mean?

Mr. JACKSON. That is right.

Mr. ACHESON. I suppose there are a smaller percentage of guerrillas in the hills than there are members of the Communist Party in those two countries.

Of course, the members of the Communist Party are not yet in the hills with rifles and we hope they will not be.

Mr. JACKSON. We were told in Paris that there were 250,000 armed men in Paris—armed men of the left. If 18,000 can create the furore and defeat the purposes of our program of aid to Greece, is it not entirely likely that greatly increased numbers elsewhere could also completely stall this program?

Mr. ACHESON. I have no question about the fact that if there were armed insurrection against any of these governments it would be a difficult situation. I should imagine that the governments could suppress it and would.

Mr. JACKSON. What should our position be in such a case?

Mr. ACHESON. I beg your pardon?

Mr. JACKSON. What should our position be in the case of armed insurrection?

Mr. ACHESON. I should suppose that, like sin, we would be against it.

Mr. JACKSON. Would that be sufficient, to be against it, and see it entirely fail, see the program fail entirely, because we were opposed to it, as we are opposed to sin?

Mr. ACHESON. Are you getting at whether the United States should take military action?

Mr. JACKSON. Should we implement these programs, if it became necessary, in the face of armed aggression by minorities?

Mr. ACHESON. Well, I would not feel competent to speculate on what we ought to do. I have not the faintest doubt that if you do get the kind of coup d'état which will occur if we do not have this program, that the United States will be faced with some pretty serious situations.

Mr. JACKSON. I do not think there is any question about that. I am going further and assuming it happens in the face of what we plan to do, because the situation in Greece has been going backward, and instead of achieving the stability we had all hoped for—and I speak as a person who supported the relief bill, supported the Greek-Turkish aid and so forth—

Mr. ACHESON. Yes, I know.

Mr. JACKSON. But many of us are concerned with the very real problem, and the very real probability that there will be organized attacks, possibly in the form of armed attacks, against the purposes of this plan.

Mr. ACHESON. I should think that if you were estimating the possibilities, there is a much decreased possibility that there will be any armed attack or civil war in the 16 countries if this recovery program goes through than there is that there would be such an attack if the program does not go through.

I know you are agreeing with me. You are saying, granted that that is the case, but what should we do if that more remote possibility comes to fruition and there is an attack. Well, I suppose we would help in any appropriate way to support the authority of the Government.

Mr. JACKSON. Thank you very much, Mr. Acheson.

Chairman EATON. Are there any other questions?

Mr. MANSFIELD. Mr. Acheson, in connection with the Marshall proposal, we hear now and again from different sources that it will be inflationary as far as our own economy is concerned, and I am prone to agree with that statement, despite the fact that insofar as our grains and other products are concerned, the Secretary of Agriculture has said that that need not be inflationary.

But suppose we have no European recovery plan? Is it not your opinion that under the process now in effect, inflation will continue in this country?

Mr. ACHESON. Well, yes, I entirely agree with that view. What is causing an increase in prices in the United States, as elsewhere, is excess of purchasing power over available goods.

Now, that purchasing power is created by our own tremendous internal activity. We have more investment, more employment than we have ever had in the history of the United States.

We have tremendous amounts of money which are available for purchase.

Now, the European recovery program is a very small part of that. A very small part indeed. Probably 2½ percent—something of that

sort. Now, one may argue, is it not the 2½ percent which causes the trouble? Then you say, what is 2½ percent? Why do you have to pick this 2½ percent out as the part which causes the trouble rather than some other element of purchasing power?

So far as this tending to bring about inflation is concerned, I suppose anything which increases purchasing power tends to do that. The purchasing power would exist whether you have this program or not. The only effect of it is that this withdraws some goods from the United States. Are those goods such as would otherwise be bought? They are, yes. To that extent it has that effect.

You have to choose between whether you think that is a detrimental result so serious that the United States should allow its most fundamental considerations of security, the only hope of developing any collective security through the United States, to go glimmering?

Mr. MANSFIELD. In my opinion, the political aspect of this proposed legislation is the most important by far, but if there were no ERP, would it not be logical to assume that the net result would be, instead of finding markets to get rid of our surpluses, and at the same time putting those countries where those markets are on a sound, stabilized basis, that those surpluses would pile up in this country and the result might be that we would have a very severe deflation, unemployment and all its concomitant ills?

Mr. ACHESON. I think that tendency exists, of course. I do not think that this program needs to be justified, or ought to be justified, as a way of getting rid of something we do not want. I do not believe that is correct. I think it is true that if you allow the catastrophe to happen to the world which will happen if these 16 countries really collapse from an economic point of view, that over a period of years we will be in a highly unfavorable situation economically.

Mr. MANSFIELD. That is right. Now, as you see it, Mr. Acheson, what are the alternatives, if this proposal does not go through?

Mr. ACHESON. I spoke about that for a little while yesterday. It seems to me that we are faced here with a decision which is perhaps the most important since the great decisions of the war, that this country has ever had. It is probably a decision that we will not have an opportunity to make again. I do not think the chance of rescuing western Europe is going to be offered to us again.

That raises the question of what is the significance of western Europe in terms of American security, and American well-being in the world. I believe it is quite vital. I think we are at a turning point, whence we may go to increasing friction and difficulty with the Soviet Union. We may go in a direction in which the tremendous resources of western Europe—which is the second greatest workshop of the world—the skill and industry of 270 million people, has a great chance of being included in a closed system, which will end irretrievably in hostility to us.

On the other hand, if we take a firm attitude here, and make it perfectly clear that we are doing our utmost to restore stability and strength to western Europe, I believe, as I said yesterday, that that strength and stability will be restored, that the Soviet Union, with complete realism, will adjust itself to it, that friction in Europe will decrease rather than increase between us, and that many outstanding issues between the Soviet Union and ourselves which now appear to be insoluble, can be solved.

The great danger which exists between us and the Soviet Union is in allowing situations of weakness and vacuum to occur in the world and not by pressing forward resolutely to restore strength to those areas.

Mr. MANSFIELD. Would you say, Mr. Acheson, that if this program did not go into effect, that you would see in the immediate future a decided increase in state-controlled economies throughout all of western Europe?

Mr. ACHESON. That would have to be. There would be no other alternative. Because the fundamental situation in western Europe is that you have a great many more people than can live on the indigenous resources of that area. They can only live by bringing in goods, creating manufactured articles out of them, selling those abroad and then buying more.

Now, if that process is made impossible, then the only way in which more people can continue in a state of some sort of order, in an area where they cannot all live, is to have some group impose on them, dictatorial regimes. That means that the dictatorial regime will select those who are going to get the rough end, and perhaps end their lives. It means that those regimes will have to look desperately for some sort of connection to supplement the resources they have. If they cannot do it in this operation, in connection with the free world, they will have to do it as Rumania, Bulgaria, Hungary, and Poland have had to do it, by making closed deals with the Soviet Union, and getting some articles for very excessive pay in manufactured goods, and so be brought within the system and made part of it.

Mr. MANSFIELD. That would tend to demolish the argument of some of those opposed to this proposal to the effect that if this ERP goes through, we will be helping governments which are socialistic, so-called, and we will be furthering those particular types of governments.

It would appear to me, on the basis of your argument, and I agree with it, that it might have perhaps the opposite result. Now, one more thing. If this program does not go through, what do you think would be our position from a military security point of view?

Mr. ACHESON. I think it would be greatly weakened. In the first place, I think that any development of the United Nations would be definitely not only halted but frustrated and reversed.

We were saying yesterday that it is impossible to consider a United Nations without Great Britain, France, Belgium, and Holland, Sweden—that just would not exist.

If those people, and all their skill and strength and resources, were included in a system which already has over 300,000,000 people in it, and already extends from the Elbe to the Pacific, you would have a colossal grouping of the human race and resources and skills, with which you would have to be able to deal.

You might also find that that great system opened on the Atlantic. That would be extremely difficult for us. The repercussions of that in Asia and South America would be very great. I should not care to contemplate the result of that.

Mr. MANSFIELD. Mr. Acheson, what I am interested in and have been interested in all the way through these proceedings is the basic concepts which attach to this legislation insofar as it affects us. Am I right in assuming that the failure of passage of such a program as this is would mean that western Europe would be lost to the demo-

cratic way by default, and through necessity would have to perhaps turn in the other direction?

Mr. ACHESON. That would be my view, Mr. Congressman. It would not happen overnight, but it would happen before very long.

Mr. MANSFIELD. Furthermore, if this program does not go through, as contemplated, would it mean that we would have to spend the proposed amount of \$17,000,000,000 in building up the defenses of our own country, and perhaps spend a great many billions of dollars more in taking care of our own security in a military sense?

Mr. ACHESON. Yes; I think it would mean that and I think it might mean things even more serious than the spending of money. I think it might have far-reaching effects on our whole life, both physically and in the institutions we have.

I think if we were faced with the possibility of trouble with an organization as vast as the one I have described, wisdom would dictate that you must do quite a lot with the industrial organization of this country, because it would be very vulnerable as it is now located in large centers.

I think our institutions would be under very great strain to maintain the liberties and freedom which we have, in a system in which we would have to devote so much of our time in dealing with fears.

Mr. MANSFIELD. Thank you.

Chairman EATON. Mr. Kee.

Mr. KEE. Mr. Acheson, speaking at least for the older members in point of service on this committee, I know that we are all very happy to have you here with us again.

Mr. ACHESON. Thank you.

Mr. KEE. It reminds us very much of old times when you helped us in the consideration of quite a number of the very important measures down through the years.

Referring to Mr. Jackson's expressed fear as to possible insurrection and trouble in the participating countries, it has always been my impression that this program, that one of the objectives of this program, really, is to prevent unrest and dissatisfaction and possible internal disorders in these countries.

Is that not correct?

Mr. ACHESON. Yes, sir; that is correct.

Mr. KEE. That is all; thank you.

Mr. JACKSON. Mr. Chairman.

Mr. LODGE. Mr. Chairman, may I ask a few questions?

Mr. ACHESON. I do not think Mr. Jackson differs with that at all.

Mr. JACKSON. Not at all.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Acheson, I direct your attention to page 9 of your statement, in which you indicate that these countries must increase their exports anywhere from two-thirds to doubling them.

I believe you mean over prewar exports?

Mr. ACHESON. Yes, sir; by volume.

Mr. LODGE. That suggests two questions, in my mind.

First, is it possible for them to do that with this aid we are giving them? Do you think that is actually possible?

Mr. ACHESON. The Paris report believes that by 1951 they can raise their exports to between 10 and 11 billion dollars of 1951 value. Now, their exports in 1938 were \$4,600,000,000, which was at 1938

values, and that is roughly \$8,500,000,000, something of that sort. It is 80 percent increase.

Mr. ACHESON. I believe, sir, they can do what the Paris report indicates by 1951. Now, I pointed out the other day that unless currencies are convertible by 1951, they still have not achieved balance, because the Paris report indicates that there would be a dollar deficit of $3\frac{1}{2}$ billion dollars, and a sterling plus at about $1\frac{1}{2}$ billion dollars.

So that they would be in the neighborhood of \$1 billion in the hole.

Now, in the event currencies are convertible, they can handle that. If they are not, they would have to immediately increase their exports still more, so that they would have to be up to the neighborhood of \$13,000,000,000 of 1951 value.

That is a very strenuous effort. Whether they can do it as fast as that, I would not be willing to say.

Mr. LODGE. The other matter that this question raises is that most of these exports will come into America. There are other countries, of course, but there will be an increase of imports into this country.

Mr. ACHESON. There will be an increase, but I should not say that most of them would come here. Most of them—we hope a very large part—will go to southeast Asia. Before the war, over a billion dollars of exports went to southeast Asia. Now practically none go there.

Before the war, a very large amount of western European exports went to eastern Europe. That is one of the most hopeful developments.

Mr. LODGE. That is a potential market?

Mr. ACHESON. Well, it was an existing market before the war. Now it is a potential market.

Mr. LODGE. Yes.

Mr. ACHESON. There is some—it is quite substantial—trade between eastern and western Europe at the present time. It seems to me that one of the great hopes of bringing about some change in stability in Europe is doing everything we can to encourage that trend. The eastern countries of Europe need it and want it very badly. They are discouraged, of course, by pressure from the Soviet Union. But I think it does not do any harm to encourage that conflict of interests as much as possible.

There will be a very considerable increase in western European exports to South American countries, which need these exports very much, and used to have them. But there will be—I hope there will be—a substantial increase into the United States as well.

Mr. LODGE. Would that increase into the United States be competitive with our industries here, to such an extent, I mean, as to harm our economy?

Mr. ACHESON. I do not think it would. Many of the imports will be of materials as to which we have a deficiency. So that will complement and not interfere with our economy.

Some will be of the types of goods which we do not manufacture to any great extent—high-grade textiles, for instance, which are not manufactured to any large degree in the United States, and things of that sort.

There will be some goods which are competitive. At the present time, certainly, we have such a shortage of goods that it is not really

a matter of competition. I think that the American industries can go ahead supplying everything they have and there still is a demand to be filled.

Mr. LODGE. But this is 4 or 5 years from now.

Mr. ACHESON. Five years from now the situation might be different but I should hope not. I should hope that the degree of prosperity which we have in this country will not decline.

Chairman EATON. The Chair would like to make a statement, if it is agreeable to the committee.

Mr. Elliott Wadsworth is here. I wanted to put him on yesterday, but it was impossible. As you know, he was the head of the Red Cross during the war and he is now with the International Chamber of Commerce. I was wondering if we could finish Mr. Acheson, close the questioning of Mr. Acheson at half past 11 and give Mr. Wadsworth a half hour?

Mr. JAVITS. Mr. Chairman, could I have about 3 minutes at the proper time?

Chairman EATON. Yes.

How long would you want, Mr. Wadsworth?

STATEMENT OF ELLIOTT WADSWORTH, OF THE INTERNATIONAL CHAMBER OF COMMERCE

Mr. WADSWORTH. Not very much, Mr. Chairman. I have been listening to these hearings with a great deal of interest and it reminds me so much of my Red Cross experience which began with running the Red Cross in the First World War. I would like to express some views.

In the first place, I think this perhaps is very well worth while, and I hope the money will be provided.

In the second place, I think, from what we have had happen in the Red Cross for the last 25 or 30 years, and all this emergency relief, foreign relief, that the men that go with the money are really more important than the money.

That is, if a commission of imaginative, active, strenuous men goes into these countries, with this money behind them, they can do a great deal to pick up the economies of these countries, and as Mr. Acheson said, that is what the idea is.

The things that will be done in each country will differ tremendously. I am not saying that the Red Cross ought to do this. It is the last thing in the world that they ought to do. Some of your witnesses have suggested that the International Red Cross ought to do it.

Of course, they are not equipped in any way to do it. They are just a small committee, in Geneva.

But when the First World War came on I was chairman of the Red Cross, and the public handed us about \$115,000,000, collected in a campaign, and said, "With this money will you please go out and do everything you can for the Army and the Navy, and to uphold the morale of the Allies?"

We set up a commissioner for Europe, and then a commissioner in each country, and they came back with recommendations as to what should be done.

They might want trucks in one place, serums in another, food in another—but anything that filled in some local need. All of a sudden

they found themselves with a need for equipment to supply the bottle-necks developing and that did have a tremendous effect on the morale of these countries.

These people would go in to handle the money. My other point would be that they should be just as free as possible. No restrictions. They would be entitled to go in and do whatever they could for Italy, France, Belgium, or whatever the country might be, and not try to bring any money back, not try to make any loans, not try to come back with stock piling, or anything—just get these countries on their feet. If you get them on their feet, as has been suggested quite often here, they will be good countries again, and which means they will do a great deal of business with us and with the world at large.

Those were the two particular points that I wanted to express, Mr. Chairman. I hope there will be no restrictions in this bill of any kind. I do not want to keep bringing up the Red Cross, but it has been running for 30 or 40 years—it is completely independent, except that the President appoints the chairman. Six departments of the Government were represented on the committee, so that gave us a tie-in to each department, and the other 12 members were elected. The point was the chairman was the dictator. He can do anything. But he is appointed by the President, he keeps in touch with the President; often he has the Secretary of State on the committee—at least the Under Secretary—and the broad policies are decided, but the Red Cross operates without any control from anyone at all.

I would think that some such set-up as that, for the commission that is going to handle vast sums of money, would be essential.

They are going to have to move fast, just as fast as they possibly can.

This is an adventure, and as has been often said, it is an investment, not without risk. Certainly there is plenty of risk, and nobody knows whether this money will pick these countries up, or whether they would pick themselves up if we just left them alone. But I just want to say, Mr. Chairman, that it is a great adventure for the United States. It is worth the money, if the money is handled right. If it is not handled well, aggressively, quickly, energetically, I do not think the money by itself will accomplish very much.

Chairman EATON. Thank you, Mr. Wadsworth. Now, Mr. Mundt.

FURTHER STATEMENT OF DEAN ACHESON

Mr. MUNDT. I will direct my questions to Mr. Acheson because it has been so long since I have heard him respond, and he responds so well. I am pleased to note that he has not lost any of his diplomatic suavity.

I would like to get your reaction to a feeling which I have which is contrary, I am afraid, to what the gentleman who has just testified said.

I do not want this Administration to be run by a dictator. I want this whole program to make dictators unpopular, wherever they are. I do not even want it to be run by one party. I want it to be an American adventure, an American project, in which the whole American population increasingly has confidence and which the Europeans feel is an American program, so that if there comes a change in ad-

ministration there will be no indication that the program is going to stop and dry up because of that.

For all of those reasons I feel that somewhere in this program there should be a Board of Directors, on which there would be bipartisan representation, and that this Board of Directors shall serve as counselors or advisers and work with the Administrator much as the board of directors of a bank works with the president of a bank.

If you do not feel that way about it you must have some good reasons for disagreeing and I would like to have them.

Chairman EATON. Before the gentleman answers that, would you permit me, as chairman, to ask you a question, Mr. Mundt?

The Board of Directors would be appointed from both parties. Would that Board of Directors do better if it were composed of businessmen, regardless of their politics?

Mr. MUNDT. I think the first part of that is certainly true. I think it would do better if it were composed of businessmen. I do not think you can find good businessmen who are not interested in politics nowadays.

Chairman EATON. Very well. Mr. Acheson, you may answer the question.

Mr. ACHESON. I think we went over this question this morning, but I will go over it again.

I was reporting on the studies of the Brookings Institution, which seemed to me a very good solution of the organizational problem. It was pointed out that one of the first recommendations of the Brookings Institution was that a separate agency should be created. With that I believe there is very little difference of view anywhere.

Mr. MUNDT. By "separate" do you mean outside the State Department?

Mr. ACHESON. Yes. The Brookings Institution makes a distinction between an independent agency, which runs itself, and one which is separate from other organizations in the executive branch.

The Brookings Institution points out that this activity is an activity of the executive branch of the Government. They believe that the authority should be vested in a single administrator. They recommend that he should have an advisory board which is appointed to consult with him and should include representatives of industry, agriculture, finance, labor, and perhaps some other groups which should be represented.

They do not believe that a board is a good instrument for carrying out executive actions. With that I agree. I think a board has an excellent place, in the field of Government, in dealing with legislative matters—such as rate making. I think it has a place where you have adjudicatory actions, such as decisions of cases. I do not think it works very successfully as an executive agency. Therefore, I am in favor of vesting the authority in a single person.

There are more than business considerations involved in the administration of this program. There are very important business considerations, it is true. But there are also others. There are important considerations of foreign policy and there are considerations dealing with the internal policy of the United States.

All of those can be better represented through the participation of the various agencies of the United States Government which are charged with the responsibility for the internal economy—transportation

tation, ocean transportation, agricultural purchases, and so forth—than could be done by a board of directors.

That briefly sums it up.

Mr. MUNDT. Except that you have not gotten to my question yet, which deals with the bipartisan aspect.

Mr. ACHESON. When you come to the bipartisan part of it I think we want to stop and consider very carefully what we mean. So far as the constitutional practice of the United States is concerned, the execution of laws is placed under the President. There can only be one man who is President. As far as I recall, the last bipartisan President was John Quincy Adams, who was elected on both tickets. You cannot split a man. He has to be an individual.

To take this part of executing the laws of the United States out of the administration, it seems to me, would be very unwise indeed. I do not think you would achieve the purpose you have in mind by having a board, even one in which the politics of the members are equally balanced. A board has to vote. A board has to discuss and reach conclusions. I think those conclusions are better carried out by having the Congress put in the legislation what it wants to achieve, and the conditions and terms under which it wants to achieve it, and then having the President, whoever he may be, act in accordance with our constitutional system which has, in this respect, I think, operated satisfactorily for 150 years.

Mr. MUNDT. For 6 years, Mr. Acheson, I served on a board such as I have in mind for this task—the Game and Fish Commission of South Dakota. There are three Republicans and three Democrats and a director, and we never made a political decision. Every decision had to be made in the interests of conservation because we had to have a vote of four, which means a bipartisan decision. We had to have a project decided on its merits.

I do not think that you are departing at all from the American system of economic administration when you have a board of directors working with an executive. The executive could be appointed, and probably should, by the President. He would also select the board. But he should select, in my opinion, a board evenly divided between the two major parties. He would select his executive without regard to politics. He probably would select a Democrat, which would be perfectly all right. But I do feel that in this great adventure, as it has been called, there is room to recruit the best brains of the country, and I would like to see the three best Democrats in this whole field—industrial, labor, rehabilitation—and the three best Republicans in the field set up as a board of directors to work with the man selected by the President, which is in keeping with the constitutional aspect you have pointed out.

Mr. ACHESON. I have no objection to having the best people in the world in the administration or on an advisory board to work with this man. I think there are two things which I might amplify.

The decisions which are going to be made by this agency are not decisions which are going to be aided very much by having representatives of the American political parties consider.

For instance, one of the problems this administration has to decide and act upon is how to create enough energy in Europe to turn the wheels of the railroads, which is going to increase production. That

has nothing to do with Democratic or Republican politics or partisanship in any way.

There are very serious problems as to whether you shall turn to coal as the essential source of energy. And, if you do, whether you will develop the German mines or the higher-cost and less-efficient French mines. Also, to what extent you could get Polish coal in and to what extent you might want to supplement that by petroleum.

On the other hand, it may be, from an engineering point of view, that it is much cheaper and more effective to get energy from petroleum. If you take that course you immediately increase the refining capacity of Europe and you would operate out of the middle eastern oil-producing fields to produce more petroleum.

That is the type of question that will arise.

You will have questions about how you can get financial stability in Europe. Should the currencies be revalued in relation to one another? Should you have an over-all look into the currencies of Europe, or will you have to do it piecemeal? That does not have anything to do with internal American political considerations.

In the second place, I think you will be disappointed if you believe you can get very outstanding men to be on a board where six or seven or eight people are going to vote on matters of this sort. I do not see how any strong, vigorous executive people will want to do that. You will have very, very great trouble in getting qualified people to be the administrator in the United States and the special ambassador abroad. I have had experience in trying to get outstanding men out of industry or banking to take these jobs, and if you are going to do that eight times, I just do not think you can achieve it.

Mr. JARMAN. Will the gentleman yield momentarily?

Mr. MUNDT. Momentarily.

Mr. JARMAN. I want to compare these great endeavors. What was the appropriation this board had control of out in South Dakota?

Mr. MUNDT. We worked on the license fees. We did not have an appropriation.

Mr. JARMAN. Do you remember the approximate amount of it?

Mr. MUNDT. It was not quite as much as this astronomic figure we are dealing with here. It was a Republican State, and we deal with smaller figures out there.

Mr. JARMAN. How long was your tenure on that board?

Mr. MUNDT. Six years.

Mr. JARMAN. It was not quite as urgent as this 15-month program.

Mr. MUNDT. I have another line of questioning I would like to pursue now.

As I understand it, your major reason for supporting this program—and it certainly is mine—is that you feel that it will help curtail, or maybe completely curtail, what you once referred to very emphatically, I believe, as the “aggressive expansionist program” of our eastern neighbor; is that correct?

Mr. ACHESON. I should like to put it more positively. This is not a negative attitude. I think that if you go forward with this program you will restore the strength of western Europe. I think you will pull western Europe together economically and you will give the biggest spurt that possibly can be given to the political unification of western Europe.

If you do that, and have a strong, vigorous, unified western Europe, I think you change the whole aspect of the Soviet policy.

Mr. MUNDT. Do you feel that this program per se, standing on its own bottom and operating by itself, is sufficient to do that if you get \$6,800,000,000 and do nothing else?

Mr. ACHESON. Well, I suppose we would do everything we can to assist it and help it in every possible way.

Mr. MUNDT. Very good. Would you agree with me, then, that one of the other things we should do concurrently with this is to move forward in developing a program whereby the United Nations can operate effectively?

Mr. ACHESON. Most assuredly.

Mr. MUNDT. Along with it, would you have a vigorous information program to explain our purposes?

Mr. ACHESON. Certainly.

Mr. MUNDT. Would you agree, also, along with this, that there should be a reappraisal of our entire export policy toward those countries which have openly said that they are trying to defeat the success of our program in these 16 nations? To me it just is not at all consistent to be shipping things to countries who say, "We are trying to defeat the success of your program in western Europe." Helping those countries would be defeating our efforts in western Europe.

Mr. ACHESON. Surely I think we should have a reappraisal. I think that reappraisal has gone on for some time and is going on now. I think it must be clear that you cannot have two inconsistent things at the same time. You are not going to have a strong, vigorous western Europe without a revival of trade between eastern and western Europe. That is just quite impossible.

Mr. MUNDT. At that point, then, if the Soviets should decide that they do not want to revive that trade, do you argue that our whole program is doomed to failure?

Mr. ACHESON. No. I think the chances are very great that the Soviet Union will not be able to stop the revival of that trade; and if they exert pressure to do that they will greatly strain their relations with these countries.

Mr. MUNDT. If you argue that we cannot have a revival of western Europe without the revival of trade between East and West, you argue that the Soviet Union can defeat our program if they elect to do so. They have told the world that they elect to do so.

Mr. ACHESON. They have told the world that they do not want a revival of trade between eastern and western Europe.

Mr. MUNDT. They have told the world that they do not want this program to succeed.

Mr. ACHESON. Yes; but this is not going to be decided on the basis of dialectics in the Cominform. I am quite sure that the influence of Russia and her satellites is directed to preventing the program from going into effect.

Mr. MUNDT. Or succeeding if it does go into effect.

Mr. ACHESON. If it does go into effect you will have a great many forces operating which I think should be strengthened, and that is the intense desire of the countries of eastern Europe—to exchange goods which they have for goods which they can get in western Europe and cannot get anywhere else. There is a very strong pull, and one which is going on at the present time, at the present moment, between eastern and western Europe.

I think what you ought to do is do everything you can to increase that. Insofar as the Russians attempt to prevent it, you are putting a very great strain on Russian control in those eastern areas—a strain which is too great for them.

I think their control will break down—which I think is to the good.

But I do not have any doubt in mind that you can't in the long run, have recovery in western Europe without this revival of trade.

Now, as to the alternative. You say you are strengthening eastern Europe, and these people are hostile to us, and that is bad. The alternative is turning the whole thing over to those people and incorporating all those people, with all their skills, resources, and manufacturing efforts, sooner or later, into this closed system of the Soviet Union.

That, I think, is a worse alternative, unless you continue to have the thing drag along in a sick state for years and years, in which case you will have continued Russian pressure in eastern Europe which may, at any moment, flare up into active hostilities.

Mr. MUNDT. If I follow the logic of your argument, you disturb me about the success of this program, because, if I understand what you say, it is this: That this \$6,800,000,000 program cannot succeed in western Europe without a substantial amount of trade between eastern Europe and western Europe.

Mr. ACHESON. I do not say that it cannot succeed, but I say that unless that is recreated—that trade—then we have got to develop an equivalent amount of the same type of trade somewhere else.

Mr. MUNDT. That is saying something different from what I understood you to say first.

Mr. ACHESON. Well, I do not know where you would do it. Therefore, it is of the utmost importance—and if you read the Paris report you will see that that is one of the premises of that report. This is nothing new. This has been in the report since it was published last September.

Mr. LODGE. I think this is a very interesting point, and I believe that this trade with eastern Europe is a very important factor. The thing that worries me is, What is to prevent Russia from draining off the capital-goods surpluses which we and the 16 participating nations ship into eastern Europe? If they remain in eastern Europe, and if there is a revival in western Europe, I can agree with you 100 per cent. The thing that worries me is the capacity of the Russians to drain off those capital goods which would, in the end, come in large part from us.

Mr. ACHESON. I do not know what you mean by the "capacity of the Russians" to drain it off.

Mr. LODGE. The ability of the Russians to drain it off. Could they drain it off?

Mr. ACHESON. Not and have their system work at all. Trade, I suppose, is the exchange of articles of comparable value. If there is any magic by which the Russians could force western Europe to manufacture goods and send them to them without any return, that would be what you are talking about.

Mr. LODGE. Yes. I do not believe that is magic, Mr. Acheson. I think they have done that already, as you have doubtless been informed.

Mr. ACHESON. They have done that with western Europe?

Mr. LODGE. With eastern Europe.

Mr. ACHESON. Of course they have—because they have their armies there.

Mr. LODGE. I am afraid I have not made my point clear. The point I make is: If the capital goods surpluses go into eastern Europe in exchange for agricultural surpluses, what is to prevent Russia from draining those capital goods surpluses off?

Mr. ACHESON. Mr. Lodge, I do not think I understand what you mean by "capital goods surpluses." Do you mean goods or do you mean machinery?

Mr. LODGE. I mean industrial products as opposed to agricultural products, to use the term in the usual sense.

Mr. ACHESON. You mean this: Suppose Bulgaria, for instance, sells wheat to France and France sells them some trucks.

Mr. LODGE. Trucks which were manufactured, let us say, because we sent them coal, spare parts, machine tools, and so forth.

Mr. ACHESON. All right. The trucks are in Bulgaria. You say: What is to prevent the Russians from just coming in and taking them?

Mr. LODGE. Yes.

Mr. ACHESON. There is no physical force that will do that. But what I am telling you, I think, is the most hopeful thing in the world. If that kind of thing continues, then the Bulgarians are not going to send any wheat to France. They are not going to do it just for fun.

Now, if the Russians want to send wheat in return for those trucks, all right.

Mr. LODGE. In other words, we come down to the question of whether they can, in fact, keep that "iron curtain" fast or can they not. They will try to, but can they?

Mr. ACHESON. That is right.

Mr. LODGE. Thank you very much.

Mr. MUNDT. I think that is something we should explore carefully to make sure that we do not project a program the defeat of which we can make possible by an attitude on the part of the Soviets.

That is something that I have insisted on throughout—that this be a comprehensive program. My criticism of the State Department is that it relies too much on the \$6,800,000,000 without doing the corollary things, most of which I think you have mentioned today.

One other question on a different subject. I have a feeling that if we got into this as a teamwork program—the 16 countries and us, and perhaps Germany, which would make it 18—to revive and restore their economy and rehabilitate their politics, or make possible a foundation of politics over there which is stable, I wonder if you would agree with me that it is only right and equitable that, as one of the return considerations that we receive for our efforts, the countries can help make available to us such radio time as we might require on state-owned radio stations to tell the people, in their own language and on their own stations, why we are there and to do the thing that Mr. Wadsworth so aptly described, namely, what our men, with our money, are endeavoring to do to help them.

Mr. ACHESON. I have no objection whatever. In fact, I am entirely in favor of the most appropriate and simple methods of getting access to the means of telling the story in the countries involved. If that is the best way, I agree with you.

Mr. MUNDT. It would not cost us any additional money and it certainly would be a very fine gesture of friendship and reciprocity on their part.

Mr. ACHESON. I think it would be infinitely better if they themselves were to tell them what we are doing.

Mr. MUNDT. With a little nudging from us as to what they should say, perhaps.

Mr. ACHESON. If our own people, through our own broadcasting system, were telling us something in the United States we would believe it a great deal more than if some foreigner were telling us the same thing.

Mr. MUNDT. That is all.

Chairman EATON. Mrs. Douglas.

Mrs. DOUGLAS. Mr. Acheson, Mr. Lodge characterized as an interesting thesis your statement on the trade situation between eastern and western Europe. It is not a thesis but a fact that there is trade today between eastern and western Europe. Did not the Paris Conference include trade between eastern and western Europe as a necessary part of any rehabilitation program for Europe?

Mr. LODGE. Will the lady yield?

Mr. ACHESON. What you said is true; yes.

Mrs. DOUGLAS. Yes, I yield.

Mr. LODGE. I should be delighted to take part in a discussion of semantics with you at any time, but it seemed to me that it was a thesis insofar as satisfactory trade relations had not yet been achieved between eastern and western Europe because of the fact that western Europe hasn't sufficient capital goods surpluses and eastern Europe hasn't got sufficient agriculture surpluses.

If you believe that the trade already existing between eastern and western Europe is satisfactory within the terms of ERP, then you and I have entirely different hopes for this program. My hope is that it will go far beyond, and, insofar as it does, it constitutes a thesis at this time.

Mrs. DOUGLAS. I will not get into an argument with you because we will just waste time. I am not talking about satisfactory or unsatisfactory trade relations. I am talking about a fact which I think we must have firmly in mind before we go to the floor of the House. Suppose some Congressman on the floor asks, "What do you mean, trade between eastern and western Europe? Do you mean we are going to help those Communist countries? We won't have anything to do with it." How can we answer intelligently if we do not have the full facts? That there is trade between eastern and western Europe is a fact and not a thesis. I repeat that there is today trade between eastern and western Europe.

Mr. LODGE. But relatively little trade.

Mrs. DOUGLAS. That is right. But I think the average person in the street does not realize that such trade exists.

Mr. LODGE. It is quite inadequate.

Mrs. DOUGLAS. I am not talking about adequate or inadequate trade relations. I am saying that there exists now trade between eastern and western Europe, and I am also saying that in the Paris report the 16 nations felt that recovery of Europe demanded a continuance of this trade. I think we must recognize existing trade relations between eastern and western Europe before we go to the floor of the House.

Mr. LODGE. Insofar as the program is concerned, it is a thesis; insofar as it exists, it is a fact.

Mrs. DOUGLAS. It would be tragic if at the eleventh hour we threw the whole Marshall plan over because we suddenly discovered a fact that should have been self-evident from the first. The Marshall plan will certainly indirectly help Communist-dominated countries. To abandon the program for this reason is to turn all Europe over lock, stock, and barrel to the Communists. Mr. Acheson, you used the figure of 2½ percent for exports——

Mr. ACHESON. No. I said what we are talking about, in the European recovery program, is about 2½ percent of the gross national product of the United States.

Mrs. DOUGLAS. That whole 2½ percent is not financed by our aid program, is it?

Mr. ACHESON. Some of it is financed in other ways.

Mrs. DOUGLAS. Yes. And by a natural flow of exports.

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. Will you define a little more specifically what will be the powers of the missions attached to the embassies working for the aid program?

Mr. ACHESON. Well, I suppose that what they will be chiefly charged with doing is, in the first place, seeing what is being done in the countries with the aid which we advanced under this program. They will have to be reporting continually to the Administrator what is happening in each one of the countries. They will also be reporting on the degree of recovery, financial stability and intra-European trade which is going on. They will be the great source of getting all sorts of information on the actual operation of the program.

They may be required to take up with the countries certain things which the Administrator thinks should be done. It may be that in one country the Administrator will think that coal production is lagging, that that ought to be stimulated. It may be that factories cannot run because they are not getting enough power. Then, we may be sending too much material for factories and not putting enough emphasis on getting more power.

Mrs. DOUGLAS. Then they will be technical men.

Mr. ACHESON. They will be technical men in the very broadest sense of the word; yes.

Mrs. DOUGLAS. To get back to the board, in the administration of the program, the Brookings Institute suggests that the Administrator work with the heads of the bureaus and governmental departments.

Mr. ACHESON. Yes.

Mrs. DOUGLAS. If you replaced the heads of bureaus and governmental agencies with a board made up of businessmen, would they be as well informed as to the availability of foods as the Secretary of Agriculture and his staff?

Mr. ACHESON. They will have to go, in any event, to the departments of the Government which were dealing with these particular subjects.

Mrs. DOUGLAS. What will happen if such a board of businessmen outlines a program for the export of foods under the Marshall plan and the Agriculture Department, when questioned, disagrees with their figures? The Agriculture Department has one set of figures and the board of businessmen has another set of figures provided by experts

outside of Government. What will happen then? Will this make for the harmonious and efficient administration of the Marshall plan?

Mr. ACHESON. You are creating a very serious problem if you have a board. The action of a board is anonymous. A board can get all the information that exists about a problem from the Department of Agriculture or anyone else. Then the board votes. And the board may vote 5 to 3 to do something contrary to all this information. Nobody is responsible for that. Nobody is called up to explain why they should do something which everybody in the Government has said is impossible.

The chairman says: "All I know is that the vote was 5 to 3 the other way." There is no one to assume the responsibility. This has happened before. It is not merely theoretical.

Mrs. DOUGLAS. Europe recovered at a more rapid rate after this war than after the last war?

Mr. ACHESON. Yes.

Mrs. DOUGLAS. How much of that, would you say, was due to UNRRA?

Mr. ACHESON. Well, UNRRA, with the other assistance which came from the United States, was very largely responsible for it.

Mrs. DOUGLAS. It has been mentioned here today that we must have the support of the American people for this program if we are to continue and see it through to a successful conclusion.

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. Then it is very dangerous to go around, for whatever reason, continually attacking UNRRA, would you not say? Because the American people might well feel that if they had thrown their money down a rathole with UNRRA then there would be no hope of success with this program, which I think is the reaction of a great many people in the country at this moment.

Mr. ACHESON. I think it is a very great mistake to attack it unjustifiably. If it did any things which were inefficient or erroneous, I think those should be brought out.

Mrs. DOUGLAS. This program, in your opinion, will not hurt the United Nations, but indeed is essential if the United Nations is to survive?

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. And it is not a United Nations problem because all the nations of the world do not go into a single nation—into France for instance—and help her work out a problem. She must work out her own problems. And we, unilaterally, are giving her the aid so that she can work out her own problems and so that they can be a member in good standing within the United Nations.

Mr. ACHESON. That is true, Mrs. Douglas. The fundamental problem here is that in order to furnish the necessary imports there has to be financing, which can only be furnished by the United States Congress. Therefore it is not anyone's problem except that of the United States Congress.

Mrs. DOUGLAS. Would you not say that in all our talk of communism, and the fear of Russia and what may lie ahead, we perhaps stress too lightly the fact that even if Russia were our close friend in the world at the moment and there were no fear of communism, we would be still confronted with a world which has been shattered by war and a world which must be repaired?

Mr. ACHESON. That is entirely true. The Russian attitude merely makes it more urgent and more difficult.

Mrs. DOUGLAS. More difficult, but we are still working out of the war picture into a peace picture, and we are the only nation in the world that can give the help needed at this time.

Mr. ACHESON. I agree entirely.

Mrs. DOUGLAS. Thank you.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Acheson, it is a fact—I assume we all agree—that the European recovery program will be made or unmade by the technical skill of the people who administer it on the ground. Do we agree on that?

Mr. ACHESON. That would be very important. I should hope that, insofar as administration in Europe is concerned, there will be as little as possible American administration. The actual translation of goods into productive activity has to be done by the countries themselves.

Mr. JAVITS. Well, this is essentially an engineering job, a job of making production. We can agree on that.

Mr. ACHESON. That is the ultimate goal. It has a great deal to do with how you appeal to the people, and so forth, however.

Mr. JAVITS. Is it not a fact that the most successful agency which was able to enlist the technical brains of trade and industry was the War Production Board?

Mr. ACHESON. I should say the War Department did a pretty good job.

Mr. JAVITS. Well, the WPB was the War Department's arm.

Mr. ACHESON. It was part of it.

Mr. JAVITS. Well, when we get to the grass-roots administration of the European recovery program—I am not talking about the high-level policy—should we not follow as closely as we can a proven model?

Mr. ACHESON. If that is the model, we ought to follow it. I think the job you have here is somewhat different to that which the War Production Board was doing.

Mr. JAVITS. Will you tell us why?

Mr. ACHESON. The War Production Board did not have the job of acquiring and shipping to the various parts of the world a whole series of goods and determining what should or should not be done. All of those things were done by what were called the claimant agencies. The War Department developed what it needed to fight the war. The Navy Department developed what it needed to fight the war. All of those people carried on their operations with the factories that were producing. The War Production Board was an agency to resolve the conflicts when too many people wanted the same thing and also to stimulate production.

Mr. JAVITS. That is it; to stimulate production, that is the fact. Thank you very much.

Chairman EATON. We will recess until 2 o'clock.

Thank you very much, Mr. Acheson. We have enjoyed having you with us.

Mr. ACHESON. Thank you, sir.

(Whereupon, at 12:30 p. m., the committee recessed until 2 p. m. the same day.)

AFTERNOON SESSION

Chairman EATON. The committee will please come to order.

We have the very distinguished pleasure of welcoming as a witness today Mr. Martin, Chairman of the Board of Directors of the Export-Import Bank.

I will ask Mr. Martin to make his statement.

**STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN,
BOARD OF DIRECTORS, EXPORT-IMPORT BANK**

Mr. MARTIN. Mr. Chairman, in appearing before you to discuss the European recovery program, I believe it appropriate for me to indicate generally the function performed by the Export-Import Bank in the past and the function it should perform under the program which is now the subject of consideration by this committee.

The bank was created by the Government of the United States to fill a need in the world of finance resulting from the lack of adequate private capital facilities for financing trade between the United States and foreign countries.

From the time of its creation in 1934 until 1939, the bank operated on a limited scale and its activities were, for the most part, confined to short- and medium-term credits to finance the export of specific industrial products or commodities.

With the advent of the European war, in 1939, the United States Government was called upon by foreign governments, particularly in Latin America, for financial assistance to support their economies. Funds were voted the bank by the Congress for that purpose, and from 1939 until the end of World War II the Bank extended a number of direct Government long-term loans.

In July 1945, the Congress, anticipating the need of the war-torn countries for emergency financial aid from the United States, enacted the Export-Import Bank Act of 1945 and increased the bank's lending authority to \$3,500,000,000.

In the hearings and debates on the bill at that time it was made clear that the Congress expected the bank to aid in the reconstruction and rehabilitation of the economies of war-devastated countries through long-term reconstruction credits during the period between the end of the war and the time when the International Bank for Reconstruction and Development would commence operations.

Accordingly the bank, during the period from September, 1945, until the latter part of 1946 authorized large long-term credits to the Governments of France, Belgium, The Netherlands, Greece, Poland, Norway, Denmark and Finland. Dollarwise, these loans constituted the great bulk of the lending of the bank during this period.

After the International Bank had begun operations, the Board of Directors of the Export-Import Bank moved to bring to an end the program of large emergency reconstruction credits and to revert to the bank's more normal function of facilitating and financing American foreign trade by short- and medium-term credits for specific purposes. This action of the board was reported to the Congress in the published semiannual report for the period ending December 31, 1946.

As events developed, however, the need of foreign governments for financial assistance proved greater than had been foreseen; the Inter-

national Bank was unable to assume the burden to the extent originally expected of it; and the Export-Import Bank found it impossible to meet all demands made upon it for reconstruction assistance and financial aid, either because of lack of funds or because the credits sought would not meet the standards set up by the Congress in the Export-Import Bank Act of 1945.

The consequence has been that the Congress has had to vote additional funds for foreign aid and now is being called upon for still more funds under the European recovery program which has been submitted for its consideration.

The program contemplates that assistance may be extended by way of grants, cash payments, or credits. It is generally agreed that the Export-Import Bank is the agency through which the credits under the program shall be extended. It is an agency which combines financial, economic, and political elements essential to foreign lending and is administered by a bipartisan board. Except for certain specialized credits, it has performed, and is today performing, all foreign lending in which the Government has engaged. In its 14 years of existence the bank has acquired wide experience in developing and applying sound principles and practices in the consideration and administration of foreign loans under widely diverse conditions.

With an agency already in existence which has engaged in foreign lending and which will continue to engage in foreign lending under the Export-Import Bank Act of 1945, it would be most inadvisable to create another agency performing like functions. I do not need to describe to the members of this committee the confusion that results and the duplication of efforts involved in the case of two governmental agencies operating in the same or similar field. I believe it suffices to say that all foreign lending should be centralized in one agency of the Government.

Accepting this thesis, the problem which confronts us in formulating the foreign-aid program is to utilize the bank within the framework of an over-all unified aid program. The necessity for an over-all unified program is clear. There is no satisfactory or logical method by which one is able to say in advance as to what amount of the total aid extended should be by way of credit and what amount by way of grant. Nor is it feasible to determine in advance which products or commodities should be furnished on grant and which on credit terms. These and other considerations call for an over-all unified program which is controlled and directed by one entity.

I believe that the administration program now before you, as presented in H. R. 4840 introduced by your esteemed chairman, Mr. Eaton, achieves this end of utilizing the Export-Import Bank within the framework of an over-all unified program. By the provisions of the bill, the Administrator in consultation with the National Advisory Council would determine whether assistance is to be extended on grant, cash payment, or credit terms. Then, and I now quote from the bill:

When it is determined that assistance should be extended under the provisions of this act on credit terms, the Administrator shall allocate funds for the purpose to the Export-Import Bank of Washington, which shall notwithstanding the provisions of the Export-Import Bank Act of 1945 (59 Stat. 526), as amended, make and administer the credit as directed, and on terms specified, by the Administrator in consultation with the said National Advisory Council.

The bank, as the agent of the Administrator, would extend all credits that are to be made under the program except possibly those involving the sale of Government-owned property. The precise manner in which the agency relationship between the Administrator and the bank would function would depend, in the final analysis, on the working arrangement that is established between the two agencies. In the light, however, of the avowed purpose of all concerned that it is not intended to duplicate the facilities of existing Government agencies, it is assumed that the Administrator would utilize the services and facilities of the bank to the maximum extent consistent with his statutory obligations.

The obligations of the Administrator under the bill with respect to the making of credits are such as to permit him to consult and advise with the bank from the time it is determined that a particular request for assistance involves the possibility of a credit. It is to be expected that the bank working directly with the Administrator or, in any event, as a participant in the machinery of the National Advisory Council, would actively participate in the analysis of a credit and the determination of the terms on which it is ultimately to be established.

Likewise, in the administration of the credits, it is to be expected that the bank would play a full role subject only to ultimate control being retained by the Administrator so long as he has statutory existence. Thus, although there is no gainsaying the fact that the bank would be functioning in purely an agency capacity under the program, it is assumed that the role would be that of an active rather than a passive agent.

I would like to interject a comment in my written statement to the effect that in putting this sentence in we did it with full realization that it would be possible to bypass the Export-Import Bank in this operation, but it is assumed that the purposes and intention of the act are clear and that the Administrator would be just as interested in the success of this program as we would and that there would be no attempt or point in his attempting to bypass the bank. We would therefore be an active and not, as I say, passive agent in any sense of the word.

There is no conflict in the dual function that the bank would perform for the duration of the European recovery program—that of acting in an agency capacity under the program and of acting, at the same time, in an independent capacity under the provisions of the Export-Import Bank Act of 1945. Loans made by the bank as agent for the Administrator would be so carried on the books of the bank and loans made by the bank under the Export-Import Bank Act of 1945 would be carried as such type of loans.

If it be the decision of the Congress that there be an over-all unified program, the board of directors of the Export-Import Bank believes that the bank could appropriately and effectively contribute its experience and facilities in an agency capacity for the lending activities—whatever may be the form and status of the entity created by the Congress to control and direct the over-all program.

Chairman EATON. Mr. Martin, we thank you for this very suggestive statement of yours.

Would you clear up now how your statement of the position of the Export-Import Bank fits into the proposal of these two bills that are now before us—the Herter bill and the administration bill? How is it

going to work? Suppose Congress passes or authorizes an appropriation of so many billions of dollars. Where will those billions be placed for administration and use?

Mr. MARTIN. Under the administration act, the Administrator will take a look at the entire program and bring it to the attention of the National Advisory Council. It is decided there that some portion of the projected program for a given country could be made in the form of a loan. I would like to point out that I would represent the bank as a member of the National Advisory Council so I would be in on that determination for the bank.

After a determination has been made that it would be a loan, the Administrator, working in conjunction with the National Advisory Council, would set the terms and conditions of the loan and the funds would be allocated out of his appropriation to the Export-Import Bank and set up on the books of the Export-Import Bank as an ERP loan.

Chairman EATON. Both of these bills provide more or less for an organization under the ERP called a council or board. How would they function in relation to the National Advisory Council?

Mr. MARTIN. Under Mr. Herter's bill, he has a larger national advisory council, I take it, in the Foreign Aid Council which would comprise the members of the EFRA plus the members of the National Advisory Council and, I believe, one or two additional. But I assume that that council would act in the same relationship to the program that the National Advisory Council does now, although it would, if I read his bill correctly, have a little broader authority than the present National Advisory Council under the terms of the Bretton Woods Agreement Act.

Chairman EATON. Mr. Herter is here himself. I was wondering if the committee would permit Mr. Herter to ask a question at this time in defense of his child.

Mr. HERTER. I did not want to interject myself into this at all. I appreciate being given the privilege of listening.

Mr. MANSFIELD. I so move that Mr. Herter be allowed to testify as a witness.

Chairman EATON. If it is agreeable to the committee, all members say "aye."

(Chorus of ayes.)

Mr. HERTER. There is one question I would like to ask.

I take it that under either bill the Export-Import Bank would play the role of being the lending authority. That is generally agreed, as Mr. Martin has testified.

Chairman EATON. The only lending authority.

Mr. HERTER. In the case of the administration bill and the other bill, sir, the determination of terms and conditions of a loan is made by the administrator with the National Advisory Council. You, on the other hand, are still bound, under the statute, to make loans which, in your judgment, have a reasonable chance of repayment. And yet an entirely outside body is going to tell you what the terms and conditions of those loans should be. I wonder how you reconcile those two things.

Mr. MARTIN. Our approach to that has been the desirability of an over-all unified program, and the problem that has bothered us is how you make an evaluation of reasonable assurance of repayment when

there are several factors moving forward at the same time—relief, grants-in-aid, loans, all made at the same time—assuming that this program is going to move forward from the date that it is approved, if it is approved, by the Congress.

If the relief goes forward satisfactorily, and the grants-in-aid go forward satisfactorily, then the loan could legitimately be called a loan, in our opinion. But if the relief breaks down, or the grant-in-aid breaks down, then we question whether we would be justified in saying that the third prong is a loan at all.

Mr. HERTER. But, yet, under the bill as drafted, you are required to make that loan whether you want to make it or not. The funds are given to you. You are required to make it. Yet there still remains in the statute the provision that you can only make loans if you think you have a reasonable chance of return.

Mr. MARTIN. The loan is not made under our statute. That is waived entirely.

Mr. HERTER. That is waived entirely?

Mr. MARTIN. That is correct.

Mr. HERTER. So that, in effect, you are really a servicing agency for loans which you may or may not think are good loans.

Mr. MARTIN. That is correct.

Chairman EATON. Who would be responsible for making a bad loan, Mr. Martin or Mr. Herter?

Mr. MARTIN. I would like to let both of us out of that and blame it on the Administrator.

Chairman EATON. Or on the Congress?

I think we will ask Mr. Jonkman to take over.

Mr. JONKMAN. Mr. Martin, what is the objection to handling it on a business basis? For instance, let the Administrator handle the grants-in-aid and when he comes to a situation where he thinks they should not be grants-in-aid but should be a loan refer them to you, to the Export-Import Bank. Then, if it is not fit for a loan, you have a double check on that and it is sent back to him and he has to give grants-in-aid. What is the objection to having loans handled by a loan agency?

It has been explained here that you are not the loan agency under any circumstances. It is camouflage to me. All you do is hand over the money when they tell you to.

Mr. MARTIN. There is an implication of what you say in that, but the fact of the matter, from our point of view, is that the problem we are facing is a fluid, flexible problem, and there are elements that I have seen in the paper referred to in these hearings as "imponderables."

I come back to the only thinking that is clear to me in my own mind—that the justification for having it all as a unified over-all program is in the fact that there are contingent factors in making these loans to the extent that you can make them loans.

Incidentally, I do not think very much of it, in my personal view, can be in the form of loans. I think a great portion of it will have to be grants-in-aid or straight relief.

To the extent that you can make it a loan, it is not a case of whether you can build the foundation and then the first floor and then put the loan on top. If you could do that it would be simple. But here is a case where you have to build the first floor, the second floor, and the third floor at the same time.

I am using a sample of the approach that I have made to it in my own thinking—that if we could do it step by step that point you have would be perfectly valid. If you have to do it as a simultaneous operation there is a strong case that can be made that there is a portion of the credit that can be made as a loan—probably should be a loan. I feel quite sure that it should be made as a loan to the extent that there is a chance of it being repaid, but only on the condition that the first two of my three prongs are successful, and you would not know that until after the program is moving forward.

Therefore to put the responsibility on the board of the Export-Import Bank to assume that step 1 and step 2 are successful seems to me to put the board of the bank in a position that is quite difficult.

Mr. JONKMAN. I do not follow you on that step 1 and step 2. I do not see that it makes any material difference. Certainly the loans that are contemplated under this act have not the characteristics of loans or you could simply shove them into that category. If you mean by step 1 and 2 that the country must have one or two grants-in-aid before it gets sound enough for a loan, then all right. The loan would not be in order until the Administrator had done his work with grants-in-aid.

I just cannot see why we cannot have somewhat of a business application of this thing so that when you are going to call part of it loans they shall be loans instead of camouflaged grants-in-aid.

Do you not think that would be the sounder method, and if it were the case of loans the Administrator would say, "I think you are in a sufficiently sound condition, financially and what have you, to get a loan. You make your application to the Export-Import Bank." If you turn them down it has to be a grant. But if he is going to pass judgment on it and say, "This isn't a good loan; you couldn't get by the Export-Import Bank, but I will recommend you for a loan," what will you do?

Mr. MARTIN. I cannot say that that is not a way of doing it, and I cannot say that the Export-Import Bank could not operate under such a system. We would have to have additional capital, then, for whatever portion might be loans.

Mr. JONKMAN. Sure.

Mr. MARTIN. Now, how you determine the amount of that capital is something that bothers us, also, in considering it—how we can tell in advance what might be made as a loan at this stage of the game is very difficult for us to see.

Mr. JONKMAN. The administration is estimating the loans will constitute from 20 to 40 percent of the total amount. Why not give you, the Export-Import Bank, an additional 2½ billion or 3 billion and then make this a straight grant proposition for the other 4 or 3½ billion, or whatever it may be?

Mr. MARTIN. That, unquestionably, could be done. But it would just be taking an arbitrary figure and assign it to the Export-Import Bank for loans and might seriously handicap the Administrator in the problem that he will have of trying to utilize these funds as expeditiously and as intelligently as possible.

Let me just try to give you my point of view on the problem that the Administrator faces as compared to the problem of the Export-Import Bank 2 years ago, when we undertook this foreign lending program—reconstruction lending—prior to the time the International Bank had come into existence.

We then knew that there was a certain amount of physical reconstruction that had to be done—what I called “clearing away the debris of war.” Regardless of the balance-of-payments position of the individual country, and regardless of the normal factors that would be taken into consideration in considering a loan, it is very easy to see that here is a plant that has been destroyed—it must be replaced. Here is a community that is not working; you have got to get them back to work and get them started.

Well, I think we have made amazing progress on that. I covered all the major countries that we have made loans to this summer, as everybody else did, and I was amazed at the success, it seemed to me, of some of the reconstruction work that has been achieved.

Starting with the latter part of 1946 and the beginning of 1947, I felt that the situation had changed, that the problem was not physical reconstruction so much as it was financial and monetary reconstruction and the will to increase taxes and balance the budget and do the other things.

There was additional reconstruction needed and additional fuel needed because monetary factors cannot atone for the lack of vitality in workers if they haven't sufficient food to eat or for the lack of fuel to make a plant operate, if it is set up to operate but has neither the fuel nor the raw materials.

But apart from those things, which I considered to be relatively minor at this stage of the program, the main thing is to get these countries to help themselves through making it possible for them to comprehensively balance their budgets out of this additional assistance. This is the last chance they are going to have to balance their budgets. If they do not do it this time I think they are in serious trouble. I say the man who is tackling this needs as much support, as much latitude, and as much authority as you gentlemen can see fit to give so that he can move rapidly and courageously and intelligently on all fronts to meet this problem, which is entirely different, in my opinion, from the problem of physical reconstruction per se.

It is because of this point of view, and fully recognizing the merit of your position of placing the Export-Import Bank in the position where we would have to say “No; we can't do it,” yet, from the standpoint of the Administrator, it might be desirable for him to say, in a given situation, “I am going to give you so much food; I am going to give you so much in the way of raw materials; but I am not going to give you this, this, and this. I am going to set this up as a short-term loan, and if you do not repay it in 90 days or 120 days I am going to consider that you have failed in your program.” Or, “I am going to make it a 1-year or a 2-year loan. We will review it constantly.”

That is the technique that I think would be desirable from the standpoint of the Administrator.

Mr. JONKMAN. Would you add to that that if they do not make good he could charge it off to grants?

Mr. MARTIN. He might decide to do that.

Mr. JONKMAN. It must be within your program, if you say he is to use it that way—and if they do not pay, then do that.

Mr. MARTIN. That would be his problem. How he would meet it, I do not know. He would have, under this bill, the authority to change terms and conditions in the loans, of course, if he wanted to. I do not think he would turn it into a grant. If he made it, I think he might extend the terms or alter the terms.

Mr. JONKMAN. But it is your impression, as a banker, that this would be a better way to handle it under the bill than as I suggested, and that is to make the loans exclusively under the jurisdiction of the Export-Import Bank, looking at the objective of the program?

Mr. MARTIN. I have studied this question repeatedly and I have come to the conclusion that this would be the more desirable of the two methods.

I think it could work under either method. I believe there would be less risk, from the standpoint of the Administrator and the problems he might face, if it were done this way.

Mr. JONKMAN. Thank you, Mr. Martin. That is all, Mr. Chairman.

Chairman EATON. Mr. Kee?

Mr. KEE. No questions, Mr. Chairman.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. Mr. Martin, my colleagues have expressed our pleasure at having you before us. I would like to add that we are delighted to have you because there are practical questions needing clarification that one puzzles over very much.

I do not know any economics except those I learned in my own home, so I am perhaps asking kindergarten questions. But in studying the whole set-up of the Export-Import Bank and the various monetary set-ups, the relation of the currencies abroad, and now the devaluation of the franc and the lira and the effort on the part of those countries to move toward the stabilization of currencies, combined with the insistence on the part of some of the Members of the House and some of the witnesses that until there would be stabilization there is no hope of recovery and that we are just sinking money down the drain and therefore one of the first steps must be efforts toward stabilization, would you be good enough to explain a little bit what the situation is in the matter of the pegging of the currency and this Monetary Fund which, as I understand it, was set up to do this very thing—stabilize currencies?

Mr. MARTIN. You have just had a good example of the problem in the case of the franc. There is no way I can express it better than to say that the monetary soundness starts from a balanced budget. It starts from a balancing of supply and demand, either internally or externally, in a way that the expenditures and receipts balance.

Now, most of the countries involved have had their situation unbalanced today for a variety of reasons. We all are familiar with the war, of course. We have been trying to fill in some of the devastated areas from the outside. Now, the natural tendency, of course, has been to live beyond their means. In living beyond their means they have wanted to import items that they did not have from the outside without correspondingly arranging for anything in their budget to make the offset. They have made a certain degree of progress in doing it. But there is a good deal of resistance. Internal taxation is not easy to impose, the marshaling of securities is not easy to achieve, and there is still an element where the law of supply and demand with stable prices is not met. It is met from the outside. You have what we call black markets and every other device to obtain the goods.

Now, when that gets completely out of hand, and there is no balance on either side of the ledger, then you have a monetary instability that grows worse because of lack of confidence on the part of the

people. I go back to my elementary economics, that money is a medium of exchange and a standard of value, and its basic ingredient is confidence.

Now, outside of gold, there has been a flight toward the dollar because the dollar is the only means of obtaining this outside assistance, and this disequilibrium in the balance of payments has occurred because there is a tendency to import more than they can possibly export.

Mrs. BOLTON. Particularly with the franc pegged?

Mr. MARTIN. That is right. Now the first steps have been taken toward correcting that situation.

Mrs. BOLTON. By France.

Mr. MARTIN. By France and by Italy.

Mrs. BOLTON. May I interrupt and ask you whether, in view of the fact that France has done that in spite of the regulations she agreed to with the other nations, we are going to go along as though she had kept to the line? After all, she has rather jumped the gun; has she not?

Mr. MARTIN. Well, she has not acceded to the requirements of the monetary fund.

Mrs. BOLTON. Is that because perhaps we should restudy the monetary fund and make it a little more realistic?

Mr. MARTIN. Well, that is a difficult question to answer, Mrs. Bolton. I am not really equipped to go into all the details of the monetary fund. I think what we are saying, when we come up to Congress for additional funds in the Marshall plan, is that there is needed a reevaluation of the British loan, the Export-Import Bank lending program, the International Monetary Fund, and the International Bank.

Mrs. BOLTON. That seems to me rather fundamental to the whole Marshall plan because maybe we do not need so much of the Marshall plan if we get straightened out in the way of currency. That is what I hoped you would say.

Mr. MARTIN. I think rather the reverse is true. I think that without the Marshall plan none of these things we have been discussing can possibly succeed.

Mrs. BOLTON. I understand what you mean and I am rather with you because I have developed a fondness for the Marshall plan, not necessarily as it is presented to us but as we hope it is to be effected. Surely what France did when she devalued her franc has not been destructive.

Mr. MARTIN. No; I would say that progress was made there. I think the Monetary Fund had some real reason to quarrel with some portion of the steps that France took, but I believe that the debate that has occurred with respect to the action that was taken has been beneficial to everybody involved and that after the first impact of it the results may be considerably improved by the fact that a great many countries thoroughly considered their currency problem, whether we agree with the steps the French took or not. There was a lot of intelligent work done with respect to currencies that I believe will prove beneficial.

Mrs. BOLTON. You are not afraid that it will upset the whole sterling end of it at this point?

Mr. MARTIN. Only the future will tell that. I question whether it will.

Mrs. BOLTON. The sterling block, after all, does not necessarily have a halo on it. It, too, might perhaps have a few things that needed changing for the general welfare of the world.

Mr. MARTIN. I think that is right.

Mrs. BOLTON. I think the chairman is looking at me. My 5 minutes are up.

Chairman EATON. Mr. Jarman?

Mr. JARMAN. Mr. Martin, you have referred several times to the over-all, unified program. Do you mean, by that, those three prongs, those three steps you spoke of?

Mr. MARTIN. Yes. That is just the convenient device I have of thinking of it in my own mind.

Mr. JARMAN. You said what?

Mr. MARTIN. Relief, grants-in-aid, and loans being the parts of the possible program.

Mr. JARMAN. Bearing those three in mind, and refreshing our memory on the basis of a business basis and your reference to helping them help themselves and the gentlewoman from Ohio's reference to sinking money, it will probably be proposed, as usual, to reduce the amount stipulated in this bill, which is \$6,800,000.

Now, if it were reduced to \$4,500,000,000 I think that would be about two-thirds—not exactly, but approximately two-thirds. Would that two-thirds accomplish two-thirds as much as the \$6,008,000,000 will, in your opinion?

Mr. MARTIN. I cannot answer that directly. The only comment I can make on that is that I consider the amount of money involved as capital for the program. I use this word "capital" not in a strict sense but in the same sense that the \$3,500,000,000 in the Export-Import Bank is the operating fund of the bank.

Now, in our operations we attempt to use as little of the money as possible. We are not trying to get rid of the money of the Export-Import Bank. If we reached a situation where we felt we needed more capital, of course we would come to the Congress with it. But if we have the program tied down so that we know that x amount is for this country and x amount for that country, before we start, there is no management judgment involved at all.

One of the things that worried me, looking at this question objectively, has been that we ought not completely tie the hand of the Administrator. The only answer that I can give to your question directly is that it will depend upon the Administrator's capacity and, also, upon some of the conditions with which he is faced.

If we have a much better winter, as we are having so far in Europe, and an improving situation on the crop front all along the line, at some point the bad luck turns, you know, and things can turn very quickly. But I think and I would say that the figure that we are talking about here—which is obviously put together on the basis of the best estimates that could be gathered in the time allotted—the figure is one that was considered reasonable, from the standpoint of capital, to give this individual to work with. Whether two-thirds of it would do or not will depend on a great many factors outside the control of the Administrator and, also, his skill and ability. It comes back there to that question.

Mr. JARMAN. I never functioned 1 day in a bank in all my life. But I regard this capital as you do. It is capital we propose to invest in world salvation and the national security of this country.

Now, back to your answer. I believe you expressed the opinion that comparatively little of this finally would be loaned. Am I correct?

Mr. MARTIN. You are correct, with this proviso: That as of today, I am testifying. I think that this is a current situation, and conditions could change.

Mr. JARMAN. Of course. What would you think of a purely relief program for Europe—no reconstruction, just purely relief—as compared with this program?

Mr. MARTIN. Well, I do not think it would do more than prevent some of our friends from going over the precipice quite as rapidly as they would otherwise. It would give them a little bit of a lease on life. Then they would go down the hill, anyway.

Mr. JARMAN. In view of your opinion that comparatively little of this will be loans, what else would \$4,500,000,000 do besides provide pure relief?

Mr. MARTIN. Well, that is the problem of the administrator. There are degrees. If it is just food given to somebody and consumed, that is one thing. If it is raw materials that can be fed into a plant, it may, as a grant-in-aid, achieve purposes quite distinct from what I call pure relief.

Mr. JARMAN. That is correct.

Mr. MARTIN. We would get the plan to operate, you see. I realize it is not very good, but I like my three-prong point. I like to think that the combination of these and certain bold strokes—courageous strokes that may be made in the early stage of this work, along with possible improvement in the situation in the hands of others than ourselves—might make it possible for a larger portion of this to be loans, or some type of loan.

Mr. JARMAN. You would hate mightily to eliminate that long prong, would you not?

Mr. MARTIN. I would, sir.

Mr. JARMAN. If the reduction of this amount by one-third were to be had it would at least tend in that direction, would it not, because relief in grants are going to come before the loans? Of course, they are all unified. I agree with you. But if there has to be a choice, if there is not enough money to go to the three prongs, would it not first go to relief and grants-in-aid?

Mr. MARTIN. That would certainly be the first tendency. In the current situation it would be because, as I testified last spring, I think we have been exporting a great deal more than we are importing, so that the general balance-of-payment situation does not favor loans.

Mr. JARMAN. Of course, it could but be a guess on either of our parts, but if the amount should be reduced sufficiently to eliminate that third prong and all of the money appropriated would have to be spent for relief and grants-in-aid, and assuming that two-thirds of the amount is given, it would not accomplish two-thirds as much, would it? I know there are a lot of "ifs" there, but my point is if we just furnish relief year after year and grants-in-aid, as we have been doing, and do not start recovery by loans and other means, we would not accomplish two-thirds as much as we would with the whole amount.

Mr. MARTIN. I am not trying to evade your question, but I can only answer it by coming back to the administration, I think the administrator would have to determine. I believe he still might have the three prongs with a smaller amount.

Mr. JARMAN. I thoroughly agree with your realization that the administrator must determine—but what I am trying to get away from is cutting the amount so we will just have a constant WPA, European WPA program from here on out.

Mr. MARTIN. I do not want the amount cut at all.

Mr. JARMAN. Thank you.

Chairman EATON. Mr. Jarman, your discussion that two-thirds is not as great as three-thirds runs counter to the most invincible faith of the American people, namely, that the part is greater than the whole. [Laughter.]

Chairman EATON. Mr. Smith.

Mr. SMITH. On page 2 of your testimony, you call attention to the fact that from 1945 until the end of 1946 the bank had authorized large long-term credits to certain governments. Now, you have just stated in response to a question from Mr. Jarman that you think the whole amount should be authorized. My question is how long can we continue this sort of operation? I think that is the question the American people are asking today, Mr. Martin.

Mr. MARTIN. Well, I think we should continue it until we achieve the result. I do not think anybody can say at this stage of the game that this amount of money, if you see fit to grant it, will necessarily put us on the road to prosperity and plenty. But I feel that the risk, the calculated risk we are taking here is very much in favor of our going forward at this stage of the game and attempting to not take a defeatist attitude toward it, but attempting to add something constructive to the picture.

Mr. SMITH. Have we not been doing that thing for a long time now?

Mr. MARTIN. I believe we have added a great deal to the picture. That is one thing I disagree with entirely when people say we have not accomplished anything.

Mr. SMITH. The Paris report states that recovery in Europe up until the end of 1946 had reached a prewar level. Now, we are confronted with the position or statement that it has suddenly disintegrated, and now the need for this aid. You, as a banker, having had some experience with these loans to these countries—I would like to ask you what has retarded a continuous march forward.

Mr. MARTIN. Well, I think the first thing that you have heard commented on many times that happened was the winter and the drought. Nobody can evaluate the impact of that on any economy. I made some travels this summer and did the best I could to try to think in terms of how much that may have hindered progress that was being made. I do not think I can come up with any economic evaluation of it. But I know it was substantial. In some places it was practically a catastrophe. You could go to a country like Finland to see what has happened to the water-power situation as a result of the drought. Those people have made heroic efforts at recovery and have achieved a great deal. What we have put out today has not achieved all of the things we hoped it would achieve. But it has made a tremendous contribution. The situation would be immeasurably worse if we had not done it. Not all of the funds that have been spent have been spent wisely. I could not testify here even in respect to the Export-Import Bank that all of the funds had been expended as wisely as they might have been expended. But

we certainly did what we could to follow them. I think that tremendous progress has been made.

Mr. SMITH. Then, do I understand your position is that in 1947 the situation was worsened because of the drought and the extreme weather?

Mr. MARTIN. The drought and weather was one important factor in it. The other factor is the one that I cited earlier in the discussion, that having covered a good bit of physical reconstruction.

Mr. SMITH. To what extent do you believe that certain governmental policies of those nations have interfered and retarded recovery?

Mr. MARTIN. I think at the current time quite a number of their policies have retarded recovery.

Mr. SMITH. Do you not think they should put their houses in order and comply with certain conditions that we might write into this legislation in order to be eligible for the aid we propose to give?

Mr. MARTIN. I certainly think they should put their houses in order. I question the wisdom of writing specifically into this act any more conditions than you have to write. I realize your responsibility as Congressmen in this situation because of the fact that I hope the administrator will have as much latitude as you can possibly give him. He will need the help of every last one of us. We will all have to get behind this fellow: Congress, business, everybody. That is because it is a really heroic struggle being made to right the ship. I believe it can be righted.

Mr. SMITH. I hope you are right.

Mr. JARMAN. In addition to the drought and the weather and the policies of the Governments, did not the Communist-dominated strikes have something to do, too, with reducing production?

Mr. MARTIN. It had a great deal to do with it, sir.

Mr. JARMAN. Thank you.

Chairman EATON. Mrs. Douglas.

Mrs. DOUGLAS. I am delighted to have you here. Following the questioning that has just been going on, it was not in the Paris report, was it, that Europe had recovered to the point of production it had before the war? In some cases it was 80 percent of prewar production and some cases 90 percent. It varied in different countries. It had not surpassed prewar production any place, had it?

Mr. MARTIN. I think that is true. I am sorry I just cannot tell you, Mrs. Douglas.

Mrs. DOUGLAS. Mr. Smith, do you have any figures showing the increase of population of Europe in the last 7 or 8 years? Even where production has been brought up to 80 or 90 percent prewar figures, such recovery in certain industries does not begin to make up for the loss of productivity because of war devastation, disruption of the financial circulatory system and the fatigue of the people, does it?

Mr. MARTIN. I have no figures, but I can say that when you consider the devastation that occurred in 5 years of warfare and the horrible psychological as well as physical destruction that was wrought, the recovery, in my judgment, that has occurred in the countries under discussion is little short of amazing. There are, of course, a number of black spots. There are a number of situations. Take the Netherlands, caught between the German vacuum on one side and the East Indies on the other side, that makes their situation

very difficult. But when you go through and see Rotterdam and Amsterdam and Arnheim and the fact that all these buildings have been patched up and here are little plants that are getting ready to work again, and think of the fact that they had been occupied for a long period of time, and apply that test to all the countries, or go up to Finland where, to me, the spirit and atmosphere of the people is really amazing, you come out with a much more hopeful picture than I think has been pictured to us. The fact that we have so many difficulties ahead of us, I think, has made us think more woefully about the picture than we are justified in thinking.

Mrs. DOUGLAS. That is what I am trying to get at. I want to see the Marshall plan succeed. I think that we view the European picture too woefully. I also think that we have not reported accurately on previous investments with the result that people today are doubtful as to the advisability of future investments. Will we be throwing our money down a rat hole? Have our investments gotten us anywhere? If you listen to some people talk, you certainly wouldn't think so. If we want to see this program succeed, the American people must have confidence in it. I think there are two points that we should highlight: (1) Recovery following World War II has been miraculous—greater than after World War I. The investment in UNRRA was well made. (2) World War II was so much more destructive than World War I and the countries of Europe have been so drained of their resources, that it will take them years to build back a sound economy. England and Europe are so close to complete economic bankruptcy and chaos that any relatively minor misfortune such as a loss of a crop because of frost or drought becomes an economic crisis. That part of the world that has been torn by the war has no backlog of money or resources to draw upon. Is that not true?

Mr. MARTIN. That is correct.

Mrs. DOUGLAS. The recovery of England and Europe has been wonderful but we might compare this recovery to some one who has had pneumonia and was on his death bed. Everyone thought he was going to die. The fact that he is back on his feet is miraculous but he must be very careful not to stand in a draft. If he does, he will be back down again because of his very weakened condition.

Mr. MARTIN. I agree with that completely. I realize all the difficulties that are in front of us. I think it would be an unfortunate thing for us to turn back at this time. I think we have very little to apologize for in the work that is being done. With respect to the Export-Import Bank loans, I am glad to have an opportunity to tell this group that I found in talks with the finance ministers of all the countries involved that they have incorporated in their budgets a place to repay these loans. They have accepted them as loans. They want to do everything in their power to repay them.

Mrs. DOUGLAS. You say they are long-term loans here. What is the average length of the loan?

Mr. MARTIN. I would say 20 years. I think that it is just good banking business, where people want to repay their loans and are doing everything they can to meet their obligations, to do everything you can to keep them solvent debtors. That is my idea of good banking.

Mrs. DOUGLAS. Thank you, Mr. Martin.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Martin, we are very pleased to have you here, sir.

I wondered, in the first place, whether most of the loans that you are making are made to the governments of the countries, or whether some are made to private enterprises.

Mr. MARTIN. Almost all of the loans that we made in the early part of this reconstruction period were to the governments. It has been our intention to revert to short- and medium-term loans for specific purposes, with every emphasis on doing it to private concerns in preference to the government.

Mr. LODGE. I am glad to hear that, because during my travels abroad I came across some information which seemed to me to indicate that it might be a good thing for the Export-Import Bank to deal with private concerns to some extent at least. That would be true particularly in western Europe, France, and Italy.

With respect to repayment by way of strategic materials, you mentioned that it would be your hope and it is the intention of the administration bill that all loans should be channeled through the Export-Import Bank. Would that mean that where advances by us were to be repaid with strategic materials that that type of loan would also be channeled through the Export-Import Bank?

Mr. MARTIN. Yes, sir. The conditions of it would be set under the administration bill by the administrator and the National Advisory Council.

Mr. LODGE. You appeared to me to draw a distinction between relief and grants-in-aid. That rather puzzled me because I have been thinking of relief as being a grant-in-aid, and the recovery item as being as far as possible loans. How do you distinguish between relief and grant-in-aid?

Mr. MARTIN. I am glad you raised that. My distinction is that relief is almost entirely food—food and fuel in the sense of just keeping a community going. A grant-in-aid in my vocabulary here, which is just loose phraseology for my own thinking, of course, would be the supply of raw materials, where plants have gotten up to the point where they can produce, if they do not have sufficient fuel or sufficient raw materials, to produce, but there is no immediate likelihood of their being able to attain sufficient production to pay out.

Mr. LODGE. You might say that certain forms of grants-in-aid do not constitute relief. But you certainly could not say that relief does not constitute a grant-in-aid.

Mr. MARTIN. I could not, under that definition; I agree.

Mr. LODGE. Now, we have a number of categories here, then. We start with the assumption that the Export-Import Bank need never have existed if our private institutions in this country had been willing to extend sufficient loans. Therefore, we start with the assumption that the restrictions on the loaning power of the Export-Import Bank are somewhat less great than they would be with respect to private banking agencies. Now, we propose to have another category of loans which are even less bankable than the Export-Import Bank loans; is that correct? Would you say that this is a third category of loans, so to speak?

Mr. MARTIN. I cannot deny the implication that there is a third category of loans. But I think whether it really is a third category of loans or not depends upon the success of the program as a whole.

Mr. LODGE. But you have the power within this clause which you quote on page 5 of your statement. The provisions of the Export-Import Bank Act of 1945 are, to that extent abolished. At least, you need pay no attention to them as far as these loans are concerned. That means you would have much more latitude with respect to loans under ERP than with respect to the loans you now make; is that true?

Mr. MARTIN. The same test would apply—capacity to repay. There is more latitude with respect to judging that capacity to repay, because you are putting my other two there.

Mr. LODGE. They would have to show less capacity to repay under this than under the provisions which you now have governing you?

Mr. MARTIN. I cannot deny that.

Mr. LODGE. I am simply reciting the facts. I am not raising objections.

Mr. MARTIN. I agree with you.

Mr. LODGE. Would your point be this—that if the Export-Import Bank were restricted to its present provisions, then the Administrator of ERP would be faced with the choice of either treating the matter as an outright grant or having it fall within the provisions now existing, and that it is the hope of the administration that some of these loans though not as valid as the loans you are now allowed to make may nevertheless in the end be repaid; is that correct?

Mr. MARTIN. That is correct.

Mr. LODGE. You know when we had the foreign-aid bill before us during the last session, the criterion which we were faced with was this: Insofar as we were providing items which brought no dollars into these countries, but which were designed primarily to combat disease and unrest, they should be grant-in-aid items; and that, insofar as they did bring in dollars, they should be loans. Would you think that that criterion should be adhered to strictly with respect to the present proposal?

Mr. MARTIN. No. I would fall back again on the judgment of the Administrator.

Mr. LODGE. In exercising his judgment, he will be guided by certain criteria, and I have no doubt that he will be influenced by what you have to say. Accordingly I would be very much interested to know what criteria you would be inclined to set up if you were the Administrator of the program. Would you be inclined to take that measuring stick presented to us last year at the time the foreign-aid legislation was before us?

Mr. MARTIN. I would not want to accept any criterion at the present time. That is where I come out every time I try to go through this.

Mr. LODGE. In other words, in explaining this legislation to our colleagues on the floor, you would suggest that we say that no criteria can be set up as to whether an item is to be considered as a grant or as a loan, that we must leave that entirely to the discretion of the Administrator and there is no way of even guessing by what measurements he will act?

Mr. MARTIN. That is essentially my position. I think a hydro-electric plant in certain areas of the world must be given as a pure grant-in-aid. I think food and fuel and fertilizer in other areas of the world can be given as a loan, and that the type of criteria can

only be established in terms of capacity to repay, and that that capacity to repay in part is dependent on this concept of the degree of cooperation that can be attained among the 16 nations in helping themselves and the degree to which the Administrator can integrate this whole plan into a unit.

Mr. LODGE. Yes. In other words, you would say that we should throw overboard the criterion which was presented to us during the last session as to how to differentiate between when an item is to be given as a grant-in-aid and when it is to be given as a loan?

Mr. MARTIN. I would not throw it overboard, but I would not want it as a hard-and-fast rule.

Mr. LODGE. From our point of view, as legislators, we should exclude that from the bill according to your opinion.

Mr. MARTIN. I would rather throw it overboard, then.

Mr. LODGE. Are we under the 5-minute rule?

Chairman EATON. Yes, sir.

Mr. LODGE. Thank you.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Your testimony has been most interesting. I assume that, generally speaking, the loans by the Export-Import Bank are put out on a sound business basis, with a reasonable expectation that the money so loaned will be returned in due course. Since you have been Chairman of the Board at the Export-Import Bank, has the bank made any political loans?

Mr. MARTIN. Mr. Mansfield, I insist that the line between politics and economics is so thin it is practically indistinguishable today. But I can truthfully say without any reservation at all that on the basis of the criteria, on the basis of what we believe to be sound criteria in relation to the broad picture, that every loan that has been made by the present Board of the Export-Import Bank has been made completely in accord with our injunction from Congress, a reasonable assurance of repayment, the expectation that there will be reasonable assurance of repayment. Now, I do not say to you that every loan that the Export-Import Bank has today is a sound loan. I say that at the time it was made we evaluated it in relation to the instruction that Congress gave to us, sometimes stretching the concept as far as we could permit our conscience to stretch it without having the rubber band break, to achieve our objectives. Subsequent events have occurred that have altered the situation. I cite one instance. Perhaps I should not call names. But I think it is all right. I would say that Greece is the situation. We made a loan to Greece in the early part of 1946 in the hope that there would be a broad revival of multilateral trade throughout Europe. We made it for specific purposes, to improve a railroad and a port. We were never able to get off first base with it. Today we have suspended 11 million of that 25 million. We have stopped any further commitments under the credit and we think the situation in Greece—the warfare that you know about, and everything—would make it look like perhaps we were unwise in having made that loan. But at the time we made it, it was not political—it had an element of politics in it in the sense we wished the Greek people well and we hoped that their Government would improve—but it was based on our belief that they would be able to repay, and it was limited to specific equipment and services which we could follow.

Mr. MANSFIELD. Mr. Martin, I appreciate your candid statement very much. I do not think that the Greek loan, in the sense that you described it, could be considered as a political loan, except in very, very minor part; because, certainly, in view of the fact that the Greek fleet, the merchant fleet, was coming back into being on a large scale at that time, there were good possibilities that a loan of that nature could be repaid within a reasonable length of time. However, there were circumstances which have appeared since then which have put a different complexion on the picture. What I had in mind was the \$100,000,000 loan made to Italy about a year or a year and a half ago, which I approve of, by the way, but which I have been led to believe was a political loan, and because of pressure on the Export-Import Bank that money was sent to Italy; is that correct?

Mr. MARTIN. The Export-Import Bank refused to establish the Italian loan as a political loan, and the Export-Import Bank has repeatedly refused to make political loans. The Italian request was entirely different than the one ultimately approved. When it was approved—it was not approved as a political loan, in our judgment.

Mr. MANSFIELD. As a banker, then, you can come before this committee with a very clear conscience in that respect?

Mr. MARTIN. I certainly can.

Mr. MANSFIELD. Thank you.

Chairman EATON. Now, having established the clear conscience of Mr. Martin, it would be a good time for him to escape.

Mrs. BOLTON. We are having no further chance to question Mr. Martin?

Chairman EATON. We have another witness. Mr. Taylor has been delayed. We would like to have him on this afternoon.

Mr. Martin, if we feel the need of your counsel again, can you come back?

Mr. MARTIN. I am at your service at any time.

Chairman EATON. Thank you, Mr. Martin. Goodbye and good luck to you.

Mr. Jonkman, will you take the chair?

Mr. JONKMAN. The committee will come to order.

Our next witness is Mr. Henry J. Taylor.

We will be pleased to listen to your statement and then perhaps ask you questions, Mr. Taylor.

STATEMENT OF HENRY J. TAYLOR, AUTHOR-ECONOMIST, NEW YORK CITY, N. Y.

Mr. TAYLOR. Mr. Chairman and ladies and gentlemen, I appreciate your invitation to be here today. I apologize; I was caught in a conspiracy by the Pennsylvania Railroad which made my train 4 hours late, so I only arrived in Washington at 1 o'clock.

I have been going back and forth to Europe as a newspaperman and economist—of course, I speak here only as an individual—ever since the German inflation in 1923. It made a tremendous impact on my having been a student of economics at the University of Virginia, because it elevated the subject of economics from its textbook atmosphere into the question of how people live together and what happens when great economic problems just simply sweep a nation. So far as I have been able to see in Europe—and I worked there in

32 countries during the war—these problems are simply gigantic. In any one of these nations, the economic question or military or the religious, which is very important in some areas, is actually enough to stump the wisest man I know. When you put them all together they become literally astronomical; and in this Marshall plan, and the hopes I think people have for it, there is ample room for honest disagreement of opinion.

This is a little embarrassing for someone who has no official position, because we have had a tremendous number of very high echelon leaders appear before this and the Senate committee, and I feel a little like the mouse at an assembly of the lions. But the mouse can speak, I think, primarily the standpoint of what I am convinced is in the mind of a great many of our people across the country, and from the very disturbed feeling about the matter in which the thing is being presented.

In respect to this statement, I will condense it and attempt to define it to each member of the committee. It seems to me the first thing we have to realize is that the subject of Europe's troubles will be with us for a long time. In the past years of war, unnumbered men have died there to give humanity another chance, and we who remain cannot say good-by to their efforts, not when we humbly remember that they said good-by to life itself. The problems we face are, I think, a residual part of a tremendous endeavor in human uplift, and that, I believe, is the inner meaning of what average folks in our country try to do for people abroad today.

In 4 years, or in any number of years, there are no ends and no terminals in human uplift, and no ultimates in the advance of human progress, and no final goals that cannot be made better. I am convinced that our hearts are in the right place regarding aid to Europe. Humanity and the people in our country cry out for peace and for the assurance of peace and are willing to go to any length to try to bring that about.

The will of the country is for food and fuel, and peace, for a better living for everyone. No other major nation in history has ever regarded the rest of the world in this light, so far as I have been able to find out, and I think that is another reason why we can be proud that we are Americans.

Certainly we are entitled to know the plain, unvarnished truth insofar as it can be found.

I would like to tell you, ladies and gentlemen, very frankly, that to me, as a citizen, it is wonderful and reassuring and stimulating to notice the news reports and hear that this committee and other committees in the House and in the Senate—and I have appeared before the Senate Foreign Relations Committee as of last week—are very definitely out after the facts and propose to get them, because I am convinced that, by and large, we have not been getting them before.

It is my business to go where there is trouble, and I have found trouble and have been sent to see it all over the world. After being in the Far East, I come now fresh from the impact of Europe, as so many men do in the House and Senate.

I have come back from a 5,000-mile automobile trip, probing around the grass roots of Europe, England, France, Italy, Greece, Switzerland, Belgium, Holland, and Germany.

I think anyone would agree that to see a lot, driving around in the highways in a little car does not match up with high-level discussion

of Government officers, which is also the function of a newspaperman or with propaganda.

As a citizen, may I again say that this committee should be thanked for the patience and vigor in getting at the facts in the interest of the American working people who were called on to pay the bill.

I am not convinced that both here at home and abroad in economic matters disproportionate emphasis has hitherto been put, not on the reality of the European situation, but on how to propagandize a distracted and worried folk here at home into action from our hearts instead of allowing us to think with our heads.

Accordingly, what do you find in the people across the land? Suddenly there is a feeling of frustration about sending new billions abroad. We want to help Europe, but we feel we are getting a hooking—like a fish—all the time we are doing it.

Now, I don't agree with this; but there must be a reason why the feeling is so widespread. To the extent that the reason is because the appeal is to our emotions, instead of to our brains, I submit that this is grossly unfair as a way to treat ordinary people who have to work each day and earn a living, and who are the ones who finally pay the bill.

Our problem and our duty as a good people—and we are good people—is to help Europe, not according to our desires, but according to our careful judgments and to our powers, and I do not believe we are looking at this picture or the problem in a large enough way.

The proposed legislation as written carries, to me at least, the implication of potential world peace. That is what I am interested in. But however it deals only with the aspect of European recovery in western Europe, which is of itself only one of the disastrous centers of the world picture of which I, by personal visits, am intensely conscious, to the degree that our people's hopes for world peace are lifted by emphasis, placed on western Europe alone through this legislation, and America will be clearly called upon to absorb another failure in world affairs because certainly the entire global situation is involved in any true achievement of world peace.

A war that comes to us from Europe, or a war that comes to us from Asia, is nevertheless a war, and it is a basic avoidance of war that has the great hope, I think, at the final human level in what we do.

To the degree that the public sentiment is rallied behind the Marshall plan and leaves behind it a feeling that if we do this, then we have really done something to pin down world peace, whereas a little more thinking might indicate it is only a step, to that degree the finality inherent in the present situation disturbs me very much.

However, taking this limited peace of proposed legislation alone, the same implication of solution in Europe alone disturbs me as well. In the legislation, this is the implication once we adopt this subsidy theory, if all goes well, it is a 4-year run, and that is that.

Now that may not be the intention of the planners, but it is certainly the impression created by the 4-year presentation. Yet an unfavorable balance of trade in these 16 countries has been a fixed condition for nearly, in fact, for over 50 years. Before the war these same 16 countries of western Europe imported about \$6,600,000,000 worth of goods and commodities annually and exported only \$4,600,000,000. That, my friend, is the historic pattern.

Thus a balance was attained by income from foreign investments, most of which were permanently liquidated before the war, and other invisible balances.

The normal expectancy is that even under this plan there will be the same \$2,000,000,000 deficit as prewar, as extending back for a period of 50 years.

Accordingly, in the face of European realities, this draft legislation submitted by the State Department actually becomes more a proposal for stop-gap aid—simply extended over a longer period of time—than a potential solution to the degree that may be supposed.

America is a world power, but we became a world power because we were strong at home, and in no other way. We must remain so, or there is no other hope for world peace.

But remember, there is also no guaranty on our ability to remain strong, staying No. 1 in the world. In our quickly changing day, everything is quickened, the rise and fall of nations included—quicker than ever in history.

When home power is lost, world power is lost—not slowly these days, but rapidly. Why cannot England defend Greece? I have been in Greece, and the British are pulling out of there. The reason is because England is weak at home. This is not through recognition of their own self-interest in Greece. This is not through lack of courage. The reason is because England is weak at home.

Why cannot England take an effective stand in the Far East for a free and independent China, where England's interests are fully as great as ours? Because England is weak at home.

Why cannot England modify and give balance to contrary elements on the continent of Europe only 23 miles away? Because England is weak at home.

And how long ago was England as strong in world affairs as we consider ourselves to be today? Less than 50 years ago. What man or woman anywhere on earth, alive only 50 years ago would have dreamed then for a minute that the great England of only 50 years ago, the greatest of all the great powers of all times, standing astride the world, the power that could afford to do anything, would be the England of today that can afford to do so little?

Regardless of our desires, our leaders must decide what our country can do in Europe and the world and what it cannot do.

I was impressed by the question that Congressman Smith asked, "How long?" That is very pertinent. They must analyze our actions in terms of our powers and again, not of our desires. They must decide we cannot do everything.

There are a hundred places to start, and there is no place to stop. Human nature being what it is, I do not think we should blame European politicians too much for asking us for so much.

It is a lot to expect of them or any other people in governmental life and any country, including our own, to ask for less when they think they can get more. But as you prudent people know, I think we should look back and see what we have already spent, or misspent, some \$22,000,000,000 since the war. How good have our planners, calculations been to date?

In 1945 you will recall that our country was told that the world economic problems would be solved by an International Bank, costing a mere \$635,000,000, and an International Fund costing America

½ billion dollars more. We were told that if this were done, loans to Great Britain would not be necessary. It was done, and what happened? In spite of such assurances we were soon confronted by new instances for a stop-gap loan of \$4,000,000,000 to Great Britain. As a newspaperman I had no sooner got through sitting on hearings on that than I found myself sitting through the hearings on a British loan. In spite of such assurances, we were soon confronted by a new loan to Great Britain. Once more great and widely publicized testimony was presented to committees like this and to the country to convince us this would and could save the world, but surely, I hardly need remind you of what has happened to the British loan. It has gone down the drain.

I might interpolate. I, for one, do not agree that it has all been wasted at all. But insofar as one of its most important features are concerned, it is mishandled.

Has England been saved? Has the world been saved? Apparently not. Otherwise, what are we talking about?

Other items intrude themselves into our recollections: \$3,000,000,000 was furnished to the Export-Import Bank. Another 3 billion American dollars were drained into the darkness and confusion of UNRRA and I might add by way of UNRRA into the darkness and confusion of the Soviet Union and Russia's puppet states.

Now, I have here, if I might respectfully submit it to the committee, a list of all the items we have appropriated since VE-day, May 1945, taken only of the known aid of \$300,000,000 or more, per item in this list of which eight represent a billion dollars or more, and to which the total through the latest appropriation of the Eightieth Congress, and stop-gap aid, totals \$22,136,000,000, in items of \$300,000,000 or more:

British loan.....	\$3, 750, 000, 000
Export-Import Bank loans.....	2, 931, 000, 000
International Monetary Fund, United States share.....	2, 750, 000, 000
UNRRA shipments continuing to date.....	2, 700, 000, 000
Lend-lease—still emptying pipe lines.....	2, 271, 000, 000
Grants by the War Department.....	1, 771, 000, 000
Surplus property disposals abroad.....	1, 148, 000, 000
Forgiven debt of Italy to the United States.....	1, 000, 000, 000
Aid to Philippines.....	640, 000, 000
International Bank, United States share.....	635, 000, 000
Relief in occupied areas.....	600, 000, 000
Stop-gap aid voted in December in the special session.....	540, 000, 000
Greek-Turkish aid.....	400, 000, 000
Relief in war devastated areas.....	350, 000, 000
Reimbursement to Italy for invasion currency.....	350, 000, 000
Other foreign relief appropriations, 80th Cong.....	300, 000, 000

Known total, only in these big items..... 22, 136, 000, 000

Now, no one honestly attempting to give a picture of Europe today could say that these funds were entirely wasted or that they were entirely unnecessary. Certainly, I would not say that.

That is in the face of what I have seen and places I have been. But I do say, and it is a point I would like to make to this committee, that these vast funds were agreed to by the American people through Congress because of high pressure propaganda without proper consideration, they were unsuited to their purposes, the proper limitations were not applied, the amounts were excessive, the proper administration was not required, and a large part of the money was wasted.

I am convinced we have got to do better from here on out. But now they are at it again for a new \$17,000,000,000. There is something in the atmosphere as if this were for the first time, as if there was the discovery of an opportunity to pioneer in world aid under the Marshall plan.

Now, I think there is a widespread feeling across our land that we are still caught in the clutch of a spending philosophy. This spending of itself is a good thing, just so long as the people are taxed enough to pay it back. I think that shows up in our foreign affairs as well as domestic matters.

In our opinion, and I am only giving my own, this thought should be retired into the obscurity from which it is a pity it ever emerged. But it is still with us, and I consider this fact to be of small consolation to American working people or enterprisers who foot the bill. It is like the wife saying to her hard-pressed husband when he comes home tired at night from work, that it doesn't make any difference how much she spends as long as he doesn't spend more than he earns.

This philosophy seems to have been communicated very emphatically to the many, many government people I have seen abroad. The theory, if we didn't export after the war nearly as much as we exported lend-lease during the war, even if we had to give it away, that America would face a great depression, is here. Now, how the planners ever reached that conclusion with 142,000,000 Americans needing everything under the sun, I do not know. It was one of the most gigantic miscalculations in the Government level in history.

Anyhow, it certainly made a big impression on lots of people in Europe.

I think that is a very sad frame of mind for them to be in when they add up lists of what they need from us. In fact, the whole Marshall plan as a relief and recovery operation is in fact brought into a different perspective when you inspect the belatedly released break-down of amounts to go to each of the countries scheduled to get aid, all or nothing.

A break-down by countries actually left out of the official 131-page presentation to this committee requesting consideration for the appropriation will reveal that.

They must have had the figures or they could not have arrived at the calculations. If they had the figures, one of the most pertinent things about the figures was who was going to get the money.

I was in Paris when these figures were prepared. It was in connection with making the Paris report. It was my business to be there and observe the making of that report. Mrs. Douglas was absolutely dead right in her recollection or impression of that report in respect to recovery features. Where they did go above the board, they had to go there anyway. You use the analogy of a child that caught cold. He partially recovers, stands in a draft, and has a relapse.

But in this case, in introducing this on the heavily weighted feature of communism, I am afraid the presenters of the plan ran themselves up a blind alley in that they could not effectively reveal what people will get the money because so many of them do not know anything about communism.

That was a public relations error. It was very serious, it seems to me, in trying to educate the American public.

I am told they took a public relations poll, a Gallup poll, though they didn't choose Mr. Gallup, last summer and discovered that

insofar as getting it through Congress, it would be overwhelmingly better if they gave it an over-all tint of anticommunism.

Now, that was pertinent to some of these countries, specifically to Italy, and to France, but it was not pertinent to a lot of the countries, including Ireland.

However, there is a great deal of flavor in there of the Luckman committee, where you decide on how the soap will sell best: you say "bubbles, beauty, or price." We will count noses and it is bubbles. So out it goes that way as a "bubbles" campaign.

This question of the presentation of the Marshall plan for the purpose of stopping communism in Europe simply does not hold water except in a fraction of the fund. I am convinced, because I have a wholesome respect for the complexity for the European economic system that the planners in the State Department conceivably have made. They conceivably could have made a sound presentation for this fund to these 16 countries.

But not on an anti-Communist basis. As long as they did make it on an anti-Communist basis, they could not produce the names of the countries that were going to get the money.

Here they are: England, \$5,348,000,000, 32 percent of the entire 17 billion dollars to be paid for by every man and woman who works in America, on top of the latest grant of \$3,750,000,000 consumed there since 1945.

Now, England may need this money, and it may be a good thing to send it to them. I do not think in any such scale, however. They do not need it to keep the people from voting Communist, and they do not need it to keep western civilization from crumbling in England.

France will get \$3,701,000,000. Italy, \$2,913,000,000. The American and British zones of Germany, \$2,499,000,000. Holland, \$2,436,000,000; Belgium and Luxembourg, \$1,419,000,000. Germany comes as a great surprise to me. How many people in our country have felt that there was a last gasp against the crumbling western civilization in Europe, and the fact that the people might vote Communist if we did not give them this aid would imagine for a moment that in Holland, where the Communist vote is less than 7 percent, there is to be an expenditure of \$2,436,000,000?

I do not think that is properly presented to the people that have to pay the bill.

Then we come to Belgium and Luxembourg. Belgium is in the middle of a good recovery. She gets \$1,419,000,000. Then we have Austria; there is a legitimate feature there on the anti-Communist angle: \$713,000,000. Denmark gets \$582,000,000. There is a vote of 4 percent communism.

Ireland, \$497,000,000. A billion dollars will go Ireland and Denmark alone, and if there is a Communist in Ireland, my friends, no Irishman knows it.

Greece, \$473,000,000. There you are getting back on the track. Norway, \$234,000,000. Portugal, which has a Fascist dictator and has had for 22 years, and there resides Dr. Salazar. If you are a Communist in Portugal, I assume you get shot. If you don't get shot, you get locked up. Portugal gets \$150,000,000.

I have been to Portugal many times. Portugal is a Fascist state. That is where we get so fussy and that is why I think that the Communists and the Fascists alike in Europe sneer at the moral level of

our foreign policy. In one breath we say we fight communism. I am for that. In another breath we say we are against totalitarian states, and we get cozy with them when we feel we should.

You have self-interests.

I claim that if we are really going to say that we have a high moral policy, we should be consistent, or we cannot expect our moral intentions to register, which is my complicated way of saying that I think the moral policy sponsored by the average fellow in America is more moral in their hearts and intentions than is executed by our State Department.

Next we have Iceland, and you can imagine how much western civilization is crumbling in Iceland; they get \$38,000,000.

Turkey; I went to Turkey, too. There is one party in Turkey. Turkey gets \$18,000,000.

Sweden and Switzerland, praises be, ask for nothing and may, in fact, end up with a favorable balance totaling \$176,000,000.

Interesting enough, Finland, which is the only country which paid its debts at all, is not in the Marshall plan.

Now, whatever their needs may be, and some are very real, I am convinced that European politicians and in a most human and understandable way, nevertheless consistently and systematically overstating to us their country's requirements and understanding their ability to pay.

I think we have to approach aid to Europe with that understanding, no matter who says "all or nothing."

Now, let me remind you of a little episode that happened in regard to the stop-gap aid of last December, as an example, because I think that is a pretty serious charge for an observer to make, and I would like to document it because I do not believe in just general statements.

I do not think it is honest to let it hang there.

When I was in Paris, and the 16 nations were calculating their requests for long-term aid, several also asked for stop-gap aid. The amount they requested was \$685,000,000 American stop-gap aid for France and Italy; \$227,000,000 to Italy, \$485,000,000 to France.

I do not know whether those figures were communicated to our country, but those were the figures they settled on at the Paris Conference when I was there.

You will remember a very dramatic call was made for a special session of Congress to act on this urgent need for what was defined as being chiefly, "food, fuel, and fertilizer."

Suddenly our people's hearts were torn by the prospect of the terrible weather and all the rest in Europe, and especially by the strikes and so forth.

Well, the French part was reduced to from \$458,000,000, to which level I had seen it padded in Paris, to \$328,000,000; the figure finally presented to Congress.

Of this \$131,000,000 reduction, \$80,000,000 had been included for balance of debt payments between France and Belgium, another \$20,000,000 for an old debt France owed England, and finally an item of \$15,000,000 which also was an old debt.

Under Secretary of State Lovett testified, as I believe he should, that he agreed that those items totaling \$115,000,000—or over a quarter of the entire French amount asked for so dramatically from Uncle Sam as stop-gap aid had nothing whatever to do with urgent

needs for "food, fuel, or fertilizer"; not the life, health, or well-being of a single Frenchman was at stake, and none of it could be classified as anti-Communist effort of any kind. It was a straight paper padding, marked "Urgent".

We must realize at the same time, and in the same connection, the immense administrative snafu and statistical uncertainty represented by the national socialist experiments in England and France, and the absolute absence of trustworthy statistics in a place like Greece.

I was in Greece with Ambassador Griswold, who I think is doing a good job there as best he can, and he was running ragged, trying to find out the elements of the thing.

Again, to document that on a matter of statistics which after all show up in dollars and cents we have to pay, I would like to cite an experience I had in Greece.

I went to see the Minister of Health, and he told me that the people were down to 1,800 calories a day in respect to food.

Now, the food situation in Greece is very bad. It is not nearly as bad as it is painted from our viewpoint, because Greece and the Balkans is a poor country at best, and I think it is very unfortunate to compare it with Hutchinson, Kans.

There are terrible shortages in some particulars, like milk. The delivery of our milk to the kids is a tremendously inspiring thing. It is wonderful.

Other programs have been overlooked in the praise I think should be given them.

There was a program that carried no glamor, but important, carried on by UNRRA. It was a wonderful thing in Greece. But the statistical level, as in these other countries, is just no good. It is an example.

I asked how he got the figure of 1,800 calories.

"Well," the official said, "we took the food production and then we took the population, plus imports, and we arrived at the 1,800 calories."

Well, they haven't had a census in Greece for over 20 years. The Greek Government has no more idea of how many people live in Greece than you or I have—which I think is very remote.

They have had influxes of Armenians and exfluxes of other people for 20 years, and they just don't know how many people there are there, but he was willing to say that they took the population, as they conceived it, and used that as a basis.

Now, naturally, the last thing in the world that the Greek farmer would do would be to tell the Government agent how much food he grew, because he knew it would be either taxed or confiscated.

So there the whole thing is arrived at, and we received these statistics in our country, and we base national policy on them—on two basic figures, both of which are just pulled out of the air.

Such statistics should be given a complete second look by competent men who understand production; for the problem of European recovery is primarily a production problem.

I do not think we should base our outpourings on the judgments of people who are looking at these countries from a dozen different angles and on a conglomeration of incentives. We have social purposes and humanitarian objectives and military advantages badly jumbled nearly

every place I have been. The Europeans see this and, to a degree, impose on it.

Just a few minutes ago Mr. Martin himself stated that the line between politics and economics is so fine—I think those were his words, as I jotted them down—so fine today as to be indistinguishable. That is exactly what I mean. You must distinguish objectives, or you cannot properly prepare to meet and create the achievements that you are looking for. You cannot afford to design something along the lines of social value, then when it fails to have a social value, you say, "Well, it is a military value." Or if you design along military lines you say that it had a social value.

There is no way to pin the planners down when they become sufficiently confused. Regardless of what we do and regardless of what incentive should dominate in different areas, and I should think it should be different in different areas, the delivery end of our aid in the future needs vigorous and intelligent correction and at once, or we should not spend another penny because once you vote the money, it is good-by.

At least that is the way it looks to me over there, and I subscribe completely to the proposal for an American organization to be established here and abroad on the pattern outlined in November by the Herter committee, and ignored in the present bill known as the Marshall bill offered December 19.

May I respectfully applaud and respectfully endorse the statement of the chairman of the Senate Foreign Relations Committee in regard to this proposed legislation?

I quote, of course, Senator Vandenberg in his public statement speaking, I believe, to Secretary Marshall:

You must create a system in which the American people have confidence or you will all be sunk without trace. They have a feeling that the administration of foreign grants-in-aid since the war has been pretty sterile of results * * * they want a new element of business responsibility that will give them a reliance that this program is to be conducted in a businesslike way. Otherwise you will fail and fail miserably.

That is exactly my view.

I wrote a book one time, in 1940 about Europe, and what they were going to mean to us. The title of the book was "Time Runs Out."

I think time runs out now, and we haven't any more time to monkey around and not gain knowledge and improvement from the mistakes of the past.

This draft legislation submitted by the State Department for the use of this Foreign Affairs Committee—and to be specific, on pages 4 through 10, sections 4, 7, 8, 9, and to a degree section 10—makes the Administrator what Mr. Arthur Krock called a prisoner of the State Department. I cannot possibly supply a more apt and accurate description.

Nor could I supply a more fatal one, under such a set-up. This is a point I am afraid has been too widely overlooked, although perhaps not, under such a set-up and unless the set-up is right, no really top-flight production-minded high-caliber production executive I can think of would take that job.

Now, I am going to speak Mrs. Douglas' language for a moment. We have got a casting job to do here. Unless the script is suitable for a top-flight performer, they can hawk that script from one end of the United States to another, and they won't be able to cast it.

That will be the ultimate problem.

Finally, the competent actors have to show up on the stage, and do the performance. And the getting of competent actors and actresses to do anything depends on the part you write in there for them.

That fact seems to me to have been tragically overlooked. It isn't just enough, suitable as it might even be, to write the specifications for this job.

I was again impressed by what Mr. Martin said and what Secretary Patterson said the day I appeared on January 22 before the Senate Committee. It isn't just enough to write this job from the standpoint of the suitableness and the Government viewpoint any more than it is satisfactory to write a play from the suitableness of the author's viewpoint.

This place must be filled by men who believe they can succeed in it, and that means it has got to conform to the yardsticks of top-flight fellows that are going to be asked to assume, what I believe is the most gigantic production problem of modern times.

After all, this place must be designed to conform, not alone to the wishes of the Government people, but in a pattern as well to meet necessary sound yardsticks for possible success that certainly would be placed on it by the kind of men who would have to be attracted in order to agree to serve just as the author must have in mind the agreeableness of the people he is going to cast.

Now, the call for brains, production brains, is the real call for this place. If the job is not designed right, there will be no respondents. There isn't a whisper of such a proper design in this plan.

May I repeat, I was invited to testify before the Senate Foreign Relations Committee on January 22, and did so, and at the conclusion, Senator Vandenberg, as chairman, stated publicly—and I was certainly glad to hear him say it—that insofar as his committee was concerned the administrative provisions insisted upon by the State Department would not be approved, and that was a public statement.

We are all familiar with that now. My own feeling is that we must not miss the significance of the fact, however, that the group of planners which presented the Marshall plan must nevertheless be held responsible for lack of vision and understanding about their own undertaking, or the impossible administrative provisions would not have been put in in the first place.

My wife and I, for instance, were to commission an architect to make a house for us, and he forgets to put in the front door. So the house becomes an unworkable thing.

I then must reconsider all the blueprints to see what this fellow is designing from beginning to end, not just the evidence of the omission of the front door, which is the thing I can put my hand on.

A proposal so unreliable in that direction must be presumed to be equally unreliable in other directions, and the validity of the whole concept must be reviewed in that light, as well as the amounts asked for, in my opinion.

But on the administrative phase, because it is so vital, let us go further. Even the recommendations of the Brookings Institution insofar as I have been able to study, hardly seem sufficient, if the needed kind of Administrator and associates are to be attracted to serve.

I would not only urge an independent agency such as a European Reconstruction Authority, but I would streamline its set-up beyond the Brookings report. Surely on the Board there should be representation of the State Department, but most importantly the other Members of the Board must be individuals of known accomplishments in industrial production, finance, and in industrial management and organization, who would on their public record have public confidence.

No lame ducks of either the political or business variety wanted. The Board, I think, should consist of not over nine men, and better only seven, and be vested with absolute authority and responsibility to meet the needs which are constantly changing.

Individuals selected should give their full time to the gigantic project requiring 3 or 4 years. No headlines about the choice of the Administrator on one day and then a polite letter some months later that he has fulfilled the major part of his duties and is bowing out, will suffice.

If anything is done it will be the nature of this administrative set-up, and the brains attracted into it, along with the freedom of those brains to function, which will make this "operation constructive" or "operation failure."

And there is no time for more failures, not as things look in the places abroad where I have been.

The incompetency of our present program is simply appalling. With world conditions as they are, America cannot afford to be incompetent on such a scale today. We have the competence to do what we should do, whatever that may be. We simply do not use it.

The Russians give France a little wheat—much less than they promised—and get more credit for it than we get for \$2,000,000,000 worth of materials we have shipped France since the end of the war. Thus it goes.

The simple fact is that for their own internal political purposes, political leaders actually hide where this aid is coming from, and we let them get away with it, year after year.

It works in approximately this fashion: You say to an American official of a country in Europe, "What is going to happen to all this material and these things after they get over there?" He says, "Oh, my goodness, I have nothing to do with that. I'm a diplomat, and I'm having all the troubles I can think about now, without having a lot of reconstruction problems." Of course, the commercial attaché can't handle it, either; he is making reports.

So you say, "Well, have you had any consultations with the cabinet of this government about what they are going to do to improve American relations and to contain communism by having the people of this nation know that it is the American people and the American free-enterprise system that is coming to their aid?" Then, he says, "Oh, I think that is a lot to expect. You see, they have to look out for their own political problems. They have their own votes to get, and if they emphasize to the people that America is helping them, it will make it appear as though they, themselves, are that much less valuable in running the country, so we really can't expect them to give us much aid along the lines of explaining to the people where the help comes from.

"Also, they have a Russian problem. If they emphasize to the people that they are getting the aid from us, it may damage their

Russian relationships; for that additional reason they wouldn't be able to thank us publicly."

Well, sooner or later, after you have heard that enough, you begin to wonder—not where the local politicians in Europe are going to come off with American aid, but what we are going to achieve out of this legislation in terms of results and, furthermore, results that are traceable by average European peoples to America and not to the Soviet Union.

Furthermore, I do not believe we have attacked in a hard-headed manner the ability to pay represented in United States dollar assets of those 16 countries, and their nationals held safe in the United States.

By our Government's own latest figures—these assets of the countries covered by this proposed 17 billion dollar legislation now total \$13,659,000,000. Of this amount here in the United States \$6,568,000,000 is in gold.

Obviously, this entire nest egg cannot be used, but I am certainly not impressed by complicated economic arguments that leave it intact. Certainly more of their own 13½ billions here can be used than our foreign friends imply and, as European self-help is presented as a fundamental of this draft legislation, I think a better outpouring by Europe's own governments and nationals—especially the very rich over there—is required before this legislation requests the working people of America to make up the difference and foot the bill.

My own observations abroad on this point of greater ability to pay were exactly the same as Senator Lodge reportedly expressed in the Senate committee hearings.

After all, you know, there is something wrong with the way we aid Europe, or the vast aid we have already given would have helped Europe more than it has. If we don't watch out, the new billions will simply be used up again, and leave us right back where we started.

That is not world aid, and that is not restraining Russia, or communism. It is simply taking one jump into the dark and looking around and then taking another.

In this manner we should not now begin to meet new, gigantic additional requests from abroad and ship free—"on the cuff"—gigantic new outpourings of items that are buried behind dollar signs and largely withheld from public discussion, resulting in a widespread lack of appreciation about the obvious effect.

The cost of additional foreign aid is frequently described to us as 2 or 3 percent of our average national production. This, I am sorry to say, is a misleading presentation of the facts. It draws our attention away from the shortages involved. By relying on an average of the national production it omits the fact that there are great differences in the depths of shortages. Is the demand for steel 2 or 3 percent of our national production? Oh, no, my friends.

Is the demand for freight cars 2 or 3 percent of our production? Well, hardly.

The demand for wheat is 30 percent of our annual production.

What is that 2 or 3 percent anyway?

It reminds me of the story of the man who was drowned crossing a stream that averaged 2 feet deep.

So far, only 4 years are included in the plan, and only a part of Western Europe. The bill: \$17,000,000,000 to be paid by every man

and woman who works in America. Other bills that would be set by this pattern: (1) Asia, (2) Latin America, (3) The Middle East, and (4) Indonesia are yet to be heard from.

That is what I meant when I said earlier in this testimony don't think we are looking at this pattern and setting the program in a large enough way.

Sooner or later we must figure the cost in terms of the basic stability of our own economy here at home.

We American people have already contributed to postwar relief abroad at the rate of \$553 per family. Under present official proposals for increased relief abroad the United States family bill would be built up to \$1,000 per American family by 1952.

From the viewpoint of the working man, that is a lot of money. But I would be less than frank with this committee if I did not tell you that as a citizen I, for one, resent the comparison of this fund for European aid with the cost of war.

I spent 6 years in this war, and by the time Pearl Harbor came and we were in it, believe me, this was a very old and weary and tiring war to me.

I had been in Finland and I was with the British Eighth Army in Egypt, and I don't know where else. Nothing is worse than war. It is an impertinence to compare the cost of any program with the real cost of war which is the lives and injuries to men.

There can never be a proper comparison made between these two, and to the extent it is suggested that \$17,000,000,000 is a cheap way not to fight a war, it seems to me there is an element there which is utterly distasteful from the standpoint of the injuries and the losses that have come to our homes and to our friends.

On the tax question alone, the latest draft legislation proposing aid to Europe means nearly \$7,000,000,000 of taxes in 1948 and all of us over and above what we would otherwise have to pay.

Lots of people aren't getting along so well, with the withholding tax right now. The elevator man in my building is paying a withholding tax of \$10 every 2 weeks because that is the law. The building is owned by the New York Central. He has the railroad pension plan, so that on alternate 2 weeks he pays \$9 into the pension plan. The pension plan is about the best chance for the future. He cannot give up the withholding plan, but if you are making \$50 a week, with a wife and two children, the cost of living like it is, you are paying the withholding tax and paying for your pension plan every other week, you have something on your hands.

The idea that, "Oh, well, these bills may be just part of our national production," leaves a fellow pretty cold if he only has the difference to spend for himself and for his family.

Some say that if a billion dollars of the aid is handled by the International Bank, the taxes may only be \$6,000,000,000 more than otherwise.

I call your attention to those words, "Only \$6,000,000,000".

Yet, who can even visualize what \$1,000,000,000 is? I think that is the trouble with the presentation of it. We do not ship dollars, we ship goods.

The dollars show up in the taxes. But as to the \$6,000,000,000 in taxes, or \$7,000,000,000 of this proposed aid, \$7,000,000,000 is two-fifths of the total sum paid in personal income taxes by the American people.

It is almost as much as the entire income taxes paid by all American corporations, and as far as the over-all 4-year \$17,000,000,000 amount is concerned, that in this boom year is as much as the entire profits of all the American industry, big and little, throughout our land.

You know and I know that the tax rate is already a dangerous feature in our economy. Our country has been taxed now by local, State, and Federal Governments, not just the Federal Government alone, but local, State, and Federal, at the rate of a billion dollars a week, \$52,000,000,000 in taxes collected last year.

Taxes now cost about 30 percent of the national income. It is a popular misconception that the rich pay most of these. Of course, there aren't enough rich to do it. If you took all of the difference of the income of people making \$50,000 a year, above the tax rate today, the difference would be \$638,000,000 which would not be enough to run the Government 3 days.

Common sense tells you who pays it. The working fellow and the working girl pays it.

All we have to do is to keep taxes at this rate long enough, spend enough and tax enough, and not get the desired results from it, and we will simply go into socialism through the back door, through the tax system, and there is where your production, I am convinced, will fall.

Now, we say that this is a fight against inflation, yet it is not explained that nothing could be more inflationary than vast exports paid out of the public purse, not repaid, and sticking us squarely in our shortages.

If there is to be a decrease in our exports, now is the best time to absorb that reduction.

In the year 1947 our exports totaled 14½ billion dollars. It was mostly free.

Our balancing imports ran only about 5½ billion dollars; a gap of 9 billion dollars. We know, or should know, that these exports are abnormal.

Furthermore, we are gearing our production to this rate of exports at these high prices—the inflation in farm prices and farm lands being terrific and the build-up on the inflation side of our domestic economy being immense in many classifications.

They will not be continued indefinitely and there, right there, our own town criers about the boom-and-bust philosophy are within their own export spending philosophy and their actions creating the worst fundamental of all in respect to boom and bust. There is a limit to the number of failures Americans can absorb.

At some point our leaders failed or we would not have suffered as we did in the depression.

At another point our leaders failed, or we should have been so strong on land, on sea, and in the air that there could have been no war.

And now they fail again, if they do not see that the future peace of the world depends on the internal strength of the United States, and if they squander that strength so that we have no strength, when the ships are down.

Thank you very much.

Mr. JONKMAN. Thank you, Mr. Taylor, for a very searching and challenging statement.

Now, I presume there may be some questions.

Judge Kee, do you have any?

Mr. KEE. Mr. Taylor, I think it would probably meet with the approval of the committee if you would identify yourself just a little further as to your background and experience.

Mr. TAYLOR. I would be very happy to, Judge.

My name is Henry J. Taylor. I live in New York. I graduated from the University of Virginia. I studied economics there in the graduate school. My life has been involved in a study of international economics, first, because I considered it a fascinating and important subject, and second, because having been in the newspaper business my business took me abroad very often.

Long ago I began writing for the economic publication, and journals in our country and abroad.

When the war came I was in Germany, in August 1939, when the Germans went into Poland.

I was making an economic survey of the totalitarian economics. I had been convinced as early as 1935 that the Germans would threaten the world and it would end in war and involve the United States.

I went on record with that in numerous ways. When the war came in 1939, what had been limited to economic writing, became supercharged in terms of public interest at home with the war material.

I was employed by the newspapers there for covering all over Europe. When we came into the war I was, I believe, the first correspondent that had the accreditation of the War Department to all theaters of the war.

When war was over in Europe, I was then sent to the Far East.

I returned here and I am an author and a writer and a radio commentator.

Mr. KEE. Do you today have any active connection with any newspaper?

Mr. TAYLOR. Yes. I work only, however, for the Scripps-Howard newspapers, whenever I have any writing to do of any interest to me and them.

Mr. KEE. You're not regularly employed by any newspaper at this time?

Mr. TAYLOR. No.

Mr. KEE. Do you in appearing before this committee represent any organization or any body of citizens, or do you speak merely for yourself?

Mr. TAYLOR. I hoped to make that clear in my opening remark. I not only represent no organization, but in an ordinary sense I have no affiliations. I have been for years a member of the board of directors of the Economic Club of New York; I am a member of the Pilgrims, a society for good relations with England.

I represent no one. I am just a free-wheeling, independent American citizen, and I appear here in that spirit.

Mr. KEE. I failed, because, perhaps, of dumbness on my part, to get your position with reference to this legislation. I would like to know whether or not you are for or against the proposal as outlined in the bill that we have now under consideration.

Mr. TAYLOR. I am for the Marshall idea as expressed on June 5, by Secretary Marshall, of European self-help with America to fill up the gap. As a matter of fact, it seemed to me quite an overdue suggestion.

If you do not mind my saying so, I concluded it as a major thesis in a book I wrote in 1943 called *Men in Motion*.

I think the Marshall plan or idea as suggested in the Harvard commencement speech, when finally reduced to a legislative proposal on December 19, is quite a different matter. I am for the idea, and I oppose this legislation as written.

Mr. KEE. Do you favor or oppose an appropriation to carry out a plan as outlined, by Secretary Marshall, or do you favor an appropriation to implement any plan?

Mr. TAYLOR. I do not think the plan as presented here, that any money should be appropriated for this plan as written. As far as I can gather that has already been decided insofar as the Senate committee is concerned.

I think the problem here, Judge, is a very interesting one. I spoke about it in this room to a friend of mine a little earlier.

A fellow might say that it would be a good thing if you and I went into a partnership, you know, some kind of a business, maybe a farm implement business in a small town.

Maybe you have the money and I was willing to go out and try to do my part, and it is a good idea. We took it to a lawyer and the lawyer would say, "You two fellows should draw up a partnership agreement now. I think it is a good idea, too."

Then we draw up the partnership agreement, or the lawyer does, or somebody else does, and a moment finally comes when that good idea you have and that you and I be partners reduces itself to a partnership agreement. From that moment on we have to live under that agreement.

You do not live under the idea, and if there is no provision that that agreement provides what happens to me in the event you die, or who puts up more money if I run out of money, or what the division of the profits will be, and so forth, the lawyer would say to us, "It is a swell idea for you two fellows to be partners, but don't either one of you sign that partnership agreement because it isn't workable."

Mr. KEE. You recognize the fact we have a very serious condition in Europe?

Mr. TAYLOR. Yes.

Mr. KEE. Do you favor the United States taking any part in relieving the situation over there and making any effort toward putting those nations on their feet again?

Mr. TAYLOR. Most emphatically; yes.

Mr. KEE. If you favor that, then what part of the present bill are you opposed to, the method of administering it?

Mr. TAYLOR. I don't think you have a plan. If it is administered under the terms described in this act, you have not. Certainly I have attempted to oppose the administrative features, and as emphatically as I can.

I (a) don't think they will work and (b) I don't think you will get anybody who is really a top-flight production man to take such a job under those conditions.

Mr. KEE. Would you favor the administrative provisions as set out and suggested by the Herter bill?

Mr. TAYLOR. I thought I said in my statement that I endorsed those heartily. I would go further than the Herter bill, however. The basic difference, as I read it, between the Harriman report and the

Herter bill is that the Harriman report comes closer to greater authority on the part of the Chairman, whereas the Herter bill has more of a committee flavor in it, a division of authority.

I would like to see the general concept, in fact the concept of the Herter committee, but with the elevation of the authority in the power of a Chairman to about the degree, or more than the degree, contained in the Harriman report.

My own intention, and I think it is entirely a detail, is that that committee is a little bit big.

Mr. KEE. If we would eliminate from the bill now under consideration here its provisions with reference to its administration and incorporate the Herter bill, would you favor the bill we have before us?

Mr. TAYLOR. Then you come to a question of for the first time qualifying, which is only my opinion, in being able to help at all.

I think then you would have a workable operation in the independent agency. Then I think you have got to go back and review, not so much the individual padding in the amounts from the standpoint of an extra dynamo or an extra thrashing machine, and so forth, but the concept.

The concept is very different, if you were in Paris. You know these countries were really told to write their honest and best estimates of what it would take to make business good in those countries in 4 years. That is a pretty big order. If somebody said what it would take to make business good in America in 4 years, we could go pretty far.

A lot of things we need here we don't have to have which are highly desirable. It is the projection that worries me in terms of the amount, not the individual padding.

I would have that reviewed. I would not tie the Administrator's hands too much on it.

Mr. KEE. There is no amount suggested that should be appropriated? Is that your view?

Mr. TAYLOR. I would proceed on the general assumption that any amount that was presented would be too big. If that sounds reckless, I would suggest that I think it is basically present in all foreign countries, that when any nation tells another nation they need money, there will be a lot of trading made on that.

Mr. KEE. You understand the object of evidence before this committee is to help the committee make up its mind with reference to this legislation?

Mr. TAYLOR. That is right.

Mr. KEE. What I am trying to get at is, have you any suggestions to make to this committee as to what amount, if any, should be appropriated to meet the condition that we are trying to meet in Europe?

Mr. TAYLOR. No; except the fundamental principle that when you suggest that you take the figures of \$6,800,000,000 for the first year, which after all you know is approximately the same amount as contemplated in the Paris figures. That figure of \$17,000,000,000 over-all, when they take the price tag off, if you put the Export-Import Bank loans in general expectancy, you get it up to \$22,000,000,000. That is the same figure they asked for after the first day. They first asked for \$29,000,000,000, and I saw them knock \$7,000,000,000 off that.

Mr. KEE. Can you help this committee by making a suggestion of what amount we should appropriate or authorize?

Mr. TAYLOR. I believe—would you not consider that it would be rather reckless of me to just pick a figure out of the air and say that this figure would do as well as another one?

If I were on this committee I would certainly cut that \$6,800,000,000 and I would cut it drastically.

By "drastically" I mean at least \$3,000,000,000 in the first 15 months, and I think you would find that we redound then with the speculation of improvement abroad, to all major aid that would really affect the stability of the countries and then if we needed more, I would give them more.

Mr. JONKMAN. The time of the gentleman has expired.

Mrs. Bolton?

Mrs. BOLTON. I confess to being a little confused at your attitude. I was interested to have you answer Mr. Kee as you did, that you were in favor of the Marshall idea because what I am left with is that you are in opposition to every idea that has been set forth.

I wondered what in your mind could be done? How can it be worked out? What is to be done? Would you not give your alternatives? I am quite confused.

Mr. TAYLOR. I will try to, if I may.

To begin with, I believe, at least I understand, that the function of the committee is to talk about the tangible legislation presented to this committee.

Mrs. BOLTON. I think there, Mr. Taylor, we perhaps should have told you that in the beginning when the committee met to organize these hearings, we passed a resolution to the effect that we were going to study this whole matter of recovery on a world-wide basis, assuming that the United States Government was trying to set up a new policy relative to its position in world recovery we would begin by studying the recovery plan for Europe. We are not restricted in any respect therefore to the two bills which happen to be on the table.

Mr. TAYLOR. Yes. As a witness I felt that I was testifying on these two bills.

Mrs. BOLTON. You were, of course.

Mr. TAYLOR. Therefore, I oppose these. I do not know what the two bills are, other than the one presented by the State Department.

Mrs. BOLTON. The Herter bills?

Mr. TAYLOR. I was testifying on the State Department's draft legislation.

Mrs. BOLTON. You see nothing good in it?

Mr. TAYLOR. I do not think it is workable.

Mrs. BOLTON. What alternative or suggestion would you give?

Mr. TAYLOR. I attempted to incorporate several. The plan, so far as I am concerned, starts and stops, but how it is run concerns me. I do not think any plan is a plan beyond how it is administered.

Mrs. BOLTON. I think we are all in agreement with that.

Mr. TAYLOR. So I think in discussing this legislation if you are going to testify about it, you have to start in what you believe to be the fundamental, and the fundamental in this legislation in my opinion would be if we passed it as presented we would find ourselves right back where we started with the same money having gone through these economies and not having produced.

I am opposed to that.

Mrs. BOLTON. What sort of an administration would you set up?

Mr. TAYLOR. I have tried to outline it here on several pages. I

went into it in detail. It consists of six pages, including the endorsement of the Herter committee as a substitute.

Mrs. BOLTON. You are quite satisfied then with the Herter committee set-up that there is no danger in a divided front being presented to the other countries of the world by the United States?

Mr. TAYLOR. I think that is reaching for it. We have, practically every place that I have been, numerous activities.

Mrs. BOLTON. We had six or seven fronts during the war.

Mr. TAYLOR. You have an example of it today. We have a very able man, a brigadier general, Gordon Seville, in charge of the Army Air Forces training program, an airfield development program in an advisory capacity in Brazil. He is out looking at these airfields all over Brazil. The Brazilians are saying, "We need a hundred bulldozers to make this field longer." He is saying that they don't need a hundred bulldozers down there. What is the reason for making the fields longer? They do not have the planes needed to make a longer field.

He would not approve such a requisition as that.

He sees a good deal of Mr. Pauley in the Embassy in Rio de Janeiro. He does not get in his hair, and if the Brazilians come up and say that Vargas wants this or that, he says that he is not working for Vargas, that he is there on the airport program.

I would like to feel that the recommendations contained in this testimony were very specific. Without them I do not think you have a plan.

I think the misunderstanding across our country is very real about this. It is we no longer have an idea. We are faced now with drawing a partnership agreement. We must all live under it, I think, for much longer than for 4 years.

In many more parts of the world than just western Europe we will have to live with this program. We should recognize that or else not suggest that the Marshall plan bring world peace.

Mrs. BOLTON. We are not suggesting that.

Mr. TAYLOR. But the proposal suggests. There is an atmosphere of that, not the guaranty, but the implication is that this is an important step.

Mrs. BOLTON. Not the implication from this committee!

Mr. TAYLOR. No; not from this committee, and I attempted here to suggest that it was the work of the committee that was enlightening.

Mrs. BOLTON. Maybe the implication lies in the way these things are given to the public, but that is something we cannot avoid.

Mr. TAYLOR. I congratulated the committee on getting the facts.

Mr. JONKMAN. Mr. Jarman?

Mr. JARMAN. You are quite definitely a man of broad experience and extensive travel. Do you think there is anything good about our State Department at all?

Mr. TAYLOR. Well now, that is kind of a touchy subject with me.

Mr. JARMAN. You do not have to answer, if you do not want to.

Mr. TAYLOR. I would be glad to. Practically every place I have been in the world, I have noticed, I think without exception, in the different countries, that you will find at least one, and more often than that several, wonderful Foreign Service officers who really know the score in that country, are good Americans, talented fellows, pretty lonely, and by and large, underpaid.

Customarily they weep on the shoulders of traveling newspapermen like myself because they are glad to see somebody from home who has been in other countries. By and large, I think they get crossed up at home base. Time and again I have been in areas of the world where it appeared at home as though we were simply improvising policies, where I know and have on occasions seen reports predicting it months and months, if not years, earlier.

Now, those people are all a part of the State Department, and I do not think they have received the credit they are due. But I do think the organizational nature of the State Department tends more to kill off these fellows than to bring them forward and give them their full cruising range.

So, when you ask me if I see anything good in the State Department, I think the State Department personnel in the field is far better than is generally supposed.

Nothing annoys me any more than to suggest ambassadors only go around drinking tea, and stuff like that. That is not true. I think the State Department has gotten itself into a position either by tradition or over a period of time, or possibly because so many things have been thrown into the State Department that were left over after the war, including economic warfare, and so forth, that the original concept of the State Department as a policy-making agency is not suited as an operational agency.

MR. JARMAN. In other words, the gist of your idea is that the Foreign Service is all right, but the State Department here in Washington is not so hot?

MR. TAYLOR. They do cross them up.

MR. JARMAN. Since we are operating under the 5-minute rule, I will not have time to get answers to these questions, I have so many. I will comment as much as I can, and if you want to in the record comment on what I say, I will be happy for you to do so.

MR. TAYLOR. Thank you.

MR. JARMAN. You say another 3 billion American dollars would drain into the darkness and confusion of Russia.

I disagree thoroughly that all of the UNRRA fund went to Soviet Russia and Russia's puppet states.

MR. TAYLOR. I did not mean to imply all. I think a substantial part did. Isn't it true that the majority did? All those—although, of course, not all.

MR. JARMAN. I do not think so. However, if you will permit me to comment in the record because I would not otherwise get through, I want to give the gentlemen over there ample time for their questioning.

This item of Holland is \$2,446,000,000 and it may be a loan and not a grant. You spoke of the fact that Denmark had 4 percent Communists. I was going to ask you, but I will just state that I understand Russia has only about 5 percent.

MR. TAYLOR. I do not compare Denmark to the Soviet Union.

MR. JARMAN. Even with all its faults, somebody in the State Department did find \$131 million reduction in the French and Italian figure. You said it was reduced 131 million?

MR. TAYLOR. Yes. There were other reductions. The reductions I referred to totaled \$115,000,000, and I attempted to place the credit for that reduction on the State Department where it belongs. I am trying to make fair testimony.

Mr. JARMAN. I am sure you are. I am glad they have found that. As to this question you asked the Greek Minister, I do not know how else he could estimate the population except on the basis of his knowledge that immigration was so much, and other shiftings of populations that did not have a bearing on the census, as you say.

I do not see how he could have other than made the estimate that he did.

Finland, you say—and I thoroughly agree with your appreciation of Finland—is not included in the loan. But she was invited, you know.

Mr. TAYLOR. Oh, yes. I think she stayed out, don't you, in fear of the Soviet Union, or I assume she did.

Mr. JARMAN. I am sure of that.

Mr. TAYLOR. Or after the formula adopted by Switzerland and Sweden.

Mr. JARMAN. Now, speaking of Communists, too, you seem to make a good deal of the fact that the claim this is fighting communism is all so much talk.

Mr. TAYLOR. No. I said they applied it on the over-all presentation basis. I thought I went out of my way to try to emphasize it was pertinent to certain areas, but is not an over-all applicable label for the total amount.

Mr. JARMAN. In some of these areas. You kind of laughed at communism being in Portugal.

Mr. TAYLOR. Yes.

Mr. JARMAN. Your information is different from mine. I may be wrong. The information I gained there in October was that there is a very strong and dangerous Communist underground, regardless of whether Salazar is good or bad, and I agree with you he is a smooth gentleman.

Mr. TAYLOR. He is a dictator.

Mr. JARMAN. You referred to Ireland. My impression is that there is a strong Communist underground in Ireland, and that Mr. De Valera is well aware of it and that the IRA is riddled with Communists. Further, they will figure in the next election.

Mr. TAYLOR. Now, really, are we going to send a half a billion dollars all over the world in countries the size of Ireland on the local government's estimates that if we don't give them half a billion dollars, they are liable to vote Communist. We really have got ourselves into quite a proposition.

Mr. JARMAN. I do not know they estimated that. I am commenting on your testimony.

Mr. TAYLOR. I have only been in Ireland three times. Is this committee really worried about Ireland going Communist?

Mr. JARMAN. Well, we are worried a lot more than you are.

Mr. TAYLOR. If they are worried at all, they are worried a lot more than I am about that one.

Mr. JONKMAN. The time of the gentleman has expired.

Mr. Lodge?

Mr. LODGE. Mr. Taylor, I find your testimony very interesting and stimulating.

Of course, I think your views are entitled to a great deal of consideration. But I had a feeling as I listened to it that there was to some extent a kind of contradiction involved in your testimony. I can

join you in lamenting the waste and misdirection of much of the money that was poured out by this country, and I find that in one part of your testimony you say that we must realize that we are involved and that this is not the end.

Yet on page 11 you say, "Now we are in it again for a new \$17,000,000,000 as if it were for the first time."

Mr. TAYLOR. Yes.

Mr. LODGE. Perhaps that is not a contradiction in your mind. One reason we are in it again to this extent perhaps is because of prior inefficiency. But there are other reasons I think we are involved for quite a while, as you do.

Mr. TAYLOR. Yes.

Mr. LODGE. Therefore, I am a little surprised that you should be so surprised that we are in it again.

Mr. TAYLOR. You know, that seems to me to be a very interesting point. I am dealing here with a complaint that I do not believe can be overcome in any manner but by a redressing of the presentation of the Marshall plan. When I state "we are in it again", as if it were for the first time, what I mean is this:

We have been reading the advertisements in the newspapers. Many committees have been formed. The general implication is to the American working people or people in our country that do not have a chance to study these things as carefully as they might, who are distracted by other things, that the war is over and now we must help Europe.

You know, lessons in idealism.

Mr. LODGE. May I say there that I believe this administration has for many years made a mistake in presenting most of this foreign aid legislation on the basis of humanitarianism. I think it should have been presented on the basis that they are strategical measures with humanitarian overtones, let us say, with relief characteristics.

Mr. TAYLOR. I agree. But the ordinary fellow across our country, and I get it from a lot of places, there is a concerted effort to suggest that what we need to do is not let Europe down, you know, that now is a time when we have got to realize that we are a part of Europe, that the world is affected by these interrelationships.

We are kept so busy looking ahead that we forget that is exactly what we have been doing for nearly 3 years, and the Marshall plan is brought forward with an amazing amount of propaganda as if it were the first concerted effort by our Government to get at some of these problems.

Mr. LODGE. May we count on you to advertise the national security implications of the Marshall idea?

Mr. TAYLOR. The Marshall idea so far as I am concerned, Mr. Lodge, does not become national security until it is buttoned up to be run right. No. I am just adamant on the point that this is no better or worse a plan than the decision that it is finally made as to how it is to be run. The older I get the more I think nothing works without experienced brains.

You can take any business or any theater or store, or anything else, and if the management is not right you can put all the money there is in the world in it and it does not do the job.

Mr. LODGE. I will agree with you that the program will sink or swim on the basis of the quality of the administrator.

Mr. TAYLOR. And authority.

Mr. LODGE. Another point you raised with which I find myself in some disagreement, Mr. Taylor, is on this question of anti-communism.

I would personally be very much opposed to taking your view on that particular matter. In other words, as I understood your view, we single out Italy and France, let us say, and countries which are directly threatened by internal Communist force, and if it is entirely an anti-Communist measure we do not help England or Ireland. I do not see it that way.

Mrs. BOLTON. Will the gentleman yield, if the chairman gives him the time I take out of his 5 minutes?

Mr. LODGE. Certainly.

Mrs. BOLTON. I was a little disturbed by Mr. Taylor saying constantly that this was just an anti-Communist measure, because as I have read the bill, as I have read the whole business, it is not set up at all as a measure solely to be anti-Communist.

I think for the record's sake we of the committee should make it very clear that that is not the basis upon which this bill has been brought to us. The bill is the recovery of Europe.

Mr. LODGE. I think I know exactly what the lady has in mind.

Mr. TAYLOR. It was in the presentation.

Mr. LODGE. What Mrs. Bolton thinks, I think, is a more affirmative approach toward the restoration of Europe and by so doing, by spreading the free trade area of Europe, we will spread the area of freedom which will incidentally have the effect of holding back the Communists.

Mr. TAYLOR. When the British loan was proposed, it had one profound weakness—not the money, but a basic weakness. I am speaking now from the economist's viewpoint. It carried the implication that this major loan to England would of itself create a stabilized condition abroad. The objection to the British loan should have been that it was a treatment on a piecemeal basis. The fundamental value of the Marshall plan as suggested in June was that we were going to stop this piecemeal business and treat Europe as a coordinated unit, which it is.

Mr. LODGE. That is precisely why I find fault with your thesis on England. We must not treat it piecemeal.

Mr. TAYLOR. I would like to see the fight made on sound grounds, and they then took the \$17,000,000,000 price tag off it, they lose their sound position because what they might well have done, in my opinion, and believe me I would have been for this, that they could have said "Look here, you fellows, I know it is easier to vote \$6,800,000 than \$17,000,000,000 in an election year, especially an election year," but if we do that we are back where we start, on piecemeal aid.

We have a plan here that involves 4 years and \$17,000,000,000 because the true recovery of Europe is going to take (a) a lot of money and (b) time.

It will probably take more than 4 years. But the real way to go about this is to take the full leap, tie these countries together as far as you possibly can, spend the money as wisely as you can, and do not look for any results this side of 4 years.

Therefore, far from being willing to take off the \$17,000,000,000 price tag, and reduce it to 1 year, what we really are proposing to you is a 4-year plan that we are convinced under proper administrative management will do the job.

They could have made that argument. From my point of view as an economist it could have been made on absolutely sound grounds.

Mr. BOLTON. Would you guarantee that in 4 years it would be sound?

Mr. TAYLOR. The only possible approach is that.

Mrs. BOLTON. You put a time limit there?

Mr. TAYLOR. Instead of that when the heat went on, they pulled the so-called price tag off, reverted back to \$6,800,000,000 and no commitment for more than 1 year, which is why I attempted to say that this then becomes stop-gap aid. You cannot put it both ways, you know.

Mr. LODGE. May I comment on that? My comment on that is that it is still not stopgap aid even on that basis, for the following reasons:

In the first place, if you appropriate enough money, part of it is for relief and part for recovery. Insofar as it is relief, it might be considered stopgap, except that without relief no recovery is possible.

Insofar as it is recovery, it is certainly not stopgap aid by the very definition of the word "recovery."

Furthermore, even if you do not appropriate for more than 15 months—let us take the figure of \$6,800,000,000—nevertheless you may have an authorization which anticipates further authorizations. Therefore, it seems to me that your view is not necessarily true as far as the presentation of the measure is concerned.

There are certain advantages to doing it each way.

In the first place, these are estimates, guesses, to some extent. They are bound to be. They are based largely on dollar deficits, balance of payments. If there is an international monetary conference and these countries devalue their currencies, and there is a consequent increase of exports which results in a diminution of the dollar deficits, that will alleviate the burden on the American taxpayer since the amount we will have to pay will not be so great.

Or perhaps if we adopt the Herter proposal we will be bringing aid to Indonesia, in which case we might have to have more.

Mr. TAYLOR. What happens if Russia joins the Marshall plan? They can, under the first provision. Supposing these people in the Soviet Union or the Kremlin decide to show some sense after awhile. They have shown no indication thus far, but supposing they said, "For Heaven's sake, with all this stuff passed around, who are we to be so ideological?"

What do you think would happen if Russia joined the Marshall plan?

Mr. LODGE. My answer to that is that if Russia will be willing to sign the agreement which will be proposed by the State Department, pursuant to legislation which we will draft, she will be agreeing to conditions which would mean that it would be quite to our advantage to have Russia join.

Mr. TAYLOR. You certainly could not expect the Soviet Union to accept any other conditions than any other country; so, in the first page of the legislation, that is included.

Any other nations that are willing to conform to the articles of declaration will be included.

Mr. LODGE. Let me say that this legislation has not yet been reported out of the committee.

Mr. TAYLOR. Watch that one, if you will.

Mr. LODGE. I think the chairman will agree with me that it will be our effort to establish conditions which, were the Soviet Union to agree to those conditions, a happy situation will result.

Mr. TAYLOR. It would have to be uniform. We cannot maintain friendly relations with a power and give \$5,300,000,000 to one nation and then refuse it to another needy nation. You will find they will show as much need as another country.

Mr. LODGE. Do you think Spain should be invited in?

Mr. TAYLOR. I do not think Spain is in the picture. I think Spain has healthy possibilities for France, because the semi-closed border in between those countries is a very bad thing for France. Spain was not in the war, but Russia was in the war. If she, since the Marshall plan, signs the bill, then what do we do?

Mr. JONKMAN. Just go by the past experience, Mr. Taylor; would it be good business to accept Russia's acceptance under the Marshall plan?

Mr. TAYLOR. I should say not, but we have left the latchstring out; and if she pulls it, we have the whale by the tail.

Mr. JONKMAN. Would you care to comment as to your opinions as to why she did not accept it? That is conjecture. I wonder if you have any views on that? If you have any views on that, will you express them?

Mr. TAYLOR. I have. I think it is a typical case of the great snafus that come into totalitarian management and states where the bitterness and the confusions and the propaganda finally get all twisted up. It is the only possible account for the strategic blunders in the war that Germans made.

I think Russia has shown the same tendency of really not knowing what is good for them. They get so used to saying "No", they just take the party line, and they say "No" when a fellow was handing them something that is just swell.

Mr. JONKMAN. Is it possible they know very well, or knew very well, that if they came in under the Marshall plan, it would not go through?

Mr. TAYLOR. That would be a paradox, because it is claimed they are fighting the Marshall plan in Europe, a claim which leaves me with mixed feelings, because they are doing it so obviously that I am suspicious of the Asiatic approach.

However, if coming in would keep it from going through, and if they don't want it to go through, you would think there would be more reason why they do not come in. It was predicted in London that Molotov would walk out of the Paris Conference. I am perfectly certain that was no surprise.

Mr. JONKMAN. What do you think was our protection, that we put the \$6,000,000,000 in?

Mr. TAYLOR. Toward coming in?

Mr. JONKMAN. Yes.

Mr. TAYLOR. I think the Marshall plan as conceived before the Paris Conference of June, from which Molotov exited, should have been recognized in its final presentation in December that we had gone then so far along the road of what is described informally, but not officially, as competition with the totalitarian states for the well-being of Europe that the plan should incorporate in it absolute provisions

that it would make it impossible for the Russian Soviet Union to come in and simply take this ride, but, of course, having done what they wanted to then do whatever they preferred to, to injure the world and us.

Mr. JONKMAN. That is all; thank you.

Mr. LODGE. May I say one more thing? I would like to return for a minute to a point you brought out in relation to this as an anti-Communist measure.

It seems to me we have to have a view of Europe as a possible federated economic community.

Mr. TAYLOR. Yes.

Mr. LODGE. Now, then, the question of whether these countries in which communism is not a menace—England, for instance—should receive grants in aid, is a matter for determination by the Administrator. It seems to me that it would negate the whole purpose of the hoped-for economic federation of Europe if this measure were interpreted solely in the light in which you appear to interpret it.

Mr. TAYLOR. Mr. Lodge, I am afraid you and I have a basic misconception about that approach. I am claiming in my testimony, or attempting to, that as a matter of impact on the American people and on Congress the propaganda line was set by the State Department as presenting this on an anti-Communist basis as a result of a survey indicating that that would contain the most "oomph," and I noticed that the proposers of the plan emphasized and reemphasized that this was an anti-Communist fund we were putting in there.

Mr. LODGE. What do you believe it to be?

Mr. TAYLOR. I believe it to be a recovery program for Europe, in which communism is only one of the features.

Mr. LODGE. But do you think that as Europe recovers the Communist threat will be diminished?

Mr. TAYLOR. Not nearly as much as many of my friends; because I noticed, for example, that there was nothing wrong with living conditions in Hungary when the Communists seized Hungary. There was nothing wrong in certain of our American cities when political leaders seized the city hall.

Mr. LODGE. Now, you are talking exactly my language. I have attempted to bring out during all of these hearings this fact—that the purpose of the Marshal plan, insofar as it has a political purpose, is to reduce the popularity of communism, the spread of the contagion of communism; and that in Poland, for instance, you have only 3 percent Communists. In France you have 30 percent, according to recent polls. So my question has been—and I have not yet had what I consider a satisfactory answer—even if the ERP goes through in time, will that be enough to protect the Governments of France and Italy from internal force, from extralegal attempts to demolish the legality of the Italian and French Governments?

Mr. TAYLOR. Absolutely not; and, accordingly, it is the implication, and unstated implication, of this insoluble relationship between living conditions in communism which leaves me cold. They are not related as both ends of a beam are.

Mr. LODGE. Communism is, to a large extent, brute force, and this should be simply regarded as one prong in our strategical arsenal.

Mr. TAYLOR. That is right. Then, Mr. Lodge, you begin to get the thing into the projection I would like to see it in. What worries

me so much is that this projection so far has been so wide of some of these marks you and I are talking about that the latent feeling that exists in our country—and it is very vocal right now—is that we get a hooking when we go into Europe. I said in my testimony I do not agree with that. That is a very widespread feeling. I think one of the reasons is because of the very things you and I are talking about. The actual purpose turns out to be different from the presentation; whereas, in many instances, the actual purpose could stand on its two feet, if properly exposed.

Mr. LODGE. Thank you very much, Mr. Taylor.

Mr. JONKMAN. If I understood your presentation, you expressed that the Herter bill does contain the machinery that would be most likely to accomplish the purpose; and if you criticize that, it would be that there should be more power in the Administrator under the Herter bill?

Mr. TAYLOR. Yes.

Mr. JONKMAN. If he was given practically a free hand, or it was taken into consideration that we knew he was responsible for foreign policy to the State Department, then the plan could work and you could attract men of the caliber that would be required to make it work?

Mr. TAYLOR. Sure; because I think Secretary Anderson testified what a difficult job it was to get competent men to come to Washington any more and stay here. I do not know; were you in business before you went to Congress, or were you an attorney?

Mr. JONKMAN. I was practicing law.

Mr. TAYLOR. All right. If you had been a production man, that would have been different. He will need quite a few people in this job. In the first place, the individual will have to take it up with his own company; and they will say, "Charley, what authority do you have?" You will not get a man to take the job unless he has a cruising range. They won't find a competent man in this set-up. How is he going to get other fellows? He will finally be convinced that he has the authority to do it, and he will pick up the telephone and call up some fellow that has been working for 20 years with him, and knows all about foundries, and he will say: "Bill, we are going to ask your company to let you go for awhile. I have got an awful big job on my hands, and have agreed to do it. I don't want to go to Europe for 3 or 4 years, but I am. We have got a tremendous amount of stake in this. If Mert will let you go and you quit your job and come with me, I will back you to the limit and we will get it done."

That fellow will get Bill, Frank, Joe, this fellow, and they will see what they can do.

Mr. JONKMAN. Have you thought of any provision to put in the Herter bill to accomplish that as to words, or phraseology?

Mr. TAYLOR. Amplification of the definition of the absolute responsibilities related to verbiage that shows that he must be able to assume responsibility and make decisions on his own authority in the face of changing conditions.

The theory that the Secretary of State will be able to put a stop on something is the equivalent of a veto power. No manager who faces veto power can manage. The fellow that really ultimately manages is the fellow who has the veto power.

Mr. LODGE. Do you think, Mr. Taylor, that you would have more chance of getting the American people to understand this measure and of getting outstanding talent to participate in it if you could destroy the superstition that there is a sharp dividing line between war and peace, if you could bring people to understand that wars are only extensions of peacetime confidence and that we are up to our neck in a conflict now?

Mr. TAYLOR. Of course, it is late in the day, but we are all talking about some vastly big subjects. It has never been clear, historically speaking, that good times brought peace. It has never been clear that commerce is the road to peace.

That is a cliché often used. It is 'ar easier to demonstrate that where commerce has expanded, wars have ensued. Where there is no commerce—witness the Eskimo in his igloo—you have peace.

I, for one, am terribly disturbed about the great generalities brought forward. One is that if there are bad times, any place in the world, it means that it affects America.

Isn't it obvious that, far from that being true, the fact is that if there are bad times and trouble in some places in the world, this affects America, not all places? There will be bad times, I venture to suggest, in India, for many, many generations.

If we are to await stable economy in the United States until there are good times in India, my friends, we are going to have a very long wait.

Yet India is definitely a part of the world.

Mr. Chairman, you have been awfully kind to me today. I am very grateful to this committee for this opportunity to be with you.

Mr. JONKMAN. We enjoyed hearing you. You made a very interesting presentation and, I want to say, a courageous statement.

Mr. TAYLOR. Thank you.

Mr. JONKMAN. It is not many witnesses who have come here and gone as far as you have in saying what they really think about the weaknesses and frailties of the Marshall plan. It is those we must know, and you certainly have done your share as a citizen in informing this committee; and, to a large extent, you have shifted the responsibility to us.

Thank you very much for coming.

Mr. TAYLOR. That is all I tried to do. I think this is a pretty serious subject.

Mr. JONKMAN. I am sure it is.

(Whereupon, at 5:15 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, February 3, 1948.)

(The following was submitted for inclusion in the record:)

THE MARSHALL PLAN

STATEMENT FROM HERBERT HOOVER TO SENATOR ARTHUR H. VANDENBERG,
CHAIRMAN, COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE,
WASHINGTON, D. C.

JANUARY 18, 1948.

Senator ARTHUR H. VANDENBERG,
Chairman, Committee on Foreign Relations, United States Senate,
Washington, D. C.

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.

DANGERS IN EUROPE

The dangers inherent in the project are very great. On one side is the possible failure of western Europe, now engaged in widespread 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.

UNITED STATES DANGERS

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 ECA 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 ECA

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 nonofficial 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 bi-partisan 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 ECA, 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 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 4 YEARS

The plan originally proposed an authorization to ECA of \$17,000,000,000 and a 4-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 \$9,000,000,000.

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 4-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 percent of our whole Federal tax income during such a period. It amounts to 36 percent 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 \$7,000,000,000 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 overexport. 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-month 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 oilwell, 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 percent premiums.

It would seem that the possibilities of early steel and machinery production in Germany should be more vigorously undertaken, obviously with readily effective surbs 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 RFC, 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 billions 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 which 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 \$3,000,000,000. 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 billions 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 guaranty 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.

Yours faithfully,

HERBERT HOOVER.

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, FEBRUARY 3, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., in the Foreign Affairs Committee room, United States Capitol, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will come to order.

If it is agreeable with the committee we will insert in the record at this point a statement from the Secretary of the Treasury which he wished to submit to us on blocked funds in this country, and also a letter from the State Department dated February 3, 1948, enclosing a chart showing the relationship of stipulated obligations, shipments, and expenditures from April 1, 1948, through June 30, 1949, with respect to the European recovery program.

(The documents are as follows:)

FEBRUARY 2, 1948.

Hon. CHARLES A. EATON,
*Chairman, House Foreign Affairs Committee,
House of Representatives, Washington, D. C.*

DEAR MR. EATON: You will recall that in my testimony on the financial aspects of the European recovery program before your committee I discussed the policy which should be adopted respecting foreign assets in the United States and indicated that the National Advisory Council was giving further consideration to this problem.

I am enclosing herewith a copy of a letter which I am sending today to Senator Vandenberg, chairman of the Senate Foreign Relations Committee, which I think may be of interest to you and the members of your committee. It outlines the program which the National Advisory Council has approved for dealing with the above matter. I understand Senator Vandenberg will put this letter into the record of his committee at today's session and will release it to the press at noon.

With cordial personal greetings.

Sincerely yours,

JOHN W. SNYDER,
*Chairman, National Advisory Council on
International Monetary and Financial Problems.*

FEBRUARY 2, 1948.

Hon. ARTHUR H. VANDENBERG,
*Chairman, Senate Foreign Relations Committee,
United States Senate, Washington, D. C.*

MY DEAR SENATOR: You will recall that when I appeared before the Senate Foreign Relations Committee to discuss the financial aspects of the European recovery program I indicated that I would soon be ready to report the results of the National Advisory Council's consideration of the extent to which this Government should assist countries likely to receive financial assistance under the European recovery program in locating the assets of their nationals concealed in the United States.

On that occasion I discussed the extent to which the dollar and gold holdings of the participating countries could be integrated with the European recovery program. In that connection I stated:

"Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States, and by liquidating the American investments of their own citizens. I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952. It should be kept in mind that the European recovery program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate through ordinary commercial and financial channels. By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

"When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the program, and which will be used in the future to meet part of the cost of imports after the program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to force European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

* * * * *

"Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States. * * *

I emphasize again that, in the judgment of the National Advisory Council, it would not be wise to force countries likely to receive financial aid from the United States (referred to hereafter as "recipient countries") to liquidate the private holdings of their nationals as a condition to receiving such aid. But the problem of assisting these countries in locating the private assets of their nationals in separate and distinct. It is this problem which the National Advisory Council and the executive departments concerned have been studying for some time.

The problem stems from the fact that nationals of some recipient countries have for many years followed the practice of concealing their assets in the United States. Some hold property directly in their own names; others hold indirectly through intermediaries in third countries, notably Switzerland. These assets are concealed in this country despite the fact that the foreign-exchange laws of the recipient countries typically require that foreign-exchange assets be declared; some also require the turning over of liquid dollar holdings in exchange for local currency; practically all require that licenses be obtained for the expenditure of foreign-exchange assets.

It is important to distinguish between two categories of assets: blocked assets and free assets. By blocked assets we mean those which are frozen in the United States under the Foreign Funds Control of the Treasury Department. It will be recalled that as a wartime measure the President, pursuant to section 5 (b) of the Trading With the Enemy Act, blocked, under control of the Treasury, the private and public holdings in the United States of all of the European countries except the United Kingdom, Eire, and Turkey. Beginning in October 1945, machinery has been put in effect which provides for the unblocking of assets of persons in most of the formerly enemy-occupied and neutral countries if the government of the country where the beneficial owner of funds resides certifies to the private American custodian holding the assets that there is no enemy interest in such assets. The primary purpose of this procedure is to find concealed enemy property. The procedure is now applicable to all the recipient countries whose assets were blocked. However, not all the nationals of these countries have availed themselves of this procedure, which has the incidental effect of disclosing to their respective governments the ownership of assets in the United States. As a result the Treasury through Foreign Funds Control is still controlling a fairly substantial amount of blocked assets.

Free assets include all the dollar assets owned by nationals of Britain, Turkey, and Eire, for these assets, to repeat, were never blocked. In addition, free assets

have accrued in the United States on behalf of residents of the other recipient countries since December 1945 when controls were lifted from all current transactions between the United States and nationals of these countries.

It is obviously impossible to ascertain accurately the amount of private dollar assets owned by resident citizens of recipient countries which are unknown to their governments despite the reporting requirements of such governments. Moreover, we have no controls which require complete and continuous reporting of foreign-owned assets. However, we have made certain estimates based on an analysis of the best facts and figures available to this Government.

As far as the free assets are concerned, we have concluded, as a result of investigations and consultation with the various governments, that they are for the most part known to the governments of the recipient countries. We have estimated that as of June 30, 1947, private persons, including noncitizens, residing in the recipient countries, had free assets in the United States approximating 4.3 billion dollars. Of this amount 2.3 billion dollars represents holdings of nationals of the United Kingdom, which has adequate information respecting these assets. In addition, from Foreign Funds Control operations we know that about 1.3 billion dollars represents assets of residents of recipient countries which have been certified for unblocking and hence are known to those governments. The balance includes proceeds from the liquidation of securities which has taken place in the United States with the knowledge of the appropriate governments, accruals from current transactions which are subject to control by the governments of the recipient countries, and assets of noncitizens resident in these countries. Some free assets may have accumulated here unknown to the respective governments, but we consider that the amounts are probably insignificant.

We come now to the question of the blocked assets held directly in the names of citizens of recipient countries and indirectly for their benefit through Swiss intermediaries. These assets are for the most part unknown to the respective governments; otherwise the appropriate unblocking certifications would have by now been obtained and the identity of the respective owners disclosed. Precise figures on the amount of these blocked assets are not available. Under the existing certification procedure, as has already been indicated, the certification is made directly by the foreign government to the private American custodian holding the assets and no report is made to the Treasury other than general summaries which have been obtained from the countries concerned. To have maintained current records on changes in blocked accounts would have subjected American financial institutions and the Government to unjustifiable costs and difficulties.

According to our best estimates resident citizens of recipient countries hold in the United States approximately \$700,000,000 of blocked assets which are in a form readily available for meeting the balance-of-payment problems of the recipient countries. Of this amount, about \$400,000,000 are held here directly in the names of the resident citizens; the balance of about \$300,000,000 is held indirectly through Switzerland. In addition, resident citizens of recipient countries hold blocked investments in controlled enterprises, in estates and trusts, etc., which cannot readily be liquidated, although most of them are valuable sources of current dollar income. We estimate that they hold directly in this nonliquid form of investment about \$400,000,000 and an additional small but unascertainable amount indirectly through Switzerland.

It appears that so far as the recipient countries are concerned the resident citizens of France have in the United States the largest amount of concealed private blocked assets in a form which could be used in meeting balance-of-payment problems or to supplement official reserves. We estimate that the amount of the directly held assets in this form of investment would run between \$100,000,000 to \$150,000,000. The French Ministry of Finance has estimated that these assets amount to about \$150,000,000. In addition, French resident citizens hold indirectly through Switzerland liquid assets of probably between \$200,000,000 and \$250,000,000.

The policy we should adopt with respect to assisting the recipient countries in obtaining control of the private dollar assets which are hidden in this country by their citizens has been a subject of much discussion in recent months. Representatives of financial institutions have urged that it is fundamental to our free private enterprises system and, in particular to our capital market, to respect private property whether or not it is held by foreign nationals. Some felt that the United States Government should not adopt the policy of cooperating with foreign countries in the enforcement of their exchange-control laws. Finally, it was argued that to adopt measures having the effect of forcing the disclosure to

foreign governments of private property held by their citizens in the United States would put this Government in the position of supporting partial confiscation of private property. This last point relates to those cases where foreign countries require the surrender of dollar assets, against reimbursement in local currency at unrealistic rates of exchange.

The National Advisory Council gave serious consideration to these views. The Council doubted that under ordinary conditions this Government should assist foreign governments in enforcing their foreign-exchange laws. However, these are not ordinary times. Some European countries are in dire need of dollars to permit their survival as free nations. American taxpayers are being called upon to make substantial contributions to European recovery. Moreover, most of the foreign governments have repeatedly asked our assistance in obtaining control of the holdings of their citizens, who have concealed them contrary to the laws and national interest of their countries. It is these circumstances, I am sure, which have inspired marked public interest in the problem and have produced various legislative proposals for action, such as the Kunkel bill (H. R. 4576) and the Norblad resolution (H. J. Res. 268).

The Council studied in detail many alternative proposals for dealing with this problem in an effort to arrive at a solution which would assist recipient countries to obtain the use of concealed private assets in the United States without doing violence to the traditional status of private property. None of these alternatives promised at the same time actually to protect the private interests of foreign nationals, to assist the recipient countries to mobilize the concealed dollar assets of their resident citizens, and to prevent the escape of concealed enemy assets.

The Council concluded that no action should be taken regarding free assets because the amounts which are unknown to the governments of recipient countries are probably insignificant, and in any event serious practical difficulties would be involved. Effectively to search out and take control of these free assets would require exchange controls and other measures which would do maximum violence to our position as a world financial center and to our policy of keeping the dollar substantially free of restrictions.

The Council also concluded, however, that this Government should assist the recipient countries to obtain control of the blocked assets in the United States of their resident citizens. Accordingly, it was agreed that the program described below, which has been developed by the Justice and Treasury Departments, should be put into operation promptly. In the opinion of the Council this program is the most effective way to accomplish the above objective and to prevent the escape of enemy assets.

The program provides that public notice will shortly be given that at the end of 3 months assets remaining blocked, including assets not certified by the appropriate foreign government as free of enemy taint, will be transferred to the jurisdiction of the Office of Alien Property in the Department of Justice. To permit this Government and the foreign governments concerned to concentrate on the areas where important results are likely to be obtained, accounts containing small amounts of property, say up to \$5,000, will be unblocked in the near future without requiring certification or other formalities except where a known German, Japanese, Hungarian, Rumanian, or Bulgarian interest exists. The Office of Alien Property will take a new census of the assets which remain blocked as of the dead-line date. In order effectively to help the recipient countries obtain control of the blocked assets of their resident citizens, the Office of Alien Property will then promptly carry out the following policies:

(a) To deal with the directly held assets by making available to governments of recipient countries the information from the new census of blocked assets of their citizens, including juridical persons, residing in their territories which remain uncertified as of the public dead-line date referred to above. Each country receiving such information will be required to investigate the beneficial ownership of property held in the names of its citizens for the purpose of discovering any enemy interest. Pending a reasonable period for such investigations, such property will not be vested but will remain blocked under the jurisdiction of the Office of Alien Property. If these investigations show that the assets are owned by residents of the country receiving the information the assets will be released.

(b) To deal with indirectly held assets by a vesting program with respect to accounts which remain uncertified after the dead-line date. Processing of uncertified assets in Swiss and Liechtenstein accounts for vesting under applicable law as enemy property will be started immediately after the receipt of the census information by the Office of Alien Property. The vesting program will also be

applied to uncertified assets held indirectly through recipient countries where the program described in (a) above does not result in disclosure to the beneficial owner's government (e. g., French assets held through the Netherlands). In the absence of definite evidence of nonenemy ownership, full weight will be given to the presumption of enemy ownership arising from the failure to obtain certification. Evidence of nonenemy ownership or interest offered either before or after vesting will be checked in accordance with the usual investigative procedures of the Office of Alien Property. These procedures involve disclosure to the governments of the countries of which persons claiming legal or beneficial interests are residents. Of course, any vested assets which are proved to be nonenemy may be returned under existing law applicable to the return of vested property.

The Attorney General has informed the Council that there is adequate authority under the Trading With the Enemy Act, as amended, to carry out all aspects of the above program.

The vesting aspect of this program appears under the circumstances to be the most effective means of rendering help to countries with regard to indirectly held assets. There is no satisfactory alternative to a procedure which will compel foreign nationals either to disclose their concealed dollar assets to their respective governments or to forfeit them to the United States. To date the certification procedure, which applies to Swiss and Liechtenstein accounts, as well as to accounts of recipient country nationals, has not been utilized by many citizens of recipient countries to obtain the unblocking of accounts in the United States. This is so with regard to assets held through Switzerland for resident citizens of recipient countries because the owners of these assets know that Switzerland cannot, under the existing procedure, certify their assets without securing a cross-certification from the government of the country where they reside, thus disclosing their identity to their government. Actually, however, there is no effective way to ascertain whether property held in Swiss accounts is Swiss-owned, enemy-owned, or owned by resident citizens of recipient countries, except to rely on the Swiss and other interested governments.

It must be recognized that resident citizens of recipient countries who hold their assets through third countries and who have not revealed such assets to their own government may choose not to declare their assets to their own governments for certification, notwithstanding the announced program to vest these assets and even notwithstanding any amnesty which countries may offer. These persons would, in effect, choose to forfeit their indirectly held assets to the United States rather than to disclose them to their governments. If this proves to be the case, consideration could be given at a later date to the allocation by appropriate congressional action of the vested assets among the recipient countries.

In conclusion, I want to call your attention to the fact that this program also provides for the orderly termination of Treasury's blocking operations. This follows from the fact that, in addition to specifying the treatment to be accorded the uncertified assets in recipient country accounts and Swiss and Liechtenstein accounts, the program calls for the transfer to the jurisdiction of the Office of Alien Property of all other assets remaining blocked as of the public dead-line date. Thus German and Japanese assets will be transferred and vested. Hungarian, Rumanian, and Bulgarian assets will be transferred and will remain blocked until a settlement of war claims with these countries is made. Finnish, Polish, and Czechoslovakian blocked assets, which do not exceed \$5,000,000, will be transferred and remain blocked for the time being. Yugoslavian, Estonian, Latvian, and Lithuanian blocked assets will also be transferred to the Office of Alien Property and remain blocked until various current problems have been resolved. Spanish and Portuguese assets are still blocked pending the completion of the current negotiations with Spain and Portugal covering looted gold and German assets. If these negotiations are successfully completed before the public dead-line date, arrangements can promptly be made for the unblocking of these assets; on the other hand, if the negotiations are not completed by that date, these assets would likewise be covered in the transfer to the Office of Alien Property and would remain blocked pending the conclusion of the negotiations.

It is the intention of the Treasury and Justice Departments to proceed promptly to carry out the above program.

Sincerely yours,

JOHN W. SNYDER,
Chairman, National Advisory Council on
International Monetary and Financial Problems.

DEPARTMENT OF STATE,
OFFICE OF THE COUNSELOR,
Washington, February 3, 1948.

Mr. BOYD CRAWFORD,
House Foreign Affairs Committee,
House of Representatives.

DEAR MR. CRAWFORD: Enclosed are 25 copies of a chart on the European recovery program, showing the relationship of estimated obligations, shipments and expenditures from April 1, 1948, through June 30, 1949.

You may wish to distribute these to members of the Committee on Foreign Affairs and perhaps have one inserted in the record of the hearings.

Sincerely yours,

CHARLES E. BOHLEN, *Counselor*
(For the Secretary of State)

EUROPEAN RECOVERY PROGRAM

RELATIONSHIP OF ESTIMATED OBLIGATIONS, SHIPMENTS, AND EXPENDITURES APRIL 1, 1948, TO JUNE 30, 1949

The following table explains the relationship of anticipated obligations, shipments, and expenditures to the appropriation of \$6,800,000,000 requested for the first 15 months of the European recovery program.

In order to carry out the program, shipments totaling \$6,800,000,000 must be made in the 15 months from April 1948 through June 1949. It is estimated that \$600,000,000 of these shipments will be in the pipe line at the beginning of the period and will have been financed from various sources other than ERP funds. The ERP appropriation will be used to finance the balance of \$6,000,000,000 of needed shipments in the 15-month period. The difference between this sum and the requested appropriation, or \$800,000,000, is the gross amount necessary to cover obligations which must be made prior to June 30, 1949, for shipments which will not be made until after this date. This pipe line of \$800,000,000, amounting to less than 2 months average shipments, is regarded as the minimum essential to avoid an interruption in the flow of supplies. If the amount which has been requested is reduced below \$6,800,000,000, it will be necessary, therefore, either to allow the pipe line to become empty or to reduce shipments financed by United States funds under the program below the required level of \$6,000,000,000 during the first 15 months. Either course would jeopardize the success of the program.

Because of the necessary lag between the time of shipment and the time of payment, it is estimated that, of the \$6,000,000,000 to be shipped under the program during the first 15 months, final payments for approximately \$4,500,000,000 will have been completed before July 1, 1949. The remainder of the \$6,000,000,000 (i. e., \$1,500,000,000) shipped during the period will not be paid for until early in the fiscal year 1950. These \$1,500,000,000 together with the obligations entered into in fiscal 1949 for shipments after June 30, 1949 (\$800,000,000) equal the difference between the requested appropriation of \$6,800,000,000 and estimated actual expenditures of \$4,500,000,000 during the 15-month period.

Relationship of estimated obligations, shipments, and expenditures, April 1, 1948, to June 30, 1949

[In millions of dollars]

Method of procurement	Estimated over-all obligations required ¹	Estimated shipments required between Apr. 1, 1948, and June 30, 1949, which are to be financed from ERP funds			Estimated gross obligations in fiscal year 1949 for shipments after June 30, 1949 ⁵	Total obligations required June 30, 1949, which will not be paid until fiscal year 1950 (column 4 plus column 5) ⁶
		Total ²	Portion covered by expenditures during 15 months' period (obligated for, shipped and payments made during period) (column 3 minus column 4) ³	Portion covered by expenditures in fiscal year 1950 (obligated for and shipped during period but payments not made until after June 30, 1949) ⁴		
	(1)	(2)	(3)	(4)	(5)	(6)
1. Procurement through normal private trade channels in United States purchases from United States suppliers by importers or governmental agencies of participating countries, for which payment will be made direct to United States supplier or on reimbursement basis. Amount includes purchases financed by Export-Import Bank loans and private investments covered by guarantees.....	\$2,800	\$2,495	\$1,975	\$520	\$405	\$925
2. Procurement both in United States and "offshore" by U. S. Government agencies.....	1,600	1,455	1,155	\$300	145	445
3. "Offshore" procurement through normal trade channels.....	2,300	2,050	1,370	\$680	\$250	930
4. Total.....	6,800	6,000	4,500	1,500	800	2,300

¹ This column shows the total amount which must be committed from Apr. 1, 1948, through June 30, 1949 to permit actual shipments during that period (column 2) plus an uninterrupted pipe line into the next year and early placement of orders for "long lead" items. The division between methods of procurement is a very rough approximation and is used for illustrative purposes only.

² Shipments included in the program estimates during the 15-month period are about \$6,600,000,000, of which about \$600,000,000 will be in the pipe line at the start of the period and will have been financed from sources other than ERP funds. About \$100,000,000 of this will consist of shipments under the Foreign Aid Act for which funds will have been obligated prior to Apr. 1, 1948, and the rest will consist of shipments financed from existing loans and credits and from resources of the participating countries committed before Apr. 1, 1948. This leaves shipments of \$6,000,000,000 to be financed under the program. (See also last paragraph of note to column 5.)

³ Total expenditures during the 15-month period are that portion of total shipments (column 2) for which complete documentation can be obtained and payments completed before the end of the period.

⁴ Column 4 is an estimate of the shipments made before June 30, 1949, which cannot be paid for until after that date because of the time necessary for submission and review of the necessary supporting documents. These estimates are based on the average time lags shown in parentheses below each figure, which are derived from a comparison of actual experience under Lend-Lease, UNRRA, Government and Relief in Occupied Areas (GARIOA) and the current foreign-relief program with the commodities and procurement methods contemplated under ERP. The actual time lag for Lend-Lease and UNRRA was greater than shown in these estimates. For the current foreign-relief program, which is limited to a few bulk commodities, the time lag is slightly less. The figures given are averages for all commodities in each category, and for any one commodity the figure may vary considerably from the average. In making the computations it has been assumed that the rate of shipment during the last half of fiscal 1949 will be at approximately 1.5 billion dollars each quarter since the obligations entered into early in the program will result in a higher level of shipments during the last part of the fiscal year than in the early period. The shipments will be financed during the time lag (until reimbursement by the United States) by short-term credits extended by the suppliers, by commercial banks and to some extent by the use of the reserves of the participating countries.

⁵ Column 5 shows the amounts (totaling \$800,000,000) which must be committed in fiscal 1949 so that the flow of goods will not be interrupted by the end of the fiscal year. The figures for this year-end pipe line

Footnotes continued at bottom of page 810.

Chairman EATON. The committee is in possession of a letter from the National Grain Trade Council, dated February 2, 1948, which encloses a statement representing the views of the North American Export Grain Association. Without objection, this will be included in the record at this point.

(The document referred to is as follows:)

NATIONAL GRAIN TRADE COUNCIL,
February 2, 1948.

Hon. CHARLES A. EATON,
Chairman, House Committee on Foreign Affairs,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN EATON: The North American Export Grain Association has requested me, as its attorney, to submit the enclosed statement from the association to you for consideration by the Committee on Foreign Affairs, and for inclusion in the committee's record of hearings on the European reconstruction program.

Very truly yours,

WILLIAM F. BROOKS.

STATEMENT OF THE NORTH AMERICAN EXPORT GRAIN ASSOCIATION TO THE
HOUSE COMMITTEE ON FOREIGN AFFAIRS FEBRUARY 2, 1948

The North American Export Grain Association is a trade association of 36 grain firms whose activities include the export of grain and grain products. The association was founded in 1920. Its main office is at 2 Broadway, New York City and an office is maintained in Washington at 718 Mills Building.

The North American Export Grain Association wishes to record its agreement with the purpose of a European recovery program—the rehabilitation of the economy of the participating European nations. This rehabilitation is a necessary condition precedent to the establishment of world peace. It is vital to the restoration of world trade.

The proposed program cannot, however, be successful if the aid and assistance extended by the United States weakens, or even tends to weaken, our domestic economy. It cannot be successful unless the beneficiary nations recognize that our aid and assistance is possible only because of the work and production of free men working and competing in free markets, in a free economy. And recognizing this, those beneficiary nations must remove the state imposed restrictive controls that have thus far curtailed postwar European production. Our hope is that in the administration of the proposed program, this need for reform abroad may be demonstrated by continued successful performance and production here.

Our suggestion, stemming from this hope, is that the administration of the European recovery program be patterned on the administrative machinery provided for the development and control of atomic energy. We are mindful of Secretary Marshall's recommendation that the program be administered by an individual administrator who in large measure would be subject to the State

are based on the average time lag between placement of an order and shipment, as shown parenthetically. These time-lag estimates, like those in column 4 are based on experience with Lend-Lease, UNRRA, GARIOA and the current foreign relief program modified to fit ERP conditions, and the same comments apply.

Line 1 of column 5 also includes certain key recovery items which take a long time to procure and for which orders should therefore be placed as early as possible. These "long lead" items include machinery, freight cars, and similar articles essential to the attainment of European production goals in the later years of ERP.

This table indicates that the requested amount of \$6,800,000,000 is necessary in order to make shipments financed by ERP funds of \$6,000,000,000 during the 15-month period and to have \$800,000,000 worth of goods in the pipe line on June 30, 1949. Inasmuch as the balance-of-payments deficit computations on p. 6 of the committee print of Outline of the European Recovery Program included total shipments during the 15 months' period, only the net amount of \$200,000,000 was included in the tabulation on p. 43 of the committee print (item 8) on account of requirements for forward obligating authority, in order to avoid duplication. This \$200,000,000 represents the net difference between the value of goods (\$600,000,000) assumed to be in the pipe line at the start of the 15 months' period and financed from sources outside of the program prior to Apr. 1, and the value of goods (\$800,000,000) estimated to be in the pipe line at the end of the 15 months' period and financed out of ERP funds.

* These figures, the sum of columns 4 and 5, show the total of 1949 commitments which cannot be paid until 1950, either because of delays in documenting completed shipments (column 4) or because the shipments themselves will not be made until fiscal year 1950 (column 5).

† 2 to 3 months' lag.

‡ 4 to 6 weeks' pipe line except for "long lead" items.

§ 2 to 4 months' lag.

|| 3 to 5 months' lag.

¶ 6 to 8 weeks' pipe line.

Department's control. The recommendation appears somewhat similar to the War Department's suggestion in late 1945 that the administrative machinery for the control of atomic energy be placed under the control of the War Department. We recognize the need for machinery to administer the recovery program that will be consistent with our foreign policy. This policy today is the concern of the State Department; the Department of National Defense as to occupied areas; and the Department of Agriculture, as to encouraging offshore agricultural production in non-European nations. We recommend therefore that in an act to provide economic and financial assistance to foreign countries, there be established a Cabinet Liaison Committee with whom the Foreign Reconstruction Authority would advise and consult on all foreign restoration matters which the committee deems to be pertinent to its statutory responsibilities. The act should also provide, as does section 2 (c) of the Atomic Energy Act, for direct appeal to the President if the committee or any member thereof believes that action planned by the Commission is adverse to the responsibilities of the Departments of State, National Defense, or Agriculture.

We would suggest that administration of the reconstruction program be delegated to a bipartisan commission. We concur with the conclusion of the House Select Committee on Foreign Aid that "the problem is bigger than relief and smaller than war." The proposed program does add a new dimension or function. The Harriman committee stresses the magnitude of the problem. And all suggested methods of administration presuppose the need of a board or commission active in some capacity. Screening the commodity requests of all importing nations, European and non-European; deciding which of several importing nations should receive our goods; analyzing and acting on reports from abroad; and overseeing and correlating the expenditure of large appropriations are all tasks that seem to require continuous and active participation by more than one individual. The reports of the Atomic Energy Commission—the two thus far published—indicate that this agency, operated by a commission that delegates administrative and executive functions to a general manager provided by law, has struck a neat balance between decentralization and central responsibility.

Other provisions of the Atomic Energy Act might be incorporated in an act to aid foreign countries. A general advisory committee, and a joint Senate-House Committee on Foreign Reconstruction should be provided. And the act should provide for the use of ad hoc industry committees and the use of private trade facilities in the procurement and delivery of goods abroad. These last two provisions appear essential if the program is to achieve positive results.

Ad hoc industry committees are now provided for by section 2 (a), Public Law 395, Eightieth Congress, first session. To avoid weakening our domestic economy, the reconstruction agency should be required to seek the advice of similar, perhaps the same committees. The job to be done abroad has been described as 80 percent business, technical, and engineering. To require the agency to consult business and technical and engineering ad hoc committees would result in greater public acceptance of commission decisions particularly if those industry committees approached their tasks mindful of the need to avoid here the imposition of controls on our domestic economy. Their task would be twofold—how to accomplish the job abroad and how to avoid controls here.

To the commission also should be delegated the authority to control exports. And in delegating this authority, there should be added the requirement that export trade be not carried on by Government agencies—that this Government was opposed to State trading—that foreign trade be conducted by private trade groups.

Foreign trade in wheat with Europe is now a Government monopoly, the exclusive monopoly of the Commodity Credit Corporation. Subject to export control, and under the Second Decontrol Act and Public Law 395 subject to the Department of Commerce's licensing procedures, grain moves to Europe under the exclusive control of the Department of Agriculture. This procurement procedure is contrary to the provisions of the Second Decontrol Act; is costly to claimant nations; and contrary to the principles of the American system of government.

The Second Decontrol Act, extended by Public Law 395, charges the Secretary of Commerce with the administration of the export control law. This act requires him to report quarterly on operations under that law with detailed information on the allocation and nonallocation to countries of materials and commodities. The first, and only report under that act, notes at page 33, that export quotas for grain have been established by the Department of Agriculture under an Executive order. It develops that the Executive order by which Agri-

culture exercises this authority predates the Second Decontrol Act. Action under the order after approval of the Second Decontrol Act would appear to be contrary to the act's plain language.

And the absence of detailed information on the allocation and nonallocation of grain in the Secretary of Commerce's report appears to be at least most unfortunate.

On this general question, the Senate Committee on Judiciary, in its report on the Second Decontrol Act, recommended that a review be made of the Government's state trading activity. The committee further stated that it was of the opinion that the procurement of wheat should be returned to the trade at the earliest moment. The committee's recommendation for review and opinion on return to private trade was made after lengthy committee hearings. Senate Report No. 340 of the Eightieth Congress, at pages 15 and 16 summarizes the testimony and at pages 30 and 32 sets forth the committee's conclusions. No review has yet been made and the procurement of wheat is still in the hands of the Government—despite the expressed opinion of the Senate Committee on the Judiciary.

Under this state trading procedure, wheat procurement appears unnecessarily costly to claimant nations. The Under Secretary of Agriculture, in testifying last summer before a subcommittee of the Senate Committee on Judiciary stated that Commodity Credit's price to foreign claimants was purchase price plus cost of transportation to seaboard plus other charges plus 2 percent—the 2 percent being charged to cover "losses."

This is not the only cost, however. It appears that during the present fiscal year, this agency will receive, in addition to this 2 percent mark-up, slightly more than \$3,000,000 by transfer from UNRRA, foreign governments, and other sources for services rendered. The source of this information is House Report No. 450, Eightieth Congress, first session, at page 35.

The General Accounting Office, on January 20 of this year, commented adversely on the substantial gains realized by Commodity Credit from its procurement programs. This adverse comment may be found in a statement of Frank H. Weitzel appearing, in behalf of the General Accounting Office, before the Senate Committee on Agriculture. In this statement, after reviewing the variety of purchase and sale activities of Commodity Credit, the recommendation is made that these programs be conducted on a break-even basis. The statement, particularly at pages 5 and 6, appears to recommend that the procurement of commodities by Commodity Credit be limited to procurement for other Government agencies, such as the Army and Navy, and should not be extended to foreign aid programs.

In a speech delivered at Pittsburgh on January 15, Secretary Marshall stated: "In the field of foreign trade, for example, this Government is pressing for international agreements to remove or minimize arbitrary restraints on business between nations and to eliminate harmful discriminations. Many of the restrictive practices we oppose appear in the system known as state trading, where the foreign commerce of a country is conducted by the government as the sole or dominant buyer and seller. We recognize that many of the present state-imposed restraints are defense mechanisms, resorted to as a result of abnormal conditions caused by the war, and susceptible of correction when stability is assured."

The activities of Commodity Credit in the grain export field square with the restrictive practice of state trading condemned by Mr. Marshall. We respectfully urge, therefore, that all commodities to be sent to aid in Europe's reconstruction be procured by the foreign private trade where possible and obtained in any event from private American business houses.

As to grains, we suggest that the European Reconstruction Act provide that on and after July 1, 1948, at the start of the new crop year, all foreign claimants procure grain and grain products from the American private grain trade and that prior to January 1, 1949, European governments return to private, as distinct from state, trading as a condition to further aid from this country unless, after consultation with the appropriate ad hoc American Industry Committee, the Reconstruction Commission finds that such return is not then practical.

It is our belief that those few countries that have obtained grain and grain products from commercial sources here, have effected a less rapid depletion of their dollar credits. It is significant that John R. Steelman, Assistant to the President, on July 17, 1947, stated, as to the procurement and shipment of coal for export:

"It is gratifying, therefore, that the United States in the fiscal year ending June 30, 1947, was able to ship abroad—and to the places where it was most gravely needed—record-breaking amounts of coal, and to do this in spite of production and shipping difficulties, without denying the needs of American consumers and

industry. This record was made with a minimum of Government participation and controls, through the cooperative efforts of the industries concerned, working under policies and programs set by the Government."

It is our contention that this same conclusion will be reached if the export of all commodities under the reconstruction program were to be the function of private enterprise. Even the need of state trading seems to us to be too dear a price for an European recovery program.

Respectfully submitted,

NORTH AMERICAN EXPORT GRAIN ASSOCIATION,
By WILLIAM F. BROOKS, *Counsel*.

Chairman EATON. Now, Mr. Armstrong, would you kindly tell us who you are, and why you are here?

**STATEMENT OF O. K. ARMSTRONG, MAGAZINE WRITER,
SPRINGFIELD, MO.**

Mr. ARMSTRONG. Mr. Chairman, and members of the committee, I am O. K. Armstrong. I live in Springfield, Mo. I am a magazine writer, and former member of the Legislature of the State of Missouri, a member of the Council of State Governments.

I recently toured the countries of western Europe, and spent considerable time in the occupied zones of Germany, making a survey of relief needs for the Council of Relief Agencies.

I consider it a great honor to be asked to appear before this committee and discuss certain phases of H. R. 4840, the proposed Economic Cooperation Act of 1948.

I should like to direct my remarks, first, as to the European aid plan generally, and secondly, as to its application to the occupied zones of Germany.

I come from Missouri, where, I believe, the people represent a fair cross section of the opinions of all the Nation. There is certainly little difference of opinion as to the necessity to prevent communism from sweeping over the countries of western Europe. But certainly, among my friends and neighbors, there is no clear-cut crystalization of opinion as how best to accomplish this. Therefore, let me say, such hearings as you are giving this important proposal serve a most useful purpose in bringing to the people of your districts and of the whole country information as to the importance and implications of the program set forth in this act.

One thing is certain: The people want our Congress to give the administration and distribution of any further aid to foreign countries much better control than they think such aid has been given in the war and postwar years. I have heard the expression many times, "They should tie some strings to this one." The people recall, almost with bitterness, that we doled out the billions in lend-lease, in order to help our allies win the war, but with no strings attached to protect our interests and to insure that we would have proper cooperation in creating a peaceful and orderly world after victory was won. They recall with severe disappointment that billions more have been poured out since victory, with practically no strings attached to those billions either, and consequently with little appreciation shown us and with little results that can be called assets for us or for the world.

Assuming that some act for European aid will be passed by this Congress and signed by the President, let us note how the purposes of this act may best be accomplished.

THE PLAN IN GENERAL

It seems to me that citizens of this country are practically unanimous in their support of the purposes of this act, except for those who have lined up on the other side in this warfare between democratic and totalitarian ideals. To accomplish those purposes, I strongly recommend the following:

(a) Administration through a bipartisan commission. Administration of the provisions of this act are vested by the bill in an Administrator. But note the further wording of the act:

All those functions of the Administrator which affect the conduct of the foreign policy of the United States shall be performed subject to the direction and control of the Secretary of State.

Since everything done in this aid plan could be construed to affect the foreign policy of the United States, the Administrator would be working under the direction of the State Department. As one American citizen and taxpayer I urge that you not let this happen. I protest strongly that the State Department should not be given control of this aid program. The State Department is entrusted with the conduct of foreign affairs for our Government, but much more is involved in this plan than traditional foreign relations. Much of the necessity for this aid to countries of Europe is due to the miserable mistakes made in the conduct of our foreign policies during the recent war and in the nearly 3 years of stagnant peace that have followed. Certainly the State Department had a hand in the conferences at Teheran, at Yalta, at Potsdam; the State Department negotiated the treaties that called into actual participation in the governments of the little countries of eastern Europe and of Italy, the very forces of communism we are now asked to contain and hold in check in Europe and the world. The State Department formulated the policies that have made a vast slum of Germany, and thus helped wreck the economies of other countries of Europe or at least prevent their recovery from the destructive forces of war. After what I saw of the failure of our foreign policies to win the peace for which so many of our men of the armed services gave their lives, and for which so much of our resources were poured out during the war, in various countries of Europe this summer and fall, I would protest long and loud in my own State if Congress moved toward perfecting this act with the authority for spending the billions and administering the provisions, left in the hands of the State Department.

Instead, I urge that a bipartisan commission of four members be created, to administer this act. Members would be appointed by and with the advice of the Senate, with the hope on the part of American citizens that the expression "by and with the advice" of the Senate would be heeded by the members of that august body. They should consult with the President and assist him in making careful selection of the best, most capable, most experienced, and above all, most thoroughly imbued with American principles, that can be found in the United States.

I note that the plan of the distinguished Congressman from Massachusetts, Mr. Herter, would provide for a board of which only the chairman would be a full-time, paid administrator, the other members acting in an advisory capacity. In addition, there would be an advisory council of Cabinet members and other Federal employees.

Considerable experience in State governmental organization convinces me that such overlapping advisory groups would lead to conflicts of authority, to doubt as to who has the actual authority, and how it is to be exercised. By all means locate the authority for this act so definitely and explicitly that it cannot be misunderstood. Create a commission of not more than four members. Provide that one shall be chairman, but that they shall be co-equal as administrators. Under the democratic process, decisions of any three would be final. Make provisions, of course, that information and advice shall be given by the departments and agencies of the Federal Government.

(b) Allotment of the aid: Legislation should provide that the maximum of American aid should be allotted to private industries, and only a minimum as grants to the governments of the recipient nations. The aid should be given to industries of whatever nature—manufacturing, transportation, agriculture, and so forth—in each country, that show promise of being immediate factors in rehabilitation of production, sound investment of capital, reemployment of labor, and general support of that country's economy.

I believe that the majority of the American people are willing to sacrifice greatly to prevent economic collapse in friendly nations in Europe, but there can be no doubt that the majority emphatically oppose paying out any more of our hard-earned money to inefficient radical governments.

(c) Specific requisites for receiving American aid: This act should set forth specifically certain requirements that must be met by any nation receiving American aid under this plan. These should include:

- (1) Immediate moves toward stabilization of currency.
- (2) Reforms calculated to eliminate black marketing.
- (3) Agreements to break down excessive tariffs and other international trade barriers.
- (4) Programs looking toward the immediate formation of an integrated European economy.

(5) Creation of an alliance of military defense, with the United States and with one another, pledging all possible resources toward the protection of one another from aggression or threats of aggression from any power. Thus would be brought into being the foundations of collective security which the United Nations is impotent to provide.

(6) Agreements for repayments in resources and materials of which recipient nations may have a surplus and which may be needed by the United States. For example, metals needed by the United States for industrial or military use.

The administering commission should be given authority to stop allocations of aid at any time that these or any other requirements fail to be fulfilled.

II. WITH RESPECT TO GERMANY

On page 3 of this act, provision is made that the occupied zones of Germany shall be considered as participating. Certainly it is a wise provision to include Germany in any plan to rehabilitate the peoples of Europe.

I hope that this committee, either in connection with this bill, or with other proposals which may be advanced to implement it, will give due consideration to sweeping and effective reforms long overdue

in our administration of the principal defeated nation. If the purposes of this act are to be attained, the following program should be adopted with respect to such areas of Germany as we control, or in collaboration with our friendly allies, and ultimately, after liberation from Soviet control, all of Germany.

1. Withdraw the so-called military government.

I believe that the American people have understood that the purpose of the occupation of Germany following defeat of the Nazi forces was (1) to restore order and peaceful production to a conquered nation and (2) to protect the interests of the United States and other friendly nations in that area of Europe. In the first category, military government has failed. This is no fault of military men. It is because military government was, and is, out of its sphere. In the American concept, the military fights and wins wars, and protects by its police powers the policies and interests of the United States. To ask military authority to "govern" a people or territory is a great mistake.

No power, military or civilian, could have brought order and peaceful production to Germany under the many conflicting policies followed. There has been constant conflict between the military and the State Department. There has been a conflict of major policy, whereby about half the military governmental personnel are engaged in imposing intolerable restrictions upon the German people while the other half try to cheer them up with free advice on health, education, welfare, and other matters.

The result is a vast, sprawling bureaucracy, implanted upon the local German governments. It is made up of many sincere men and women, trying to do an honest job; and also a host of misfits and incompetents, entirely happy in their new power. They are spread into every avenue of public and private life. Thousands are engaged in dictating, typing, and filing copies of useless information. Many others are sending out and collecting questionnaires on such subjects as what the Germans think of democracy. WACS, wearing their uniforms and fruit salad, make talks to German youth on "demilitarization." One officer told me he lectures to a group of businessmen, every one of whom, he said, knows more about economics than he will ever learn. One bureau has broken up a burial society for veterans of World War I and their families because it is a "military organization," and has arbitrarily frozen its funds. I challenge anyone to find a single civilian function of military government in Germany that could not better be done by intelligent and capable members of the indigenous population. It is time to pull out the costly bureaucracy and leave only such representatives of the State Department as are necessary to advise the military force until a central German Government is established.

2. We should implement our policies with an effective military force.

If a force bent upon aggression swept westward over Germany, it would meet with little opposition from the scattered and meager forces of the United States and other democratic powers. If this act is to have any meaning, Congress should provide an adequate military protection in Germany. It should include: An effective force of marines, our traditional occupying outfit; units of the air force; mobile army units; and as much of the United States Naval Fleet as is practicable, based at British ports and at Bremenhaven.

Needless to say, each unit would be armed with effective and modern weapons. Our purpose should be plainly stated to all the world, namely, to discourage any lawless aggression in this theater.

Too long our policy makers have preferred to keep up the fiction of four-power Allied control of Germany, when the very heart of Allied control was based on the agreement to treat Germany as an economic unit. The Soviet Union deliberately broke that agreement. Face saving by soldiers and diplomats no longer serves the interest of the Government and the people of the United States. The spending of billions to prevent the collapse of democratic nations harrassed by Communist pressure will be futile unless we are prepared to say, "At this point Communist aggression must stop."

In this connection, I hope Congress will look into the sabotaging of much of our military equipment in the occupied zone of Germany. Specifically, much, if not most of our airplanes, some used during the fighting and some new and never used, were destroyed. I visited several fields, where beautiful four-motored bombers were flown in, lined up and rendered useless by bomb charges. I talked to officers and men who were burning with indignation over this destruction. South of Munich there is a field about one mile by half a mile in area, filled with B-17's, all of them in working condition when they were flown in and all destroyed. I was told by military men that this was done by State Department officials, at the insistence of the Russians under the Potsdam agreement. If this is not true, the blame should be located where it belongs. If it is true, those responsible should meet with condemnation and punishment.

Reestablishing such proper military strength in Europe, and particularly in the occupied area for which we have definite responsibility, will serve notice that we have a big international job to do, and while we work we do not intend to be pelted with stones of disorder, violence, and chaos.

3. We should revive peaceful German industry.

To promote the welfare of any people you must lift their living standards, increase their capacity for self-help, and above all, create conditions of permanent well-being. This cannot be done in Germany under policies followed by our occupation authorities. The plan of "deindustrializing" the nation and turning it into a pastoral area was an inexcusable mistake. It has created an area of misery and degradation in the heart of Europe. It has produced its inevitable poverty, hunger, frustration, and immorality.

This policy, which is one of vengeance, should be repealed by positive legislation on the part of Congress. Surely we have learned that vengeance is not profitable; that it only lays the basis for new conflicts, and never the foundation of lasting peace. I have discussed this matter with Mr. Murphy, the representative of the State Department in Germany. He told me that this policy was adopted because a highly vocal minority called for the total destruction of the German Nation and life. It is a pity that matters of such terrible importance, affecting the lives of so many millions of human beings, were turned over to their hands. The American people never approved such a policy through actions of Congress.

Germany has always been an industrial nation, sending out manufactured products in return for food. To destroy German industry,

therefore, has meant cutting off much of the life blood of Europe. The big food-producing area has been cut off by the Soviets. Thus a major burden of supporting the German people has fallen on the United States. Surely it would be better to allow these people to get back into peaceful production and support themselves.

It is understood that this program of reviving peaceful German industry will not permit manufacture of war materials. This can be done by rigid inspection through our military. However, it emphatically does not mean the dismantling of machinery and equipment just because someone or some group decrees such is "war potential." In modern war, every building, every tool, every machine, even the soil, has a military potential. The idea that some nations can keep another nation deindustrialized and thus impoverished, as a means of maintaining world peace, is a tragic fallacy.

In the face of desperate need to get production going again in Germany, it seems a ghastly thing to be dismantling plants and property. It is not economically sound, for the cost of dismantling, shipping, and assembling is usually more than that of building anew on a different site. German steel plants, it is admitted, made war material, but now they can make the steel to build and sustain peaceful life.

During October I was given the copy of a directive listing the plants and facilities yet to be destroyed, or dismantled for reparations. It included schools, hospitals, and barracks which during the war had been used by the military. Also, plants and material were still being sent by our authorities into Russia. Surely here is a place where the authority of Congress, the policy-making body, should step in and at least coordinate the activities of our occupying powers to where they will conform to the interests of the United States, to say nothing of common sense.

Furthermore, I respectfully suggest that this committee look into the matter of the right of anyone to destroy or dismantle property in Germany at this time. The United States is signatory of the Hague covenant which specifically states that after the cessation of hostilities, the military of either belligerent power has no authority to destroy property; and that reparations must be decided as part of the peace settlement. Never in history was there a more marvelous opportunity than in postwar Germany to prove that with intelligent understanding and cooperation, swords can indeed be beaten into plowshares.

4. We should end the denazification program.

The crimes of the Nazi leaders are inexcusable. But our so-called denazification program in Germany places the cloud of guilt upon whole masses of people. The heart of this program has been the automatic arrest of whole categories of the population. This is so clearly a matter of battle-fever vengeance that it is difficult to understand why it has been allowed to continue so long.

Dozens of military and civilian officials in the occupation government, some of whom had sat as judges, vigorously denounced denazification in their conversations with me, as being in violation of every principle of American jurisprudence. The program is *ex post facto* in its entirety. It violates the principle that a man is presumed innocent until proved guilty. It ignores the bar against double jeopardy. I have gathered data on dozens of persons who have been

tried two or more times for the same "offense." Even if declared innocent by German courts, our American special services branch can declare the judgment "unsatisfactory." I have talked to some victims of the denazification courts who were actively opposing Hitler, even while some of their present persecutors were supporting him before his attack on Russia in June 1941. Here is a program cut squarely from the Soviet cloth. It should be abandoned once and for all.

5. We should solve the problems of displaced persons and mass expellees.

The whole economic and social picture of Germany is clouded by the problems of the displaced persons, citizens of other lands who refuse to return because of hope of being settled in the United States or elsewhere, or who cannot return without certainty of Soviet persecution; and by the millions of expellees, persons uprooted from their homes in various countries of eastern Europe and removed forcibly into Germany. Every activity looking toward betterment in education and welfare runs into this problem.

Congress is now considering appropriate legislation. As to the expellees, we have here a program of tragic proportions. Here were people of Czechoslovakia, Poland, Hungary, and elsewhere forcibly uprooted in the greatest mass expulsion in history. Their only crime was that they spoke German, or their ancestors were German. They were driven from their homes because of racial hatred and prejudice. Ancestors of many of them had been residents in their native areas of 300 to 750 years. If any action constitutes a crime against humanity, surely this is it. That any representative of the American Government, civil or military, could have put his stamp of approval upon this amazing atrocity, is more than I can understand.

About 12,000,000 people have been uprooted, or followed the expellees, so far. I have talked to scores of them, from every area affected. Their stories are all alike. The sudden appearance of armed men, the command to pack a few clothes and food, the forcible ejections, with death to many who rose to the age-old right of man to resist the violation of his person, his family and home; the loading into trucks and trains, the cruel hardships as they rode with no toilet facilities, heat or light; the indignities, the robberies of the meager possessions, the lack of care for the sick, the young and the aged; the arrival of the American zone, and the forced implanting into homes of the German population.

I have talked to United States Army officers and men who utterly loathe what they have to do to these expellees, which, they say, transgresses the sanctity of homes and the dignity of human life. I have seen as many as 20 men, women, and children living in one room, without so much as a sheet to protect any privacy. Never has degradation reached such depths under presumably civilized auspices.

The problems of Germany can never be finally solved until some provision is made to send the expellees back to their homelands, or resettle them in other lands where they can reconstruct their homes and their lives.

6. We should create a United States of Germany.

Congress should offer immediately to the German people our assistance in creating a United States of Germany, with a government modeled on the American plan.

What the German people need, above all else, is hope for the future. This would give it to them in some measure. We should offer our help to create a new German Central Government, with a constitution and a bill of rights. Thus a peaceful nation may be built on the ruins of the old.

In making this move, we should proclaim to the world our faith in the plan of government that has made and preserved us a great Nation. We should declare that our industrial strength, the marvel of the rest of the world, is no accident, but springs from our system of protection of the common man in the rights of person and property, from liberty of management and labor to work together and produce without the blighting restrictions of unnecessary political control. We should say to the world, "We accept the challenge of communism. It offers the police state, the secret police, the concentration camp, slave labor. We offer the free ballot, stability of government, opportunities to produce and enjoy the fruits of labor. We propose to assist in building such a democracy in Germany, here in the heart of Europe.

Mr. Eaton, and members of the committee, I thank you.

I will be glad to answer any questions.

Chairman EATON. Thank you for your very confidential statement, Mr. Armstrong.

Mr. Vorys, in spite of your crippled condition, we are glad to welcome you back. Are you in a position to ask a question or two?

Mr. VORYS. If I may; yes.

I was much interested in what you had to say, particularly about Germany. I agree with much that you say.

You said that military government should be ended.

What do you think about this idea of turning the government over to the State Department? You said that the long-term plan should not be turned over to the State Department, that they are incompetent to run it. I am inclined to agree with you there.

You say that military government has failed in Germany.

Mr. ARMSTRONG. Mr. Vorys, there are two types of control in Germany. Instead of being distinct, as I think they should be, they have been mixed all together. At least that is the impression that anyone who studies Germany closely must get.

We have what we call military government. In Bavaria, for example, a general was in charge. In another area, a civilian.

Mr. VORYS. I am quite familiar with it. I traveled through Germany this fall.

Mr. ARMSTRONG. I would take out the so-called government of the occupied zone. I would turn the protection of our interests over to the military entirely, and as I have indicated, I would make that sufficiently strong. I would turn the civilian control over to the State Department, but I would reduce it simply to that minimum of whatever views might be needed by the local governments of Germany, from the representatives of our Government, until such time as a central government is established. You will understand that implanted upon the local German government are these layers of American bureaucracy. They have no place there and are serving no good purpose. They are composed of personnel, many of whom, as I said, are good men and women but most of whom I would say are utterly misfitted for their jobs.

They are not representing American life and American ideals to the people of Europe. I think they should have been pulled out a long time ago.

Mr. VORYS. You then feel that a military occupation for military purposes and another sort of administration under the State Department for civilian purposes is all right?

Mr. ARMSTRONG. I would not call it administration. I would call it *liaison*.

Mr. VORYS. I happen to feel that the general trend should be the other way, that the occupation should be remilitarized, in order to remind our people that the only excuse we have for being in Germany is that we are occupying conquerors of a vanquished people and are merely there under international law, and so forth, for our own security. I have seen in Germany the same uncertainty and confusion that you talk about, but my own guess has been that the reason is that we have gotten mixed up as to what we are there for.

Mr. ARMSTRONG. I agree with that, Congressman.

Mr. VORYS. I do not think that it makes a civilian to take a general out of uniform, or a colonel, and put him in a civilian suit and "civilianize" him, as it is called. They still call him general or colonel. The Germans still remember that he is the representative of an occupying conquering people. I do not think that sort of a "civilianizing" gets anywhere.

You mentioned that in the dismantling program were schools and hospitals. I would be very glad if you would give me the exact location of those. We have had quite a study of dismantling. I quite agree with you that it is a tragic mistake. We have been unable to stop it but I did not know there were any schools or hospitals in the program.

Mr. ARMSTRONG. The list given to me I turned over to the distinguished Senator from New Hampshire, Senator Bridges, and he was pursuing the matter with a great deal of interest. This list was a restricted list. I must confess it was given to me in confidence but I felt that it had no right to be restricted in the first place. I felt the American people needed to know everything that was going on, in Germany and everywhere else, that has no military restriction, and that the blowing up of these hospitals in Germany, when no civilian in Germany, when no German could get in any hospitals at any time, was very bad.

Mr. VORYS. I think you are mistaken on that hospital situation because there are more hospital beds per capita in Berlin than there are in my home town of Columbus or many other cities in the United States.

I would be glad to get the facts on that because there is information in this committee which purports to be the official complete list of all of the 682 plants that are marked for dismantling.

Mr. ARMSTRONG. You are speaking of plants. That does not include what is called category 3, Congressman, which are not plants at all. They are facilities.

I am sure they will be able to give you category 3 as the one mentioned so frequently by military men who themselves, for the most part, objected to this destruction. However, this destruction was a part of the State Department plan for dismantling.

Chairman HATIS. Mr. KEE.

Mr. KEE. I was interested in the statement that you made with reference to this policy in Germany and its criticism by men who were associated with carrying out that policy. Personally I do not doubt your statement, but I do not believe the committee should be required to take as absolute truth statements that are based upon talks that you have had with people who remain anonymous. I think possibly some of your statements should be, if it is possible, corroborated.

You mentioned by name only one man with whom you discussed this. That is a Mr. Murphy. Will you tell us who the Mr. Murphy is, and what connection he has with implementing our policy?

Mr. ARMSTRONG. Yes, sir. I referred to Robert Murphy, who is called the American Ambassador to Germany. There is no central German Government, but he is the representative of the State Department in the occupied zone of Germany.

Mr. KEE. You mentioned that you had talked to various officers. I suppose you meant American officers in Germany?

Mr. ARMSTRONG. Yes, sir.

Mr. KEE. You spoke to them with reference to the destruction of planes and you found them "burning with indignation" over this action.

Would you mind supplying the committee, at your leisure if you do not have it with you, for the record, the names of those officers with whom you discussed this matter and who were "burning with indignation?"

Mr. ARMSTRONG. I have the names in my notes, Mr. Congressman. I would be glad to supply them.

Not all of them, you understand, were speaking for publication or for publicity, but rather because of their feeling in regard to this matter.

However, I can assure you that the ones I talked to were practically unanimous in feeling that it was a mistake to destroy the bulk of our air strength in Germany at such a time as this.

Mr. KEE. As I stated, I do not want to inquire into any secret information but you, of course, made it public here before the committee, and I take it that these officers with whom you have talked with reference to this very important matter, can be made available to us as witnesses?

Mr. ARMSTRONG. Yes, indeed. If they are to be used as witnesses, I shall be glad to give you their names.

The Congressman from New York, Mr. Taber, who was in Europe at the time I was, has some memoranda from me on this subject.

Mr. KEE. You also stated you had gathered data on quite a number of Germans who had been tried, I believe you said, three or four times, for the same offense?

Mr. ARMSTRONG. Yes, sir.

Mr. KEE. Would you mind supplying us with that data?

Mr. ARMSTRONG. I will be glad to leave the committee something like a score of specific cases that I studied that I think represent the functioning of this denazification program.

Mr. KEE. You said also that you had talked with quite a number of officers in Germany who greatly deplored our action with reference to placing or bringing these Germans into the American camp in

Germany. Would you mind giving us a list of those people with whom you talked and who deplored this action on the part of our government?

Mr. ARMSTRONG. I will do that. I think the best example is the major who is the commander, corresponding to the mayor, of a small town south of Stuttgart, which I, in company with some who are connected with the welfare department of the occupation government, used as an example for a several days' study of these expellees. So indignant was this major when we went to see him that he said he was resigning and returning home. He said, "Yesterday I sent a man to jail for refusing to take into his home a family." He said, "If that were done to me in America, I should stand on my front porch and fight with my very life."

Perhaps that would indicate something of the feeling in the matter.

Mr. KEE. Would you mind supplying us with the name of the major?

Mr. ARMSTRONG. I will be glad to; yes, sir.

Mr. MUNDT. Mr. Armstrong, I was very much interested in your challenging and informative statement. Knowing of the fine work you have done with the national department of the American Legion, and your work in this country in patriotic causes, it makes it all the more significant to have an objective reporter of such experienced capacity come before our committee and give us this information.

Mr. ARMSTRONG. Thank you, Mr. Mundt.

Mr. MUNDT. You mentioned you would like to see a United States of Germany created. I have heard that statement made by others. I would like to see a United States of Europe. I have great confidence in our American method of bringing commonwealths of people together into a common harness. However, if we go into this business of creating a United States of Germany now, are we not going to almost automatically deed over eastern Germany to the U. S. S. R?

Mr. ARMSTRONG. Without your consent or mine, it was deeded over long ago.

It seems we are faced with a situation as to what we should do with the parts of Germany still under our control and the control of the British and French.

I think one of the strongest things we could do would be to establish a central government in those western zones. I think that the Soviet, while they do not want any order established anywhere in Europe, certainly they would not cooperate in the establishment of a peaceful western Germany, but it has to be done sometime.

Nearly 3 years have gone by. Personally, as one citizen, I feel we should have written a treaty of peace quickly and should have established a peaceful, German, democratic government quickly. That has not been done.

However, we could do it now. What could we lose? We could gain prestige in the eyes of a great many European people, which prestige we have lost alarmingly.

Mr. MUNDT. I certainly agree with that matter of prestige. It seems to me the Morgenthau plan is going down as one of the most disgraceful chapters in the history of our country.

Mr. ARMSTRONG. I agree.

Chairman EATON. If we establish a union of occupied areas by the Allies, how about Russia establishing a republic in their part of Germany?

Mr. ARMSTRONG. They have already done that, I think, Mr. Eaton. Reports coming in October, when I left there, they were moving quickly to sovietize the region.

Chairman EATON. We have lost that part of Germany.

Mr. ARMSTRONG. I would say for the time being; yes.

Chairman EATON. You say we should have made a quick peace. How could we have done that?

Mr. ARMSTRONG. I would go back of that. You see it is so difficult to start, after so many mistakes were made. We should have taken over all of Germany. I think it was utterly foolish and tragic to have left our Armies sitting 3 miles this side of the border line for 3 weeks while Russians came in and destroyed the city and took over that part of Germany. It was inexcusable and it will go down in history as a tragic mistake.

Starting with this point now, having cut off the eastern third of Germany, it seems to me we cannot sidestep our definite responsibility to create order and a peaceful government as quickly as possible.

Mr. MUNDT. I do not know anyone left in this country who is willing to defend the Morgenthau plan, unless it is Henry Morgenthau, Jr., Mr. Armstrong, but we still continue to implement it, it seems. While no one defends it, we continue to dismantle plants and destroy hospitals and schools and we still, amazingly enough, are in the process now of shipping some of these dismantled plants to Russia.

The only excuse or defense which comes from the State Department is that since the policy has been started, it is very difficult to stop it, because France and Italy and Belgium and Britain and some of the recipient countries might feel that we were not keeping faith with our contract.

Now, it is my position that the world situation has changed considerably since the colossal mistakes made at Potsdam. At that time none of the countries of Europe had reason to expect they were going to get a multibillion-dollar aid program from the United States. Now they have reason to expect it may be forthcoming. Now they have a new source of assistance which was not available to them. I know, because I ran across your trail in Europe several times last fall, that you visited other countries besides Germany and I wonder if you feel if we presented the facts regarding Germany to Italy, Belgium, France, and Britain, whether they would be amenable to the logic of the situation and realize that the continuation of this dismantling program is working to their disadvantage the same as it is to the disadvantage of America, Germany, and peace. Whether you feel that they are so set on the program that even though they now have another avenue of assistance, they are still going to say, "We must have our pound of flesh."

Mr. ARMSTRONG. I think you are exactly right, and I think it should be done. I believe that the governments of these other countries would agree at once with that. It is evident that what they have gotten from dismantled plants is inadequate. It is disappointing, I will say, because it does not total up to what it was on paper. As I say, it is an uneconomic way of reimbursing them. The plants should have been left intact in Germany, and workmen should be working in them to produce goods for all of Europe.

When you destroy Germany or German industry you are bound to affect all of the neighbor nations of Germany which have traditionally depended on German industries for their sustenance.

Mr. MUNDT. It seems that it would be something like trying to destroy Pennsylvania and then trying to have prosperity in the United States in this generation.

Chairman EATON. Before the gentleman gets through I would like for him to tell us if there is one mistake we have not made yet?

Mr. RICHARDS. Mr. Armstrong, in what capacity were you in Germany on this trip you were talking about?

Mr. ARMSTRONG. I was there as a writer or a correspondent.

Mr. RICHARDS. As a member of a news-disseminating group?

Mr. ARMSTRONG. No. I write for the Reader's Digest, and the material I gathered in Germany, part of it, is in an article in the Reader's Digest.

I will say, however, that I was requested, before I left, to make a survey of relief needs in Germany for the Council of Relief Agencies, which I did, turning over to them my reports.

Mr. RICHARDS. Private relief agencies?

Mr. ARMSTRONG. That is right.

Mr. RICHARDS. You are not proposing that this legislation establish a United States of Germany, are you?

Mr. ARMSTRONG. No, sir. I say these are things which should be done if the Marshall plan is to be made effective; that is, unless they are done there will be weaknesses, in Europe, and especially in Germany, that will tend to nullify the good effects of the plan.

Mr. RICHARDS. Are you in favor of the Marshall plan?

Mr. ARMSTRONG. With these restrictions which I gave; yes, sir.

Mr. RICHARDS. Do you think it will take \$6,000,000,000 to do the job?

Mr. ARMSTRONG. No, sir; I think that is a figure drawn out of the hat. I think that \$1,500,000,000, judiciously spent over the next 15 months, would be sufficient.

Mr. RICHARDS. How do you arrive at that figure?

Mr. ARMSTRONG. I drew it from conversations with advisers of Herbert Hoover.

Mr. RICHARDS. Now, Mr. Hoover himself disagrees with that figure.

Mr. ARMSTRONG. I mean I heard it mentioned. I am not pinning it on them.

Mr. RICHARDS. I believe Mr. Hoover suggested about \$4,000,000,000.

Mr. ARMSTRONG. Yes; I think so.

Mr. RICHARDS. All these figures had to be drawn from somewhere or based on something.

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. The bases for some of these figures are rather hazy.

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. Now to get down to the administration of this thing, you do not agree with the Herter plan?

Mr. ARMSTRONG. I honestly believe that to set up two groups and to have an administrator answerable, as it were, to both groups, the chairman of one group made up of officials—the Secretary of State and other governmental officials—and chairman likewise of an advisory group of citizens, would bring about constant conflict between those two groups.

We have seen it in State government, with which I am personally familiar. I am a firm believer in locating responsibility definitely and having the chain of administration squarely down to the one responsible.

Mr. RICHARDS. Then you want a group responsible and not an individual administrator responsible; is that right?

Mr. ARMSTRONG. I would say that even though I have advocated in this statement the appointment of a bipartisan commission, I feel that the alternative would be the appointment of a single administrator with Cabinet rank, answerable to the President, and having in his hands the responsibility for the administration of the plan.

Mr. RICHARDS. Who would decide questions of foreign policy involved in the plan?

Mr. ARMSTRONG. I think that the administrator should be mandated to receive the advice of the State Department on foreign policy.

Mr. RICHARDS. Regardless of what the President says about it?

Mr. ARMSTRONG. Well, the State Department—the President, I mean—and the Secretary of State as the executive in charge of the conduct of foreign affairs.

Mr. RICHARDS. You mean, then, in the final analysis, the President and the Secretary of State would have to decide questions involving foreign policy?

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. Now, you said something about a nonpartisan board.

Mr. ARMSTRONG. I said "bipartisan." I mean an even number of the two parties.

Mr. RICHARDS. The formulation of the foreign policy of the United States during the last 2 or 3 years has been bipartisan, has it not, in effect? I mean the other party has been consulted in every move they make?

Mr. ARMSTRONG. They have been consulted, but I do not consider that the formulation of our foreign policy has been closely enough in the hands of Congress.

You must understand, Congressman, that I have the theory that the Constitution of the United States places upon Congress the authority and responsibility to formulate all policy, domestic and foreign; within the mandates of Congress, the Executive conducts our foreign policy. To my way of thinking, Congress has abdicated its responsibility for actually formulating broad principles of foreign policy. As a result of this abdication, the President and the State Department go ahead and formulate their own policies, which certainly have led us to a lot of mistakes in the last 3 years.

Mr. RICHARDS. You think the Congress should legislate on every question of foreign policy?

Mr. ARMSTRONG. No, sir; I think they should set broad principles of foreign policy within which the Executive must work.

Mr. RICHARDS. Thank you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Armstrong, you speak of these new planes and serviceable planes being literally sabotaged and bombed. We have heard that before.

Did you hear anything authentic—instead of using these planes for Greece, for instance, that we bought inferior planes from the U. K. to use in Greece?

Mr. ARMSTRONG. No, sir; I had not heard that.

Mr. JONKMAN. Thank you. That is all, Mr. Chairman.

Chairman EATON. Thank you, Mr. Jonkman.

Mr. Jarman?

Mr. JARMAN. Thank you, Mr. Chairman.

Mr. ARMSTRONG, I thoroughly agree with you in your expression of regret that a peace treaty was not signed long ago, from which the central government would have followed in Germany. I agree with that, too.

I agree with you also in your opinion of the Morgenthau plan.

However, I am in just as thorough disagreement with your apparent opinion that the appropriations for lend-lease were just thrown away. That is what you indicated. You did not make it quite that strong, but I just cannot let any hint at such an opinion go unchallenged when I think that the appropriation for lend-lease saved more American lives than any other like amount of money appropriated during the war.

Mr. ARMSTRONG. Could I make this comment?

What I really mean is, I think we should have used lend-lease, let me say, as a leverage to get agreements with our allies, on the construction of a peaceful and orderly world. I will put it that way.

Mr. JARMAN. What good would an agreement with Russia have been at that time?

Mr. ARMSTRONG. Then certainly we should have modified our lend-lease with Russia. If we knew at that time that agreement with Russia was no good, we certainly should have not followed the foreign policies we have followed with respect to Russia since then.

Mr. JARMAN. Of course, I agree we could not have known that. In fact, I agree that if our foresight was always as good as our hindsight we would all be millionaires and we would make few mistakes.

Now, you say the State Department made a slum of Germany. How did it do that?

Mr. ARMSTRONG. What I meant was that the policies we have followed have contributed to the stagnation of German life. That is so apparent as, I think, to defy contradiction.

Now, of course, the destruction of the war was greatest in Germany. It would have been impossible to rebuild Germany quickly; but in recent years, very little of the rubble has been removed in Germany. There are thousands and thousands of German youths in Germany who are idle, and I was in most of the cities in the American zone.

Contrariwise, there is no one idle in the Soviet zone, we are told. Everybody has to work.

Mr. JARMAN. In a police state that is always true.

Mr. ARMSTRONG. But the Russians are using the situation as propaganda against us, this denazification and deindustrialization. "It is the Americans who are persecuting you; they are preventing you from working; they are the ones who want to turn you into a pastoral area."

They are using the propaganda against us.

I saw a newspaper from one of the towns in the eastern zone and a picture showed them loading potatoes into a wagon, and below was the caption, "Potatoes for the American Army."

Mr. JARMAN. Are we not doing the same thing to Russia?

Now, I thought our Air Force was largely responsible for the slums in Germany; but if it is not true, is the State Department or the Army? The State Department hadn't much to do with it.

were the widows and wives of the SS troopers, and Gestapo members and so on.

The man almost wept, because he felt in a moment everything might be undone that had been done all day long.

I think what we need to do to replace nazism is to give them a positive program. Why not give them the American way of life and government? That would be the strongest challenge.

Mr. BOLTON. When you say "give," how can we give?

Mr. ARMSTRONG. Advise them and assist them in reconstructing. After all, they have no central government. It is in our hands, as to the principal conquering organization, to advise them as to what government they shall have. I think it is an opportunity.

Mr. BOLTON. I agree with you.

Thank you.

Mr. MUNDT. That is what MacArthur is doing in Japan.

Mr. ARMSTRONG. Yes.

Chairman EATON. Mr. Lodge?

Mr. LODGE. Mr. Armstrong, I think you have presented us with a very interesting statement, and I think we have a great deal to gain from attempting to reappraise the many mistakes that we have made in Germany.

I am very much surprised at what you say regarding the hospitals, because General Clay informed this committee that even the plants which were being dismantled were not being torn down. In other words, the machinery was being taken out but the plants were not being demolished because of the lack of living space. Therefore it would seem to be a direct contradiction in policy if they tear down hospitals and do not tear down dismantled plants.

Mr. ARMSTRONG. I cannot speak with good or full authority on that, but I simply know that as of last October, the program called for the destruction by December 31, 1947, of a whole category of facilities that included hospitals and schools and barracks.

Now, the plants, as you say, were not all blown up, and machinery taken out of them. The walls were frequently left standing; but usually those plants were partially disabled by the bombing. There were very few intact, you understand, so the dismantling largely was a process of taking the machinery out, and other facilities in the plant.

Mr. LODGE. I believe the Russians actually did tear down the buildings, did they not?

Mr. ARMSTRONG. In many instances; yes, sir.

Mr. LODGE. I also wanted to tell you in reply to a question that Mr. Jarman addressed to you, that we have received the country-by-country statements with respect to the European recovery program. Mr. Jarman did not have an opportunity to continue his questioning.

Mr. ARMSTRONG. I am glad to know that.

Mr. LODGE. Mr. Armstrong, if the European recovery program were set up as you suggest, do you believe that it would be sufficient to protect the governments of France and Italy from seizure by internal force?

Mr. ARMSTRONG. Do you mean would the plan itself be sufficient?

Mr. LODGE. Would the implementation of the program, as you would envision it, be sufficient to protect the Governments of France and Italy from seizure by internal force?

My suggestion there is that of course if the Italian Government succumbs to internal force, the European recovery program might be jeopardized.

Mr. ARMSTRONG. That is correct. I do support the Marshall plan with these conditions I have mentioned but I do not think it is any insurance whatever—

Mr. LODGE. What action would you recommend that this Government take in order to insure against internal force, the investment which we might make under the Marshall plan, and in order to protect American security, and with it, world peace?

Mr. ARMSTRONG. I would bring every possible friendly pressure to bear upon the governments of the recipient nations, at least to strengthen the forces of democracy within their own governments and administrations.

Specifically, I would not say, "Outlaw the Communist Party," but I would make it distinctly understood that they were not to receive further aid if they permitted the Communists within their own country and government to sabotage the plan.

Mr. LODGE. Take the case of Italy. Italy is the most sensitive point. They are limited by the Italian peace treaty, in which we participated, from having more than a certain number of troops, police, and Navy.

Mr. ARMSTRONG. That is right.

Mr. LODGE. They have no Communists in the Government. They are doing their best to eradicate communism; but the Communists in Italy, we are reliably informed, are very well armed and are better armed every day.

The Italian Government is faced, therefore, with a very definite problem in internal brute force.

Would you suggest that we take any steps to help the Italian Government to meet that problem?

Mr. ARMSTRONG. Yes, sir.

If the Italian Government requests the military force of the United States to assist them in maintaining order, I think that request should be granted.

Chairman EATON. Would the gentleman yield for a question at that point?

Mr. LODGE. Certainly.

Chairman EATON. Would \$1,500,000,000 do the thing Mr. Lodge has in mind?

Mr. ARMSTRONG. No, sir. I think any military implementing would have to be done over anything that would be done along the lines of aid.

Mr. LODGE. I believe that it would demand but a fractional effort on our part, and a minimum of expense.

Do you favor the internationalization of the Ruhr?

Mr. ARMSTRONG. No, sir, I do not. I think one of the great mistakes we are making is to take peoples, territories, and resources and throw them here or there. I favor creating a peaceful Germany. I feel any part of Germany cut off, or any other nation cut off, as a result of this war, will rise to plague us in the future. I do not believe we should make the mistakes that were made after the First World War; that we should say to Germany, "We are going to assist you in

creating a peaceful government and a peaceful future," and make it stick, including the Ruhr.

Mr. LODGE. Do you believe that the French particularly, and other nations in Europe, who have had unpleasant contacts with Germany, would be inclined to accept your plan with respect to Germany?

Mr. ARMSTRONG. I believe they would if they could be assured their share in the resources of the Ruhr on a peaceful basis; that is, that they are not taking it all the spoils of war but as the result of a proper distribution to all peoples of Europe. I believe that they would go along.

Chairman EATON. We are very grateful to you for a most illuminating discussion, Mr. Armstrong.

Mr. MUNDT. It seems to me that Mr. Armstrong has put his finger on the great deficiency, as I see it, of the State Department's proposal, whether we call it the Marshall plan, ERP, or whatever it is; that is, up to now, almost exclusively, the testimony of the Government's witnesses has been along the line that if we grant \$6,800,000,000, for the so-called Marshall plan, that everything is going to be all right, or that that is at least the great venture we must take, and is the only possible approach to stop the aggressive move of communism.

I agree it is an essential part of the program. I believe it is something we must support, at least to some extent. However, I am woefully disappointed by the complete lack of imagination or candor on the part of the State Department, in failing to come in with other aspects which I think must move concurrently with the Marshall plan if it is to succeed.

Mr. Armstrong has pointed that out. He has called them restrictions or conditions but he has made proposals which should move along at the same time as the Marshall plan to insure that investment.

I hope, Mr. Chairman, that before we conclude our hearing, that we will resubmit Secretary Marshall to come and talk to us about China, to come and talk to us about the United Nations, about Greece and Turkey, and what part the United Nations should play under a revamped procedure to do their part in this thing; to suggest what attitude we are going to use on the part of the export control law; are we going to continue to send products to Russia or whether we are not; are we going to have a realistic foreign policy?

For instance, the Senate committee tried to secure approval to visit Russia, and could not get it. On the contrary, we have opened every single consulate in America which was open before the war.

Will we have a realistic policy toward Russia or do what we did last year, allow 3,000 Communists to come in here, visit the Bureau of Standards, go out to Dayton, Ohio, to our Aeronautical Research Division, and to visit our industrial plants, when they will not permit us to go into our Embassy in Russia?

I think we have an obligation to insist that the State Department bring before us a whole, integrated program to move forward concurrently, because I think we are duty-bound to our constituents to give this great financial investment the chance to succeed to which it is entitled.

I think it can succeed as part of the program but I think it is going to be Operation Keyhole, if we don't do something besides think about the money aspects all of the time.

The President says it is Operation Rathole unless you get \$6,800,-000,000. I am not so much worried about the amount, but I think it will be Operation Keyhole if you do not get more vision than you can get looking through a keyhole and talking about money alone.

Mr. LODGE. I think that is a very interesting and intelligent statement, and I would like to ask the gentleman this:

If we were going forward on a concurrent front, wouldn't he believe that it would be well also to do two other things:

First, call an international monetary conference to revise the Bretton Woods agreement, to maintain uniform devaluated currencies for the 16 participating nations, and, secondly, in view of the fact that the dismantling originated at a conference in Paris which took place prior to the time the European Recovery Program was mentioned—I am not talking only about Potsdam but the agreement between the nations which now receive reparations from the dismantled plants—would it not be a good idea to review all of those agreements with respect to German reparations and dismantling, in the light of the European recovery program, in order that we should not now be bound, and in order that these participating nations should not now be bound by a program which has, in the light of subsequent developments, become obsolete?

Would you agree that these two additional items should be wedged into yours?

Mr. MUNDT. I concur completely.

Mr. ARMSTRONG. Again I say it is Congress' job to bring this whole program into view at one time so it can work because we will not be able to bring peace with American dollars alone.

Mr. JARMAN. The gentleman does not mean to have another Bretton Woods Conference and all those things before we pass this bill; you do not mean that, do you?

Mr. LODGE. I think it would be a good idea to handle all these matters as soon as possible.

Mr. BOLTON. It is very evident that the Bretton Woods agreement is interfering definitely with any kind of plan on the part of the countries to stabilize their currency.

Mr. JARMAN. Would another conference be necessary to revise it?

Mr. LODGE. I suggest that might be so because of the fact that when the French devalued their currency, although that was a move which many people welcomed, it was done in such a way as possibly to cause serious economic dislocations among the participating nations, and therefore the head of the International Monetary Fund, because of the charter under which it operates, felt obliged to raise objections.

It seems that since this program has as part of its purposes to fill the gap between the legal and real value of currencies abroad, we must take every step we can in order to relieve the American taxpayer of that burden. A devaluation of currency will mean an increase of exports, a consequent diminution of dollar deficits and therefore a decreased load on the American taxpayer.

Mr. JARMAN. That is one of the purposes and I agree substantially with you gentlemen, that all of these things should go along concurrently but if we have another monetary conference and a lot of other conferences before we pass this bill, it may be that we certainly will be

throwing it down a rat hole if we wait sufficiently long to have all these conferences before we do it. In other words, it may be too late.

Mr. MUNDT. We could schedule them, though, as a part of the program.

Mr. VORYS. Does the gentleman know there was a monetary conference under the Bretton Woods plan in September, in London, and that the key provisions that are apparently blocking stabilization and revaluation of currency, were not amended?

Mr. LODGE. I have particular reference to article IV, sections 2, 3, and 5, of the Bretton Woods agreements, which, as I interpret them, practically prohibits these countries from devaluating.

Mr. RICHARDS. Is it not a fact that the action taken by France is directly contrary to the provisions of the orders promulgated by the conference?

Mr. LODGE. If that is so, I believe that the Bretton Woods agreement should be revised.

Mr. RICHARDS. Would you write anything like that in this legislation or would you suspend hearings on this legislation until something like that is done?

Mr. LODGE. No; I would not do that. I would not make it a condition precedent but I believe the administration should come forth with an integrated policy in which every aspect of foreign affairs is brought in line with the intention behind the European recovery program, because that program cannot succeed unless we have a maximum of reciprocal self-help in Europe, looking toward a gradual economic federation or a United States of Europe.

Chairman EATON. The Chair is very grateful to these gentlemen for their very illuminating testimony.

He grades 100 percent.

However, the Chair would like to introduce a protest against including the monetary matter referred to into this bill. There is enough in it now to give us the creeps.

Mr. KEE. Mr. Chairman, our colleague Mr. Mundt asked permission to ask one question of the witness. I presume that with the assistance of a number of gentlemen around the board he has completed the inquiry.

I now suggest the witness be given time to answer that question.

Mr. MUNDT. I asked him whether he agreed with my presentation.

Mr. ARMSTRONG. I agree thoroughly.

Mr. KEE. I am glad I brought that out.

Chairman EATON. At this point, I think the committee better recess until 2 o'clock this afternoon.

(Whereupon, at 11:55 a. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

Chairman EATON. The committee will come to order.

We have with us Mr. Littell, who is an eminent lawyer of this city and used to be associated with the Justice Department.

He has some observations, I hope, and expect, to be of value.

Mr. Littell.

STATEMENT OF NORMAN M. LITTELL, ATTORNEY, WASHINGTON, D. C.

Mr. LITTELL. Mr. Chairman, I shall address my remarks to the administration bill, H. R. 4840, as introduced by yourself.

I would like to have included in the record at this point an address given by me before the Canadian Bar Association, January 24, 1948.

Chairman EATON. Without objection, it will be admitted.

(The document referred to is as follows:)

CANADA, THE UNITED STATES, AND THE MARSHALL PLAN

An address before the Canadian Bar Association, Ontario section, January 24, 1948, at London, Ontario; also submitted as prepared statement, together with oral testimony, before the Foreign Relations Committee of the United States Senate on January 29, 1948, and before the Foreign Affairs Committee of the House of Representatives on February 3, 1948.

I. CANADA—POSTWAR

While one of the most momentous debates in American history—indeed in the history of parliamentary government—is moving slowly ahead and with increasing heat in the Congress of the United States, and the course of human events awaits the outcome, let us pause a moment to extend a vote of thanks to Canada for her decisive leadership in the cause of democracy since the end of the war.

Almost without debate, and certainly without delay, Canada, having the second strongest economy in the world, adopted its own "Marshall plan" and acted to its fullest capacity in the gigantic task of helping Europe. By the end of 1946, Canada had loaned \$1,250,000,000 to the United Kingdom; another \$607,300,000 to France, the Netherlands, Belgium, and Norway; and \$154,000,000 to UNRRA—a total of \$2,011,300,000. On the basis of comparative population, this would be equivalent to about \$25,543,000,000 of grants and loans by the United States, or \$33,000,000,000 on the basis of comparative national production in 1946.¹

Actually the United States in the same period granted and loaned about \$11,502,000,000, or proportionately less than one-half of Canada's contribution.²

With great surpluses of wheat, proteins, and metals, Canada could have purchased from her farmers at controlled prices and resold in the world market at enormous profits. Instead, she sold wheat to the United Kingdom at a humane price of \$1.55 per bushel, which later was raised to a still modest price of \$2 per bushel. This may have been long-range enlightened self-interest to guard against a postwar depression, but it was also enlightened statesmanship and humanity emanating from a stronghold of Anglo-Saxon morality and common decency.

But we all miscalculated the speed of European recovery; Canada's traditional customers were laid low. They could not pay fast enough. Although entering the year 1947 with an ample gold and dollar reserve of \$1,200,000,000—which would have been a reserve of startling size before the war—Canada watched her funds melt rapidly away. On November 17, 1947, with only \$500,000,000 left in United States dollar exchange, controls were clamped on. The export of further capital was almost wholly forbidden and the flow of goods from the United States stopped. Travel money was restricted to \$150 per person per year, and we said goodbye to our Canadian friends.

Please bear in mind, as we seem to part company on either side of the Canadian fiscal barrier, that we have long had a unique relationship with each other, described popularly as the North American triangle. With the dollars owing to England and other countries from United States purchasers of foreign goods, the United Kingdom and other countries bought your wheat and other products. The dollar credits owing to the United Kingdom and other countries were then

¹ See excellent review of Canada's position in *Fortune* magazine for January 1948, page 83. See also outline of European recovery Program, 80th Cong., 1st sess., submitted by Department of State to Senate Foreign Relations Committee December 19, 1947, p. 104.

² See European Recovery Program by Committee on European Economic Recovery, Chapter 1, in which the United States grants and loans are reported on p. 9.

assigned to you, and with these dollar credits you could satisfy your widespread appetites for American radios, refrigerators, vacuum cleaners, automobiles, nylon stockings, oranges, grapefruit, and Florida and California weather. For a century you have been our best customer, but now the triangle has broken down. England and other countries lack sufficient goods to sell to us and the money with which to buy from us or from you. Your historic reservoir of dollar credits ran dry and you can no longer buy from us. You cannot even drop in to see us.

This is a sad state of things. We miss you, and when we say we miss you, we mean business.

Furthermore, in addition to Canada being our best customer, United States citizens have invested more money in Canada than in any other country in the world. Of \$13,542,000,000 which we have invested in foreign assets, over one-third—\$4,419,000,000—is invested in Canada. This is four times greater than our investments in either Germany or the United Kingdom. This is almost exactly the same as our investment in all of Europe—\$4,418,000,000.³

Is it possible that we who have enjoyed such warm friendships and relationships of mutual confidence, unheard of in the old world, can be forced into an artificial, self-sufficient autarchy—each country reliving in a strained and unnatural manner upon its own national resources? Hitler's Germany proved the ultimate futility and barrenness of such a course.

What is the alternative?

Is not Canada's fate, like ours, inextricably tied up with the economy of the United Kingdom and western Europe? Is not the stake which we both have in the fate of Europe as great as the common objectives which we had in the war?

There is only one alternative for both of our countries, and that is the Marshall plan, for the revival of western Europe. If so, let us jointly examine its essential provisions and purposes.

II. THE MARSHALL PLAN

What is it? In simplest terms, it is, first, a determination with rather accurate precision for the next 15 months (and with much less certainty thereafter) of what is needed to assist the industrial and agricultural revival of the 16 participating countries in Europe (Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom). Secondly, it is a plan for supplying their needs at a time when those countries are unable to buy the essential goods.

In concrete summarized terms, western Europe must have millions of tons of the following goods during the next 15 months:

For industry: Coal, coal-mining machinery, petroleum, timber, iron ore, crude semifinished steel, finished steel, trucks, freight cars, steel equipment, timber equipment, electrical equipment.

For agriculture: Nitrogen fertilizer and farm machinery.

For food: Bread grains, coarse grains, fats and oils, oil cake and meals, sugar, meat, dairy products, eggs, dried fruit, fresh fruit, coffee, cocoa, tobacco.

These are the bare needs arrived at after months of study by the Committee for European Economic Recovery, made up of delegates from the 16 countries. Where will the goods of money come from?

A relatively small portion will be paid for by the International Bank and by exports of the countries of the Western Hemisphere—\$1,285,000,000.⁴ This includes a continued contribution from Canada within its means, particularly in the field of wheat shipments. That still leaves for contribution by the United States the almost irreducible sum of \$6,800,000,000—the mystic figure which looms so large in the press of the United States today.

Constitutional arrangements on the North American Continent prevent the voice of Canada, our polite neighbor and partner on the north, from being raised in the American Congress, but the voice of her experience ought to resound there, for try as she did to the fullest limit of her capacity, Canada could fill only a fraction of the necessities for European recovery.

Is it possible with this lesson before us that we too in the United States will pay the price of appropriating too little? Is it possible that the \$6,800,000,000 (which has already shrunk in its buying power due to increasing prices in the amount of \$400,000,000 since the estimates were made) will be slashed by the remnants of the old-guard isolationists in the United States Congress, who down in their hearts think we ought to stay at home anyhow?

³ As of May 1943, the latest figures procurable. See Census of American-Owned Assets in Foreign Countries, U. S. Treasury Department, 1947, pp. 17-19.

⁴ Outline of European Recovery Program, State Department, p. 47.

Is it possible that a rehabilitation program to revive European industry will degenerate into a bare relief program by slashing the \$6,800,000,000 to \$4,000,000,000 or \$5,000,000,000?

This debate must be left to Congress, which in turn must answer to history for its decision.

An open question for each and every one of us, however, is whether or not the Marshall plan as proposed calls forth the best and quickest resources for attacking the problem of European recovery. I think it is an excellent specific for the crisis ably conceived, but I believe it leaves untapped a great reservoir of reconstructive power.

III. THE UNTAPPED RESERVOIR OF RECONSTRUCTIVE POWER—PRIVATE INVESTMENTS

Under the proposed economic cooperation bill embracing the Marshall plan, inadequate consideration is given to a vast resource of private initiative and capital which can be loosed on the objectives of the Marshall plan. The report to Congress seems to touch rather timidly the locks on the sluice gates of these reservoirs instead of vigorously seeking a way to open them. Let us look at certain factors which show that a powerful flow of initiative and capital could be loosed in the not-too-distant future.

1. *Corporate earnings and surpluses.*—With unprecedented earnings which have accumulated in recent years, an ominous cloud appears over the horizon for American corporate management. The famous section 102 of our Internal Revenue Code virtually prohibits the accumulation of earnings or profits beyond "the reasonable needs of the business." Surpluses are subject to high tax levies.⁵ With the larger controlling stockholders already occupying positions in the high-income brackets, particularly in the many family-controlled corporations,⁶ little benefit can be derived by them from the declaration of further corporate dividends. Uncle Sam would get all but an insignificant portion of that money.

No assurances from the Internal Revenue Department⁷ that the Government intends to be reasonable in accepting the judgment of management as to what surpluses are necessary, can alleviate the anxiety in American business today over impending enforcement of section 102.

And now there is talk of adding an excess-profits tax.⁸

Capital investments in new plant facilities reasonably required for the business of the company⁹ could relieve this pressure and promote the public purposes of the Marshall plan. Thus, a company with a surplus of \$2,000,000 might prefer to put \$1,000,000 into European industrial development, representing expansion of its business, rather than face enforcement proceedings under 102, or pay the \$1,000,000 out of dividends and see it returned taxwise to Uncle Sam. Even if the European expansion might ordinarily seem a little risky, it at least offers a possible net gain ultimately, especially when this advantage is considered with another factor which I shall now discuss.

2. *Decline of exports; exhaustion of dollar exchange.*—Canada is not the only country during 1947 which, like a passenger riding in a taxicab toward a distant destination (European recovery), nervously watching the taximeter and measuring the mounting costs against the contents of her purse, anxiously stops the cab and says, "Driver, I'll get out here, please."

Our neighbor on the south, Mexico, also stopped the ride and got out to walk in July 1947. Others did likewise.

What is the effect on the high level of industrial production in the United States? A schoolboy can answer. The highest record in exports for any month in the history of the United States was in May 1947—a total of \$1,441,000,000 in goods. Exports declined after that with a slight rally in October and November largely due to loading up on merchandise in your country in anticipation of

⁵ Internal Revenue Code, C.C.H., p. 611, sec. 102; tax of 27½ percent of excess amount undistributed not exceeding \$100,000; 38½ percent of such income in excess of \$100,000.

⁶ A man with \$50,000 taxable income in the United States, but not over \$60,000, pays a Federal income tax of \$26,820 plus 75 percent of the excess over \$50,000. With \$100,000 of income, but not over \$150,000, a taxpayer pays \$67,320 plus 89 percent of the excess over \$100,000. With an income of \$200,000 a taxpayer pays \$156,820 plus 91 percent of the excess over \$200,000. In addition, he pays taxes to the State and has little or nothing left if he is in the highest brackets. See the Tax Barometer, vol. 5, No. 3, December 20, 1947, re Internal Revenue Commissioner's "crusade" against the family-owned corporation.

⁷ See the Tax Barometer, vol. 5, December 13, 1947.

⁸ See testimony of Bernard Baruch on the Marshall plan before the Foreign Relations Committee of the Senate January 19, 1948.

slamming the door on further purchases on November 17.¹⁰ Exports were the cream of the business. Will corporate management and individual enterprises willingly give up those outlets abroad, knowing full well that it will be a long wait for European recovery and that in the meantime competitors operating in soft-currency countries will, in due course, fill those market demands with products priced in more reasonable relationship to the pocketbooks in the consuming country to pay? Would it not be better to enter the soft-currency country where costs of production are lower than those in the United States, offering the American know-how, spare capital, and a share of ownership with European capital?

In facing the problem frankly, cannot we see that a new pattern had already begun to emerge during the war when the sinking of ships and destruction of transportation facilities broke up the trading habits of the world and resulted in new production facilities? Were not new tanneries established when American leather could not reach its former destinations? Did not Marseilles, France, cease to be the capital of the world in the refining of peanut oil when a new refinery was established in west Africa; new ones are now contemplated in the British colonies of Uganda, Kenya, and Nigeria?

Many illustrations could be given of new industries being born in what was formerly a part of the British Empire.

To keep its place in the foreign field, American industry must, in a large measure, abandon its hope of regaining lost exports and move quickly into a pattern of partnership in production in foreign lands. Many, indeed, have already done so, as I shall show later, after considering the following factor.

3. *Bargains in equities.*—Where else in the world can an American investor, seeking a long-term investment, get so much for his money as in those European countries well known to us as traditionally industrious, thrifty, and reliable, and with standards of living like our own?

For Americans in the high-income bracket, the only possible opportunity for substantial gain under the internal revenue law is in the field of capital gains. Since you do not have this law in Canada, I will explain in rough outline that an investment held for longer than 6 months, for example, in the stock of a corporation, is a long-term investment. If it is sold at a profit, the gain is said to be a capital gain. If it is sold at a loss, this is a capital loss. The tax on the gain is limited to 25 percent of the gain; 75 percent can be retained tax-free.¹¹

In Europe, with prospects of recovery in the next few years, are great opportunities for American investors, greater than can be found, generally speaking, among the highly valued equities of American business.

This is subject, of course, to the hazards of taxation policy in the country involved, but let us consider these political hazards in a moment.

4. *Protection of American investments already owned.*—A factor not operating on the general population, but nevertheless a factor in full force and effect, is the desire to protect and revive existing investments abroad. As has already been noticed, Americans have \$13,542,200,000 invested abroad, of which \$4,418,300,000 are invested in Europe, as of May 31, 1943.¹²

These assets are owned by 215,000 American individuals, corporations, and organizations. More than 6,000 individuals, corporations, and other organizations held controlling interests in 15,210 foreign enterprises, embracing manufacturing, mining and smelting, petroleum, public utilities, transportation, agriculture, trade, finance, and a miscellaneous group, all of which businesses are woven into the fabric of European countries, and also into the fabric of American investment pattern. American controlling interests in these 15,210 corporations had a total book value of \$7,365,000,000, or about 54 percent of the United States' privately owned investments in foreign countries. The owners were located in every State and Territory of the United States, with average investments of less than \$10,000.¹³

Furthermore, approximately 300,000 citizens of the United States, or roughly 100,000 American families, lived in foreign countries in 1943. Large numbers had already been repatriated from Europe and Asia on the outbreak of war, reducing the normal number living abroad. Many have returned since the end of the war.

¹⁰ See Distribution of Profits, sec. 102, C. C. H. pamphlet, reg. 111, p. 17.

¹¹ See monthly and quarterly Foreign Trade of the United States, published by the Department of Commerce, and advance November summary (by Mrs. Keyserling, Special Programs Division, Areas Branch, Office of International Trade). The largest year of exports in the United States was 1944, \$14,500,000,000, compared to \$7,900,000,000 in 1919 after the last war and \$8,200,000,000 in 1920. Of course, higher prices today account for some of the differences.

¹² Internal Revenue Code, sec. 117(a); 472 C. C. H. par. 859.

¹³ "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, p. 17, et seq.

¹⁴ "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, p. 25.

It cannot be denied that this body of citizens—call them special pleaders if you will—exerts great influence in the United States toward further investments abroad to redeem or retrench interests there. Many millions of dollars will flow through the channels of these particular interests, irrespective of adoption of the Marshall plan.

5. *Readiness of European investors to join American investors in Europe.*—It comes with faint surprise to many Americans, living on their high plateau of economic prosperity and ample "dollar exchange," to learn that there is capital in Europe left intact and awaiting only American partnership in the reconstruction of Europe. Switzerland is on as high a plateau as we are, with booming production, and its industrial plants are in splendid condition except for a measure of obsolescence. There are hundreds of millions of francs in Switzerland seeking outlets in reconstructed European industry. To my personal knowledge, substantial companies there have been gathering data for many months regarding specific projects of reconstruction in war-torn Europe to be undertaken in partnership with American capital and technical assistance.

American companies, which are ready and willing to consider European investments but are hesitant to do so for lack of knowledge of languages and conditions in the countries where business factors dictate the advisability of opening shop can join with interests having the know-how of European affairs, dividing in any proportions they wish both the capital requirements and the responsibility for management.

IV. OBJECTIONS, DOUBTS, AND DEMURS

If these factors are really in full force and effect, what then is stopping the flow of American private capital? It has been said (1) that Europeans themselves are waiting for the United States to bail them out instead of getting down to hard work, and that they are not making a sufficient effort to remove obstacles such as customs barriers which stand in the way of trade; (2) it is said that American business will not invest in Europe in fear of political uncertainties there. Why risk confiscatory taxation, nationalization policies, or possible loss of investments through exchange restrictions forbidding removal of capital or income derived therefrom? Let us consider these objections:

1. *The lazy Europe bogey.*—There could be no more unjust calumny on our blood relations across the sea than a charge of laziness or lack of initiative in attacking the desperate plight in which the war left them.

In France, in spite of political strife, while the struggle for power teetered between the Communists and the Socialists, with the Rightists in the middle, production rose between liberation and May of 1947 from 25 percent of the 1938 production to 100 percent of the 1938 production. Ever since the war, French factories have worked longer hours and have had more men and women employed than were at work before the war—106 for every 100 persons employed in 1938—and this in spite of inadequate food, heat, and clothing. The transportation system has been restored and is working. A start has been made toward replacing housing and modernizing plants, but production of consumer goods is inevitably below that of 1938.

Food production has been so low as to be disastrous. Only heavy imports saved France. Depleted farm lands, denuded of farm equipment by the Germans, without fertilizer for years, and unattended while the armed forces or slave labor for Germany drained France, left conditions which cannot be overcome merely by human will power.¹⁴

The story of Holland's recovery is one of the dramatic stories of the postwar period. As recently described in Washington, D. C., by the commercial counselor for the Netherlands Embassy, "When Holland was liberated in the spring of 1945, it was stripped of practically everything which makes life possible. The food packages dropped from allied airplanes were literally lifesavers for the city population. Had the occupation lasted only a few weeks longer, mass starvation would have taken place. Factories were stripped, bridges were destroyed and transportation equipment was carried away."¹⁵ Dikes had been destroyed by the Germans and vast areas of agricultural land were flooded.

Starting from this state of ruin, Holland has repaired her dikes, drained her land, rebuilt bombed-out bridges, relaid railroad tracks, and trains are running on schedule.

In regard to customs barriers, it is an easy thing for us to say that other countries should abolish tariff barriers, but can we forget our own history? Tampering

¹⁴ See report of Committee for European Recovery, ch. 5, France.

¹⁵ Address by Dr. A. H. Philipsee entitled, "Some Economic Problems of the Netherlands in the Postwar Period," is printed in the Congressional Record, January 12, 1948, p. A87.

with tariffs in the United States of America has always raised hot political issues. While wool is only a byproduct of the sheep industry in the United States, the sheep men came roaring into Washington, D. C., at the mere suggestion that tariffs be lowered to permit imports of Australian wool. If anybody wants to start a first-class fight, just let him suggest a tariff reduction to admit greater importation of Argentine beef.

Europeans are human beings just like ourselves. Tariff barriers abroad have entrenched human interests behind them just as they do here, not to mention the dependence of many countries on income derived from tariffs.

Nevertheless, even while the war was still on, the Governments of the Netherlands, Belgium, and Luxemburg, in exile in London, attacked in advance the complex task of striking down customs barriers. This has been done.

As of January 1, 1948, a common tariff went into effect among Netherlands, Belgium, and Luxemburg. The Netherlands-Belgium-Luxemburg Economic Union, commonly called Benelux, is moving ahead to greater achievements in the elimination of all trade barriers, such as "excise duties, quota regulations and foreign exchange restrictions."¹⁶ No magic wand waved over Europe can abolish these ancient barriers, but the way has been blazed by Benelux, and a study group is at work on the problems of all Europe.

2. *Will American business act in the face of political difficulties?*—As to possible availability of private investments, the State Department says in its report to Congress: "As economic conditions in Europe improve and political conditions become more stable, private financing may be expected to take up an increasing percentage of that portion of the financing which can appropriately be in the form of loans. Every encouragement should be given to the early initiation of private financing."¹⁷ This is well said, but before pointing out that little encouragement is in fact given, and before considering whether private investments need be so long deferred, let us consider the extent to which American business is already on the march under the banner of enlightened self-interest. Note the following examples:

Creamery business in Mexico: To take a case close to home, a large creamery company in San Francisco Bay, facing a decline of business upon the removal of several million men in the armed forces and their families after the war, went into the powdered-milk business, invested capital in Mexico together with Mexican investors, and established plant facilities for properly restoring water to the powdered milk so scientifically that consumers are unable to detect the differences between the ordinary pasteurized milk and this product. Milk is delivered in bottles to homes in Mexico City as well as in San Francisco. It is safe, too. There is no chance for any tubercular cow to extend its destructive influence.

Butane gas for England and Europe: The Pacific Gas Co. of New York sells tanks of liquid butane gas for individual household heat and cooking purposes. Anyone who has lived in a summer cottage, at a point remote from city utilities, knows the convenience of this transportable heat in lieu of coal. The company is making substantial shipments to England where this canned heat has been a godsend during coal shortages. Costs are low.

What a blessing it would have been if plant facilities could have been established and wide distribution accomplished this winter throughout Europe.

Plumbing fittings in Holland: As a result of war's destruction, Holland suffered a desperate lack of plumbing fittings and the Government explored the possibility of encouraging construction of a plant in Holland to supply these needs. European cartel interests declined to cooperate, so Crane & Co. of Chicago was invited to participate in order to secure the necessary know-how. Both capital and know-how were supplied by the American company and a thriving new industry is growing as a result.¹⁸

Automobile tire manufacturing plant in Holland: The Vredesteijn Rubber Co. is an old and established bicycle tire manufacturer in Holland. The country needed automobile tires. The Dutch company sought an American company and together with the Goodrich tire company created the Netherlands-American tire factory. Again the American company contributed both know-how and capital. The arrangement was made in 1946 when political conditions in Europe were darker than they are now. This is now a thriving business.

Glass; Holland: Similarly, the possible establishment of a glass manufacturing plant is under study now. Americans might apply.

Automobile service industry, Belgium: C. B. Thomas, president of the Chrysler Export Corp. (which, as one division of the Chrysler Corp., does \$110,000,000

¹⁶ Address of Dr. A. H. Philipse, *supra*, footnote 15.

¹⁷ State Department Report on European Recovery Program, December 1947, p. 47.

¹⁸ Capitalized for 9,000,000 guilders, Crane & Co. subscribed to 1,400,000, or about 17 percent.

in business a year) established the Chrysler S. A. in Belgium, servicing and repairing cars after the war. The company blossomed into a highly successful enterprise in a limited time.

American business attitudes: C. B. Thomas, president of the Chrysler Export Corp., with vast experience in doing business throughout the world, informed me that there are unlimited opportunities for American capital in Europe. Personal inquiries have been directed to him by those wishing to make investments in western Europe.

Following this Socratic method, the writer interviewed the head of an association for industrial intelligence and efficiency engineering service embracing about 1,200 American companies, including subsidiaries and affiliates, representing a cross section of American industry. I was assured that there is now readiness among many members to explore projects for the extension of their business into European production.

An American tool manufacturer whose name must be omitted has completed plans for establishing a plant in Europe. Every boat carries businessmen bound for Europe bent on exploring similar possibilities.

Certain American tanneries are ready to explore the possible extension of their operations into the European field.

Many large American companies—such as the oil companies, Chrysler, Ford, General Motors, Remington Rand, and others—had already recognized before the war the outlines of a new pattern of doing business abroad, and had established businesses abroad. Capital is already flowing back into those channels on a wide front. (I refrain from commenting on the delicate problems of American concerns which wrote off their European investments as losses during the excess profits years of the war and now find the properties back on their hands as potential going concerns.) Finished cars may be barred from import by limited dollar exchange, as in Mexico, but parts may be imported and manufactured, and cars assembled abroad, thus keeping the labor expenditures within the importing country.

The old concept of exporting from this country is gone forever, or permanently modified in the extreme. The best-informed businessman knows that.

Without waiting for the Marshall plan, many American companies, having their own foreign-service departments (like the efficient Chrysler Corp. under K. T. Keller, president, and C. B. Thomas, head of the Chrysler Export Division, are already at work in western Europe and the United Kingdom.

V. THE ALL-OUT EFFORT

In spite of the mounting evidence of readiness to invest in Europe, let us frankly recognize that a formidable obstacle remains—fear of economic restrictions and political hazards confronting the investor in Europe. What, if anything, can or should the Marshall plan do to overcome these hazards and to unleash private resources in aid of European recovery?

The present proposal would give only slight aid and encouragement to private investors by authorizing the Administrator to guarantee private investments for 14 years under the following conditions:

Amount.—The amount (of such guaranty) "shall not exceed 5 percent of the total funds appropriated."

Approved.—The project must be approved by the Administrator and the participating country as furthering the purposes of the act.

The guaranty.—The guaranty of the amount invested assumes no business risk, but is limited to guaranteeing the transfer to the United States of dollars received "as income," "as repayment or return" of the investment "in whole or in part," "as compensation for sale or disposition of all or any part thereof."

The type of project.—The projects to which guaranties are extended must be those which in the absence of private financing under such guaranties would be eligible for financing in the form of loans to the participating countries from appropriated funds. (The report to Congress and not the proposed act states this as a conclusion drawn from the language of sec. 7 of proposed economic cooperation bill, State Department report, pp 15 and 47.)

If a principal objective of the European recovery program "is to eliminate the necessity for direct assistance by the United States Government"¹⁹—and it should be—then I believe that the foregoing conditions are faltering and inadequate.

¹⁹ State Department outline of European recovery program, p. 47.

quate to accomplish this objective in the following respects, for which I propose six remedies:

1. *Guaranty confined to convertibility of currency; political risks.*—It is perfectly appropriate to confine the guaranty, as suggested by the State Department in the proposed act, to the risk of governmental restrictions abroad, namely, to the conversion of any currency into dollars in case any participating country should at some later date forbid the export of capital or impose other restrictions (even as Canada was forced to do). Investors are naturally reluctant to invest abroad unless income can be taken out of the country as an asset of the over-all operation of the American concern. The act proposes to guarantee this right and to guarantee the ability to remove capital invested, if the enterprise should be sold in whole or in part or nationalized.

The United States can go further in its guaranties to investors without any risk whatever to itself. It should require as a condition to acceptance of benefits under the act by any country participating, in addition to those conditions now specified,²⁰ that any such country pledge itself to support and carry out the terms of any private contract which may be entered into between an American investor and any national of the country where the loan is made and to make no discrimination in its tax or fiscal policies between its own citizens and those investing pursuant to the Marshall plan.²¹

It must be recognized as a basic tenet of sovereignty that no government can be present contract abdicate from its power in the future to change national policy as internal needs shall dictate, until and unless guaranties from an international body extend the doctrine of collective security to the economic field, supplying currency-and-exchange support in such fluidity as to bridge the crises which breed extreme autarchical and sometimes militant nationalism. As the Federal Reserve bank protects its member banks so some day will international cooperation protect member countries. This day is not yet!

This proposal in no way would violate the principle stated or interfere with internal policies of a participating country, because no contract for private investments would be approved by the country in question, or the Administrator, until the terms of that contract were satisfactory and acceptable. This leaves a wide latitude of business initiative to the individuals involved, as in everyday business life, but in the end when the participating country does approve the contract, then it pledges itself morally and legally to respect and honor the terms of that contract. A commitment to this policy as a condition of accepting Marshall plan assistance would not only have the dignity of a treaty between nations but would clear away most of the investors' resistance.

2. *The 5-percent limit on guarantys.*—Assuming that the appropriation will be \$6,800,000,000, this would limit private investment guarantys to \$340,000,000.

The guaranty principle, properly applied, could very largely fill the void between the present minimum requirement of \$6,800,000,000 and the much disputed gross amount necessary to effect recovery. There is not the slightest doubt that participating governments will absorb the \$6,800,000,000 for high priority government projects and no one knows what additional sum will be required.

Then why not authorize guarantys to private investors in a separate and additional amount approximating the amount of our investment in Europe, say \$4,000,000,000. Such a guaranty offers a flexible margin instead of an arbitrary statutory limit. If the guaranty is used, fine. If not used, there is no harm done.

A guaranty has the possibility of costing nothing at all, or at worst costing very little if the plan succeeds and there is economic recovery in Europe. Why, then, limit guaranties to the sum of \$340,000,000 as the act is now drafted? Why not give the principle full swing up to whatever limit Congress fixes over and above the \$6,800,000,000 of known immediate needs, and see to what extent private investments fill the void.

Fifteen months is an inadequate time for analyzing investment projects. It sometimes takes approximately that much time to analyze a prospective enterprise of any magnitude in the United States where the circumstances are far less complex. Organizing the administration and getting under way mechanically takes time, but the desired effect in Europe accrues immediately. A minimum of 3 years should be allowed for these guaranties. Congress can review the situation whenever it so desires.

²⁰ See proposed economic cooperation bill, State Department, December 19, 1947, sec. 10 (b), pp. 9-10.

²¹ The Finance Minister of the Netherlands wrote a letter assuring the United States Government that this nondiscrimination policy was the policy of the Government, but the letter could not constitute a binding commitment and adherence to it rests on the acknowledged moral integrity of the Dutch people and their Government.

3. *Export guaranties.*—As an adjunct of the Administrator's office in the United States should be a system of export guaranties utilizing whatever portion of the guaranty authority the Administrator finds proper to finance commercial exports. Here again Canada pioneered the way immediately after the war; such guaranties are available there as in the United Kingdom. It works—the pattern is ready for us.

4. *Confining guaranties to projects eligible for loans to participating countries from appropriated funds.*—It is impracticable to have private investors in effect competing with the participating countries for an allocation out of the appropriated funds. It would be too much to expect of a participating government to give due consideration to an applicant for private investment if the loan had to come out of the same funds which the government itself was eligible to receive, unless by chance the private applicant undertook a project which was high on the government's own list of essential enterprises.

It is only reasonable to assume that participating countries will concentrate much of the benefits of their loans on such essential public projects as reconstruction of ports, rebuilding damaged or destroyed utilities, repairing transportation and constructing mass housing projects, schools and hospitals. Why limit private investors to the same general category of projects as participating countries would undertake? If the object is, as it should be, to release a vast resource of private initiative and capital for energetic attack along the full length and breadth of the economic battlefield of devastated Europe, then let private industry select its projects in conjunction with private interests in countries abroad, just as Crane & Co. and the Goodrich tire company have done in the Netherlands.

Individual American and European initiative should be released at every possible point with full appreciation of its volatile power.

Without excluding private enterprise from the participating government's lists of projects (a construction company might well undertake the construction of a port facility for a participating country in exchange for an assignment of future revenues from that port, in whole or in part), but the administrator should be specifically instructed to leave the widest possible latitude of choice to private investors, subject to approval of the participating country.

A separate and distinct limit should be placed upon guaranties (which require no appropriation whatsoever at the outset). It would be very wrong, indeed, to set up a reserve even of 5 percent (\$340,000,000) out of the funds appropriated in order to meet future possible liabilities which might never accrue (like trying to appropriate for future court of claims decisions which no one can estimate. It is never done). Why immobilize capital which ought to be actively at work in Europe as soon as possible?

Between the broad lines of undertaking by participating countries, there are vast areas in which industry and trade can and should operate. The revival of industry in the ways of life, characteristic of free enterprise among free people, is one of the main objectives of the whole European recovery program.

5. *Tax adjustments in Internal Revenue Code.*—Although the subject is too complex for complete analysis here, further protection and inducements to American investors can and should be given by a provision of the economic cooperation bill amending the Internal Revenue Code to (a) make clear that investments in European plants would be permitted out of surplus not only for the purpose of extending the present business operations, but also to go into new and additional business enterprises, which, under the present regulation, might not be deemed to be "reasonably required by the business";²² (b) to permit business losses, to which government guaranties would not extend, to have carry-forward or carry-back advantages; and (c) to allow amortization in lieu of depreciation as in the case of war plants.

6. *Other conditions which can be reasonably imposed upon participating countries.*—There is now being completed at Habana, Cuba, the final draft of the charter for the International Trade Organization, hereinafter called ITO. This charter might be roughly described as an international code of fair practice in recognition of economic mutual interdependence, just as the United States in the proposed draft of legislation recognizes the "interdependence of the United States and of Europe." A principal obstacle to American business in Europe, and a basic element of the conflict between Germany and the United States, was the cartel system whereby trade was monopolized, controlled and saddled with restrictions.

²² See discussion, *supra*, Sec. III "1," and footnotes re Sec. 102 of Internal Revenue Code, and pertinent regulations.

on competitive production of vital materials, which at the outset had a throttling effect upon the American war effort.²³

Chapter 5 of the proposed ITO charter provides that each participating country will take appropriate action to prevent practices which restrain competition, limit access to markets, or foster monopoly, and that complaints may be made to the ITO and steps taken to remedy the evils complained of.

The final draft of the International Trade Organization charter will be completed in Cuba and available before the Marshall plan is enacted into law. The bill should require, in addition to conditions specified,²⁴ that the participating country be a member of the International Trade Organization before receiving the benefits of the act.

VI. CONCLUSION

These are the practical incentives essential to an all-out effort. Can we consider anything less?

It is no longer possible for a Charles Martel to meet and defeat the barbaric hordes in the Spanish marshes, saving Christian civilization in the Western World for 1,500 years. This is not 733 A. D., this is 1948. We confront a similar conflict with an alien way of life. The battle today is between men of good will and men of ill will, but the battle line ranges along a broad front among the complex forces of modern society. The decision must be made in the minds and hearts of men, and supported with all the dynamic force and volatile initiative of freedom-loving people—the same force which a few short years ago built 50,000 planes a year when it could not be done.

Let us constantly remember that the countries to which we hold out a helping hand are the heart of Europe and the center of civilization. Look back. The tiny area of the earth's surface of which we speak in Europe is our own mother. Christianity was nourished there. Our art, our language, our industry, our agriculture, our every impulse toward the finer development of the human mind and spirit in the long struggle away from the beast within, have sprung from the heart throbs of these tiny countries. The greatest flowering of mankind on earth has taken place as a result of what has been thought, said, and done there.

Can we in Canada and the United States, and in the Western Hemisphere, hesitate for one moment about spending the very utmost of our means, if this should be necessary, to preserve so priceless an inheritance against barbaric tyranny? Can we not see that men only abandon our free way of life and yield to tyranny when individual effort is of no avail and hopelessness and despair reign? Can we not see that our friends and blood relatives need us now and that millions more of freedom-loving men and women, already blanketed against their will under the miasmic fog of untruth and barbaric assertion of power over much of Europe, are also our potential allies in the Spanish marshes of 1948?

Let us offer public aid to friendly governments in need, and also the maximum incentive to private investors to muster the full power of individual initiative in aid of national policy. But let no man forget—not even the most hard-headed businessman considering the prospects in Europe, that this is more than a business proposition. It is an all-out contest along the entire front of human relationships to preserve our way of living. Let every man remember, no matter how weary he may be from the war just concluded in defense of democracy, the simple words of an American veteran of World War I.²⁵

"Liberty is not merely something the veterans inherited. Liberty is something they fought to keep * * *

"People who ask us that question, 'What did it get you?' forget one thing. True, we fought the last war to make the world safe for democracy, and we did for a while.

"The thing they forget is that liberty, and freedom, and democracy are so very precious that you do not fight to win them once—and then stop. Liberty and freedom and democracy are prizes awarded only to those people who fight to win them and then keep fighting eternally to hold them."

Mr. LITTELL. The immediate excuse for my considering the problem of the Marshall plan arose in this way: I was invited to give the above address about 10 days ago in Canada, to the Canadian Bar Association, Ontario section, and became so completely absorbed in

²³ As in the case of tungsten carbide, magnesium, military optical instruments and many other materials. See The German Invasion of American Business, an address by the writer, when he was Assistant Attorney General of the United States, before the Indiana Bar Association, January 1941.

²⁴ State Department draft of proposed economic cooperation bill, Sec. 10 (b), pp. 9-10.

²⁵ Alvin C. York at the Tomb of the Unknown Soldier in Arlington Cemetery on May 30, 1941.

the subject that I went to the bottom of my own convictions and reduced them to a state of definition.

A further possible explanation is that about 1 year ago, certain Swiss companies who had combined to form a pool for the sake of studying reconstruction problems in Europe, retained me to represent them in certain matters. I, of course, do not represent them here. I am here as a citizen of the United States, profoundly interested in this problem.

I might add that as Assistant Attorney General of the United States, throughout the war years, from 1939 to December of 1944, I had occasion to make rather extensive studies of the business relationships between Europe and the United States.

The suggestions which I have to make relate to what I consider the important subject in the Marshall plan and one of the most neglected in the proposed draft of legislation as submitted by the executive branch of the Government.

Let me compliment them on the brilliant job that was done in submitting to you gentlemen suggestions which they had to make, but I feel perfectly free with that to go on to my criticisms.

The subject of the afternoon, as far as I am concerned, is that main theme of how to explore the virtually untouched resources of private investment and private initiative, in aid to the Marshall plan.

I am going to state to you five reasons why I think American capital is available, why under certain of those reasons there are compulsions operating on American capital to go forward with private investment in aid of the Marshall plan under certain conditions, and I am going to make six suggestions of a concrete, practical nature, as to how that flow of private initiative and capital can be assured.

Before I do so, may I make this comment on a seemingly unrelated subject, and that is the position of Canada in this picture.

I do so, because as an American citizen, making a study of our relationships with Canada, I was profoundly impressed and profoundly grateful for what I found, that Canada had already had her Marshall plan.

The average American is not aware of that. Almost without debate and certainly without delay, Canada moved into this picture of trying to revive European industry immediately upon termination of the war, and in the 2 years ending in 1946, she had loaned to Great Britain, to the United Kingdom, \$1,250,000,000. She had loaned to other European countries \$607,000,000, Norway, France, Belgium, Holland—and others. As a matter of fact, the fund was greater than that if you consider the whole world—and she had made her contribution to UNRRA of \$154,000,000, making a total of \$2,011,000,000 that Canada contributed to this European recovery effort.

In addition to that, instead of buying wheat from her own producers at a small price and selling at an exorbitant price, where she could have made money, she sold at the reasonable price of \$1.55, which has been since raised to \$2 a bushel, which is much below, and making an additional contribution by way of \$300,000,000 by way of those commodity price reductions during the last 2 years.

The equivalent investment of this country in that effort on the basis of population would have been 25½ billion dollars. The equivalent on the part of this country on the basis of production would have

been 33 billion dollars. Our actual contribution during the same period was 11½ billion dollars.

Even if we added this 6.8 billion dollars, which you are considering—call it 7 billion dollars for the sake of using round figures—you would only have about 18½ billion dollars which we would contribute.

I think the experience of Canada in that matter is definitely something to be weighed in the scales.

Nevertheless, she miscalculated the recovery of Europe as we all did. She entered 1947 with \$1,200,000,000 in reserve, but she soon got to the bottom of the kettle and in November of 1947 saw only \$500,000,000 left in dollar exchange.

You gentlemen know the relation between Canada and the United States in the past century as being one of the closest of business relationships.

Canada has been our best customer and is also the fifth largest trading nation in the world. All of these points bear materially upon what you are considering in this respect. First, is the contribution of 6.8 billion dollars excessive for the United States? Most certainly not, in contrast to the immense contribution of Canada in proportion to its population and production.

Certainly that bears on Mr. Hoover's ninth point, I think it was, when he proposed that our contributions be limited to purchases from this country, so that the borrowing countries might not be able to buy where and what they wish.

After the contribution which Canada has already made, which is proportionately in excess of our own, and from which we have undoubtedly received indirect benefits from the stimulation of trade, it would be most unjust as far as Canada is concerned, and probably unsound as far as the Western Hemisphere is concerned, to restrict participating countries receiving cash or credit, pursuant to the Marshall plan, from buying from whatever country they wished.

Mr. VORYS. As I understand, the bell calls for a roll call on a rather important vote. The gentleman is making a statement that I am sure is interesting to a lot of us and if we attempt to have him proceed as we bob up and down to the floor, we are not going to have any continuity.

I was wondering whether it would be possible for the committee to take a recess, rather than for various members to attempt to continue?

Chairman EATON. Since we are past the first call, why not wait until the second call and have a recess then?

Mr. JONKMAN. I believe that would be best.

Mr. EATON. Please continue, sir.

Mr. LITTELL. That is the end of that subject.

The main thesis is the exploration of the resources of private investment and initiative in aid of the Marshall plan.

There are five reasons why I believe there is plenty of capital available and plenty of ready and willing initiative, under certain conditions which I will come to.

First, corporate earnings and surpluses have never been at a higher level in the history of the United States.

One of the main problems of corporate management today is in confronting section 102 of the Internal Revenue Code which is, simply stated for those who are not familiar with it, something that virtually

prohibits the accumulation of earnings and profits. It permits the corporations to retain in their treasury that surplus reasonably needed for their corporate business, which is roughly estimated at 70 percent. The excess is taxed at a very high rate of 27½ percent or 38½ percent for different brackets.

They cannot declare these in dividends without giving an excess of income to controlling stockholders—I am being just very practical about this, gentlemen, they can, of course, but this is the way it works: They do not declare these out in dividends for the reason that it does the stockholders no good, because it passes right through their hands in the higher brackets, to the United States Treasury. You know what the income tax brackets are. They provide approximately as follows: A man of \$50,000 income pays \$26,820, plus 75 percent of the excess to \$60,000, and a man of \$100,000 income pays \$67,320, plus 89 percent up to \$150,000, and the man receiving \$200,000 pays \$156,820, plus 91 percent of the excess above that, and after that, the State income taxes take hold and in many cases they have very little left.

Therefore you can understand human nature in not particularly being anxious to declare these surpluses out in dividends under such circumstances.

The result is that there is this available capital.

There is a second reason which relates closely to the first one, why they would be willing to spend some of that capital abroad, and that is that exports are falling off. I wonder how many grasp the fact that we are at this moment at a most crucial stage in our industrial history and particularly in the postwar period.

Exports passed their all-time peak in the history of the United States in the month of May with \$1,441,000,000 in exports. The maximum year was 1944, with 14½ billion, which greatly exceeded any experience we had in the last war. In 1919 it was \$7,900,000,000, approximately, and in 1920 I believe it was \$8,200,000,000, approximately. So, there is this eminent decline in exports. It has already begun. There was a flurry at the end of 1947, October and November, doubtless largely due to the fact that Canada was going under controls on November 17, and most people knew that it was inevitable. However, exports are declining. Now, Canada was not the only country which, like a passenger riding in a taxicab, was measuring the ticking of the meter against the contents of the purse and finally said to the driver, "Driver, will you please stop and let me get out here?"

Mexico got out of the taxicab in July of 1947. All over the world, the countries are getting out because they have no dollar purchasing power.

The half-sister of that complete blocking off of currency is the quota controls in the South American countries where only a certain amount of dollar exports are permitted.

With American corporations confronting that Treasury surplus of capital, and confronting this inevitable falling off of exports at a very fast rate, what will be their attitudes toward European reconstruction?

Chairman EATON. We will take a short recess.

(Short recess.)

Chairman EATON. Let's resume, gentlemen. You may proceed, Mr. Littell.

Mr. LITTELL. Where the committee recessed, I had covered one point, the excess surplus in corporations of the United States, and the availability for European investment. Secondly, I said there was another reason why there was a certain compulsion operating on corporations to invest abroad and that was because of the falling of exports we are right at this moment on the verge of what will be a terrific decline in exports, aside from the artificial stimulus of the Marshall plan.

I mentioned the fact that the countries had slammed their doors, like Canada. I imply no rudeness in this respect, as they had no alternative. South American countries are restricting imports from this country and there is now a scramble to get dollar exchange that is left in those countries to purchase American imports.

I say that American industrial management rather than forever foregoing the loss of this export element of their production capacity, have no choice if they wish to preserve it, in the next few years, which would go into Europe itself, into the soft currency countries and there, either in partnership with European concerns or under their own power, they could enter into production in that particular market or field of industry enterprise.

There is a great temptation there, and a very good reason. In fact, if I could take more of the committee's time I could show that the pattern is already present, that many large companies have already done just that. The pattern is changing all over the world. There are new refineries because of the interruption of transportation during the war. There are new tanneries.

The peanut-oil industry, which had its capital in Marseille for an indefinite period of time had to decentralize. There are now refineries in South Africa. That is only used as an illustration. Throughout all of the British Empire there are these new industrial efforts.

If American industry wishes to participate in them they must go there. Some are already on the march and are just doing just that.

For the third reason, there are great bargains in equities in Europe. The cost of equities in American companies is very high indeed as we are at the peak market. You may inquire about your pet stock if you think I am wrong about that.

However, on the contrary, these people in Europe are basically industrious, hard-working, thrifty consumers with a standard of living very much like our own, given normal conditions and a fair opportunity, and they represent great values in equities in the revival of their industries and a purchase of interest in their industries.

This is particularly important for this reason: These people in the high-income brackets have no chance, except through the capital-gains chance—you know that is the only opening in the American Internal Revenue Code for getting a real return on investment for people having capital. Broadly speaking, a long-term investment is one that is held for over 6 months and, broadly speaking again, the taxation on the gain that investment—suppose stock or a building is bought and held for 6 months and sold at a much higher price—the tax on the gain cannot be in excess of 25 percent. That is another reason why these equities in Europe are tempting.

Four: Protection of American investments abroad. I think it is very little realized in this country what a heavy investment we have in Europe right now. Even with the late figures in 1943, in the

middle of the war, which is the only statistical data we have in the Treasury Department of the United States or anywhere else, we have an investment abroad of 13½ billion dollars, of which \$4,418,000,000 are in Europe.

Incidentally, an additional \$4,419,000,000 are in Canada, which shows again what we think of Canada.

That represents a substantial amount of capital and a substantial amount of influence. Those interests are owned by 215,000 persons and corporations and organizations.

Three hundred thousand Americans were living abroad then, though many had been repatriated due to the outbreak of war throughout the world. That is about 100,000 American families.

Many of them have probably gone back. There has been a veritable exodus to go back and participate in the management.

Out of the investors in European enterprises, 6,000 individuals, corporations and organizations, own about 7½ billion dollars of those 13½ billion dollars in assets. In other words, 54 percent of our assets abroad are represented in controlling interests, which these 6,000 individuals and corporations own in 15,210 corporations. That 15,210 corporations own about 54 percent of our assets abroad, as of 1943.

The sum is considerably greater, now. I say that there will be a natural flow of capital to protect and revive those interests. It has already begun. The big companies lead the way. The oil companies are already out in front and some of our big companies that were abroad are reconstructing their industries.

That phase of investment has already commenced without aid from anything I might propose or anything you gentlemen devise from the Marshall plan.

The fifth reason is the readiness of European investors to join with American investors in Europe.

I know this to be a fact of my own personal, professional knowledge. The average American thinks there is not much capital in Europe. There is an awful lot. Switzerland has hundreds of millions of francs.

Switzerland is a very excellent country, financially. They are not big enough, however brave, to lift on their shoulders the whole of European reconstruction by any means, and of course they want American capital and partnership in this giant—this gigantic undertaking. There is great aid to be had already and in some of the other countries too there is great capital. There is no use dwelling on this point because it is a statistical point which needs an analysis in figures which would bore you.

Those are the five reasons.

I now want to submit to you that before going to the suggestions which I wish to make in regard to the Marshall plan, that to a certain extent, the movement of capital has already begun. It is begun by those with a greater feel for your European affairs, or operating under some of the compulsions which I have mentioned: Let me give you an example close at home.

A big creamery company in San Francisco, facing the loss of a very great proportion of its business for different reasons than those I have enumerated, namely, because several million men moved out of the San Francisco area after the war ceased, developed powdered milk, went into Mexico, put in American capital in partnership with Mexican capital for establishing a plant to restore the water to that

milk in a scientific way so that you can hardly tell the difference—in fact you cannot tell the difference between that milk and the milk you get on your doorstep here, with the result that what is in fact fresh milk is delivered to the doorsteps in Mexico City.

The American enterprise did not lose its business, but succeeded in exporting it to a country where it was very useful.

There are several illustrations in Holland which in many ways leads the European countries in cooperation with American business and in getting going again, and it is a perfectly brilliant and amazing achievement in reconstruction.

For example, the Goodrich Tire Co., was persuaded by the Dutch to interest itself in establishing a tire factory in Holland. They had no tire factory, except a bicycle tire factory, an old Dutch concern highly regarded but not having the know-how of the automobile business.

Goodrich Tire Co. went into partnership and established a plant which is now going splendidly in Holland, giving employment to many and supplying a very much needed article on terms and conditions which make it possible for the consuming market to buy it, which they could not do with the dollar exchange as it is.

Crane & Co. was similarly interested after the European cartels turned down the proposition of the Dutch Government, to establish a plumbing fitting factory in Holland, and Crane & Co. organized a Dutch company with Dutch partners with a total capital of 9,000,000 guilders, to which Crane & Co. contributed \$1,400,000, or approximately 17 percent.

The Dutch Government, as I understand the matter, is making a study of the glass industry, since all the glass in Holland was shattered; likewise most of the glass in the rest of Europe, and they have a tremendous market for glass.

In this country, Pacific Gas Co. is shipping butane gas, which probably none of you have encountered unless you have lived at a summer cottage remote from utilities. They are very inexpensive. Think what a godsend that has been in England to the extent that distribution was possible during this coal shortage and during the severe winter. The company is exploring the distribution of this gas in Europe. What a blessing it would have been had it been there this winter.

The S. A. Chrysler Co., under the direction of C. B. Thomas, of the Chrysler Export Co.—I say Chrysler Co., which is an automobile service company—from my personal knowledge and discussion with C. B. Thomas, that company started from scratch and is now a quarter-of-a-million-dollar company and as Mr. Thomas told me in Detroit, on the way back from the London-Ontario address last week, it could be duplicated in many industries abroad if the conditions were right.

Tool manufacturers to my knowledge—one whose name I cannot give for a competitive reason—has practically completed his arrangements for tool manufacture and another is about to set out on the same errand.

I could explore at greater length these attitudes of American business but I think sufficient has been said by way of illustration. I would only add this, that Mr. C. B. Thomas, who is one of my witnesses, who does not mind being quoted, went over the suggestions

I am making to you gentlemen, as I came through Detroit last week. He pushed other things aside and gave me the entire afternoon. He heartily endorses them from the point of view of the incentives necessary if you induce business to help in this reconstruction job. He says that is the only way in his opinion that you can get practical operation of the Marshall plan and avail yourselves of the enormous resources of private enterprise.

He gives several illustrations. Let me just give you two.

He said had this been under the management of private enterprise you would not have had several hundred tractors standing on the docks in Greece for months waiting to be put to use, for the simple reason that there was no agricultural equipment to attach to them.

He said had the Government placed that business in the hands of the tractor company or the agricultural implement company they know what the tractors are for there and they would have had the equipment arrive in the same boat. However, some Government clerk ordered the tractors and failed to order the agricultural machinery that went with it so we suffered the loss of that capital investment, the loss of interest on what was probably several million dollars that went into that; and what is more fundamental, the Greeks suffered the loss of the revival of their agricultural industry.

To give you another illustration, in a South American country, which shows the ingenuity of private initiative once you turn it loose on this problem: Their quotas for the imports of Chryslers were being cut down. They had to manufacture some of those parts. The American company could send in the equipment, but they found they had an inferior quality of steel there that could not compete with our steel. We were also confronted with a steel shortage. We killed two birds with one stone. He encouraged the manufacturer of a steel-car-top manufacturing company. They redesigned the top to make it simple, took out some of the weather protections and some of the refinements we find necessary here, and produced the top in native steel, which saved our steel supply, developed theirs, gave them a new industry and employment, and completely satisfied the needs of that car as far as that climate is concerned.

That is the type of ingenuity which must be somehow turned loose and it can only be turned loose if you release the genius and ability of the men who have grown up with these industries. That is the thesis.

Now, what to do about it: In examining the Marshall plan as submitted by the executive branch of the Government, which I believe is your bill, 4840, section 7 defines the powers of the Administrator, and the things that he can do. One section of that only touches very timidly and inadequately on the question of private enterprise, by suggesting that the Administrator may give guaranties of private investments under certain conditions.

In the first place if you glance at 7 (3) it limits the guaranties to private investment of 5 percent of the total assuming this bill passes at the print figure, the total would only be \$340,000,000 of private guaranties. What is wrong with that? In the first place it is a trivial sum. You put a lid on private guaranties which might result in a rush of private enterprise to get the benefit and to get within that \$340,000,000 but it would also discourage anybody else who could make the grade or any other enterprise who had a long-range program in Europe and could not get into that \$340,000,000.

They would be apt to be discouraged.

Secondly, why deduct your \$340,000,000 from the \$6,800,000,000, or whatever sum you gentlemen in Congress decide to appropriate; why immobilize any capital by deducting it from that appropriation? It is absolutely unnecessary. All you need to do is to pledge the full faith and credit of the United States behind the guaranty without making any deduction in that fund from the amount of appropriation.

You may not be liable on one of these guaranties for many years to come. Certainly you will not for several years. They will not have time to mature. Why have all this money piled up in the Treasury as a guaranty, to guarantee a commitment which may never materialize into a liability?

It is not sound.

I have quoted in a footnote that there are examples in Congress where the full faith and credit of the United States is pledged behind certain guaranties, to be paid for if and when they mature into liabilities.

In this plan of the Marshall plan works out, you will not have to be liable for these guaranties. They will pay off at the end of the 14-year period and you will not have to pay that liability.

That, I say, is a defect in the existing plan.

I will run over these suggested amendments rapidly, and if you wish, Mr. Chairman, not to be presumptuous, but as a result largely of inquiry from one of the Senators, a brother of one of the members of this committee, and inquiry from others, I did reduce my suggestions to concrete form in proposed amendments, merely to facilitate your discussion of them.

However, before going into that rather technical matter, if it is your wish that I do so, let me go on briefly over these suggestions that I am making in criticism of the Marshall plan.

Mr. VORYS. Mr. Chairman, I wonder if it would be proper to ask at this time this question: The third proposition in section 7 is, that the guaranty is only as to convertibility of currency. You may have a comment to make on that.

Mr. LITTELL. That is my next subject.

Mr. VORYS. Very well; continue.

Mr. LITTELL. The guaranty is as to what we will call a political risk; in other words, the guaranty that the money once invested can be converted back into American dollars. Either the earnings of that or the capital of it. That is what I call, for convenience, a guaranty of the political risks, because these countries might, subsequently, block off their currency, forbid the export of capital and earnings, and otherwise restrict the escape of this capital once you put it in.

Now, the layman would ask: "Well, why not make an agreement with those countries if they agree not to do that."

You cannot do that. You gentlemen know that no country can commit itself to future fiscal policy over a period of years. It must maintain its flexibility. It is of the essence to sovereignty that these countries should be able to adjust their fiscal policies to meet the needs of crises and changing circumstances that come up within them. You cannot contract that away.

I suppose, as far as you could go would be what the Netherlands Government did, to give a letter to the United States. The finance

minister gave a letter to the United States, saying they would not forbid the removal of earnings, in respect to the Crane & Co., or the Goodrich deal—I have forgotten which one it came up in—and that they would not discriminate against foreign capital. However, that is just a letter and could be changed by another government. However, behind it stands the full strength and credit of the Dutch Government, in which we have great confidence. That is about the maximum that we can do.

How do we get around that? I would add all that you can add, a condition of the participating country, a condition among those conditions imposed upon the participating country. To 10 (b) I would add this:

In order to facilitate the effective operation of section 7 (c) of this Act, each participating country undertakes (a) to give its full support to the terms of any proposal or private contract which such country may approve for the investment of funds pursuant to this Act, (b) to make no discrimination in its tax or fiscal policies between its own citizens and persons investing in projects in such country pursuant to this Act, (c) to either become a signatory of the International Trade Organization charter or to comply with and fully cooperate with signatory powers in carrying out the terms and conditions of chapter 5 of said international trade agreement in respect to cartel agreements.

Now, that much they can do. The European countries can bind themselves without any infringement on their sovereign dignity, to support these contracts after they approve them. As you will see later, they must, of course, approve these private deals. And they should agree that our citizens will not be discriminated against.

Those are two of the principal criticisms.

Another one is that on the present plan, if a portion of the appropriation were reserved to protect guaranties, you would in effect have private industries competing for the same fund with the government of the participating country. I think we should visualize that whatever funds you appropriate will have tremendous governmental demands for the reconstruction of ports, railroads, hospitals, of mass housing, of water districts and power districts and sewer districts, and matters of that sort which could, of course, consume almost anything you appropriate, in addition to food relief and agricultural improvements.

In between those areas of governmental operation are vast areas of private enterprise, which is really what we want to get going, in addition to these fundamental matters that the governments must achieve.

The hope is that we can make an inducement in this act for private enterprise to go in, aside from these governmental operations.

If you have a man wanting to go into business in Europe and take advantage of this \$340,000,000 guaranty, he is in that sense competing with the management of the country for the same fund that is going to be available both to him and the country.

MR. LODGE. My understanding of the bill, Mr. Littell, is that it simply guarantees convertibility of private investments up to 5 percent of the principal amount available.

MR. LITTELL. That is right.

MR. LODGE. That does not seem to be the kind of guaranty that you were discussing.

MR. LITTELL. If I was misleading you. I am going to recommend that that lid be taken off.

Mr. LODGE. I cannot see how that would be competing with the recipient countries. Of course, the local currency income of enterprises financed by the governments of those countries or financed by private concerns of those countries would have no convertibility clauses as I see it.

Mr. VORYS. It seems to me you are talking about two different things. One is the extent of the guaranty. The other is the amount that can be guaranteed, and Mr. Littell has pointed out that under the bill as drafted, the private enterprise would be competing with the governmental claimant for the funds, because as he has explained and as it was explained to us, the bill contemplates that the money will actually be appropriated and if a million-dollar guaranty is made, a million dollars of appropriated money will be deposited and held presumably for 14 years.

I thoroughly agree with you that that is unnecessary. On the other hand, if \$6,800,000,000 is a proper measure of the ability of the United States to deliver material over a period of 15 months, then would it not be completely appropriate to have that limit put on the total of guaranties and grants and governmental loans, so that the demands upon our economy would be kept within an amount that we could meet? I thoroughly agree with you that there is no sense to depositing the money on this sort of guaranty. It ought to be carried like an RFC loan, or many others, a contingent liability that we may or may not have to meet.

But it seems to me that if the \$6,800,000,000 figure is correct, as a measure of what the United States economy can stand in a 15-month period, then it would be quite proper to place a limit on the guaranties for that reason. It is to make a combined limit on the guaranties, the governmental loans and the grants, because otherwise you are going to have a competition against our markets that might be ruinous to our economy and highly inflationary.

Mr. LITTELL. You make the most fundamental and discriminating objection that can be made in my opinion, but I think it is subject to this answer, Mr. Vorys, if I may respectfully suggest this. You presuppose that that competition for materials will exist here. Granted that there is a limitation to materials, the priority will undoubtedly be given to the subjects of the appropriation which we are not enumerating. They are listed in the proposed grant.

However, the guaranty behind the investment in dollar resources in Europe does not necessarily presuppose a drain of all of those supplies from this country. To the extent that it does, those supplies would be unobtainable. You pass on to the private enterprise, the task of finding the supplies. A lot of them can be found in Canada and the Western Hemisphere, and would be a stimulation to the revival, of the whole revival, of international trade, which is what we are trying to do.

The illustration I gave you of C. B. Thomas, of the Chrysler Export Co. of the automobile tops in South America: You will not get that sort of thing unless you get the impact of private initiative and its inventive genius in solving these problems of production abroad.

Mr. VORYS. Is there not this objection to my objection, too—that it is perfectly stupid to give an over-all figure, that while we may be short of steel and oil and food, we probably this year are going to be long on some other things we would like to export.

Mr. LITTELL. Precisely. I had not thought of that one and I am grateful to you for it.

Mr. VORYS. Very well; proceed.

Mr. LITTELL. Now, I suggest that it would be well for me to distribute the concrete amendments I have proposed, merely for the purpose of discussion. You will, of course, do a lot of things with them that I have not done but it does lay it out quite clearly as to what I think should be done. It particularly sets up two points which I think are fundamental to the incentive, if you wish to create it, and that is that it authorizes quite clearly the investment of corporate surplus in European plant facilities, removing that from all shadow of doubt under the income-tax laws. That is one incentive. Also it proposes an amortization plan of 5 years. I just picked that figure out of the air—well, that was not out of the air at all. The other act was 60 months. However, it had to do with the ending of the emergency.

Those who might not be familiar with this point, "amortization" means the writing off of the plant investment in a given period of time in lieu of taking depreciation over its expected useful life.

The expected useful life might be 20 years. You give industry the break of writing it off in 5 years, on the assumption that there are risks in Europe. We do not know how this is coming out. If you gave them that amortization advantage, it would be a great inducement for private initiative to load onto itself a great proportion of the burden which, under this act, is being taken on by the Government.

Chairman EATON. Would you tell us in a word how the introduction of the private-enterprise system, which seems to me to be a very valuable suggestion, will affect the total amount under the Marshall plan to be provided by the Government?

Will it reduce it or increase it or hold it at a level, or what?

Mr. LITTELL. I hope it will not influence your thinking too much on reducing the amount of the appropriation under any illusions as to the immediate availability of private funds. I am going to answer your question a little bit indirectly, sir, if I may. It is because we cannot divorce ourselves from the imperative, crying need of these immediate subjects outlined in the report of the committee which is before you.

That money would be available now, as soon as you gentlemen act here in this Congress, and those goods and materials would begin to flow.

Private enterprise, after you pass this act, sir, will take some months or maybe a couple of years to get under full swing. [The possibilities must be explored, the partnerships must be arranged, the study of materials must be made.

This, to my way of thinking, is a supplement of what you will do with regard to appropriations. It is a supplement and an addition to it, because you will open up through private industry, through the taking away of risks, you will open up these channels. Therefore, I think, sir, that you should think of these guaranties not as a deduction from any appropriation which you deem proper, but as an added inducement to recovery in Europe which may greatly lessen the actual, ultimate appropriation that you have to pass.

Chairman EATON. Are the guaranties the only provision you propose for this legislation, to encourage private investment?

Mr. LITTELL. They are not just the net requirements which I suggested.

Chairman EATON. You want to increase the 5 percent?

Mr. LITTELL. Take it completely away from the administrative staff. I am assuming you suggest I would suggest \$1,000,000,000. What is it? (The speaker is not sure of the figure and gives several estimates.)

Chairman EATON. That would be involved in the \$1,000,000,000. Mr. LITTELL. No, it would be in addition to it. It might never materialize, do you see? You may never have to pay a cent on it if that plan works.

Chairman EATON. Would you have to deposit \$1,000,000,000 in the Treasury of the United States?

Mr. LITTELL. You would not deposit a cent.

Mrs. BOLTON. Mr. Chairman, may I ask a question at this point?

Chairman EATON. Mrs. Bolton.

Mrs. BOLTON. This may be elementary, but there is something about it which reminds me of endorsing a note. It is always a little dangerous.

Mr. LITTELL. That is certainly true, but it is a cheaper note than an appropriation, because you may never pay the note, and you certainly will never have to pay all of it, it is almost inconceivable that all these guaranties will go sour.

Secondly, you will find that the Government has done this in many cases, as you will see on the footnote of the proposed amendments I have here.

Incidentally, I would like these amendments to appear in the record.

Chairman EATON. Without objection, the amendments will be included in the record at this point.

(The amendments referred to are as follows:)

PROPOSED AMENDMENTS TO THE ECONOMIC COOPERATION BILL PROVIDING FOR UNITED STATES GUARANTIES OF PRIVATE INVESTMENTS IN THE PARTICIPATING COUNTRIES

Submitted with oral testimony of Norman M. Littell, member of the District of Columbia bar, before the Foreign Affairs Committee of the House of Representatives, February 3, 1948, 2 p. m.

Strike out section 7 (b) (3) and add at the end of section 7 the following subsection (d):

"(d) GUARANTIES OF PRIVATE INVESTMENTS.—In addition to the assistance for participating countries provided in subsection (a), (b), and (c) of this section, the Administrator is directed to facilitate and secure the maximum possible assistance at the earliest possible date from private initiative and capital in the reconstruction and development of industry in the participating countries, by giving to any person, as hereinafter defined, guaranties of investments in connection with enterprises in said countries, under the following terms and conditions:

"1. APPROVAL OF PRIVATE AGREEMENTS AND PROPOSALS.—From and after the effective date of this Act, persons, as hereinafter defined, who desire to make investments and loans in aid of such projects may submit to any participating country a proposal to invest in, or make loans in aid of any project or enterprise in such country or countries, or may negotiate any agreement therefor with persons engaged, or wishing to engage, in the business in such participating countries, upon such terms and conditions as said parties deem desirable, subject to the conditions of this section, and after the approval of any such proposal or agreement by the participating country, the Administrator shall approve such proposal or agreement within thirty days after its submission to him unless said proposal or agreement is in conflict with this Act, in which latter event the Administrator

may disapprove of said proposal or agreement, or give his approval upon conditions that the terms of said proposal or agreement which are in conflict with this section shall be removed or corrected by amendment. Amendments to such proposals or agreements may be made and approved at any time in the same manner as hereinabove provided."

Explanation: The object and purpose of this provision is to release the resources of private initiative for investment in Europe on terms and conditions which investors themselves will negotiate, in recognition of the fact that it is impossible to standardize these conditions for the greater variety of industries and projects into which private capital and initiative will flow. The agreement with Dutch interests whereby the B. F. Goodrich Tire Co. formed a company for the manufacture of automobile tires in Holland is entirely different from the agreement whereby Crane & Co. similarly invested capital to form a Dutch company, organized and capitalized at 9,000,000 guilders, in which Crane & Co. invested 1,400,000 guilders.

Investors must be empowered to negotiate their own arrangements as in every-day business, without standardization, except that the participating country must have power to approve or disapprove in order to give priority to those industries serving the maximum public interest while materials are in short supply. The Administrator's functions should be passive. He should not be required to make an analysis of the economic desirability and all other aspects of the transaction after the country and the investing company have done so. Otherwise there will inevitably be the usual expansion of bureaucratic controls and inevitable delays which would result if the Administrator's review of the proposed project extends into the realm of policy and economics. Unless the project is to bog down in red tape, the Administrator should be confined solely to the function of determining whether the agreement violates this section of the Act. It is does not, he must approve it.

Caution in respect to business risks by the investor (which are not guaranteed under this act), and the reviewing power of the participating government, are sufficient safeguards against speculation.

"2. CONVERTIBILITY OF EARNINGS AND INVESTMENT INTO UNITED STATES CURRENCY.—The guaranty to any person shall not exceed the amount of dollars invested or loaned by such person in the project and shall be limited to the transfer into United States dollars of other currencies or credit in such currencies received by such person as income from the approved investment or loan, as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof."

Explanation: This language is copied from the Economic Cooperation Bill as submitted by the State Department, section 7 (3) (i) except that "loans" are specifically mentioned in addition to "investments" to make sure they are included, and the amount of the guaranty is not subject to the approval of the Administrator. Such approval if required would necessitate extensive review of the economic and social desirability of the project and result in bureaucratic control of such projects which this amendment is designed to avoid. If Congress wishes to limit the size of any one guaranty, it may place an upper limit on all guaranties, but this is deemed unnecessary in view of the automatic restriction imposed by business risks. Excessive investments will not be made beyond the needs of any one project, in view of the fact that investors are not relieved of the business risks; they are only relieved of the risk of being unable to get their earnings or capital out of the country when the investment is made. A further safeguard lies in the fact that the participating country must approve.

"3. LIMITATION ON TOTAL GUARANTIES.—The total liabilities assumed under such guaranties shall not exceed the sum of \$1,000,000,000. The full faith and credit of the United States is pledged to pay the guaranties herein provided for in the event that the liabilities hereunder accrue to the United States."

Explanation: The act as proposed limits the guaranties to 5 percent of the amount appropriated, which would be \$340,000,000 if \$6,800,000,000 is appropriated. This is thoroughly unsound for the following reasons:

(a) It is needless to set aside in the Treasury of the United States any portion of the \$6,800,000,000 (or whatever sum Congress appropriates) as immobilized or idle capital. Every dollar appropriated should be put to work in Europe at the earliest possible date. Setting aside any sum whatever is needless. If, as, and when any liability ever matures against the Government, the full faith and credit of the United States Government is pledged to secure payment of the guaranty. The liability may never mature. If the Marshall plan succeeds, the Government may never have to make good on these guaranties. They are con-

tingent liabilities only and should be listed with other such contingent liabilities carried as such by the Treasury Department.¹

(b) Since an object of the Marshall plan is to restore private initiative in Europe to the extent possible, why put a lid or restriction on private investments, all of which would be aids in carrying out the national policy of reviving European industry? Limiting the amount of the guaranty to such a meager sum as 5 percent, or any other fixed percentage of the appropriation, might encourage a scramble to secure commitment of that limited amount, but it would correspondingly discourage any long-range program on the part of other possible investors who could not get themselves within the limits of the guaranty. If the principle of giving guaranties is sound, and it is, then give it full swing up to whatever limit Congress desires. One billion dollars is suggested in the initial stage, but this could be increased to any limit Congress desires, thus adding to whatever sum is appropriated by Congress to the extent that such guaranties are used, without direct appropriation from Congress.

⁴ **GUARANTIES LIMITED TO 14 YEARS.**—The guaranties shall terminate not later than 14 years from the date of the enactment of this Act."

Explanation: The limitation of 14 years is taken without change from the economic cooperation bill as submitted by the State Department (sec. 7 (3)).

⁵ **INVESTMENTS OF CORPORATE SURPLUS APPROVED.**—From and after the effective date of this Act for a period of five years thereafter, any investment made pursuant to this section, approved by the participating country and the Administrator, shall be deemed within the meaning of Section 102 of the Internal Revenue Code to constitute an investment within the reasonable needs of the company's business and a proper use of the earnings and profits of such company."

Explanation: There is a vast accumulation of capital available for investments contemplated in this section. These corporate earnings and profits which now confront the possibility of enforcement of section 102 of the Internal Revenue Code. Only such accumulations of surplus are permitted as are reasonably demanded by the needs of the business; the rest must be distributed as dividends, unless expended on plant expansions reasonably needed in the business of the company. In innumerable cases principal stockholders would receive no benefits from such dividends because they are already in the highest income-tax bracket. Opening an avenue for corporate investment of surpluses in Europe could relieve this pressure on corporate management and indirectly accomplish an objective of the Marshall plan through private investments.

⁶ **AMORTIZATION OF PLANTS.**—Every person investing in plant facilities in any of the participating countries, whether or not such investments are subject to the guarantees herein provided, shall, at his election, be entitled to a deduction with respect to amortization of the adjusted basis (for determining gain) in lieu of depreciation in respect to such plant or facility, based on a period of 60 months. The 60-month period shall begin as to any such plant or facility at the election of the taxpayer, with the month following the month in which the facility was completed or acquired, or with the succeeding taxable year, except as hereinafter provided. The provisions of the 1942 Internal Revenue Act in respect to amortization deductions are hereby adopted and made applicable to the plants and facilities constructed in the sixteen participating countries save and except as follows:

"(a) In the case of a plant or facility completed or acquired after December 31, 1945, and before January 1, 1947, by a corporation, or a person other than a corporation, the taxpayer's election to take the amortization deduction shall be made by a statement in writing to that effect to the commissioner within six months after the passage of this Act.

"(b) The term 'emergency facility,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean any facility, land, machinery, or equipment, or part thereof, the construction, reconstruction, erection, installation, or acquisition of which in one of the participating countries was completed after December 31, 1945, in respect to which a certificate under sub-

¹ See Treasury Daily Statement, p. 10, Statement of Guaranteed Obligations. The Commodity Credit Corporation sometimes borrows from private sources, its obligations being guaranteed by the United States (act of March 8, 1938, as amended). Another example is the Federal Housing Administration guaranteed obligations, in which the mutual mortgage insurance, housing insurance, and the war-housing insurance funds are subject to outstanding obligations which are guaranteed by the United States (act of June 27, 1943, as amended, and act of March 28, 1941, as amended). Postal-savings funds due depositors are guaranteed by the United States (act of June 25, 1910, as amended). Also Federal Reserve notes, while secured by bank assets, are technically contingent liabilities under United States guaranties. There are also guaranties by independent Government agencies such as the Federal Deposit Insurance and the Veterans' Administration, and the Export-Import Bank, which guarantees some commercial loans made by private banks for exporting goods abroad.

section (f) of the Internal Revenue Act of 1942 (CCH 949H) has been made.

"(c) 'Emergency period,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean the period beginning January 1, 1946, and ending on December 31, 1951.

"(d) In lieu of the certification to be furnished by the Secretary of War, or the Secretary of the Navy, as provided in section 124, subsection (f) of the Internal Revenue Act of 1942 (CCH 949H), the Administrator shall certify that the construction, reconstruction, erection, installation, or acquisition is advisable in the interests of European recovery during the emergency period. The certification shall be under such regulations as may be subscribed from time to time by the Administrator for the approval of the President.

"(e) The certification by the Administrator that the construction, reconstruction, erection, installation, or acquisition of a facility was or is advisable in the interests of European recovery during the emergency period shall have no effect in the case of any facility so acquired after January 1, 1946, and before December 31, 1947, unless an application is filed therefor within six months after the effective date of this Act, and for all other facilities unless an application is filed within six months from the beginning of construction, reconstruction, erection, or installation of such facility, or from the date of its acquisition, whichever is later.

"(f) The term 'certification of necessity,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean 'certification of advisability' to be issued by the Administrator."

Explanation: The purpose of this section is to extend the benefits of the amortization deduction sections of the act of 1942 to plants constructed in Europe in aid of this act. If such amortization provisions were allowed for war-plant facilities, why should they not be allowed for the present emergency period of, say, 5 years? Instead of depreciation taken over a period representing the useful life of the plant or facility, the privilege of writing off the investment in a 5-year period by amortization would be a great inducement in helping to overcome the very great business risks attendant upon investment in Europe.

The requirement of a "certificate of necessity" would seem too strict because of the infinite difficulty of saying that any plant is necessary to European recovery. While the "necessity" for a war plant might easily be determined, in this matter a finding that the plant is "advisable" in the interests of European recovery should be adequate.

"7. As used in this section, the term "person" means a citizen of the United States or any corporation, partnership, or other association created under the law of the United States, or of any State or Territory and substantially beneficially owned by citizens of the United States."

Add to the conditions precedent prescribed for countries accepting benefits under the act the following conditions as an additional paragraph at the end of section 10(3):

"9. In order to facilitate the effective operation of section 7(c) of this Act, each participating country undertakes (a) to give its full support to the terms of any proposal or private contract which such country may approve for the investment of funds pursuant to this Act, (b) to make no discrimination in its tax or fiscal policies between its own citizens and persons investing in projects in such country pursuant to this Act, (c) to either become a signatory of the International Trade Organization charter, or to comply with and fully cooperate with signatory powers in carrying out the terms and conditions of chapter 5 of said international trade agreement in respect to cartel agreements."

Mr. VOYTS. Unless you have an objection to the type of guaranty, the difference between your endorsing a note and this type of guaranty is that in the case of the note you guarantee the note is going to be paid.

In the proposal in the bill all you guarantee is that, if the note is paid, it is going to be convertible in dollars.

Mr. LITTELL. I thank you for suggestion. I had not thought my way through to that.

Mr. JONKMAN. Then you would have the local currency in place of the dollars?

Mr. LITTELL. I beg your pardon, sir?

Mr. JONKMAN. The Government would have the local currency in place of the United States dollars?

Mr. LITTELL. Oh, yes. I presume that would be it.

Mr. JONKMAN. All you are doing is trading it for currency?

Mr. LITTELL. That is another answer, because you will not lose it in toto, you would have a soft currency instead.

Mr. KEE. Then our measure of liability there would be the difference in the worth of that currency at the time it was taken in as income, and its worth at the time it was converted.

Mr. LITTELL. That is an excellent point, sir.

Mr. VORYS. That is correct, but it seems to me that, looking ahead, one of the purposes of the Marshall plan and all of it, is to get that currency all over the planet, so that it is presently convertible into dollars, in that you break this present log-jam and have sound currency.

Therefore, if the plan succeeds, you are guaranteeing merely that the plan is going to succeed.

Mr. LITTELL. That is all.

Mr. VORYS. However, the weakness would be, that I just do not know enough about it to know whether that would be any inducement to business to proceed.

I think these tax advantages might be a substantial inducement, but the type of guaranty that is proposed, it seems to me would, in a few years, not be much of an inducement.

Mr. LITTELL. Mr. Thomas, sir, has a business totaling \$110,000,000 a year. He says it absolutely would be an inducement. He says that is the sort of thing that would make private enterprise go to work.

Mr. JONKMAN. What effect would it have on the stabilization of the currencies? All of the firms who had their currencies guaranteed under this guaranty would have dollar currency. It would equalize the value. Will you get into the same case as with the convertibility of sterling under the British loan?

Mr. LITTELL. It would have a tremendous impact in stabilizing currency.

Mr. JONKMAN. See whether you can carry that thing through. Then after all, would \$1,000,000,000 be enough? You are trebling the amount. That was the difficulty with the convertibility of sterling. It was converted so fast that it created a special currency.

Mr. LITTELL. Well, it is not the same because you are not immediately converting currency. A man must go in there and invest his money. Under these amendments he must go in and put up an industry and do all those things.

Mr. JONKMAN. I know, but if the guarantee is there it is like a reserve. At the present time we have a reserve and so it put the local currency on par value with the dollar.

Mr. LITTELL. Of course there are dangers here; no one doubts that. It is part of the calculated risk we are studying.

Mr. VORYS. If you build a factory in France under this guaranty, the only currency that has the same value as the dollar is the American corporation's share of the income. It is a limited part of the currency, and those particular francs are utterly unconvertible because the only person who can call on the United States for its dollar guaranty is the person to whom the guaranty runs, the corporation here.

Mr. JONKMAN. That is what I say. You are taking one segment of the currency and making it as good as the dollar.

Chairman EATON. Now, Mr. Littell, I am sorry we have interrupted you so, but we must take another recess.

(Recess taken.)

Mr. LODGE. Mr. Littell, I have just hastily glanced over your written documents here but I would like to call your attention to page 11 of the State Department's bill. I am trying to determine precisely the differences with respect to these guaranties, between your suggestion and this suggestion contained in this proposed legislation.

I find in item 2 of your remarks, on page 2, all you are aiming at is convertibility.

Mr. LITTELL. Precisely.

Mr. LODGE. That is all that is aimed at in subsection (i) of the proposed legislation.

I do not know whether you are familiar with this proposed legislation here or not, the State Department bill.

Mr. LITTELL. I assume that 4840 is the same as the State Department report that came over here, is it not?

Mr. JUDD. It is.

Mr. LODGE. You probably feel you have made this clear, but I would like to have you restate it if you will, for my benefit, as to what you consider are the substantial differences between your approach to this question of guaranty and the State Department's approach.

Mr. LITTELL. I will, indeed.

On the point you have just made I do disagree with the State Department in the quality of the guaranty, or the character of the guaranty; I agree that it should not be a guaranty of business risks as well as on what I am calling, for convenience, political risks, risks against actions of governments which would forbid the export of currency.

I know there is a big debate revolving around that point. I understand that Aldrich, of the Chase National Bank, who made a brilliant analysis of this foreign business in his September 15 address, has suggested that the guaranty be extended to business risks as well as currency risks.

Mr. LODGE. That would mean a guaranty of the capital investment, would it?

Mr. LITTELL. I have not seen his suggestion, but I have just been told this, that it would go much beyond a mere convertibility of currency.

Mr. LODGE. It would guarantee the principal amount?

Mr. LITTELL. Yes. Well, this does too. This guarantees convertibility.

Mr. LODGE. The Administration bill does not necessarily guarantee convertibility of the principal amount; it guarantees only convertibility of income up to the principal amount of the investment.

It says:

The guaranty to any person shall not exceed the amount of dollars invested by such person in the project with the approval thereof by the Administrator and shall be limited to the transfer into United States dollars of other currencies or credits in such currencies received by such person as income from the approved investment, as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof.

They could dispose of the whole item that way, could they?

Mr. LITTELL. Yes, sir. If they wanted to sell their property over there, or if Crane & Co. wanted to sell all their stock in that plumbing

corporation over there, where the capitalization is \$9,000,000, and Holland had closed down here controls so that you could not get foreign currency out, the Government guarantees Crane & Co. that it would be able to get its money back out. I use Crane & Co. only as an example.

Mr. LODGE. It does not necessarily guarantee the investment.

Mr. LITTELL. Oh, no.

Mr. JONKMAN. If income has already been paid out that would be subtracted from the sale.

Mr. LITTELL. The guaranty goes only to the extent of the investment, as I understand it.

Mr. VORYS. Would the gentleman yield?

Mr. LODGE. Yes.

Mr. VORYS. It just occurs to me that a transaction might be covered: that a plant is purchased, or a horse or anything else is purchased over there in dollars this week and if a guaranty were provided, it can be sold for lire, francs, and so forth, next week, and the whole proceeds of the sale would immediately be due under the guaranty.

Now, in some way or other, is it not that type of transaction that is contemplated here? The language of the bill is broad enough to simply guarantee that anything the person sells is going to be convertible into dollars?

Mr. LITTELL. That is right.

Mr. VORYS. Mr. Lodge, in your discussion, you call attention again to the fact that it is the principal amount.

Mr. LITTELL. And the earnings.

Mr. VORYS. The earnings that may run over a period of years, this is one thing, but the principal amount, that is another matter.

If, for instance, a factory were built in France under a guaranty that cost \$1,000,000.

Chairman EATON. That is \$1,000,000 capital from this country.

Mr. VORYS. Yes, \$1,000,000 capital from this country. If that was sold next year, just simply built and sold to French interests—and presumably full convertibility might not be available next year, but the full \$1,000,000 would have to be paid next year.

Mr. LODGE. It seems to me this is one more argument for the devaluation of foreign currency in order to bridge this gap between the legal and real value of foreign currencies, to the end that when you have a free market in foreign currencies, there will be no convertibility needed at all.

The guaranty would become almost meaningless because the convertibility would take place as a matter of course.

Mr. LITTELL. I understand that is true.

Mr. LODGE. I would like to ask you this, Mr. Littell: One of the defects I find with the administration proposal is that it protects future enterprises but does not protect enterprises already existing.

I do not propose that the investors already in these countries should have protection to the full amount of their investment, but it does seem to me that enterprises that have shown the staying power—and some of them have done it more as a public service than anything else—should not be discriminated against with respect to the convertibility of the income which they derive from these enterprises in foreign currencies.

To specify that even further, it seems to me if this provision applies, let us say, to an American newspaper, that it should apply as much to

the New York Herald Tribune as it would to some future newspaper which would go into this field in Europe.

Mr. LITTELL. I would abolish all discrimination when I come to the tax advantage, as to any future plants, and it also gives them the right of amortization, irrespective of whether they are under a guaranty, because I think they ought to have it.

I have not gone as far as you have now suggested.

Mr. LODGE. Would you agree that any guaranty provision we write into this legislation should be retroactive as far as the convertibility of the income is concerned, from foreign currencies into dollars?

Mr. LITTELL. I would be inclined, just shooting from the hip on that question, to say that that is a very fair suggestion.

I do not think I would go along with you if you went further and suggest the convertibility of capital. I am not saying I would do that on examination.

Mr. LODGE. I do not suggest that. I think those who are in should be induced to remain just as much as those going in should be induced to go in.

Mr. LITTELL. I think it is a very valid point.

Mr. LODGE. Under the Herter bill, the foreign currencies which are to be received as a quid pro quo for the amounts that are grants-in-aid, can be invested by the American administrator, in private enterprises in the recipient countries.

Now, would you suggest that those investments by the United States Government should also be subject to the same convertibility clause, both with respect to principal amount and income, and that therefore we should increase the guaranties beyond the 5 percent now written into the proposed legislation?

Mr. LITTELL. I think part of that suggestion fails as a matter of economic theory because it would amount to the Government insuring itself and it is always understood that the Government never buys insurance because it is the biggest thing there is and it is the biggest insurer there is, and it does not hire a smaller company to insure its risks. However, if you meant, Mr. Congressman, that the Government, with those funds, makes loans like RFC, loans to American companies and those companies in turn go back into business in that country, I would see no reason why that should not extend the guaranty to those second line loans with funds borrowed from the United States Government.

Mr. LODGE. Those will not be Government loans in that case?

Mr. LITTELL. They will not.

Mr. LODGE. The reason I ask that is because provision 15 of the Herter bill sets forth the proposal on foreign currencies, and the provision on page 16, which is subsection (e), seems to me not entirely clear on that point.

Subsection (e) states that—

(e) The Authority may direct the sale for United States currency, at the original value or at a discount, in the discretion of the Authority, of all or any part of any local reconstruction fund either to the government of the foreign country in which it is being administered or to any person approved by the government of such country; and any foreign country in which such a fund is being administered shall at all times have the right to purchase all or any part of such fund in United States currency at such original value.

I do not know how mandatory that provision is. It says "may direct," which would seem to make it permissive.

However, I wondered whether you would have any ideas on that particular aspect of the Herter bill, in order that we may get your opinion for the record.

Mr. LITTELL. I am grateful to you for the compliment of even asking me for that opinion, but as a matter of fact, Mr. Congressman, I have not been able to study this bill. It was all I could do, with the duties in my own office, to get through this other so-called administration bill, 4840.

Mr. LODGE. I am inclined to agree with you that since the problem presented here to us is one of dollar deficits and dollar payments, that when the Government guarantees the convertibility of its own investments in foreign currency, it really has very little meaning and if it were to direct the sale, it might very well cause these foreign currencies to lapse very dangerously on the market.

That would be a poor way to handle the situation, if we are to achieve what we want to achieve, which is a free market in foreign currencies.

Mr. LITTELL. That is right, sir.

Mr. LODGE. So you would feel, offhand, that insofar as we may provide that foreign currencies can be invested in private enterprise of the recipient countries, that they should not be convertible into dollars.

Mr. LITTELL. I think I roughly agree with you on that, Congressman. As a matter of impression, that certainly strikes me.

Mr. LODGE. I would just like to ask you once more if you could clarify for me, precisely what the difference is with respect to guaranties, between your proposal and the administration proposal.

Mr. LITTELL. Very well, let me try to do so.

The statement that I have submitted as my rough draft for the convenience of you gentlemen, is in the record, and we can discuss that as it is before us.

In the first place, I define clearly at the opening of the section, the objects of this section, added to section 7, at the end of the bill, H. R. 4840, saying:

In addition to assistance for participating countries provided in subsections (a), (b), and (c) of this section, the Administrator is directed to facilitate and secure the maximum possible assistance at the earliest possible date from private initiative and capital in the reconstruction and development of industry in the participating countries by giving to any person, as hereinafter defined, guaranties of investments in connection with enterprises in said countries, under the following terms and conditions:

1. Approval of private agreements and proposals: From and after the effective date of this act, persons, as hereinafter defined, who desire to make investments and loans in aid of such projects—

Interrupting the reading here, there are two types of enterprises. there are the unilateral proposals to go in and invest, like the Herald or the Tribune, and then there's the agreement like the Goodrich Tire partnership where they have a partnership and submit an agreement to the Government.

Mr. LODGE. Do you mean an agreement between an American private concern, and a local firm?

Mr. LITTELL. Precisely. Both of those examples I have given you were precisely that. The agreement itself was submitted to the Government for approval. [Continues reading:]

may submit to any participating country a proposal to invest in, or make loans in aid of any project or enterprise in such country or countries, or may negotiate any agreement therefor with persons engaged, or wishing to engage, in the business in such participating countries, upon such terms and conditions as said parties deem desirable, subject to the conditions as said parties deem desirable, subject to the conditions of this section, and after the approval of any such proposal or agreement by the participating country, the Administrator shall approve such proposal or agreement within 30 days after its submission to him unless said proposal or agreement is in conflict with this act, in which latter event the Administrator may disapprove of said proposal or agreement, or give his approval upon conditions that the terms of said proposal or agreement which are in conflict with this section shall be removed or corrected by amendment. Amendments to such proposals or agreements may be made and approved at any time in the same manner as hereinabove provided.

Mr. LODGE. These provisions in both these bills do not contain any hard and fast conditions. Therefore, any such proposal might not be in conflict with the provisions of the legislation, and yet it might very well be something which the Administrator would not feel like extending a guaranty to.

In other words, your suggestion is that he should have relatively little discretion in the matter. It would have to be in conflict with the provisions under the act, which, as now set up, are largely discretionary.

Otherwise, he has to approve. Does that seem to you to be a wise way to go about it? Do you feel that we should deprive the Administrator of that much discretion with respect to this guaranty provision?

Mr. LITTELL. There is an effort to emancipate the private enterprise approach from a complete bureaucratic control.

This idea appealed to your brother in the Senate, because he could see that there was no immense development of a bureaucratic staff under the Administrator to examine into the merits of all these enterprises.

Mr. LODGE. The idea is very interesting to me, Mr. Littell.

Mr. LITTELL. It might well be that you would wish to set up some simple criteria for the Administrator, having been on the Government side and knowing how the bureaus work.

If you give him the broad discretion, he will examine into the economic, social, legal, and all aspects of every enterprise that comes before him.

You will not get the Crane & Co. deal approved, you will not get the Goodrich & Co. deal approved, not for a couple of years.

Mr. LODGE. I do not disapprove of this idea, but to show you the other side of it, unless we write this legislation in a much more restrictive way than has been proposed it would be possible for fly-by-night concerns to obtain a guaranty.

Mr. LITTELL. I thought of that very point, and it might be covered by fixing penalties in the act for any subterfuge.

Mr. LODGE. I am in sympathy with the proposal, but I am simply trying to identify it in such a way as to make it as foolproof as possible.

Mr. LITTELL. I agree with you and you should, but directly we make the mistake of trying to surround an effort with so many protections that it emasculates the thing from the point of view of administration. That is what I was trying to avoid in this suggestion which might go too far. Maybe on further study I would agree we should qualify it in some way.

Mr. LODGE. If you were the Administrator of the program, this is the way you would like to see it?

Mr. LITTELL. That would make me free to approve it because you have these two guaranties. You have the fact that private enterprise is going in there with money, and all the business risks attendant; the guaranty does not cover the risks, you know, but only the convertibility of currency.

You have that safeguard. You have what you did not have after the last war, the Securities and Exchange Commission, who can help to catch any fly-by-nighter.

Thirdly, you have the protection of the participating country which is going to approve this thing. They do not like fly-by-night things in there either.

You can say, of course, out of an excess of caution, that we should not be content with their approval.

Mr. LODGE. That approval of the participating country is not provided in the Administration proposal as I recall.

Mr. LITTELL. They both have to approve it, sir.

That is one of the main differences. I try to emancipate this thing from the inevitable reviews of the social, economic, legal aspects of the Administrator who will have to have immense divisions set up to examine these projects.

Look how long it took to get RFC really going on a relatively simple proposition.

I do not mind his doing that on the main channel of the Marshall plan act. In spending the \$6,800,000,000 in public money, I think every protection should be given it. I think those projects should be examined carefully.

Mr. LODGE. I am thinking along the lines you have brought out. In other words, I am in sympathy with your desire to rid this thing of bureaucratic red tape. On the other hand, I would not want to set up these guaranties so that the funds could be drained off in spite of the opinion of the administrative conferee, by concerns which would contribute little or nothing to the recovery program.

Mr. LITTELL. There will have to be something very simple to prevent him opening up a vast bureaucratic review of the whole thing.

That will bog the whole thing down. There is this additional argument: You are in an emergency. It is like the war. We consider it so in this fight we are engaged in abroad. We can take the risk of a few of these fly-by-nighters. They do not compare with the substantial American interests that are interested in doing this job. I would be for taking that slight risk, rather than risk loss of that immense asset of private enterprise which we can have, in aid to the Marshall plan and trust the SEC to pick them up.

Mr. LODGE. I trust you will agree with me that there are many enterprising Americans who already have risked their capital and investment in western Europe, and who also are entitled to the same protection.

Mr. LITTELL. I believe I gave those figures before you came in. I pointed out that we had \$13,300,000,000 invested abroad as of May 1, 1943, the only date we have, of which \$4,000,000,000, sir, is invested in Europe, and \$4,019,000,000 are in Canada.

I pointed out we have 215,000 investors in this and curiously enough the average investment is \$10,000, and those investors live in every State and Territory of the United States.

Of them, there are 6,000 corporations, individuals and organizations who own 15,210 corporations—controlling interests in that number of corporations, which in turn control 54 percent of the assets abroad, or our assets abroad, at roughly the sum of \$7,500,000,000.

Mr. LODGE. If we applied the guaranties to those corporations with respect to convertibility of the currencies which they receive as income, we would either have to raise the percentage of the guaranty allowable, or we would have to raise the principal amount in the legislation, would we not?

Mr. LITTELL. I think the extension of the guaranty to the convertibility of their earnings would take more examination. Your interruption strikes me as fair. I do not think their earnings would be a frightening sum in the next few years.

Mr. LODGE. While we should have new ones come in, it seems to be the height of folly to not encourage those who are there to stay.

Mr. LITTELL. I have gone into that, and the amortization thing would carry back.

Mr. LODGE. However, it would not affect those who are considering getting out because of lack of convertibility.

Mr. LITTELL. It would not. I felt it would be presumptuous of me to state something like that. That is the policy of Congress to decide whether they wish to go that far.

Mr. VORYS. If there is 4 billion dollars, plus, invested in Europe, and hundreds of thousands of owners of that merely had to say, "We think we are going to get out," and thereby get convertibility of their income, it seems you are taking on something that does not get an extra dollar invested in Europe, which would be the only reason for our proceeding here.

Mr. LITTELL. A perfectly excellent point.

Mr. VORYS. I cannot see for the life of me where you would be justified in guaranteeing existing investments.

Mr. LITTELL. To a certain extent it would defeat your purpose.

Mr. LODGE. I think you have a good point, John, but I would point out to you that it is manifestly unjust.

Mr. VORYS. I do not think so at all.

Mr. LODGE. Not to give the same privileges of convertibility, at least with respect to income, to those concerns who have stayed in and weathered the storms of war and totalitarian aggression in one form or another, the trade barriers, the "iron curtains" and all the rest of it, but nevertheless who have stayed on the job?

Mr. VORYS. Is it not quite possible that they stayed in, some of them, because they could not get out, and there was no one to sell to?

Mr. LODGE. I think that is true.

Mr. LITTELL. Enlightened self-interest.

Mr. VORYS. Yes. I imagine there are a number of people who have had investments in Europe in the past 10 years who would have been glad to get out, if they could have gotten their money back; but that is water over the dam.

Mr. LODGE. Then do you propose we should not put in any such convertibility clause with respect to guaranties? In other words, we should not extend these guaranties to any enterprises already existing but only to new enterprises?

Mr. VORYS. I have not thought about it very profoundly, but it strikes me that it is a pretty serious proposition.

Mr. LODGE. It is something to consider.

Mr. LITTELL. May I submit this to you, Mr. Lodge: I think you would find those people exceedingly happy to find available to them a chance to retrench, improve, and consolidate their interests by guaranties for additional investments which, after all, is serving the main purpose of this act and the purpose of Congress.

They took their risk advisedly before, and a great many of them, for your information, have written off as lost, all of their properties in the war-torn areas of Europe, because they were permitted to do so under the income-tax laws.

Mr. LODGE. I think that is very true, Mr. Littell; as a matter of fact, to take one example, one reason the New York Herald-Tribune has not gone into Germany is because they have not been able to get convertibility of marks.

Even though they are already established in France, I would assume they could go into Germany and get convertibility of their marks, if this extends to Germany.

Mr. LITTELL. And it does not under this draft.

Mr. LODGE. But if the European recovery program does envelop Germany, they can do that.

Mr. LITTELL. I agree, and I feel that would be a very, very great encouragement to them.

That answers your question as to one difference.

The next paragraph is convertibility of earnings and investment into United States currency.

I would like to point out a slight ambiguity which was disclosed by our discussion of this section. We say guaranty should be limited to the transfer into the United States of dollars or other currencies or credit in such currencies, received by such person as income from approved investment or loan as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof. If the party has received in earnings over the next 5 years, the amount of its capital investment, or say half of it—it puts in \$500,000 and has received back in earnings \$250,000 and the guaranty becomes a liability to United States Government, is it entitled to get back all of its capital or only \$250,000?

That I think should be clarified.

Do you get the ambiguity? It says the guaranty is limited to the amount invested.

Now, do you write off, of the liability of your guarantee, what is received in earnings, thereby reducing this \$500,000 investment to \$250,000, and then the liability matures against the Government.

Mr. LODGE. I understood the clause as meaning that you were guaranteeing the convertibility of income from sale or liquidation of the property only up to the amount of the investment.

Mr. LITTELL. I think that ambiguity is inherent here. I think it is susceptible of the other construction that the total amount the United States would pay out of this guaranty is \$500,000, no matter how it is paid out.

Mr. VORYS. In other words, if he got \$50,000 a year for 10 years after that he would get no more convertibility of the income, even though he did not sell or dispose of the property?

Mr. LITTELL. It is susceptible of that construction and you have now made legislative history on the meaning of this clause, and I think it is destined to be clarified, do you not?

Mr. JUDD. I think it means the exact opposite. I think it means the total amount he could ever get from income, savings, return, or whatever source, could not exceed the total amount of dollars invested. That is what I read.

Mr. LODGE. In other words, as I said, after he has received in income the total amount of the investment he receives nothing further.

Mr. JUDD. Then if he sold it for francs—whatever the francs were, he could not be guaranteed any convertibility on those francs because he had already received in income an amount equal to the total investment.

Mr. LODGE. If he did not sell, he would receive no more convertibility on his income.

Mr. JUDD. That is right.

Mr. VORYS. I think you will find that the testimony before our committee was, clearly, that it was a guaranty of the principal amount once, and that was all, and that any income was a payment on account.

Mr. LODGE. May I say that it is hoped under this legislation, that in the event a certain income is convertible over a certain number of years that at the expiration of that period there will have been such a stabilization of currencies in the participating countries that the problem will be a purely academic one.

Mr. LITTELL. Precisely.

The third point, the limitation on the total guaranties, we discussed in general. This reads:

The total liabilities assumed under such guaranties shall not exceed the sum of \$1,000,000,000. The full faith and credit of the United States is pledged to pay the guaranties herein provided for in the event that the liabilities hereunder accrue to the United States.

Now again I just pulled \$1,000,000,000 out of the air. As a matter of fact, in my speech which is in the record, my first impulse was to say that the total amount of these guaranties should at least equal the amount of our investment, say \$4,000,000,000. It is not necessary to put it up that high now. This is an experimental thing; Congress has never done it before; \$1,000,000,000 takes the lid off.

Mr. LODGE. There is another difference in that in the administration proposal it is limited to 5 percent of \$6,800,000,000, whereas in your proposal it would be an additional sum, or a sum additional.

Mr. LITTELL. Completely.

Mr. LODGE. It would not be so limited.

Mr. LITTELL. I would drive a wedge completely between the Administration's proposed appropriation and the administration of this private-enterprise clause.

It ought to be a separate and distinct enterprise, not all balled up and tangled up and interwoven with each other, either as to funds or administration.

Mr. JUDD. To the extent that private capital was invested, the amount of Government money invested could be correspondingly reduced by the Administrator, could it not?

Mr. LITTELL. We discussed that before you came in, sir.

Mr. VORYS. Could I remind the gentlemen that we have been retreading considerably, and while we want the gentlemen to have their questions answered, yet having them re-answered so often may not completely be necessary.

Mr. LITTELL. I would love to discuss that with you, because I hope it will not persuade you. I think it must be in addition. In the first place, you do not know that this is the equivalent of an appropriation. You do know that the appropriation can be used up rapidly and speed is the essence.

Mr. JUDD. I do not say he should reduce it accordingly; my point was it might become unnecessary to spend the amount authorized. To that extent he could use his discretion. To the extent private capital went in, the Administrator at his discretion could reduce the Government money invested.

Mr. LITTELL. I would say so later in the program. I think this first period is such an emergency thing, that that 6.8 billion dollars is so essential at the moment, but later on I have not the slightest doubt but what private enterprise will reduce your ultimate appropriation.

Mr. LODGE. Under the Administration proposal, part of the money is grants-in-aid. Part will be in inferior loans and part will be loans by the Export-Import Bank.

Now, have you dealt with the problem of the Export-Import Bank joining with a private American bank in financing a private enterprise going into one of these countries, or the problem of the Export-Import Bank and a private American bank and a French bank, let us say, joining in such an enterprise.

If you have dealt with that, please do not answer the question.

Mr. LITTELL. I have not in any statement before this committee. I have suggested in this paper that is in the record, that that is one of the things we ought to do, guarantee exports on a vastly greater scale than the Export-Import Bank can do under its restricted legislation.

The United Kingdom and Canada, too, have export systems which are working exceedingly well, plus export insurance. The export insurance in England has paid off well, largely because they charge the Russians plenty and they pay on the dotted line.

Mr. LODGE. It might work out this way, Mr. Littell; Mr. Martin of the Export-Import Bank testified that it was the policy to extend loans more to the people and less to the Governments. Let us suppose the Export-Import Bank extends a loan to the Marelli works in Milan. They would be able to have a business arrangement with RCA.

There might be all kinds of combinations that could be involved. Do you think those things should be spelled out in the bill or left pretty much ambiguous?

Mr. LITTELL. I think it should be spelled out and that the export-import law should be amended. They do not feel they can make loans now. They loaned \$23,000,000 to Italy, and Italy did wonderful work, as I am advised on officially and unofficially.

Mr. LODGE. The Fiat Co. received an \$11,000,000 loan that meant the difference between survival and going under.

Mr. LITTELL. Yes; and it meant essential capital-investment items of machinery and equipment. They could supply the labor, but it meant those essential equipments.

I know Mr. Thomas of Chrysler has provided some further equipment there.

The Export-Import Bank felt that it was bound to lend to countries.

Mr. LODGE. That is not what Mr. Martin told us the other day.

Mr. LITTELL. I am so glad to hear that, because I understood they had to loan it to the countries, even though it went right on through to private enterprises.

Mr. LODGE. At least he said they were proposing to do it increasingly with private enterprises.

Mr. LITTELL. If you could put any loans through those channels by all means it should be done.

Mr. VORYS (presiding). Are there any other questions?

Mr. LODGE. I have no further questions.

I think you have made a tremendously interesting contribution.

Mr. LITTELL. I am glad I could appear here and give my reflections as a citizen. There is nothing more fundamental going on in the country than this.

Mr. VORYS (presiding). The committee stands adjourned until tomorrow morning at 10 o'clock.

(Thereupon, at 4:40 p. m., the committee recessed until 10 a. m., Wednesday, February 4, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, FEBRUARY 4, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:30 a. m., in the Foreign Affairs Committee Room, United States Capitol, Hon. Bartell J. Jonkman (acting chairman) presiding.

Acting Chairman JONKMAN. The committee will come to order.

Our witness this morning is Mr. J. A. Smith.

You may proceed.

STATEMENT OF J. A. SMITH, NORTHWEST HORTICULTURAL COUNCIL, WENATCHEE, WASH., ACCOMPANIED BY HON. HAL HOLMES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Mr. J. A. SMITH. I am very glad to appear before this committee for it gives me the opportunity of bringing to your attention a problem of unusual importance—the problem of a branch of agriculture whose products, before the war, ranked ninth in importance among all United States exports.

I am a member of the board of directors and of the executive committee of the Northwest Horticultural Council. The council is a nonprofit corporation organized under the laws of the State of Washington. Its membership is as follows: Washington State Apple Commission; Wenatchee Valley Traffic Association; Yakima Valley Traffic Association; Hood River Traffic Association; Rogue River Valley Traffic Association.

The member associations are composed of growers, individual shippers, and shipping firms, sales organizations (including grower sales agents), growers cooperative organizations, fruit distributors and exporters of deciduous fruits produced in and shipped from the States of Washington and Oregon. The council represents, and in appearing before this committee I speak for, the growers and shippers of practically 100 percent of all commercial apples grown in the two States and in excess of 90 percent of all commercial deciduous fruits grown in those States. Total annual production of deciduous fruits in the States of Washington and Oregon approximates 1,380,925 tons grown on approximately 147,625 acres of orchard, which production has an aggregate farm value averaging in recent years approximately \$125,000,000 annually.

Apple production in the States of Washington and Oregon equalled this year, and normally equals, approximately one-third of total United States commercial production. The States of Washington, Oregon, and California account for almost all of the Nation's export production of fall and winter pears.

I am also vice president of Gwin, White & Prince, Inc., Seattle, Wash., who are sales managers for the Wenatchee-Okanogan Co-operative Federation, this country's largest organized group of apple producers.

THE INDUSTRY'S PROBLEM

The fresh apple and pear industry is typical of the class of agricultural production which has an historical record of dependency upon foreign markets. This and like industries have been seriously and unfavorably affected by the loss of such markets. I am confident the committee will agree that, with respect to commodities in surplus in this country—and appropriate for use in foreign-aid programs—it is desirable to consider the problems of the domestic economy in connection with the implementation of the United States foreign-aid programs.

Our industry is convinced first of all that, in rendering aid to foreign countries, normal channels of private trade should be used to the greatest extent possible. Furthermore, we believe that in determining kinds and quantities of agricultural commodities to be furnished foreign countries under United States aid programs consideration should be given to (a) the needs of the participating countries as expressed in the initial published report of the Committee of European Economic Cooperation; (b) the availability of such commodities in the United States; (c) the historic reliance by the participating countries upon imports of such commodities and the dependency of the United States producers of such commodities upon the markets of participating countries.

While the statements I shall make here refer particularly to the problems and prospects of the fresh apple and pear industry of the Pacific Northwest, it must be borne in mind that our area's position is not unique. Other horticultural products produced throughout the United States—relatively few in number but important to the maintenance of a well-balanced United States agricultural economy—which have a record of export market development and dependency, are being similarly affected by the loss of their foreign markets. For example, the problems of the citrus, grape, and dried-fruit industries also are probably well known to this committee.

As I mentioned previously, the problem is of unusual importance on a national basis as indicated by United States Department of Commerce figures showing that, before the war, exports of horticultural products from this country ranked ninth in importance among all United States exports. These products now represent the deflated branch of the agriculture family.

The industry's problem is in the existing and increasing oversupply of horticultural products available for United States markets, resulting from (a) loss of substantial prewar export markets, (b) materially increased production of United States horticultural products, both fresh and processed, with promise of further increases, and (c) im-

ports—principally apples from Canada and pears from Argentina. All of these conditions jeopardize our industry's economic stability.

The European nations which will participate in the prospective recovery program have indicated their needs for large quantities of fresh fruits. For example, the technical report of the Committee of European Economic Cooperation indicated the need for imports of fresh fruits. Furthermore, commodity reports prepared by the Departments of State and Agriculture indicate the plan to export to the European countries substantial quantities of fresh fruit. This makes sense. It is consistent with the known needs of such countries—and it is essential to the economic health of the domestic fresh fruit industry.

The fresh apple and pear industry of the Pacific Northwest is dependent upon export markets which were deliberately and consciously developed as an integral part of the entire industrial program. This position is adequately substantiated by records of the Department of Agriculture, going back several decades.

Prewar, the Pacific Northwest exported 28 percent of its entire production of apples and 44 percent of its production of fall and winter pears. During and since the war increased national production of many types of horticultural products, both fresh and processed, has intensified our need, at least to regain our prewar export accomplishments. Although the largest increase in production has been in citrus fruits, nevertheless, all fruit products compete for consumer preference in the United States domestic markets.

Adding to the burdensome supply problem in United States markets are substantial imports of Canadian apples and Argentine pears whose cost of production are appreciably less than those prevailing in the United States. Entry of these competing supplies into the United States market is permitted under most favorable terms to both Canada and the Argentine. Imports from Australia, New Zealand, and Chile constitute a potential addition to supply.

As a result of all of the foregoing, I might add parenthetically the Department of Commerce has recently published information that domestic production of fresh fruit is 51 percent—greater than prewar—our industry must not only immediately reestablish the volume exported prewar but must increase that volume in direct proportion to expanded United States supply.

Since the Pacific Northwest fruit industry first came into commercial production early in the present century, foreign marketing has been a deliberate development. Markets abroad have been created by private enterprise with the use of private capital. Many of us have spent considerable time and money abroad. World markets having been established by that means, and having provided an outlet for an important portion of our crops, the industry has come to depend upon these outlets for its economic survival. Such markets have never been used as surplus dumping grounds but have been an integral part of the industry's world-wide distribution. Whether we are selling to Chicago, Dallas, Paris, or Stockholm, our basic prices are the same, f. o. b. car shipping point.

Our orchards have been set out, packing plants and cold storage warehouses built, and all of the equipment incident to horticulture and preparation for market have been attuned to the accomplishment

and the reasonable expectancy of disposing of a substantial portion of each crop abroad.

As orchard crops are the result of long-range planning, measured in terms of decades, and cannot therefore be adjusted to fluctuating demand, as is the case with annual crops (potatoes, onions, and so forth), our problems of oversupply are vastly intensified. As a matter of fact a grower in the Northwest is unable even to ignore his orchards and let further production await an improved market. Unless an orchard is properly maintained it becomes a source of infestation to the neighboring orchards. Therefore, Washington and Oregon State horticultural laws require the destruction of orchards which are not maintained. It takes 10 to 15 years to replace an orchard.

The entire Northwest industrial investment has been based on continued world demand.

During the war years when it was also impossible to export, the United States Government bought annually for the armed services and for lend-lease quantities of fresh fruit which largely offset the loss of prewar exports. Such purchases have now, of course, been almost entirely eliminated.

Yet, presently, export markets are virtually nonexistent.

The reestablishment of exports of fresh horticultural products in some future year after attainment of European recovery will be of little avail to United States producers, if in the meantime economic maladjustments, arising from loss of export markets, result in disintegration of the industry.

It appears to be universally recognized that reciprocal trade agreements now in effect, and those being negotiated, cannot be implemented until the world's economic atmosphere has improved considerably. The type of free, private trade envisaged in such agreements cannot be achieved until or unless dollar exchange difficulties are overcome. Thus it appears that a long period will pass before such circumstances prevail, unless something is done to overcome the foreign-exchange difficulty.

Our industry cannot await the gradual working out of the foreign-exchange situation. Export markets are needed immediately. For instance, notwithstanding the prevailing record high United States national income, our products—as a result of the dangerously increasing supply position and loss of export markets—are under severe price pressure. Already growers' productions are being forced into liquidation at seriously discounted prices—in fact below the actual current cost of production. Already the industry has been forced to ask for, and has been fortunate in receiving recently, piecemeal support and diversion assistance under existing price-support legislation. For example, apples and pears have been purchased under the school-lunch program. A diversion program has been undertaken for pears. Dried fruits have been purchased directly by Commodity Credit Corporation for price-support purposes. And these are not the only examples.

In addition, fresh fruit produced in soft-currency countries is finding its way into European markets under private trade conditions. Supplies of fresh fruit available in such countries are by no means adequate to meet the need for fresh fruits as indicated in the techni-

cal report. Nevertheless, the commerce in fruit from the soft-currency countries is enabling such countries to establish firm markets in European countries, which markets have traditionally looked to United States sources for their supply. If no United States fresh fruits find their way into European markets for a period of years it will be difficult, if not impossible, later to regain our normal prewar position in such markets, without which our industry cannot survive.

PROTECTION OF UNITED STATES AGRICULTURE

Having an established record of export business and a dependency upon export markets, our industry is confronted with the need of immediate assistance in reestablishing its export outlets pending the return of economic conditions abroad which will permit resumption of normal private trading.

I am certain this committee will agree that the maintenance of a properly balanced United States agricultural economy is deserving of consideration at least equal to that given European recovery—particularly when the two goals can be concurrently attained with mutual benefit.

ADAPTABILITY OF FRUIT TO THE EUROPEAN RECOVERY PROGRAM

For the reasons I have outlined to the committee, I am confident the Congress will recognize the necessity for including in the legislation activating the ERP, a provision requiring that all wholesome agricultural commodities in ample supply be included in relief programs—and the further necessity for making such commodities available through private trade channels to the greatest possible extent.

The cost of including fresh fruit in prospective relief programs will be relatively modest. Fruit has not contributed to the inflationary spiral—actually it is selling at prices considerably below a year ago. Use of fresh fruit can reduce to some extent the heavy inflationary pressures upon other commodities now included in relief programs. If, for instance, pressure on grains and related commodities could be reduced, lower grain costs resulting from the substitution of other foods doubtless will result in a net saving to the United States Government and to the United States population in reduced costs of living.

Again, I feel that I should emphasize to the committee that the failure to use fresh fruit in our foreign-relief programs will merely result in further expenditures under existing price-support legislation.

Fruit is a dietary asset. The United States Department of Labor includes apples in the cost-of-living statistics. That United States fresh apples and pears are a necessity to a well-balanced European diet is substantiated by large purchases made by European nations prewar—nations whose productions of fruit are demonstrably inadequate for their local needs. This position is further substantiated by the fact that in the season 1946-47 the British Government purchased a large volume of fresh apples in this country for governmental distribution (in the Government's basic food program) in the United Kingdom and released further large amounts of dollars for the purchase of United States fresh pears.

PROCESSED FRUIT AN INSUFFICIENT ANSWER

Dried apples and pears account for a negligible part of our production, and exports of dried fruits to the exclusion of fresh fruit have never solved, and will not now solve, our problem. The industry is geared to the production and distribution of fresh fruit. The quantity diverted to processing has been insufficient to influence the fresh fruit market. Expansion of processing equipment is impractical marketwise.

TRANSPORTATION

Transportation is available for the carriage of fresh fruit. Many refrigerated lines which participated in the prewar movement of fruit from the Pacific coast to Europe have returned to service. Re-established services are likewise available from east-coast and Gulf ports to Europe. Transportation is no longer a problem.

Some feeling has been expressed that transportation and other distribution facilities in the European countries are presently inadequate to handle the marketing of fresh fruits. This is denied by the fact that substantial quantities of fresh fruits imported from soft-currency countries are being handled and dispatched through private trade channels in the European countries today.

MECHANICS

As I have mentioned previously, in currently effective legislation, the Congress has made provision for substantial administrative and financial assistance to domestic agricultural industries suffering from marketing difficulties. Furthermore, the Congress has provided and unquestionably will continue to provide aid in the form of commodities, services, and credit to assist foreign countries in the rehabilitation of their war-devastated economies. These are two distinct governmental programs, but the desirability of coordinating them is too clear to require elaboration. If, in connection with these programs, our Government will make available to foreign countries dollar exchange to be used in the purchase of surplus domestic agricultural commodities by private traders abroad from private traders in the United States, the purposes of each program will be advanced.

To the extent that private trade with European countries is not possible or to the extent that such private trade does not relieve the domestic surplus situation created by conditions I have described to the committee, price support purchases under support programs must necessarily be invoked. However, even in these circumstances, surplus agricultural commodities which are appropriate for use in foreign-aid programs and which are purchased by Government agencies should be used in our relief programs.

Allocation to participating nations can be arranged by the utilization of existing trade-agreement machinery by continued cooperation between the Office of Foreign Agricultural Relations of the Department of Agriculture and the State Department in negotiating agreements with foreign countries. There is a good basis for working out agreements with foreign countries as to the kinds and quantities of agricultural commodities to be made available to them, and the seasonal shipping schedules for such commodities. By these means, we

can, with facility, arrange with foreign countries for the acceptance of our fruit as a part of our relief program, in months when such countries historically purchased our fruit.

CONCLUSION

Our position, therefore, is that fresh fruit has a rightful place, as demonstrated by the record, in European diet and that the request of our industry for inclusion in food-relief programs is appropriate, for by such inclusion two major goals will simultaneously be accomplished:

(a) The protection of a leading United States agricultural industry, which has a record of privately created export accomplishment and dependency, will be maintained throughout a period of temporary jeopardy without serious impairment; and

(b) In accordance with their traditional requirements, the European nations will be assured of a better-balanced diet.

Acting Chairman JONKMAN. Thank you very much.

Judge Kee, have you any questions?

Mr. KEE. I have no questions, Mr. Chairman.

Acting Chairman JONKMAN. Mr. Vorys?

Mr. VORYS. Are you familiar with the so-called Anderson amendment which was put in the interim-aid bill?

Mr. J. A. SMITH. Yes.

Mr. VORYS. Is that amendment one that would take care of the situation mentioned if it was put in this law?

Mr. J. A. SMITH. We do not feel that the caloric measurement there is an appropriate yardstick. We do feel that so far as the principle of the amendment is concerned, the arrangement by which the Commodity Credit Corporation can handle such commodities as are supported by them, is a good one.

Mr. VORYS. I do not get what your specific suggestion is, Mr. Smith.

Mr. J. A. SMITH. Do you mean in connection with the mechanics?

Mr. VORYS. Yes. I do not understand exactly what you want us to do.

Mr. J. A. SMITH. We feel, as indicated in the delivery of this position, that fresh fruit can appropriately be included. It can be appropriately included because it has advantages in connection with diet and the machinery is available for the arrangement of agreements between countries which can be closed with considerable facility.

Insofar as the inclusion of fresh fruit and the detailed mechanics are concerned, part of that will depend upon the position of the Commodity Credit Corporation bill, Senate 1322, with regard to revision of the charter. Apparently, the Commodity Credit Corporation is in a position to do some of this, just as they did under the Anderson amendment. The chief difficulty of the Anderson amendment is that it makes no provision for private trade in connection with fresh fruits or any other commodities, which is the only manner in which our commodities can be handled with any efficiency.

Mr. VORYS. What is in the way of your program to make arrangements by way of private trade to finance the sale of fruit?

Mr. J. A. SMITH. The lack of currency or dollar exchange abroad. We are sure that the market exists.

Mr. VORYS. Why can you not finance it and carry the deal until they get the dollars?

Mr. J. A. SMITH. Do you mean as individual shippers and producers?

Mr. VORYS. As an organization?

Mr. J. A. SMITH. As an organization, the Northwest Horticultural Council, they are not established for such a procedure.

Secondly, as individual producers and members of the Council, they are not financially or otherwise equipped to carry foreign exchange on a private basis. Their costs are high, their income is low.

As I mentioned in the report, we have reached a price support position, unfortunately.

Mr. VORYS. Thank you.

Acting Chairman JONKMAN. Mr. Jarman?

Mr. JARMAN. No questions.

Acting Chairman JONKMAN. Mrs. Bolton.

Mrs. BOLTON. You have mentioned the dollars as being the problem. You say there are plenty of refrigerator cars in this country. What happens when you reach the sea? Are there refrigerator ships?

Mr. J. A. SMITH. With regard to ocean transportation from United States ports to Europe?

Mrs. BOLTON. How is it done on the ships?

Mr. J. A. SMITH. In refrigeration, and normally from the Pacific coast via the Panama Canal.

Mrs. BOLTON. It goes all the way by ships?

Mr. J. A. SMITH. Yes.

Mrs. BOLTON. You have no lack of ships?

Mr. J. A. SMITH. The alternate route is across the country to one of the east coast or Gulf ports and then by either refrigeration stowage, or what we call ordinary stowage, to the destination.

There is no lack of shipping. That was our problem a year or so ago.

Mrs. BOLTON. What ships came back?

Mr. J. A. SMITH. A good many ships which had established their lines before the war, on both coasts, have returned to service, both United States and foreign lines.

Mrs. BOLTON. What is it that keeps fruit out of the caloric diets of which we all speak, 1,800 and 3,200 and so on? Why is fruit not included and what is its caloric value?

Mr. J. A. SMITH. I am sorry, I cannot answer that technical question.

Mr. VORYS. Would the lady yield?

Mrs. BOLTON. Yes.

Mr. VORYS. I think the proposition that has been put to us is, when you are facing starvation, you have to use your available money to get calories, and the principle of the Anderson amendment was to use fruit as a caloric fulfillment insofar as it was available, because when people are starving, neither they nor we can afford to give them the nice, well-rounded diet that would be desirable.

Mrs. BOLTON. Thank you, Mr. Chairman.

Mr. J. A. SMITH. I think I best expressed our problem when I mentioned adaptability of fruit to the ERP.

Mr. VORYS. You are speaking of the maintenance of a properly balanced United States economy, that it is deserving of consideration.

That is certainly true. However, any element of an economy which cannot support itself raises a question of whether it is in proper balance. Of course one of the things that must be considered is that if your industry is one that cannot support itself without Government crutches—

Mrs. BOLTON (interposing). Would the gentleman yield at that point?

Mr. VORYS. Yes.

Mrs. BOLTON. The reason the industry finds itself in this situation, is that that export trade was built up very largely at the encouragement of the Government, to get more trade, and therefore it is the first time that we have had brought to this table the situations in which one of our industries finds itself because of the lack of export trade.

Does that not account for the need of help?

Mr. J. A. SMITH. That is our essential difficulty.

Mrs. BOLTON. If there were some way to include a certain amount of fruit in our shipments, you would rather do it as private firms, would you not?

Mr. J. A. SMITH. Yes, that is so.

Mrs. BOLTON. Selling it to private firms abroad?

Mr. J. A. SMITH. Yes. The British Government, when it purchased fruit last year through the British Food Mission, in order to distribute it properly through the British Isles, used the facilities available to them in private trade channels. That is the most adaptable manner in handling fruit.

Mrs. BOLTON. When those countries have dollars, this would not be something that would automatically return?

Mr. J. A. SMITH. This is a temporary stopgap measure. I am glad you raised that question because it has been previously raised. We are assured by our private trade connections abroad that a demand exists for our fruit. We are certain we have the fruit of the specifications which they want. We are sure of our transportation position. We have all of the elements that are available to both give Europe what it wants and assist our industry in this temporary period of jeopardy, except for the dollar exchange.

Mrs. BOLTON. I think it is a most interesting question and one I am sure the committee will want to consider from every angle possible.

Mr. HOLMES. Without violation of protocol, could I make a statement?

Acting Chairman JONKMAN. We will be very glad to hear from you.

Mr. HOLMES. To sum this up a little, we have been up against some very difficult conditions in the Pacific Northwest with fruit, and to show you how important the export markets are to the fresh fruit industry of the Pacific Northwest, we have today, in the export grade of apples alone, a backlog of 4,000 or 5,000 carloads.

It was so severe, until we got some assistance from the Commodity Credit Corporation, on the school-lunch program, that was put out last week—an expenditure not in excess of \$2,400,000 for export-grade apples, that we were practically faced with the condition of dumping this fine fruit.

Twenty-eight percent of our apples—around 44 to 45 percent of our pears—find their normal channels in export alone.

Mr. VORYS. Where to?

Mr. HOLMES. To all the northern European countries. Even in the face of this stringency, Sweden, facing a very severe condition of dollar exchange—

Acting Chairman JONKMAN (interposing). Is that the normal percentage now?

Mr. HOLMES. Those were the prewar percentage.

The devastated conditions in Europe have just obliterated our export markets. Even in the face of these severe conditions in dollar exchange, Sweden has just recently entered the market for export-grade apples to the amount of around \$1,500,000, thinking it is necessary for their diet.

The loss of these export markets is the thing that is causing this devastating condition in the fresh-fruit areas of the Pacific Northwest. It is the over-all problem that they are trying to put before your committee, that in order to sustain themselves, Congressman Vorys, which they have been able to do in very good shape with the normal channels of export open to them, if they could again come into the relief program through private sources, to help establish their export markets, they are in turn perfectly capable of standing on their own two feet. However, it is with this tremendous impact of the loss of export markets that has thrown their position into a very serious situation. That is the point I think, Mr. Smith, who is one of the very able and outstanding men in this field, is trying to put across to the committee: the reestablishment of these channels of trade which are, normally, into France, the Netherlands, Denmark, England, Sweden, Norway, and those countries, and Germany previous to the war. They in turn can handle their own problem but with the loss of that and with the great European relief programs coming up, they want to reveal what the situation is they are facing. These normal prewar channels of trade will not be open to them. You see the military has practically ceased taking any large volume which offset the loss of these export markets during the war.

Mrs. BOLTON. Is it not a very vivid picture of the complete dovetailing of the lives of humans from one country to another? We are dependent upon export, not only with fruit but with other things. This is a very vivid moment of clarification, to perhaps some of those who feel we could be self-sustaining with such ease. I just throw that into the discussion, Mr. Chairman.

Acting Chairman JONKMAN. Mr. Smith said that after the beginning of the war, you lost your foreign export market, and that it was supported to a great extent by sales to the armed forces.

How long did that carry you, through 1945 and 1946, so that you had one season? How long has that impact been felt?

Mr. J. A. SMITH. That impact has reached its peak within the past 2 months.

To answer your question specifically, the buying for the military ceased when we reached the full period of demobilization, that is it has almost ceased. Some fruit in very small quantities is still being bought by the Quartermaster Marketing Centers, but the amount is insignificant.

Insofar as lend lease is concerned, I am sure the committee knows when that stopped.

Last year we were able to maintain a portion of our export position by reason of the fact that Great Britain purchased some of our fruit in rather substantial quantities.

Certain markets, such as Sweden and Belgium, were able to buy our fruit because they had dollars available. The dollar exchange position has deteriorated in all of those countries which are our principal markets, with the result that we find ourselves in exactly the position I have stated.

Mr. KEE. I think we can all appreciate the situation your people, the fruit growers in your State, are facing, and that it needs remedying. However, the bill before us is not one to open up the markets again of Europe.

I understand what you are after here is to have a provision incorporated in this bill either authorizing or requiring the Administrator of this program, in the event the program is established, to purchase in the markets, quantities of fruit to supply these European participating countries; is that correct?

Mr. J. A. SMITH. That is correct.

Mr. KEE. Now, the bill as presently written does authorize the Administrator to purchase all commodities he deems necessary or appropriate, to carry out the purposes of this Act.

As I understand it, it is your idea we should incorporate in the bill either authorization or requirement that the Administrator purchase fresh fruit; is that correct?

Mr. J. A. SMITH. That is right, with one or two additions. First, that authorization should, in our opinion, contain a provision for private trade. That is very important. That is an important element in the reestablishment of our business abroad, which we hope will be reestablished as quickly as the European recovery plan meets its goal.

Mr. KEE. Please explain what you mean by "Private trade." I take it the Administrator would purchase this fruit through the ordinary channels.

Mr. J. A. SMITH. I think I understand your question clearly. By "private trade," we mean trade between individual producers or exporters in the United States, with individual importers in the markets abroad.

The purchase by our Government is desirable but an alternative to their assisting us in returning to trade between individuals. As I have stated, to the extent that reestablishment of private trade between individuals in this country and individuals abroad does not meet the requirements of the industry in replacing its lost export markets, then purchases by our Government should and will doubtless help fill the gap.

It will do the industry little good in one respect—that respect being the return of our traditional trade with our established buyers abroad who best know us, and are the ones who will support us most consistently, if, for example, our Government should buy from us in bulk, or in large quantities, and then re-sell or give away or otherwise dispose of such fruit to foreign governments as such—purchasing missions or any of the other means which are not the private operation.

Neither this Government, I am sure, nor the governments abroad, are capable of handling fresh fruits with the facility of the private trade channels.

Mr. KEE. Do I understand you to mean that our government should purchase through your agencies abroad?

Mr. J. A. SMITH. There is a provision in the Administration's bill, and I think Mr. Herter's bill, for the establishment of credit abroad.

There are certain other references to what used to be called grant-in-aid portions of the program. They are now referred to, I think, "without specific procedure for repayment," or something like that.

Our suggestion is this, subject to refinement, that these credits be established in dollars abroad, with various countries which enter into agreements with the United States, which agreements will have been concluded with the use of existing trade agreement machinery, the Office of Foreign Agricultural Relations, the State Department, and so on, just as the Swedish agreement was made last June.

It is easy to make the arrangements between two countries, particularly when there exists, as with us, a long record of historical shipments month by month to these countries which are involved.

Let us say the Government of Sweden enters into an arrangement with the Government of the United States, by which Sweden would agree to issue import permits to the extent of a million boxes of apples and pears, meaning that Sweden would permit the entry into the Swedish fruit market of such a quantity.

The procedure thereby would be that after the permits are issued to the individual Swedish importers, with reference to their historical importance internally in Sweden, that they could then get in touch with their traditional connections in the United States, who would be able to quote them prices on our fruit.

There is one missing link. The Swedish Government would have no dollars.

It is the suggestion, subject to further refinement, that by some means—possibly the establishment of these credits—the dollar gap would be filled, in the reestablishment of private trade, by a designated Government agency supplying dollars, thereby permitting the return of all of the methods that we have known historically in private trading.

Mr. KEE. Thank you.

Mr. VORYS. I wonder if you studied the guaranty provision of the Administration bill which would guarantee the ultimate repayment of your dollar advances in dollars, or whether that would completely cover your problem?

If you have not studied it, I do not want you to take time to study it now.

Mr. J. A. SMITH. We have not studied that.

Mr. SMITH. The question I had in mind was very ably presented by Judge Kee. I have but one question:

What percentage of your crop, Mr. Smith, would be absorbed in this kind of a program, do you think?

Mr. J. A. SMITH. Of our crop in the Pacific Northwest?

Mr. SMITH. Yes.

Mr. J. A. SMITH. In order to avoid asking for price support, we require the return of our prewar export accomplishments, so the combination of price support and the inclusion in ERP is suggested. The combination of price support and inclusion in ERP, or entire inclusion in ERP, or an entire price support, would cost the Government no more money either way. But to answer your question specifically—28 percent of our apples and 44 percent of our pears.

Mr. SMITH. I am sure the committee would like to have any recommendations you might have with relation to the specific provisions to be placed in the bill to meet your problem.

Mr. J. A. SMITH. Thank you kindly. I would appreciate the opportunity of doing that.

Mr. SMITH. That is all I have, Mr. Chairman.

Acting Chairman JONKMAN. Mrs. Douglas?

Mrs. DOUGLAS. What percentage of your crop is consumed by the domestic market?

Mr. J. A. SMITH. The balance, Mrs. Douglas. We export 28 percent of our apples and 44 percent of our fall and winter pears. It would be 72 percent apples and 56 percent on pears.

Mrs. DOUGLAS. During the war, part of the domestic supply was bought by the Army?

Mr. J. A. SMITH. Yes; and lend-lease.

Mrs. DOUGLAS. Has there been any fluctuation in the domestic market?

Mr. J. A. SMITH. Yes, quite definitely downward since the end of the war.

I would like to correct that statement. The fluctuation downward has occurred during the present season, due to the lack of our export markets this year, even to the extent that we had them last year.

Mrs. DOUGLAS. I do not refer to your export markets, but to your domestic market.

Mr. J. A. SMITH. The domestic market has tended downward to a point where we are now selling all specifications of apples and pears at below cost of production.

Mrs. DOUGLAS. Since when has this curve started downward?

Mr. J. A. SMITH. The curve started downward in October of last year.

Mrs. DOUGLAS. That is October of 1947?

Mr. J. A. SMITH. Yes.

Mrs. DOUGLAS. Can you account for that downward curve in any way?

Mr. J. A. SMITH. Last year we were exporting. We exported substantial quantities both to Sweden and Belgium when they could buy from us. We exported large quantities of apples, pears, and grapes to England, when England had dollars under the British loan.

Mrs. DOUGLAS. I understand that, but I am asking you about the domestic consumption of apples and pears. Has there been a falling off in the domestic market in the United States?

Mr. J. A. SMITH. Yes.

Mrs. DOUGLAS. Now, the figure in 1947 was the beginning of the falling off of the domestic market. In other words, the people of the United States are not buying as much fruit as they did last year in October 1947.

Acting Chairman JONKMAN. Do the imports from Canada and Argentina emphasize that situation?

Mr. J. A. SMITH. That is true, they do emphasize it.

There had been a falling off in the domestic price of fruit. It is difficult to say that there has been a lesser consumption of fruit in the United States, but as I mentioned in my report, the supplies of fruit in this country are increasing.

Mrs. DOUGLAS. That is because your exports are falling off, so you do not know whether the actual consumption of pears and apples is less at the moment?

Mr. J. A. SMITH. We have both an increasing production of fresh fruit in this country, including citrus, and the lack of exports, and imports that I have been discussing, which add to our problem: It is not a quantitative matter, in any specific commodity we are talking about. It is a matter of the total supply of fresh fruits. They all compete for the same market.

Mrs. DOUGLAS. It seems to me that rising prices may very well tend to cut down the consumption of fruit. If your money is used up buying meat and potatoes, of course, you can't buy apples, grapefruit, and oranges. We know that from our own State where we raise so much citrus fruit.

I wonder if you have anything to say on that?

Mr. J. A. SMITH. We call ourselves the deflated branch of the agricultural economy.

Mr. JAVITS. Mr. Smith, could you say what you would like to see done with this Knowland-Anderson amendment, to change it to cover your situation?

I do not mean for you to do that now but perhaps you could draft it up and let us have it.

Mr. J. A. SMITH. I would like the opportunity to do that.

Mr. JAVITS. Would you tell us also whether it would be economically feasible for these European countries who are now getting soft currency apples and pears, to get yours?

In other words, would they be spending much more in dollars than they would be spending in soft currency?

Mr. J. A. SMITH. No; and it is for this reason. We envisage a type of trading agreement which would doubtless have to include, as one of its terms, the foreign recipient government's agreement with regard to maximum ceiling sales price. That is necessary, almost, to protect its own agriculture in countries abroad.

Mr. JAVITS. You feel you can compete in a country that is going to be aided, like France. You can compete for the apple market in France against other countries in the 16-nation group? Your price is low enough for that purpose?

Mr. J. A. SMITH. Yes; we can. As a matter of fact, in terms of francs, we are told there are astoundingly high prices being paid for local-grown French fruit.

Using the example of France, our proposal here would be consistent with the policy of deflation in France, because it would be supplying more goods into that market.

Mr. JAVITS. Would you be able in your community to get together sufficient capital that you could give long-range credits to the European countries whom you desire to have buy your products, if those long-range credits were guaranteed, so the people who put up that money would still get their money back but it would be on a long-term basis of say 5 or 10 years? Could you get that kind of capital in your State or on the Pacific coast?

Mr. J. A. SMITH. No; we could not. The character of the fruit business, particularly in the area I am describing, is one of groups of small growers. The average acreage is around 10 acres. The grower has no capital.

Mr. JAVITS. Could these cooperatives raise enough money collectively to finance long-term credits if there were a guaranty so there would be no question about the money being good?

Mr. J. A. SMITH. Their position is being jeopardized just as is the position of the individual grower. They are hard-pressed at the moment by this market situation. They have no money for such purposes.

Mr. JAVITS. They could not raise it from banking sources?

Mr. J. A. SMITH. No.

Mr. JAVITS. I notice you placed emphasis on what you call private channels or private trade.

Mr. J. A. SMITH. Yes.

Mr. JAVITS. Is there some alternative?

Mr. J. A. SMITH. Yes; Government trading or State trading.

Mr. JAVITS. That is State trading in these recipient countries?

Mr. J. A. SMITH. The alternative is State trading.

Mr. JAVITS. Is it true that these apples and other items would be bought from you by foreign governments?

Mr. J. A. SMITH. That is not our suggestion of the way to solve the problem. We suggest that the foreign governments, after making agreements with the United States Government through the established trade-agreement machinery, be given credits for these commodities that we are discussing, which credits could be expended only under the terms of the trade agreements between the United States and the foreign nation. Thereupon the foreign country would issue import licenses to its individual importers. They have records of established trade going over many years and as a matter of fact right today the Swedish Government, in implementing its most recent fruit agreement with us, is issuing import licenses to the established trade.

Those importers who receive licenses and therefore exchange permits under the credit which has been established would thereupon communicate with their established connections in this country, the producers of fruit and exporters, and conclude the arrangements.

Mr. JAVITS. You are desirous that we place emphasis on the continuance of trade relationships between established commercial channels with the Government just making the foreign exchange available to its own established commercial traders?

Mr. J. A. SMITH. Yes; that is right.

Mr. JAVITS. Thank you.

Acting Chairman JONKMAN. Mr. Jackson.

Mr. JACKSON. Mr. Smith, being a representative of a great fruit-producing area myself, I am sympathetic. However, if you changed the export machinery to include fruit in this program, it might then have to be changed to include periodicals, prunes, pots and pans, and anything else marketed abroad in a market that had been built up over a great number of years by American firms in the export field.

Could you give me the feeling of the Maritime Commission relative to inclusion of fresh fruits in shipments overseas?

Mr. J. A. SMITH. Answering your last question, I cannot.

Mr. JACKSON. Can you with reference to the Agricultural Department?

Mr. J. A. SMITH. No; but I can say this: In the commodity reports, in the break-down of the technical report, Secretary Anderson has indicated the inclusion of a very substantial quantity of fresh fruit to go abroad.

Mr. JACKSON. I think one of the practical considerations is that of shipping space. Is it not true that from the standpoint of shipping

space the inclusion of bulk products as represented by fresh fruit would increase the over-all shipping costs and decrease the amount of space available for foods of higher caloric content?

Mr. J. A. SMITH. No; I do not believe so. In the first place, the shipments of fruit from our area particularly, and that includes the entire Pacific coast, is very largely moved by the Panama Canal, which requires special refrigerated vessels. Those vessels cannot possibly maintain themselves, for example, with dry cargoes. They are a very different type of ship.

Those vessels are available for the carriage of fruit in sufficient quantities to solve our problem. We can ship from the Pacific coast, from the Gulf, and from the Atlantic coast.

I do not believe there will be any reduction in available space for other types of commodities by reason of the inclusion of fruit in this program.

You asked one or two other questions that are rather fundamental. I would like to take the opportunity, if I may, of explaining the position.

Mr. JACKSON. Please do.

Mr. J. A. SMITH. You mentioned that this might open a virtual Pandora's box of commodities that have a historical record.

I might mention again that agricultural legislation is pretty well established in our Government procedure. This, quite frankly, of course, is a combination of support and of inclusion of an appropriate commodity in a relief program.

This is an industry which cannot possibly alter its production to take care of demand and supply curves. We have to go along producing as the trees will produce, as you know from your own constituents. We must maintain our production on an even basis because we have no alternative.

If we were manufacturing goods we could shift in accordance with the demands, or if we had annual crops, we could do the same thing. However, we are caught between stable production, which is geared to the exporting of such a tremendous quantity of our fruit, and the lack of that export market, due only to the lack of dollar exchange.

Mr. JACKSON. Thank you very much.

Acting Chairman JONKMAN. Are there any other questions?

Mrs. DOUGLAS. I would like to ask one.

Are you getting less for your apples and pears now than you got in February 1946?

Mr. J. A. SMITH. Yes.

Mrs. DOUGLAS. Who is getting the money for the apples and pears? When we go to the market and pay higher and higher prices, who is getting the money?

Mr. J. A. SMITH. The grower is not getting it. I cannot answer that question directly. I have heard it raised before but I do not know the answer. There seems to have grown up, unfortunately, a mark-up system by the domestic fruit handler after it is out of the hands of the producer. The producer is getting less than the cost of production.

Mrs. DOUGLAS. You are getting less than the cost of production now and less than you got in February of 1946?

Mr. J. A. SMITH. Yes.

Mr. SMITH. Perhaps Mr. Holmes can help us.

Mr. VORYS. We would like to have an authoritative statement on this, and I think it is up to Congressman Holmes and these witnesses to get us this information in precise form, and just as Mrs. Douglas says, our family does not see any falling off in the prices of fruit a bit.

Mr. HOLMES. I believe the witness can furnish the information you desire.

Mr. J. A. SMITH. We would be glad to furnish that.

Mr. JACKSON. Could we also have, along that line, if it is possible, some break-down on costs, including labor and including everything that goes in? Let us take that tonnage of apples. It might be reflected in that, in some respect.

Mr. KEE. Would it not be a good idea if you could persuade these distillers who want to use wheat to manufacture intoxicating beverages, to ship the wheat over and make a little of what we call applejack out of your surplus fruit?

Acting Chairman JONKMAN. All I can say, Mr. Kee, is that the question is not germane.

Mr. Smith, we thank you for coming here, and in keeping with what Judge Kee was speaking about, I would like to tell a little story that I think will illustrate two things:

Mr. Jackson says he is interested in this.

We grow apples in northern Michigan. The point Mrs. Douglas brought up is illustrated by a thing that happened there.

There is a very prominent politician in my district who grew apples. Another politician used to buy them from him. He ran across a crate of Oregon apples one time. He took the tissues off there and put Melba-Pershing apples in their place. He went over to Mel and said:

"Here are apples I bought for \$2.40 a crate and you get about \$1.20 for those same apples."

He also said, "It is no better apple than you have."

He looked at it and said, "You can't fool me. Those are my apples."

But that is where the \$1.20 went in the process.

Our next witness is Mr. C. A. Barrett. Is Mr. Barrett here?

STATEMENT OF MR. C. A. BARRETT, PRESIDENT, TATE-JONES & CO., INC., OF PITTSBURGH, PA.

Acting Chairman JONKMAN. Mr. Barrett has submitted a most interesting paper to the committee which, without objection, will be included in the record at this point.

(The paper referred to is as follows:)

TATE-JONES & Co., Inc.

PITTSBURGH 19, PA.

Mr. Chairman and members of this distinguished committee, I appreciate very much the opportunity given me to testify before this committee. My name is Carlton A. Barrett, president of Tate-Jones & Co., Inc., industrial engineers and contractors, of Pittsburgh, Pa. I am also the commander of the largest American Legion Post in Pittsburgh, Pa.

I am very interested in the welfare of the people of the United States and particularly in the welfare of the young veteran of the past war and his opportunity to earn a decent living.

The reason that I am here today is because, through the activities of our company throughout the world in the last 2 years, we have been able to accumulate certain information and data that, if properly used, should make the administration of the Marshall plan a benefit to the United States rather than a burden.

During the term of UNRRA we furnished industrial plants for Europe and Asia and, in the last 12 months, we have made several trips and a complete study of the conditions in Latin America. As a result, we have found the following world conditions to exist.

Most countries outside of the United States are very much in need of many commodities and industrial facilities but they do not have the dollars to purchase these requirements. However, most countries outside of the United States do have surpluses of certain commodities and raw materials that are badly needed by the United States in carrying out of the Marshall plan and in building up our own stock piles of strategic materials. These surpluses are readily obtainable by the United States providing these countries, by some means, can secure the things they need in return at fair value. For example, the Argentine has a considerable surplus of wheat and meat. They are asking between \$5 and \$6 a bushel for their wheat against an average price of \$3 per bushel in the United States. This is being done, because if the Argentinians receive dollars for their wheat and come to the United States to buy industrial or agricultural equipment with those dollars, they must pay a premium price over and above the regular selling price in the United States for the equipment they need. I have the definite assurance of responsible people in the Argentine that they will sell us as much of their surplus wheat as we need at current prices in the United States if we, in turn, will give them dollar credits in this country to purchase equipment over the next 4 years at standard market prices in this country, and, to insure this, that the United States Government, through the agency set up to administer the Marshall plan, will supervise the purchase of this equipment. The Argentine alone can supply us this year with approximately 3,000,000 tons of wheat, 600,000 tons of oats, 3,000,000 tons of corn; barley, 900,000 tons; linseed oil, 250,000 tons. The Argentine can also supply us with large quantities of beef, edible fats, industrial fats and leather in the form of hides. All of the above can be secured at present United States prices if we can give them, in return, the machinery and equipment they need at average prices in this country. In addition to the above commodities, the Argentine can also supply us with dairy and poultry products. Also, if given machinery and equipment, she can supply us in a few years with many minerals that we need and also petroleum and petroleum products.

Other countries in Latin America can supply us also with the following:

Bolivia

If we confine program's interest to Bolivia's minerals only—tin, copper, lead, bismuth, antimony and wolfram, zinc, petroleum.

Brazil

Has coffee, rubber, cotton, sugar, Yerba mate or Brazilian tea, timber, vegetable oils, fruits, cereals and grains, meats, and many other items which Brazil can contribute under our sound plan.

Chile

Chile produces wheat, barley, oats, fruits in abundance. But suppose we say that her contribution under our sound plan is confined to her mineral wealth—her nitrates, her copper, her iron, her molybdenum, and sulfur. Chile also has lead, aluminum, manganese, bismuth, cobalt, potassic salts, mercury, mica, zinc, and many other minerals of which we depleted the United States during the war.

Colombia

Coffee, bananas, rubber, cacao, drugs, fibers, and petroleum.

Costa Rica

Has coffee, bananas, cacao, and possibilities for the development in a large scale of other resources. The country has not been touched industrially.

Cuba

Tobacco, that England needs so badly, fruits and vegetables, honey, timber, copper, manganese, iron.

Dutch Guiana

Timber is abundant, including mora wood, possum, cedar, greenheart and hardheart (which are cabinet woods). It also has bauxite or aluminum ores.

Ecuador

While having great possibilities of producing large quantities of foodstuffs, it will take time. However, she can contribute minerals, including crude oils, silver, copper, lead, and zinc.

Guatemala

Has coffee and bananas in large quantities. Can also supply coconuts and rubber.

Honduras

Has bananas, coconuts, coffee, hardwoods, silver, and exports some copra.

Mexico

Rich in resources that have not been tapped and only await industrialization. Produces a lot of livestock, millions of sheep, millions of goats, millions of poultry, millions of cattle and hogs. Has tremendous areas of timber. It has fibers, such as henequen; it also has ixtle hemp. Has mineral oil, vanadium, tin, copper, iron.

Nicaragua

Coffee, bananas, sugar, cacao, mahogany wood.

Panama

Bananas, coconuts, cacao, high-grade coffee, manganese ores, hardwoods.

Paraguay

Has vegetable oils; essential oils, such as the petit grain, distilled from the leaves of bitter orange, used as a basis for perfumes and flavors. That should go good with the French. Citrus fruits, timber—unlimited quantities, thousand of miles of forest remain untouched. Many rare and valuable woods are still largely unknown in foreign markets. Cattle and meat packing. Rich iron ores in many parts of the country.

Peru

Cotton, sugar, rice, in the increase, fruits, cocoa, coffee, olives, quinine bark, castor oil, flax, forest products, petroleum, copper, silver, lead, zinc, vanadium, bismuth, coal.

El Salvador

Coffee—at low-cost production. It has 140,000,000 coffee trees. Henequen, balsam. According to late estimates, there are some 646,000 head of cattle—only 75,000 consumed annually.

Uruguay

The last agricultural census shows the following figures:

Cattle.....	8, 226, 890
Sheep.....	17, 931, 327
Hogs.....	346, 329

In 1945 alone, Uruguay's exports of meats, mainly to Great Britain, were as follows (in kilograms):

Frozen beef.....	29, 917, 999
Frozen lambs and weathers.....	7, 240, 359
Frozen pork.....	744, 420
Frozen turkeys.....	355, 789
C. C. beef.....	50, 759, 437

Besides extracts of meats, ox tongue, salted beef, jerked beef, tallow, and grease. Also produces skins and hides; wheat, corn, barley, oats.

Venezuela

Coffee, cacao, sugar, oil, asphalt, coal, and many other items.

In all, we estimate that Latin America can supply commodities and strategic materials to the extent of 1 to 1½ billion dollars worth per year on a conservative basis, and all of the above countries are ready and willing to exchange surpluses of their natural resources and commodities for much needed industrial, agricultural, and transportation equipment if we will give them this equipment at the same price we pay for it in this country, plus transportation charges.

It is our suggestion that the agency set up to administer the Marshall plan be given the authority to contract for foodstuffs and strategic raw materials, wherever possible, in Latin America, Canada, Europe, or Asia as long as the country contracting is a friendly member of the United Nations, and be allowed to pay for

these items with credits to the contracting country for purchase of machinery and equipment in this country, over the next 4 years. The United States Government agency administering the Marshall plan to supervise the purchase of this machinery and equipment by securing their requirements from each country contributing and purchasing for each country by securing competitive bids from United States engineering and manufacturing companies.

This would enable Latin-American countries, through expansion in industry, to absorb most of the displaced persons of Europe as workers and solve one of the hardest problems the world has on its hands at this time.

We would enable Latin-American countries to develop vast mineral resources which, as yet, have hardly been touched and put them in a position to truly take their place in the plan for hemisphere solidarity and defense.

The work that would be given to this country would materially help to increase the take-home pay of the workman, create jobs and increase production generally so that we need have no fear of unemployment. At the same time, we would be able to keep these dollars in the United States and through increased production and profits, the United States Government would be able to recover approximately 25 percent of the amount spent through taxes without in any way increasing the tax rate.

Last but not least, we would immediately relieve the strain on our own commodities and inflationary prices on foodstuffs would tend to become normal.

Mr. BARRETT. Mr. Chairman and members of the committee, my name is Carlton A. Barrett, member of Tate-Jones & Co., Inc., industrial engineers and builders, of Pittsburgh, Pa.

We build industrial plants all over the world and in almost every country in the world. At the present time we are negotiating for industrial plants in Europe, Asia, South America, and Africa.

I am also committeeman for the national executive committee of the American Legion and as such am very much interested in world conditions today as affecting the lives of our own people in this country.

I have too many veterans of the last war coming to to see me looking for jobs. We began to wonder about the effect of the European relief plan on our own national economy. We proceeded a number of months ago to contact our engineers in various other countries to see if there was not a way that the so-called Marshall plan could be turned to advantage for the United States of America and at the same time accomplish what we wish to accomplish in western Europe.

I personally spent several months in the Argentine, Brazil, Chile, Peru, and Mexico. Last week I had a meeting in Florida at Boca Raton, with unofficial representatives of several Latin-American countries.

Our engineers are in Scandinavia, France, England; and we have representatives in India and China.

We find this condition to exist, as is well known, that practically all the countries in the United Nations are very much in need of many commodities and industrial equipment, but they do not have dollars to buy them. Therefore, immediately our problem was to determine the quickest, easiest, and most advantageous method to create purchasing power in those countries.

We found in our survey of Latin America that they require, need, and wish quite a large amount of industrial, agricultural, and transportation equipment. They have, in Latin America, enormous surpluses of foodstuffs that we anticipate using in our relief to Europe but which are short in this country.

I want you to understand one thing right at the beginning: In this plan of ours we have no intention of using commodities from countries outside of the United States to the extent that we would hurt our

own domestic commodities. However, we do plan to use commodities where available outside of the United States, to relieve shortages in this country, by using them to relieve Europe instead of our own commodities, as long as we can purchase those commodities outside of the United States at approximately the same price as our own commodities are bringing in this country.

I have a definite commitment from the Argentine Government that they will supply us with all of their surplus wheat, meat, corn, and various cereals, poultry, and dairy products, at current prices in this country, if they can get credits in this country to purchase from private industry in this country, industrial, agricultural, and transportation equipment in this country over the next 4 years.

I have right here a telegram from a high official of the Argentine Government stating that they have available for our use immediately, 3,000,000 tons of wheat; 250,000 tons of linseed oil; barley, 900,000 tons; corn, 3,000,000 tons.

They also have industrial fats, edible fats, wool, hides, leather, casein, chilled beef, superior beef, boneless beef, and they will give us these surpluses for use at current prices in this country.

In other words, it would be wheat at an average price of \$3 a bushel, if instead of dollars in cash they can get dollar credits in this country to purchase with and have whatever agency set up to administer the Marshall plan supervise the purchase of that equipment for them.

The reason for that is this:

We hear much criticism in this country about Latin America—not only the Argentine but other countries—asking exorbitant prices for their surplus commodities. The reason is this:

If they sell us wheat for \$3 a bushel, and they come back to this country to purchase industrial machinery and equipment at \$3, private industry in the United States asks \$5 for that industrial equipment that they would sell within our own borders for \$3. However, they feel this, if the United States Government supervises the purchase of that equipment as it did in the UNRRA program, and other programs that we have had, through competitive bids, that they will get a \$3 piece of machinery for \$3 instead of \$5 and they are willing to take the chance.

In my report there is listed the commodities available in every Latin-American country.

In addition to commodities, Latin America and Europe have valuable surpluses of strategic raw materials that we need badly, and which we can secure on a barter system in return for our relief and for our credits, at normal prices, which we could not receive in any other way.

We find that if this plan were set up we could get many of the commodities necessary for the administration of the relief plan immediately, without in any way creating additional shortages in this country, but on the contrary relieving the pressure on the market in this country for those commodities, thereby tending to bring prices down on basic foodstuffs.

We would throw close to \$1,000,000,000 a year, up to \$1,500,000,000, into this country for the next 4 years, thereby increasing the take-home pay of the average worker and through which the United States

Government would be able to recover 25 percent of what they spend through taxes.

Likewise I have the assurance and commitment of the heads of the various Latin American countries that if they are allowed to purchase industrial, agricultural, and transportation equipment from this country over the next 4 to 6 years, they will immediately start to absorb the displaced persons of Europe. They need many of those displaced persons very badly.

We talk about these surpluses at the present time from Latin America. As their industry grows and as they absorb the displaced persons, instead of having surpluses of commodities to export, they will gradually build up a population that will consume their own production, thereby eliminating our difficulties in our private markets and thereby increasing our own export markets for commodities in years to come.

We have checked this plan from almost every angle, and that is basically the program that we have outlined.

I would be very glad to receive any questions from any member of the committee, as to any dangerous effects that it might have on this country.

I also want you to remember that under this plan, every dollar that would be spent to use commodities from Latin America, Canada, or to secure basic strategic raw materials from either Latin America and Canada, or from Europe itself, would be kept in this country, and we would control the supplies, and the equipment, that would be given to western Europe and to Latin America to use.

That is all I have to say.

Acting Chairman JONKMAN. Judge Kee, have you any questions?

Mr. KEE. Your statement is indeed an interesting one. It seems to me it would be very well indeed if your statement was called to the attention of the officials of our Government and referred to every representative we have in those countries, the official representatives, for confirmation. If the findings are satisfactory, proper action should be taken.

Mr. BARRETT. I appreciate that.

Acting Chairman JONKMAN. Mr. Vorys?

Mr. VORYS. You have given a very interesting statement, Mr. Barrett.

As I understand, the plan contemplates South America joining the "Give Away Club" to the extent of several hundred million. We would like to have them in it, not only being willing to sell stuff for us to give away at world prices but it would be very nice if they would join the "Give Away Club."

What are the chances for the Argentine and Brazil shipping some of these foodstuffs that you mentioned in your extremely interesting outline, to Europe, and carrying it on the cuff or giving it away and not bringing us into it at all?

Mr. BARRETT. Mr. Congressman, there is a good chance if we, in our turn, will do something to back up our talk of good-neighbor policy at Mexico City, Habana, and Rio de Janeiro.

I will give you one short experience I had. When I went down to the Argentine in September, I arrived in Buenos Aires on September 20.

On September 30 I gave a press release that I was in the Argentine.

Now, we have done this ourselves in our own company.

To begin with, we have traded with the Argentine, to build a tin foundry and linoleum plants for which we get linseed oil to send to Sweden, and they give us high-grade steel, which we use in our mills and get dollars. Therefore we create a movement.

I gave a press release stating I was in the Argentine to sell industrial equipment in exchange for commodities.

The day before I gave that press release the British Ambassador had notified the Argentine Government; Mr. Juan Peron directly, and Don Miguel Miranda, that the several billion pounds that the British Government owed the Argentine Government for meat, for which they had not paid them, was frozen, and that the Argentine Government could expect none of those pounds for quite some time.

When my press release came out that we were ready to do business and exchange commodities for industrial equipment which they needed very badly, the following day the British Ambassador received a cable from London instructing him to notify Don Miguel Miranda that the British Government was willing to change their policy and put a much softer tone on that attitude that they were going to freeze their pounds.

However, at the same time the British are not in a position to supply much-needed equipment in Latin America.

In western Europe, through a survey of our engineers, we find the reconstruction is primarily reconstruction. It is the rebuilding of torn-down plants and equipment so that the population can produce something of value that they can use to trade with, and develop credits.

In Latin America, industry is basically new. They are new installations and they are building up new possibilities of industrial production in addition to what they already have.

Western Europe at the present time is terrifically crowded with people who are unemployed, who have no place to go, and nothing to produce with. The ground itself will not support the displaced people of Europe and in many cases will not support their own population.

In Latin America you have a very fertile field from an agricultural point of view to support the population and if we give them the opportunity to build up industry—in the Argentine, Brazil, Chile and Peru, the mineral deposits and the oil or petroleum deposits have not been exploited over 25 percent. If Argentina alone could get oil-well equipment, she could produce four times as much petroleum as she is producing today.

Today the Argentine is buying 25 percent of her consumption of petroleum, whereas she could produce all of her consumption and export 100 percent of it.

Brazil has enormous supplies of timber and wood.

I do not know whether you ladies and gentlemen know this or not, but in Latin America there are valuable tin deposits. It is tin of a grade equal to anything in the world. The only hold-back is the transportation and the mining facilities to get in and develop that tin.

Mexico grows three crops of wheat a year, as against one and two in most countries. That is due to their climate.

Your Central American Republics have very valuable deposits of tungsten, chrome, and nickel, and various other minerals that we need very badly here; and at the present time we are dependent on European or Asiatic countries for our supply.

Contrary to the average opinion in the United States, Latin America feels like a stepchild. They have been told, "We want to be good neighbors. We want hemispheric solidarity."

Latin America would like to participate in the administration of the Marshall plan and aid to Europe, and much to my surprise I have found that in the Argentine, where actual figures are available, that in unpaid-for relief to western Europe, in the last 3 years, the Argentine has contributed almost as much as the United States has but they do not publicize it.

I ran into families down there all the way from the wealthiest to the poorest—and by the way, outside of the peons out on the farm and the cattle raisers, the average working person in the cities of the Argentine and of Brazil is better clothed and lives better than the average poor working class of people in our country.

I saw no poor people in the Argentine. There are no beggars on the streets of Buenos Aires. Incidentally, there are no fireplugs there either. I don't know what they do when they have a fire, but they don't have any.

Latin America, from Mexico down, wishes very desperately to be considered in and with the actions of the United States. They need industrialization to balance their agriculture to support larger populations and to support populations who are anxious to be active and work. They want to work and they want to produce.

I shall now speak as I would as a financier, because I was controller of one of the Mellon companies for 5 years:

If we simply give western Europe our dollars—since the war ended and up to the present time we have given already \$15,000,000,000 and if we give another \$16,000,000,000 without using that \$16,000,000,000 to build something to our advantage and get something back for it we are going to work a continued hardship on our own people.

You may ask: "How, with the supposed steel shortage, are our industries here going to supply the necessary machinery and equipment over the next 4 or 5 years, to give Latin America this equipment in exchange for their foodstuffs that we need?"

Well, ladies and gentlemen, I will make a statement and not a supposition: There is no steel shortage in the United States of America. I have on my desk today commitments from brokers for over a million tons of steel which I can get immediately if I will pay the price for it.

Our business domestically is to build large furnaces and equipment for steel companies. During the war we built 82 war plants for everything from armor plate to shells, and part of the atomic-bomb program. I know the steel industry.

The policy of sales in the steel industry and production today has changed. Up to and through the war, steel mills produced and rolled steel and sold it to the end users, the fabricators, and the builders. Today, the companies are selling to warehousemen and brokers. Through them it gets to the end user and it goes at extremely high prices.

I felt very angry 2 days after Congress had finally stuck its neck out and passed the Taft-Hartley Act, when Big Steel signed an agreement with organized labor, practically abrogating the application of the Taft-Hartley Act to labor. However, I believe I can see, now,

that Big Steel did not care that Congress had stuck its neck out because Big Steel, through the methods it uses today, can get any price it wants for the steel it produces.

I know that if this program is adopted, in the administrative end of the Marshall plan, that the foundries and the fabricators who need steel to produce industrial equipment—not only for Latin America but for western Europe, in the rebuilding of plants—can get all the steel that is needed.

Also, under this barter system, western Europe itself, where many countries have available good deposits of basic minerals, can, while we are giving them relief, give us in return quite large tonnages of the ores that we need to make this machinery with.

Are there any other questions, sir?

Mr. VORYS. Is the surplus you referred to in the Argentine, surplus over and above domestic needs or over and above their domestic needs and their present international commitments?

Mr. BARRETT. It is over and above their present domestic needs and international commitments. Even Don Miranda does not know that this cablegram is the last word. It is right up to date. That is because the Minister of Agriculture was with me in Florida and he got this cable right from his office in the Argentine.

Mr. VORYS. Are you going to file that telegram?

Mr. BARRETT. That is in the record, in my report.

Mr. VORYS. Thank you.

Acting Chairman JONKMAN. What is the wish of the committee? So you wish to proceed at this time or shall we adjourn until 2 o'clock. Without objection, the committee stands adjourned until 2 o'clock. Thank you very much.

(Whereupon, at 12:15 p. m., the committee recessed, to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

(The committee reconvened at 2:15 p. m., at the expiration of the recess.)

FURTHER STATEMENT OF MR. CARLTON A. BARRETT, PRESIDENT TATE-JONES & CO., PITTSBURGH, PA.

Acting Chairman JAVITS. Dr. Eaton has asked me to preside, and if it is agreeable to the rest of the committee we will go ahead with Mr. Barrett.

I think when you left at the noontime recess you were being questioned by Mr. Vorys. Mr. Vorys is not here.

Mrs. Bolton?

Mrs. BOLTON. You were telling us something of the method by which you found you had been able to buy one thing and another by means of something on the order of barter.

Mr. BARRETT. That is right.

Mrs. BOLTON. Take Argentina, for instance, if we were able to do this, Argentina could stipulate as to what she would get in return. What would she get in return?

Mr. BARRETT. For example, Mrs. Bolton, we worked in our own company a process whereby the Argentine Government would have

a tin foundry. Just recently the Argentine Government has made a treaty with Bolivia for a certain portion of Bolivia's tin ore. They will get 30,000 to 40,000 tons of high-grade tin ore a year.

At the same time we are in negotiation with the Swedish Government to build linoleum plants in Sweden. She has all the natural resources necessary with the exception of linseed oil. The Argentine Government has a considerable surplus of linseed oil. Therefore, we make arrangements whereby we sell the tin foundry to the Argentine Government in exchange for linseed oil and a certain percentage of their high-grade tin ore they are getting from Bolivia. We bring that ore back to this country and sell it to the companies who use tin. We sent the linseed oil to Sweden in return for which the Swedish Government is willing to enter into an agreement with us to furnish us with high-grade iron ore which we bring back to this country and sell to our steel mills for dollars.

In the absence of dollars with which to do business, and having found through our operations throughout the world, industrially, that most countries have some natural resources in surplus, we find that, although the majority of the United Nations countries do not have purchasing power with dollars, they do have purchasing power with surplus natural resources in some form. Latin America has commodities and the European countries have minerals.

Now Latin America with its great excess of commodities and their great desire to enter into hemispheric solidarity with us, should be given the opportunity to supply those commodities in exchange for industrial equipment, agricultural equipment, and transportation facilities that we can furnish, rather than dollars.

Mrs. BOLTON. But, then, would that give Argentina pretty high priorities on our rather scarce transportation facilities?

Mr. BARRETT. No; because Argentina would not expect to get transportation facilities immediately. Argentina or any other Latin American country would not expect to be able to purchase in this country, equipment that is scarce here at present. They would expect to be allowed to purchase that equipment through their credits that they would develop, as soon as the opportunity arose to get those facilities from this country.

What we could supply Latin America, Argentina, Chile, Peru, and Mexico at the present time with industrial equipment without straining our own resources to any great extent, or, that is, our capacity.

Very few of your steel foundries, your machinery manufacturers, are operating at full capacity at the present time in this country.

Mrs. BOLTON. Is that because of lack of ore?

Mr. BARRETT. They claim it is because of lack of raw material. When we adjourned at noon, I think we were in a discussion of that lack of raw material. In all probability, some members of this committee might doubt my statement when I say there is no steel shortage in this country. I made the statement that the only steel shortage we have in this country today is a synthetic shortage that is created by the method of producing and selling steel today as against the proper method that was exercised before the war and during the war. I stated that, instead of selling steel today directly from the mill to the end user or the fabricator, the steel companies were selling through warehousemen and brokers to the end user.

To bear out my statements it may be interesting for your committee to read a letter that I have here from a company that is a brokerage company. It takes in quite a large tonnage of steel that I am offered.

Acting Chairman JAVITS. Tell the committee what it contains.

Mr. BARRETT. This is from a brokerage company in New York:

DEAR MR. BARRETT: As per our conversation, we offer the following: No. 1—2,000 tons of angles, choice of size and thickness from 3- by 2-inch to 8- by 8-inch. Price \$0.075 per pound—

which is 60 percent higher than the regular mill price—

No. 2—Hot-rolled mill edge bands. Approximately 500 tons from 1- by ½-inch to 2- by ½-inch, lengths 20 feet. Price, \$8.45 per hundredweight—

which is 100 percent more than the mill price.

No. 3—Cold-rolled rejects. These rejects are largely overruns on orders and are prime material in large part. Some rejects for off size of sheets or off gage by ¼ to ¾ per thousandth. Gages 10 through 20 (80 percent or more 16, 18, and 20) Size sheets 15-by-48-inch to 30-by-120-inch commercial soft; 2 cars per week over period several months. Price \$200 per ton.

which is approximately 100 percent higher than the mill price.

No. 4—Same as item 3. We have an additional four to five cars weekly 21- to 30-gage. Price \$200 per ton,—

which is 100 percent higher than the mill price.

We have available at least 10,000 tons of No. 1 heavy melting scrap per month but before we can secure this on a firm basis we must propose a concrete method by which the scrap dealers secure greater return than they will from selling direct at market price plus the usual secret bonus.

This letter is for the files of the committee. I would suggest you delete the name of the company from the public record, but as far as the committee is concerned you are welcome to the name.

Acting Chairman JAVITS. Thank you.

Mr. BARRETT. Now to illustrate how this secret bonus plus extra compensation works, I received an additional letter dated January 31 from the same company:

We have been authorized to proceed with the disposition of 2,000 to 5,000 tons per month of No. 1 heavy melting scrap on the following basis:

(a) Return in small tons of sheet at the ratio of 25 percent of the gross tons of scrap.

In other words, for every 10,000 tons per month the scrap dealer delivers, he gets 25 percent of that tonnage back in finished sheet at mill price, which sheet he can sell at the present market price of \$200 to \$215 a ton.

(b) The sheet to be ordered by the end user—

a manufacturer having a history of large use of sheet steel—

named by the scrap dealer. (The scrapping operation was undertaken to secure this sheet for his factory.)

And for your information, this scrap is LST's that are being cut up by torch, that were sold to this scrap dealer at 10 cents on the dollar by the United States War Surplus or War Assets Administration. This could be sold directly to the mill at the same price and lower the cost of production, and the mill would not be obligated to return sheet to the scrap dealer but could send those sheets directly to the end user.

(c) The scrap price to be market price for unprepared No. 1 heavy melting at the site of operation.

(d) Provide a mechanism to insure their end user receiving the sheet from the mill when they release the scrap to the mill with no premium payment.

There are several means of securing compensation for us but the most satisfactory would be to secure a commitment from the mill for more than 25 percent return of sheet. (We know 33½ percent returns and more.) The excess beyond 25 percent could be sent to an end user named by us from whom we would receive compensation.

'We have other sources of scrap offered with different stipulations than those outlined, so advise us if you cannot arrange a deal on the above basis.

That is also for the files of the committee.

Could I ask Mrs. Bolton whether she is satisfied with the answer or whether she desires further information.

Mrs. BOLTON. If you have more to give me, I would like to have the whole story.

Mr. BARRETT. In continuation of what we were talking about before that, I have talked in front of and to 14 of the largest American Legion posts in the United States on this subject. For the information of those of you who were not here before lunch, I will repeat that I am a member of one of the national executive committees of the American Legion, besides having our own company.

Most of the young GI's are very definitely interested in the welfare of this country, and in earning a living for themselves, their wives, and their children. With the high price for commodities in this country today, and with the indication that through the administration of the Marshall plan, as set up today so far, the intention is that you take the commodities needed for the administration of the plan from this country. They see only hardship, further shortages, and even a depression and lack of employment.

Whereas, as I stated before, inasmuch as Latin America is willing to give us her surplus commodities, at prevailing prices in this country today, in exchange for the contracts and credits to purchase the industrial, agricultural, and transportation equipment she needs over the next 4 or 5 years, I see no reason why we cannot take advantage of that situation, and before we use our own short commodities—and you will notice I use the words "our own short commodities," because I do not depend on hurting American exporters when they have a surplus to export.

If we will use the surplus commodities Latin America has to offer in exchange for industrial equipment, and if we would also use the natural mineral resources of not only Latin America, but Europe and Asia to pay us in return for the money and credits that will be developed in this country for those countries, we can turn this Marshall plan into a great advantage to the people of the United States. By so doing, we will automatically relieve the strain on our own commodity market. We will automatically throw into this country annually, one billion to one billion five hundred million dollars for work for industry. The Government will be able to recover at least 25 percent of that money through taxes, because those dollars will stay in this country, and at the same time, we will be able to do everything that we have heretofore contemplated for western Europe.

Now, there are two other things: If we administer the Marshall plan by using our own supplies and commodities, we are going to weaken the United States and we are going to do something to solidify someone else, but not the Western Hemisphere. However, if

we use the surpluses available from other Western Hemisphere countries, we will strengthen those countries, both industrially and financially, and at the same time, we will create a terrific friendship that is not existing at the present time because although we have made speeches at Mexico City, Habana, and Rio de Janeiro, so far we have done nothing actually to back up those statements.

Secondly, one of the greatest problems we have to consider at the present time and that the Government of the United States is confronted with, is what to do with the displaced persons in Europe. If Latin America can increase its industry, Latin America says it will be glad to absorb the displaced persons of Europe and put them to work. They have land, the natural resources, the agricultural resources to absorb those people and put them to work. I assure you, gentlemen, that every place that I have talked, every place that I have gone and even mentioned this subject, the man in the street, the industrialist, the worker, organized labor, has been 100 percent in favor of it.

If there are any other questions, I will be glad to answer them.

Mrs. BOLTON. Thank you very much.

Acting Chairman JAVITS. Mr. Jarman.

Mr. JARMAN. I am glad to look up here and see such a fine looking, dignified new chairman.

Acting Chairman JAVITS. Thank you very much. It is very temporary assignment, I assure you.

Mr. JARMAN. Mr. Barrett, you have presented an entirely different angle to us, I believe, from any we have had before. I am mighty glad to have it in the record. I hope and I am sure that the Administrator or whoever handles this program will look very carefully into the possibilities you suggest. Being somewhat familiar with South America, I realize the advantages of what you say.

While I do not believe you said so in so many words, you indicated rather strongly that you think Latin America has great possibilities, generally speaking.

Mr. BARRETT. Definitely.

Mr. JARMAN. I certainly do myself, and so much so that I have often said that if I were 20 or 30 or 40 years younger, I think I would be tempted to cast my lot down there somewhere.

Mr. BARRETT. Well, you know, Congressman, when you sit down in Santiago, Chile, or Buenos Aires in the Argentine, and you find you can ride for 1 hour in a taxicab for 25 cents in United States money with no tips, and you can get sirloin steaks three times a day, and if you sit down to a 2-pound sirloin steak at dinner with everything from soup to nuts, and they bring in a couple of tray loads of French pastries and fruits and things for you to eat, and you have red wine and light wine, and when the bill comes around, it costs you \$1.90 in American money, you wonder what in the world is wrong up here.

Mr. JARMAN. Is that still true?

Mr. BARRETT. That is still true; yes, sir.

I took Mrs. Barrett down there with me on one trip, and I had an awful time getting her back up here.

Mr. JARMAN. I can understand that. I want to go back myself.

Mr. BARRETT. I have found this, and maybe you have noticed it: The attitudes and opinion of many people in the United States seems

to be that there is a certain amount of communism or fascism in Latin America.

Well, ladies and gentlemen, I lived with those people, all the way from the working class to the top-ranking people, and I never found more democratic countries in my life. As a matter of fact, if anybody in either Argentina or Peru or Chile or Brazil sticks their heads up and indicates that they are either Fascists or Communists, they get thrown out of the country awfully fast.

However, I did stand on the docks of Buenos Aires and I saw two large ocean transports come in loaded with immigrants from Europe, and not one of those immigrants were allowed to land, because they had no place to put the people to work.

Now, if they had additional industries down there, they would have been glad to take every one of them.

I know Mr. Peron personally and I know Mr. Miranda personally. I know most of the heads of the various departments there, and I can assure you that in the last 2 years they have realized that their existence absolutely depends on keeping their people happy. No matter what may have been understood or inferred at the time Mr. Peron went into power, I can assure you that at the present time he is more interested in doing good for his people. The Government of Argentina is spending some \$300,000,000 to rebuild the city of San Juan. That was destroyed by earthquake 5 years ago, and yet in spite of that those people would not live in the place where they did live. They are building homes for those people that are so much better than anything they ever lived in before, that there is absolutely no comparison. They would like to have woodworking plants down there to process their timber so they could build houses. They want linoleum plants in the Argentine so they can make roofing material and linoleum. That will not in itself interfere with our foreign markets or exports, because what they could manufacture with the plants we would build would probably only be about 25 percent of what they would actually use.

However, in exchange, they have oil resources at least 300 percent larger than they have developed at the present time. They are offering now special inducements to American petroleum companies, facilities and tax-free considerations to come down and develop those oil fields.

Brazil has an unlimited amount of timber and meat. They want us to build them a tin-plating plant so they can make tin cans to package their meat.

I would say that the Argentine and Brazil alone together could furnish all the meat that would be needed to our Marshall plan aid to Europe, without shortening our commodities at all here or creating any other shortages.

The other Latin American countries can furnish various other commodities which I have listed in this report.

I know as a citizen of the United States, and many of my friends and many of the servicemen of both World War I and World War II would feel very, very badly if we used, in the administration of the Marshall plan, commodities that were short in this country and high-priced today, and make them higher priced, when we could buy those same commodities from surpluses that Latin America could furnish us at current prices.

Acting Chairman JAVITS. Dr. Judd.

Mr. JUDD. Mr. Barrett, if you have answered this in earlier testimony, just ignore it.

If these countries sell to European countries direct or to us and then we transfer to European countries the commodities, they have in long supply—wheat, beef, and so forth—why is it that they cannot themselves buy our machinery and things they want in America at the same prices as Americans?

Mr. BARRETT. I had very forcibly the example put before me by the American Army Commission that went to Buenos Aires to buy grain. The Argentine Government, in the first place today, cannot buy machinery and equipment that they want in any country in the world but the United States. The Argentine Government has been asking \$5 and \$6 a bushel for wheat. That is because, as the Argentines as individuals or groups come to this country to negotiate with private industry to purchase industrial machinery or equipment, the individual private American industry asks about 50 percent on the normal price that they charge ordinarily.

In other words, if Argentine sold a bushel of wheat to this country for \$3 and came back to this country to buy a piece of machinery that ordinarily would cost \$3 in this country, she would have to pay \$5 to get it.

Mr. JUDD. Is it your idea that if our administration bought those through the regular purchasing agencies of the Government, they could get it at the same price as would an American?

Mr. BARRETT. We know that to exist, because our company had the largest part of the industrial end of the UNRRA program. By purchasing through the United States Treasury Department by competitive bids, we build plants in China, India, Asia, and Europe, and we furnished those plants at prices that were not in any case higher than those in the United States, and in some cases lower.

Mr. JUDD. Could you get them cheaper through the Government than if they were bought directly?

Mr. BARRETT. Definitely.

Mr. JUDD. That is all.

Acting Chairman JAVITS. Mr. Richards.

Mr. RICHARDS. Mr. Barrett, I am sorry I was unable to hear the first part of your testimony. I was unavoidably detained.

I would like to ask you this question: Do you favor the Marshall plan?

Mr. BARRETT. Yes, sir.

Mr. RICHARDS. That is, provided we do the things that you suggest about buying surpluses from other countries?

Mr. BARRETT. Yes, sir.

Mr. RICHARDS. Commodities in short supply in the United States?

Mr. BARRETT. That is right. We have given so far since the war ended \$15,000,000,000 plus to Europe, without any return. Now, I am perfectly willing to go along and my friends are perfectly willing to go along and spend another \$16,000,000,000 if necessary, providing we use that \$16,000,000,000 to build something in this country.

Mr. RICHARDS. I get your point.

Mr. BARRETT. We also are of the firm belief that if this aid program were so set up that we appropriated so much money each year, that by using the surpluses from Latin America and other countries, and

at the same time building them up, that by the end of the second year you would not need to appropriate anything more for the Marshall plan.

Mr. RICHARDS. I understand your view. I believe it is entitled to every consideration. It is a very worth-while contribution to the testimony before this committee.

Now, as a businessman, what do you think about the set-up for administering this relief? Do you favor a board, or do you favor one administrator?

Mr. BARRETT. I do not favor administration by the State Department. I favor administration by a small bureau or agency set up to administer this particular program under supervision of the Industrial Division, or any section of the State Department that the Secretary of State so designates. I think that particular agency should be composed of American businessmen and not statesmen.

Mr. RICHARDS. Should they be independent of the State Department?

Mr. BARRETT. I would say that they should be allowed to operate with a great deal of freedom from the State Department, but I do think they should be supervised or a final check on what they are doing should come from the State Department.

Mr. RICHARDS. Which would handle questions of foreign policy.

Mr. BARRETT. That is right.

We have done business with practically every foreign government in the world in the last 3 years, and we have had occasion to meet the heads of those governments and their representatives, industrially and diplomatically. You must interlock your foreign policy with the administration of the Marshall plan in some way.

Mr. RICHARDS. In the case of a difference of opinion between the State Department and this board of businessmen, who would decide?

Mr. BARRETT. I think if there is a division of opinion between the State Department and this board of businessmen, then I think the foreign relations committee of the Senate and the House of Representatives Committee of Foreign Affairs should give the final answer.

Mr. RICHARDS. Traditionally and constitutionally the President of the United States operates our foreign policy.

Mr. BARRETT. The President of the United States operates our foreign policy, but the Congress of the United States controls the business operations of our country.

Mr. RICHARDS. That is all, Mr. Chairman.

Acting Chairman JAVITS. Mr. Lodge.

Mr. LODGE. Mr. Barrett, do you know of any reason why the present administration would not be willing to accept your suggestion?

Mr. BARRETT. No, sir.

Mr. LODGE. Would you be inclined to go along with this: That the European recovery program will depend in large part for its success on the degree of reciprocal self-help, the degree of economic federation which is obtained in Europe, and that what you are proposing is to apply to this hemisphere, the same principles of reciprocal self-help, so to speak, and the same economics as it is recommended be applied to Europe?

Mr. BARRETT. I do agree, sir.

Mr. LODGE. In other words, you see this as the other end of the stick, so to speak?

Mr. BARRETT. That is right.

Mr. LODGE. How would you write this into the legislation, Mr. Barrett, or have you not gone as far as that in your thinking?

Mr. BARRETT. That in the administration of the plan for aid to Europe, that the body administering the funds for this program be instructed to take every advantage of surpluses in both commodities and raw materials, from friendly countries and the United Nations group, in the purchase and supply of those commodities and raw materials, before using any of our scarce commodities and raw materials, providing those commodities and raw materials can be purchased at an average world price.

Mr. LODGE. You would make that in the form of a suggestion in the legislation, rather than in the form of a mandatory instruction?

Mr. BARRETT. That is right.

Mr. LODGE. You feel that the administration should not be bound by any such instruction?

Mr. BARRETT. I feel that if the Congress of the United States appoints as the administrative head of the United States someone to operate that bureau or department, that they will appoint a man who has common sense enough to do the best along those lines, if it is suggested to him.

Mr. LODGE. Mr. Barrett, how do the people of South America with whom you have contact, feel about Spain?

Mr. BARRETT. The people in South America are very friendly toward the people in Spain. The people of South America feel that this country has unjustly ignored Spain in many things in the United Nations Councils. They do not entirely sympathize with everything that Mr. Franco has done. They do not entirely sympathize with certain policies in Spain, but, after all, to many people in Latin America Spain is a mother country. The families of many of them are back there, or some of them, and Spain has natural resources to offer and it is willing to offer cooperation if she is given a chance.

I understand many things about our foreign policy that I have run into in many foreign countries that may be very necessary in the end in the carrying out of our foreign policy as established, but I know too much about our foreign policy and its actual workings to feel that we are always entirely right. We are speaking here of exchanging machinery and equipment for commodities with Latin America, things that we need in the administration of the Marshall plan, but 3 weeks ago England made a deal with Russia to purchase wheat from Russia in exchange for machinery and equipment that we have given England money to build, and yet we cannot do business with Russia. We have been offered \$50,000,000 worth of industrial business in Yugoslavia, of which we cannot touch a dime's worth.

Today the commercial attaché of the Yugoslav Embassy would like to place that business with us, but cannot because our State Department will not allow it. England got an order from Yugoslavia for \$50,000,000 worth of equipment and machinery, and took it. She built that with money that we loaned her.

Mr. LODGE. Do you believe such arrangements should be discouraged between Britain and Russia, but do you believe that insofar as it relieves the strain on our wheat supply it is a good thing?

Mr. BARRETT. I will say this: That as a citizen of the United States who served in the First World War—and all my family are Army and

Navy people except myself—they have all been high-ranking officers; General Patch of the Seventh Army is my cousin; my father just retired after 56 years' service in the Army in three wars; my uncle was Quartermaster General of the Army for 12 years, and if it is not right for us to do business with Russia and Yugoslavia, why, it is not right for England to do it with our money.

Mr. LODGE. Do you think it is right for us to do that business?

Mr. BARRETT. Under present conditions, no. I know the Russians very well. I know the Yugoslavs very well. Russia must be made to understand that she must give consideration to other peoples in the world. The Russian people as a whole are not antagonistic to the United States.

Mr. LODGE. Then you believe, Mr. Barrett, that we should not aim in this program toward a resumption of trade between eastern and western Europe, that we should not have as one of our objectives that the industrial surpluses of western Europe should be exchanged on a larger scale with the agricultural surpluses of eastern Europe?

Mr. BARRETT. There is only one thing the Slav mind understands and that is force. I thoroughly believe from my own experience with the Slavs that if General Marshall had the authority, and came out and told Russia to get out of any country that she is now in that is a satellite nation, or to stop right where she is, if he said that in no uncertain terms and used those very words, Russia would not move one inch further.

That is the only thing they understand.

Furthermore, I also know that from an economic point of view, Russia is in no position to carry on a war.

Mr. LODGE. Thank you very much, Mr. Barrett.

Mr. MALONEY. Following Mr. Lodge's question on Spain, would you be in favor of Spain being included in the Marshall plan?

Mr. BARRETT. I would, yes, sir.

Mr. MALONEY. Do you think that Spain could really contribute to the general plan?

Mr. BARRETT. I do, sir.

Mr. MALONEY. That is all, Mr. Chairman.

Acting Chairman JAVITS. I have just two questions, if you will be good enough to answer them:

What are these Latin American countries doing with these huge surpluses now? Are they going to throw them in the sea?

Mr. BARRETT. Last year they burned as fuel 800,000 tons of wheat.

Acting Chairman JAVITS. That is in the Argentine?

Mr. BARRETT. Yes, in the Argentine.

Acting Chairman JAVITS. Are they expected to do the same this year?

Mr. BARRETT. This year they have given instructions to the farmers that unless they are included in the Marshall plan, they are to plow under two-thirds of their farm area.

Acting Chairman JAVITS. By "included in the Marshall plan," just what do you mean?

Mr. BARRETT. To furnish their commodities, their wheat, their meat, and their corn.

Acting Chairman JAVITS. As part of the plan?

Mr. BARRETT. As part of the plan.

Acting Chairman JAVITS. Now, you said these countries were being discriminated against by American suppliers of industrial materials, insofar as price is concerned?

Mr. BARRETT. No more so than any other foreign country. As a matter of fact, it is common practice in the United States, in engineering concerns and machinery manufacturing concerns, instead of adding the usual 10 percent that is added when we sell in this country, to add 40 percent when you are doing business with a foreign country.

Acting Chairman JAVITS. Suppose, on these bids obtained by the United States for them on your plan, the price would still be above the normal United States range, would you have the United States pay the difference?

Mr. BARRETT. No, sir.

Acting Chairman JAVITS. Then the scheme would fail?

Mr. BARRETT. No. The Latin Americans are satisfied that if the agency designated by the United States Government to administer the Marshall plan will supervise the purchase of the equipment and machinery that they need and for which they will submit requirements, if this agency of the United States Government will supervise the purchase of that equipment, they are satisfied just to call the deal a deal, and give us their commodities at average prices.

Acting Chairman JAVITS. Even if it is not actually successful, even if they still have to pay the high price?

Mr. BARRETT. That is correct.

Mr. JUDD. May I ask one question?

Acting Chairman JAVITS. Yes.

Mr. JUDD. Why do they increase their prices so exorbitantly when they deal with these foreign countries? Just because they can get it?

Mr. BARRETT. That is it exactly.

Mr. JUDD. Why can they not get it from us? Our country has to buy the commodities, too.

Mr. BARRETT. In the first place, there is too much competition in this country. There are too many companies in this country doing business only in this country. There are comparatively few engineering companies doing business on a foreign market.

I will give you a perfect example: The United States Steel Corp., Carnegie-Illinois, National Tube Co., Republic Steel, and all those fellows decide to build a new steel mill. Their engineers decide to build a plant; they buy the equipment direct from the manufacturers and install it themselves. Whereas, if a foreigner comes into this country and wants a steel mill, he cannot go to any one of those steel companies and get the drawings. They will not furnish them. He has to go to an engineering company which charges a 10-percent fee for the drawings and engineering. Then that engineering company does the purchasing and buys the machinery and the equipment, shifts the equipment overseas, furnishes drawings for foundations, and builds things, and also furnishes technical experts to supervise the installations and the opening operations of that mill at a fee.

Mr. JUDD. I judge from the letters you previously submitted, that a lot of these companies are charging Americans just as badly as the foreigners, when they can.

Mr. BARRETT. Well, I would not argue that point with you.

Mr. JARMAN. They send experts over to open the plant at a fee. Is that a part of this 50-percent add-up?

Mr. BARRETT. No; that is normal, but they add that 50 percent to the fee they ordinarily would charge.

In other words, if we would send a man as we often do to a certain location—for example, we are building some industrial installations for the Weatherhead Co. down in Louisiana. We send a superintendent down there and we charge them \$50 a day and expenses for that man. If we were sending that man to the Argentine, we would charge them \$100 a day and expenses.

Mr. JARMAN. Then that criticism down in South America and other countries, too, about American businesses gouging them, it is well-founded, is it not?

Mr. BARRETT. It is well-founded.

Mr. JARMAN. I did not realize that, and I am sorry to hear it.

Mr. BARRETT. I am just giving you facts, sir.

Listen. Our economy in this country is so tied up with world economy, that if we simply ignore world economy and contribute of our own wealth for temporary aid and relief to western Europe, this \$16,000,000,000 will disappear like the other \$15,000,000,000; we will have less work in this country, we will have unemployment, and the world will be no better off. Whereas, if we use this \$16,000,000,000 to create prosperity, not only to rebuild Europe to normal, but to increase prosperity in the Western Hemisphere where those people, through better living conditions, will want more of what they call luxuries today, but what we look on as necessities, then our export markets will double and triple and increase and this thing will be like a snowball over the years.

Mr. JARMAN. I thoroughly agree with all of that except I do not see how it will double and triple with this 50-percent addition.

Mr. BARRETT. We will not put the 50-percent addition on if we have to supply it through a Government purchasing agent, and if the proper businessmen are put in charge of that bureau administering that. They will know whether the prices are right or not, and they know where to go to get the right prices.

Mr. JARMAN. This letter that you had here, what kind of firm is it? I imagine that is a legitimate brokerage firm?

Mr. BARRETT. That is a legitimate American brokerage firm. There are thousands of them.

I have a commitment right now from a past commander of the American Legion for 150,000 tons of steel, cold-rolled sheet, deep, drawing stock, 18- to 22-gage, and it will be shipped right from a mill in Chicago at \$215 a ton. They say there is a steel shortage.

Mr. JARMAN. In view of these facts you have revealed, I can understand how, especially with anybody that might be inclined to be demagogic, a bad impression of us exists in the minds of some Latin Americans.

Mr. BARRETT. That is right.

Mr. JARMAN. It is not encouraging to me.

Mr. BARRETT. As I said this morning, the War Assets Administration is sending millions of tons of armament to scrap dealers at 10 cents on the dollar. Those scrap dealers are spending another 10 cents on the dollar and cutting it up with a flame torch. Instead of selling that scrap directly to the steel mill, they are calling up a broker or an agent who, in turn, sells it to the steel mill. The scrap dealer makes quite a nice commission, the broker or agent makes quite a

nice commission before the steel mill gets it. It is either that, or the broker and the scrap dealer specify that if they give the steel mill 100,000 tons of scrap at \$45 a ton, they have to receive back 50,000 tons of finished sheet at \$95 a ton, which they in turn will sell for \$215 a ton, because the people will pay it.

I had the purchasing agent of Henry Kaiser fly into my company office a few weeks ago and beg me to get him 500,000 tons of steel to make automobiles out of. I said, "I can get it, if you will pay \$215 a ton. I will not add anything on for myself, because I want to do you a favor."

He says, "I will pay anything to get it."

Mr. JARMAN. Now, how do they sell that War Assets scrap; do they sell it by bids?

Mr. BARRETT. Surely, they sell it by bids, and in some cases the deal is negotiated.

If the Government could cut that scrap up and sell it direct to the steel mills, you would eliminate about 90 percent of that.

Mr. JARMAN. The steel mills do not bid, evidently?

Mr. BARRETT. No; because all these big steel mills have agreements with the scrap dealers. We have a bunch in Pittsburgh we call the forty thieves.

I will give you a concrete example: You had a gentleman in the newspapers by the name of Henry Weisman, and some of the things I get angry about as a citizen—on December 27, 1944, I rode out on the Pittsburgher from New York, sitting alongside Leonard Weisman.

He turned to me and said, "Can you raise \$10,000?"

I said, "Sure, what for?"

He said, "Look at this letter." It was a letter from the colonel in charge of the British Purchasing Commission in New York. At that time we needed 105-millimeter shells, right after the Bulge. There was a plant up in New England the Government paid \$3,500,000 to put machinery in to make the shells and the British were not using it. This letter offered this plant to this general scrap dealer, Leonard Weisman, who is one of the "forty thieves," for \$20,000, United States money, cash.

If you want to check me, I got off the train in Pittsburgh and called Paul Gaston in the Machine Tool Division of the War Production Board and told him about it, and he did not know about it. He called me back on New Year's morning at 8 o'clock and said, "I know you will be happy to know that I had the United States Army take over that plant."

Mr. JARMAN. I do not want to check you, but I want to know who made that offer.

Mr. BARRETT. The British Commission in New York offered it to these scrap dealers in Pittsburgh. Every one of the big steel companies buys their scrap through a scrap dealer. That is normal, but in this case I do not see why the United States Government cannot sell the scrap direct to the mills.

Mr. JUDD. I can think of a company in my district that has been trying for 8 or 10 months to get some machine tools that are in some of these aluminum plants such as New Castle, Pa., Dayton, Ohio. The tools are there; they have been there for 2 years since VJ-day, but they said they cannot sell them because the paper work is not complete.

They were there 2 weeks ago, and last week they were gone.

Mr. BARRETT. A scrap dealer probably got them.

Mr. JUDD. Yes. The administration would not sell them to the man up in my district who is using the stuff to make oil burners, and so forth, for GI houses. No; they sell them to the dealer and the manufacturer then has to pay two prices for them afterward.

Mr. MALONEY. Is there fraud in this thing?

Mr. BARRETT. There is not one bit of fraud. According to our present existing laws, a man can buy anything at any price he wishes to pay for it and he can sell it for any price he can get for it. However, I do think that the United States Government, in the administration of its own departments, can take certain steps that will minimize the conditions that are not right, that are existing.

Mr. MALONEY. It leaves the door open for a lot of fraud, does it not?

Mr. BARRETT. That is true.

Mr. RICHARDS. Mr. Barrett, if the United States Government went to cutting up this stuff and selling it as scrap, you would have a howl from all legitimate big business throughout the United States that the Government is competing with private business, would you not?

Mr. BARRETT. Why?

Mr. RICHARDS. I do not know why, but you do.

Mr. BARRETT. No; I do not think you would.

Mr. MALONEY. Would the gentleman yield there?

Mr. RICHARDS. I think you would.

Mr. BARRETT. Legitimate dealers do not like scrap dealers, but they have to do business with them.

Mr. RICHARDS. Why must a steel manufacturer go through a scrap-dealer to get the stuff?

Mr. BARRETT. Well now, look: If I told you everything I know, I am afraid the Internal Revenue Department would be following me around to get some information—not on myself, but on things that I know.

Mr. RICHARDS. Well, I think the things that you are telling us could be very helpful.

Mr. BARRETT. I am afraid they could. That is why I am telling them to you. I am just sick and tired of seeing my GI doughboys—and I have 2,500 of them in my Legion post—going out and getting a job and being offered a job at \$150 and \$200 a month, when they cannot live on \$300 a month at the present cost of living, when there is no reason for it, when a few people in the United States—a few selfish people, such as people I know in Pittsburgh and in New York and Philadelphia, Chicago, and other places who say to me, "What do we care about the other fellow, we are going to make our fortune."

My boys have to live, and they have to have jobs where they get salaries to pay their expenses and put some money into the bank.

Mr. RICHARDS. Do you think the Government should take all surplus property and retail it throughout the United States and not sell any of it to legitimate business distributors?

Mr. BARRETT. I am saying that I feel that the United States Government should take its surplus property that cannot be legitimately sold as it is, for use as it is, and turn it into such shape and form that it can be sold directly to somebody that will use it as an end user.

Mr. RICHARDS. However, the law now is not being violated?

Mr. BARRETT. It is not at all. There just is no law to stop it.

Mr. JARMAN. If they did that, would the steel companies then bid on it? They would not bid on it now, you said, because of the arrangement with the "thieves."

Mr. BARRETT. The steel companies have gotten up to where they stand on their hind legs and state to the Government that they are not producing any more because they have not got scrap and raw material. They certainly would violate their own statements if they would not.

Mr. MALONEY. Would the steel companies themselves put this stuff in condition to be used?

Mr. BARRETT. No. They do not have the facilities to do it.

Mr. MALONEY. If they are so eager to get scrap, do you not think they would do that?

Mr. BARRETT. I would think they would, if they were so eager to get it, but they are satisfied. They are making nice profits. They are getting warehouse price for their merchandise instead of mill price.

Mrs. BOLTON. Would you feel that perhaps the United States Government has a responsibility in disposal of surplus war materials, that it has a responsibility to the people who paid for it, and they should not sell it at 10 cents on the dollar to be resold at 150 cents on the dollar, but rather they should sell it at a decent price to those who use it directly and not have it go through two or three middlemen to save the taxpayers money?

Mr. BARRETT. That is right.

I feel that I am a stockholder in the United States Government, as a citizen. I feel the United States Government has an obligation to its citizens to carry on its financial operations to the best advantage and to the best profit of the United States of America.

Mrs. BOLTON. Thank you.

Mr. JARMAN. I understood you to say that Argentina had furnished nearly as much relief, I believe you said since the war, to Europe, as we had. Did I understand you correctly?

Mr. BARRETT. Yes, sir.

Mr. JARMAN. I am surprised to hear that.

Mr. BARRETT. I did not talk to a family in Argentina that could not show me a list of many, many packages of food and clothing and shoes and things of that kind.

Mr. JARMAN. You mean largely individual contributions?

Mr. BARRETT. I mean individual contributions, just as our people here have given to the Red Cross and other agencies.

Argentina has not furnished it as a government, and I would say all of the Latin-American countries I know would be very glad to enter into the administration of the Marshall plan, contributing certain things free, but those countries today do not have any dollars.

As I mentioned this morning, when you were not here, sir; today in the Chase National Bank in New York, and various other banks in New York, there are \$100,000,000 worth of letters of credit from the Argentine Government to American business concerns who have gone down there and sold them a bill of goods to get a letter of credit, and they are men, as we say, "having their offices in their hats," and they feel if they can get a million-dollar letter of credit down there, they can come back to this country and find somebody to make it for them. Today, the Argentine has \$100,000,000 tied up in New

York by those men who are tied up from 7 to 9 months, and they cannot touch that money. Not one of those letters of credit has produced one dime's worth of equipment for the Argentine.

Mrs. BOLTON. That is the good-neighbor policy.

Mr. BARRETT. And you wonder why they feel bitter about it.

Acting Chairman JAVITS. Thank you very much, Mr. Barrett. Your presentation has been very helpful to the committee. I know I speak the minds of the committee.

Mr. BARRETT. Thank you.

STATEMENT OF WILLIAM D. DAVIES, REPRESENTING FOREIGN FREIGHT FORWARDERS AND BROKERS ASSOCIATION OF NEW YORK, AND AFFILIATED ORGANIZATIONS

Mr. DAVIES. My name is William D. Davies, vice president of D. C. Andrews & Co., Inc., whose head office is at 27 Water Street, New York, N. Y. I am also chairman of the Forwarders' Industry Committee, representing New York Foreign Freight Forwarders' and Brokers' Association, Inc.; the Forwarding Agents and Foreign Freight Brokers Association of New Orleans, La.; the Pacific Coast Customs and Brokers Association, with divisions at Puget Sound, Columbia River, northern California, and southern California; and a number of individual forwarders.

The purpose of our appearance today is to bring to your notice what foreign freight forwarders, here referred to as forwarders, are; how forwarders have served commercial industry and governments efficiently and economically; and the threat to their existence of expensive and unexpert governmental forwarding.

Foreign freight forwarding is the act of arranging to move shipments from any part of one country to a destination abroad. The business of forwarding compared with expert transportation is small, and its cost relatively insignificant. Freight forwarding in relation to export transportation is similar to that of ball bearings to an automobile. The cost of ball bearings compared with the total cost of the car is insignificant, but without ball bearings the automobile will not run far. Similarly in regard to forwarding, every export must be forwarded, otherwise a shipment will not move from its point of origin, let alone get to its foreign destination.

Many forwarding firms have been in existence for over 80 years. There are men sitting here in the room whose fathers were in this business and spent their lives in the business, and now have their sons spending their lives in the business. Forwarders as a whole like to stand on their own feet and have as their spokesman one of their own industry. Although the committee is assisted by Mr. Marvin Coles, in whose ability they have every confidence, yet I have been instructed, as chairman, to appear before you, as I am an actual member of the industry itself. Glancing about, I see a number of well-established concerns represented—Mr. Harry Fowler of Caldwell & Co., Mr. George Dougherty of American Express Co., Mr. George Talmadge of Ajax Shipping Co., Mr. Carl Schroff of International Expeditors, Mr. Jack Cunningham and Mr. J. Limerick of the Judson Sheldon Co. who, if time would permit, which of course it does not, would like to address you or answer any questions that you may have.

Our industry is now facing an economic death. In the years we have been in business, we have faced adversity and prosperity, and we know how to meet both. However, in the event that no provision is written into the bill that you have before you, we are faced with conditions which may cause a great disruption in, if not complete cessation, of our industry.

If we did not know the work that we perform has to be done, and if we did not know that as an industry we can perform this more expertly and more reasonably than Government departments, we would not be here before you. We make no appeal for manufactured unnecessary work, but what we fear is that a Government department, either our own or that of foreign governments, may do this essential freight-forwarding work.

These are not vague or nightmare fears. When lend-lease was first inaugurated, a foreign government decided to create its own enormous forwarding department, and it required an act of Congress to nullify this enormity. The Bland Freight Forwarding Act (sec 217 of the Merchant Marine Act of 1936, as amended) passed, after extensive hearings throughout the country by your Merchant Marine and Fisheries Committee, had developed the fact that on every shipment leaving this country, the act of foreign freight forwarding must be performed in this country and that for many years past, large and small commercial exporters have used forwarders as the most economical, most efficient, and best means of forwarding.

Capt. Granville C. Conway, Administrator of the War Shipping Administration, stated to a group of forwarders gathered together in his office from all over the country after the close of the war, that in his opinion forwarders have performed an efficient service to the Government at a lesser cost than could have been realized in any other way.

In more recent days, under the Greek-Turk relief bill, no specific recommendation was inserted regarding the use of forwarders, but rather transportation was left to executive discretion. The Army seized upon this, and has handled a large number of strictly commercial, nonmilitary, supplies to Greece, such as those for building roads and railroads, and have forwarded them as a Government forwarding agency. No figures are available to us as to the cost, but from experience of other Government operations we know that the actual cost of forwarding must have been greater than those of commercial forwarders.

Forwarders usually receive their remuneration in two forms, by service charges made to shippers for services rendered to them, and by brokerage paid by ocean carriers for the services they render to these carriers. Brokerage, customarily being at a rate of 1½ percent, has never been a factor in entering into freight rates, as was testified under oath by several carriers in a recent hearing of the Maritime Commission. It is illegal and would be a rebate for any carrier to pay brokerage to a concern having a financial interest in the goods, which is interpreted as meaning that brokerage can only be paid to forwarders and not into Government or Army.

If forwarders handle these shipments, the cost to the Government would be comparatively little, and the major recompense to the forwarders would be in the form of brokerage paid by carriers.

Exporters, both large and small, for many years have used forwarders to do this specialized work for them. Large companies,

such as Allis-Chalmers, and the Chrysler Corp., certainly have the brains, the ability, and the money to create, if necessary, their own forwarding departments, but they do not do so, having found by experience that forwarders do an abler job and more cheaply than they can themselves.

The small exporter is particularly dependent upon forwarders. In another hearing before the Maritime Commission, smaller exporters from different parts of the country testified that without forwarders they would be unable to remain in the export business.

We have been told from high official channels that if the bill now before you becomes law, it is likely that a majority of exports to Europe for the next 4 years in one form or another will be paid for under this plan. To permit our own Government, through a governmental agency, to drive the commercial forwarders out of business, would not only mean greater expense and less export service to the Government, but would mean that eventually the exporters of this country would be placed at a disadvantage through a lack of proper forwarding facilities. To permit foreign governments to build up their own forwarding departments, or specially favored forwarding concerns, would create a strangle hold on the exports of this country when normal peacetime conditions return.

We have not come here to argue for or against this bill, but only to ask if the bill be passed, proper provision be made for the use of forwarders. We have not come to you to ask for a hand-out—to be paid for unnecessary work. We have come to you to place our belief and knowledge before you of the facts; and these facts show definitely that forwarding must be done on all exports and that forwarders can do this work better and at less cost than any Government agency. We are striving in this appearance for freedom from fear, not fear of economic death by natural causes, but fear that through our failure to put the facts properly before you, this matter may be engulfed by a heavy sea of apparently greater matters.

To show the scope of this industry, carriers have stated that for instance in the port of New York, in excess of 90 percent of their total cargo is provided by forwarders, that what the forwarder does for them could not be done without much greater expense on their part, than the brokerage paid, and that if for any reason forwarders were removed from the field of transportation, chaos would inevitably occur. Again in the port of New York on packaged goods as opposed to bulk or wet cargo, forwarders are responsible for arranging the arrival at seaboard at the proper time of at least 80 percent of all freight. Unless the ship and the cargo mate—that is the cargo is at the right pier at the right time for the right ship—vessels sail not fully laden, and the cargo incurs unnecessary storage. This service is of great value to carriers.

Some commercial forwarders pay in excess of a million dollars a month to carriers for freight moneys. The forwarding industry, as a whole, again in New York, employs over 10,000 people and pays the carriers many millions of dollars a month in freight moneys.

In the brief time at our disposal here, it is not possible for us to enumerate all the services that a forwarder performs for the carrier or all the services the forwarder performs for the shipper. Perhaps these latter can be best summed up in the general feeling expressed

by exporters that once they have arranged for the order and produced the merchandise, everything else is in the hands of the forwarder.

This committee in New York represents, in my considered opinion, 80 percent of all forwarding done—not 80 percent of all forwarders, as there are a number of small forwarders, and a few large forwarders, who have not joined themselves with this committee. The associations and members of the industry represented by this committee outside New York represent, again in my considered opinion, 80 percent of all the forwarding done.

Many forwarders have offices in different cities to serve best the interests of their customers in forwarding shipments through Atlantic, Gulf, or Pacific ports, as may be most desirable in the interests of speed and lesser rail and ocean rates. To provide the shippers expert advice and instructions as to the cheapest and quickest method of transportation from the point of origin to the point of destination is, I believe, one of the most important ways in which forwarders can and do serve exporters.

Congress has expressly stated its policy to be that American foreign freight forwarders must be maintained as a necessary adjunct to our foreign commerce and our merchant marine. After extensive committee hearings, the Congress established that policy in 1942 and directed the Maritime Commission and all other Federal departments and agencies to cooperate in the development of the freight-forwarding industry both in wartime and during the postwar period. Furthermore, Congress clearly indicated its intent that Government shipments to foreign nations be serviced by private freight forwarders, actually inserting a provision that lend-lease cargoes should be so handled. At the time Congress made that decision, the forwarders were faced with the same situation as we now find of possible extensive competition and virtual extermination by our own Government agencies and by forwarding organizations established by foreign nations receiving assistance from our country. All we ask is that the already established congressional policy expressed in section 217 of the Merchant Marine Act be reaffirmed to apply to shipments to be made under the pending bill.

It is our hope that we have shown to you that in the interests of the taxpayer, the use of the forwarder is necessary from the point of view of efficiency, economy, and the real peace development of the export trade of this country. To effect this, we urge that this legislation or its legislative history clearly indicate the congressional intent that private freight forwarding be used to handle all cargoes moving as a result of enactment of this legislation. This can, in our opinion, be accomplished in either of two ways. First would be an actual amendment to the pending bill, which could read along the following lines:

The term "water-borne export and import foreign commerce of the United States", as used in section 217 of the Merchant Marine Act of 1936, as amended (56 Stat. 171), shall be deemed to include all export shipments from the United States made pursuant to provisions of this Act.

If such a clause would be added, it would clearly demonstrate the congressional intent that these cargoes, as were the lend-lease shipments, should be serviced by forwarders.

If, for any reason, you deem it inadvisable to insert in the pending legislation a clause to this effect, we strongly urge that there be made

a clear statement in the committee's report on this bill to the effect that it is our intention that private freight-forwarding facilities be used to service these shipments. If you so decide, may I suggest something along the following lines:

Authority is given in the bill for the transportation of supplies to the recipient nations. While the authority to transport these supplies is broad, it is the intention of your committee that normal private freight-forwarding channels be used to service such cargoes and that these cargoes should be handled in accord with the provisions of section 217 of the Merchant Marine Act of 1936. It is your committee's view that use of private freight forwarders to handle these cargoes would not only be less expensive to the Government but that it is necessary to insure the preservation of our freight-forwarding industry for service to our postrelief program of foreign commerce.

If neither of these courses is adopted, we are fearful, and we believe properly fearful based on past experience, that either our own Government or a foreign government will seize this lack of direct intent and proceed to build up organizations of their own, which actual experience in the past has shown to be less efficient and more expensive and which will, in addition, deprive members of this industry of the results for which they have labored for generations past and by dealing this industry a staggering, if not mortal, blow, will deprive exporters of export transportation help when the days of real peace arrive.

Acting Chairman JAVITS. Thank you very much.

Mr. DAVIES, you will forgive the members of the committee if they have to slip out one by one to answer this quorum call.

Were there any questions?

Mr. JONKMAN. What is the danger to your forwarding of shipping?

Mr. DAVIES. The danger is this: If no provision is made in the bill, one of our own Government departments—probably the Army—may decide to take over all the forwarding of such shipments. We have no means of competing with the Army. If the Army says it is going to take over, it takes it over and there is nothing we can do.

They actually did do so in the case of the shipments that went abroad under the Greek-Turkish relief program and that is what we fear. It is not a vague fear, it is a real fear that has resulted from things which have happened in the past.

Also, we fear if no provision is put in the bill, a foreign government—and this again has actually happened—will decide to set up their own freight-forwarding department here.

That was done in 1940 and 1941, and it required an act of Congress to do away with that.

Mr. JARMAN. Mr. Jonkman asked the only question I had in mind, but I do want to comment on it. I can see the danger with regard to the foreign governments, but I do not believe you need to worry about the Army.

Mr. DAVIES. I did not hear that, sir.

Mr. JARMAN. I say, I can see the danger of the foreign government setting up a forwarding company over here, but as far as the Army is concerned, this is quite different from the Greek-Turkish loan. With the personnel in the Army as short as it is, I do not believe you will have much danger on that score, but with regard to the foreign governments, you may have some reason to be concerned about them.

Mr. DAVIES. I hope you are right, sir, but the Army has shown indications that they want to handle this. They have said before

the House Committee on Merchant Marine and Fisheries that they would like to handle this.

Mr. JARMAN. They are talking about shortages of personnel, and I did not think they would want to.

Mr. JONKMAN. (Presiding.) Mr. Judd.

Mr. JUDD. You have said in your statement that there are no figures available regarding the cost to the Government of the Army doing the forwarding in the case of the Greek-Turkish shipments. If you do not have the actual figure, you do not know, do you?

Mr. DAVIES. I was referring to other figures there on page 3 of my statement, sir. There were some figures that were released during the war on certain governmental operations at the time. They were not complete figures. However, what I had in mind, sir, was this, in a rather indirect way—

Mr. JUDD. You mean on the basis of past experience, you would have reason to believe?

Mr. DAVIES. It is for this reason, sir, that when we do forwarding work, most of our recompense is received from the carriers in the form of brokerage. That is for services we render to the carrier. That brokerage is not paid to anyone who in effect is not a forwarder. It is not paid to the Government.

Therefore, our cost to the Government is minute, whereas the Army or any Government department would not get that brokerage and therefore their cost must be more. It is quite possible that our total compensation might be paid 90 percent by the carriers and 10 percent by the Government or even less than that, possibly, and it is quite impossible for anybody to believe that the Army could do it for 90 percent of what we would do it for.

Mr. JUDD. Mr. Chairman, I wonder if it would be possible for our committee staff to get the figures telling us exactly what the cost has been for this service of forwarding, as carried out by the Army or by governmental agencies, during the Greek-Turkish operation. Otherwise, we do not know what we are doing.

Mr. JONKMAN. We will call that to their attention.

(The information requested is as follows:)

DEPARTMENT OF THE ARMY,
Washington 25, D. C., March 3, 1948.

HON. CHARLES A. EATON,
Chairman, Foreign Affairs Committee,
House of Representatives.

DEAR MR. EATON: This acknowledges receipt of your letter of February 17, 1948, addressed to Legislative and Liaison Division concerning the method of forwarding and the cost factors involved in the handling of matériel for the Greek-Turkish assistance program.

Shipments of matériel to Greece and Turkey are moved primarily through the New York port of embarkation and the services which are available from freight forwarders have been provided by the staff at that port. These services normally include the following:

1. Maintenance of a record of arrival of in-bound cars, trucks, or barges and the follow-up of shipments to insure availability for the vessel.
2. Arrangement for prompt unloading or temporary storage of shipments when necessary to avoid car detention.
3. Arranging for placement of cargo at shipside as required (at New York this includes obtaining steamship permits, placing of lighterage orders, follow-up to assure delivery of cargo at shipside) and checking to insure that shipment is complete including correlation of shipments from several origins when they constitute one ocean shipment.

4. Securing of dock receipts or other appropriate signatures from the steamship company, either directly or through the delivering inland carrier.

5. Accomplishment of in-bound Government bills of lading, noting exceptions and seal recording, and the surrender to delivery carrier. The maintenance of a complete record of bills of lading handled and surrendered.

6. The checking of out-turn reports against in-bound bills of lading to insure the receipt of the proper quantity, condition, and packing, and reporting any loss or damage to the consignor.

7. Arranging for re-marking, repacking, cooperage, and similar incidental services as required.

8. Maintenance of a complete record of arrival, unloading, storage, and loading aboard the vessel for each shipment in such detail as is necessary to provide a basis for certification of the carriers' bills for storage, demurrage, switching, and accessorial services.

9. Preparation of ocean bills of lading or space charter manifests, tendering same to the steamship company and securing the carriers' signature.

10. Provision of shipping documents (including War Department shipping documents) to steamship company to be placed aboard the vessel.

11. Preparation of export declarations or a letter indicating that the vessel is carrying United States Army cargo and filing of either the declaration or letter, whichever is appropriate, with the collector of customs.

12. Providing the consignor with all data and facts required concerning the shipment, including data necessary for the preparation of sailing dispatches.

The Department of the Army personnel engaged in the shipment of the Greek-Turkish assistance matériel perform similar services in effecting shipment of other matériels such as Department of the Army supplies for troop support, civilian supplies for the prevention of disease and unrest in occupied areas, and other aid programs. The volume of matériel shipped to Greece and Turkey is relatively small in comparison to these other programs and the cost of freight forwarder services rendered can only be based upon the cost of the man-hours devoted to the two programs and the tonnage handled. It is estimated that the cost of this service is 9.1 cents per measurement ton.

Sincerely,

WILTON B. PERSONS,
Major General, General Staff Corps,
Chief, Legislative and Liaison Division.

Mr. JUDD. You say the brokerage rate is customarily 1½ percent?

Mr. DAVIES. Yes.

Mr. JUDD. Does it depend on a percentage, or on a negotiated agreement depending on the difficulty of the operation?

Mr. DAVIES. Our fees depend upon a negotiated agreement, and they may be \$2.50 or \$7.50 per shipment. One and a quarter percent, of course, refers to the ocean freight paid, and not the value of the shipment.

Mr. JUDD. Suppose this language that you suggest were put in. As I read it it would be practically a mandate to the Government to use the private freight forwarders. Would they not be in a position to put the screws on, just the same as we have heard that other people put the screws on when there?

Mr. DAVIES. Oh, I do not think so. I think their record shows that they have a desire to cooperate with the Government and have accepted the Government's rates after discussion in a free way.

Mr. JUDD. There is no question but what most business men in all lines of business want to cooperate. Most people stop at red lights, but if there is no policeman around, once in a while somebody goes through.

Mr. DAVIES. This is not like a steel mill where perhaps there are 20 companies producing steel. There are in New York, I have been told, and I believe, between 400 and 600 forwarders alone. If we do not want to handle the work for the Government, somebody else will. The force of competition will be bound to keep things down.

Of course, we would be violating the antitrust laws if we got together and made any agreements as to a certain amount. I think the Government is amply protected in such an event.

Mr. JUDD. Would you object to putting in language something like this, that insofar as the Government carrying on its operation, it shall use private freight forwarders for such service, where such service can be rendered by them as efficiently and at no greater cost? That would give the Government an out, if the Government could do it more efficiently or cheaper. They would then be authorized to do it under the law.

Mr. DAVIES. Of course, it would also be stipulated that the Army would not use their personnel without a proper charge.

Mr. KEE. I am sorry I was not in when you made your opening statement; I was called out, but I read your written statement here. I notice you mention a brokerage rate of $1\frac{1}{4}$ percent. Is that $1\frac{1}{4}$ percent of the carrying charges or the freight rates?

Mr. DAVIES. Of the ocean freight rates.

Mr. KEE. Would you mind for my information, briefly describing the nature of the service you render?

Mr. DAVIES. I will be glad to do that, sir.

Those services to the carrier, I assume you mean in that case. We perform two services; one to the carrier and one to the shipper. Of course, the services that we perform to the carrier are in return for the brokerage that we receive. I will just run through them very briefly and then elaborate, if you wish.

Mr. KEE. Just briefly.

Mr. DAVIES. Service rendered to the carrier by foreign freight forwarders:

Securing cargo for the ship, securing spot cargo—that is, cargo on which a ship may be dependent for a full load, either on a measurement or weight basis.

Providing special deliveries on special days for hazardous cargo, extra lengths or on-deck cargo, or for heavy lifts. We sometimes make, as agents for the consignee, contracts for the various carriers. We consolidate shipments, thus providing shipments which would not otherwise move.

We prepare ocean bills of lading and we prepay freight. We become liable for booking cargo. Instead of a carrier having to look for payment of its freight moneys all over the country, they can look to one established forwarder. We act as a liaison between carriers and shippers, thus enabling carriers to remedy situations resulting from occasional errors. Very often we make blanket bookings, thus doing away with a great amount of work on the part of the carriers in making individual small bookings for many small shipments. One of the chief things we do is the prompt handling of document. We see that cargo arrives at the right pier at the right time for the right ship.

We prepare and handle all necessary documents and see that they are in the hands of a consignee in sufficient time to prevent any delay in removing cargo from the pier at the other end.

If there is congestion at the pier at the other end, it has a very unfortunate economic effect on the carrier.

Those are some of the services or most of the services that forwarders provide for carriers.

Mr. KEE. It would be necessary to furnish the cargo ordinarily, but in this case the administrator of this plan would be furnishing all the cargo for the ships.

Mr. DAVIES. That is perfectly true, and I did not mean to imply that that is one of the services we would provide on Government cargo. However, even when the Government provides the cargo, there is still the necessity to see that that cargo arrives at the right port at the right time. Obviously, if it arrives too soon, demurrage or storage may be incurred.

If it arrives too late, the boat goes out unladen.

Mr. KEE. I can see where that would be a very important service at the time, and some of the others, possibly. It is possible that some of the commodities furnished under this program would be carried by Government ships. There would then be very little use for the service, is that not so?

Mr. DAVIES. If I may, I will answer your question in two parts.

Of course, I cannot tell what would happen in the future but I know of no direct operation by the Maritime Commission—which is the controlling agency—of any boats at the present time. They do have many boats under charter to various operators. They do, as a matter of fact, own most of the stock of a couple of operating lines, such as the American President Lines.

However, the Maritime Commission, which is the agency involved, does not operate any ships. There is no operation similar to what used to be done 20 years or more ago by the Emergency Fleet Corporation, which of course, was a Government corporation. Therefore, unless there is a change, there will be no Government-operated ships. However, even if the ships were operated, sir, the same services would have to be performed for them. It makes really no difference whether it be a Government-operated ship or a commercially operated ship. The same act of forwarding has to take place. Forwarding, sir, is something that is done in this country. It cannot be done abroad. It has to be done here. Without forwarding, no cargo would move from the supplier's plant to the seaboard, let alone get abroad.

Forwarding has to be done, and it makes no difference whether it be Government cargo or commercial cargo, or whether the ships be Government operated or commercially operated.

Mr. KEE. The exports from this country to Europe have fallen off tremendously, have they not, in recent months or years?

Mr. DAVIES. Of course, they are not, as my memory goes, as big as they were before the war, and they have been less recently. The Department of Commerce figures are not available. I think that they have fallen off just recently. I do not know if they have fallen off tremendously. I perhaps could not use that word in its full sense. They are now getting some benefit of course, under the Emergency Aid Act that was passed just recently.

Mr. KEE. Do you anticipate that the inauguration of the Marshall program will further reduce our exports to Europe from private concerns?

Mr. DAVIES. It depends upon how the Marshall Act works, sir. I think that if the Marshall plan is put into effect, the dollars will be made available in one form or another, so that exports can flow to Europe, as they have done so heretofore. Whether it will be on a government basis or a private basis of course Congress will decide.

Mr. KEE. If it was on a private basis, it would not interfere with the forwarding business at all?

Mr. DAVIES. Not in any way, sir. If it is left in the hands of commercial shippers, commercial exporters, and commercial buyers on the other side, we have no worry at all. It is only if a large amount of Government buying is done, either by our own agencies or by foreign government agencies.

Mr. KEE. Therefore, if it is left in the hands of private agencies, your business as forwarders would not be injured. However, if the Government makes all the purchases and controls the shipping, you are afraid, as you expressed in your statement, it would put you out of business?

Mr. DAVIES. That is right, yes, sir.

Mr. KEE. Of course, the fact that the Marshall program goes into effect will have no appreciable effect on your business because this is new business.

Mr. DAVIES. This Marshall plan business will take the place of what has been moving heretofore. In other words, there always has been a certain amount of exports to European countries. Since the cessation of hostilities there has been a goodly flow of business to European countries and if the Interim Aid Act and the Marshall plan are not coming into effect, because the supply of dollars in Europe has now fallen off, few purchases could be made here.

As I foresee it, the bill you have before you here now is merely going to replace what was formerly bought commercially before.

Mr. KEE. Is there any other place where our Government interferes with your business?

Mr. DAVIES. The lend-lease operation did, yes, sir, until the bill was passed to rectify the inequalities of the situation.

When lend-lease first started, we were placed in a very adverse position and the House Committee on Merchant Marine and Fisheries, whose problem it was at that time, went into the matter very carefully indeed. They held about 9 or 10 hearings here in Washington. They held hearings in Portland, Maine, New Orleans, Seattle and San Francisco, to find out what the position was. After these exhaustive hearings, they passed the so-called Bland Act, which directed our own Government to use commercial forwarders.

Mr. KEE. That was under the lend-lease program?

Mr. DAVIES. That was under the lend-lease program. It did not entirely limit it to lend-lease. It expressed a policy for the future, too. However, we feel that in this new bill that you are writing, it might very readily contain some expression, such as transportation being left to executive decision, which in the case of the Greek-Turkish bill was seized upon by the Army to forward these shipments themselves.

Mr. KEE. I believe you furnished to Dr. Judd, upon his inquiry, a suggested provision, did you not, that you would like to see incorporated?

Mr. DAVIES. I did; yes, sir. It is in the printed statement that I have here.

Mr. KEE. All right, sir. That will be all.

Acting Chairman JAVITS. Are there any more questions?

Thank you very much, Mr. Davies.

STATEMENT OF DAVID D. LLOYD, AMERICANS FOR DEMOCRATIC ACTION, WASHINGTON, D. C.

Acting Chairman JAVITS. Mr. Lloyd, would you be good enough to do your best to confine your opening statement to 10 minutes?

Mr. LLOYD. I think we can reasonably do that.

My name is David D. Lloyd. I am a lawyer and I am at present serving as director of research and legislation for Americans for Democratic Action at 1740 K Street NW.

I might also add that in connection with foreign policy, I have had some personal experience in that field, having been assistant general counsel of the FEA, during and after the war, and having served in Paris and London for some period of time on general European economic matters.

Americans for Democratic Action has consistently urged the enactment of a comprehensive plan for European aid. At its national conference in March 1947 the ADA adopted a statement of policy, which declared:

The vast material resources of the United States must be utilized to establish economic conditions in which democratic forces can live and grow and to demonstrate to the nations of the world that there is a dynamic alternative to the totalitarianism of the right and of the left.

Shortly after the Harvard speech of Secretary Marshall, the ADA endorsed his proposals as a concrete embodiment of its own recommendations. In a statement of September 20, the national board of ADA said:

We regard the program embodied in the Marshall plan as an absolute necessity for laying the foundations for an economically healthy and peaceful world. We favor the Marshall plan as a means of saving democratic civilization in Europe from chaos and the advance of totalitarianism; we favor also the necessary domestic measures in support of the Marshall plan to preserve our own economic health.

In December of 1947 the ADA issued a thorough analysis of our foreign policy entitled "Toward Total Peace." This document, copies of which have been sent to all members of this committee, surveys our most acute and pressing foreign problems and comes to the conclusion that the Marshall plan is the high point of our foreign policy since the war, and is essential to the maintenance of world peace. I would like to submit this document to the committee as a whole, with the request that it be inserted in the record, and ask that it be considered as a complete statement of the ADA position, and the basis of my necessarily brief remarks.

Acting Chairman JAVITS. I think it is quite extensive for inclusion in the record. If you will be good enough to furnish us with enough copies for every committee member the clerk will distribute them.

Mr. LLOYD. I will do that, sir.

ADA believes that this country is faced with a world crisis demanding immediate and comprehensive action. There is every indication that the industrial countries of western Europe, the old center of the world's commercial system, are on the verge of collapse. If this economic catastrophe occurs, all our plans for world prosperity through the World Trade Organization, and the other international bodies which we have done so much to create, are headed for failure. The UN itself could not be expected to survive.

If living conditions get much worse in western Europe, and the economic future there becomes more uncertain and more ominous, we may expect the Communist Party, acting as the right arm of Soviet policy, to move rapidly to seize power. We may also expect to see the totalitarians of the right growing in strength and mobilizing their forces to impose dictatorships. Such a situation would have the makings of prolonged civil strife from which the United States and the U. S. S. R. might find it impossible to abstain. Whatever the outcome of such a struggle, all our hopes for peace and for a world economic community would be shattered. The only alternative to this grim prospect is, in our opinion, the prompt and large-scale application of economic aid for the purpose of strengthening democratic elements in the European nations and rescuing them from the political alternatives of despair.

Type of aid: Our problem is to restore the productivity and the trade of the western European countries. Since the war we have spent billions on relief, and saved the populations of Europe from starvation and epidemic. But this has not proved to be enough. We are confronted with a need for the bare essentials of food and fuel almost as great as when we started. We must get off the relief treadmill.

Our aid must include productive equipment both for industry and agriculture, to enable the participating countries to supply their own needs and to earn dollars abroad. We must be able to provide this type of equipment promptly, whether or not circumstances are such in each case as to permit its financing on a bankable basis.

Size of our aid: Our appropriations will have not only an economic but a moral effect upon the recovery of Europe. The world economic situation is fluctuating, price levels are rising, and it is quite impossible to make an accurate prediction of what will be needed. In considering the careful estimates which have been made by the administration and the Harriman committee, I think we should err if at all on the side of generosity, remembering that since the war most of our estimates on relief and foreign needs have been underestimates.

Indeed I believe that the more money we appropriate at this time the less we will have to spend in the end. Today in Europe economic recovery is strangled by fear as much as by shortages. There is a lack of confidence in the future, which leads to the hoarding of agricultural supplies and other stocks. An American commitment at a high level will restore economic confidence in Europe and check these manifestations of economic hysteria. But if our plans are niggardly and grudging the Europeans will continue to rely on primitive measures of economic self-protection, and trade will remain strangled.

Administration of our aid: The administration must be efficient, flexible, and closely coordinated with day-to-day developments in foreign policy. The corporate device, while it has its advantages, is likely to overemphasize purely economic considerations and thus be unable to yield swiftly to the demands of foreign or domestic policy.

On the other hand, the ECA should be an independent agency and not a part of the State Department. To do its tremendous job effectively, the ECA must be staffed by top-notch people from business, Government, and the ranks of the universities, and from labor. Such men can only be recruited by a chief of outstanding ability and national

reputation. Anyone big enough for the job is big enough to be responsible directly to the President.

European economic unity: The ERP offers an opportunity for laying the economic and political foundations of international cooperation. Both the economic recovery of Europe and the future chances of world peace depend upon the immediate institution of measures to break down the barriers of nationalism which have made Europe the cockpit for the power clashes of the twentieth century.

While the report of the CEEC indicates a willingness on the part of the participating nations to work toward a European customs union and to take other measures of integration, we should aim far beyond these modest goals. Congress might well include in the legislation it passes an affirmation in favor of the creation of a United States of Europe, along the lines of the resolution introduced last session by Senators Fulbright and Thomas. In addition to affirming this ultimate objective, the administration of the aid should take advantage of every opportunity to require the European nations to act collectively as a group rather than individually as economic and political rivals. The spirit of nationalism is still very strong in western Europe. Deeply entrenched interests, both bureaucratic and economic, will resist the battering down of national barriers. We can help in the process by dealing with the participating nations as a group, rather than separately, by asking them to pool their resources and requirements, to divide scarce supplies equitably among themselves, and otherwise to act in concert. On this score, our attitude should be cooperative, but we shall have to be firm.

The adoption of such a policy would convince the peoples of Europe that our aims are more profound and more constructive than playing power politics against the U. S. S. R. It would show that we truly desire to create an independent Europe, a workable federation, standing on its own feet and as free of our domination as of that of the Soviet. It would do much to offset the constant attempts of those hostile to us to persuade Europe that we are preparing the Continent for a future battlefield and planning to use the Europeans as pawns for our own purpose.

In all this, the agencies of the UN have a role to play. Further, there is room in the UN for such regional groups and associations. The door should always be held open, moreover, to the so-called satellite countries, provided only that they become members of the club in good faith, and abide by all the rules.

Nationalization of industries in Europe: Many of the governments of Europe are committed, in varying degrees, to internal economic programs calling for the nationalization of certain basic industries. In some countries these programs have been partly put into effect, in others they are still political talking points. In the past, few of these countries had a free-enterprise system in our sense. Because European states are so small, business there quickly takes the form of monopolies and cartels. It would be a tremendous mistake for the United States to insist upon the perpetuation of a system of ownership which the people of western Europe are exercising their democratic prerogative to modify. Such changes, undertaken in conditions of political freedom, have nothing to do with communism. In fact they are urged, in western Europe, by parties which are engaged in a death struggle against the Communist conspiracy to impose the police state.

We should not, therefore, make it a condition of our aid that European governments adopt our ideas as to the proper degree of government intervention in economics.

United States domestic economic policy: The successful carrying out of the ERP will require a healthy economy at home. While we would have a serious inflationary situation in this country if we provided no foreign aid, we must recognize that foreign aid tends to aggravate a situation already bad.

We must have sufficient foresight and sufficient maturity as a nation to back up our foreign policy with the needed goods, even where it hurts us to supply them. ADA believes that to accomplish our purposes, indeed to fulfill our destiny, we shall have to have, temporarily, allocation controls over certain essential materials, the rationing of meat, contraction of nonessential credit, certain price controls, and continued rent control. We shall have to face and solve the necessity of bringing wages into equilibrium with the rising cost of living, and stabilizing them at that level. These things are necessary, not only to enable us to supply Europe, but to forestall that economic collapse which will bring us down in domestic ruin, and on which the Soviets are basing their expectations and all their hopes of expanding their system of totalitarianism.

On the other hand, if we take the necessary measures at home, and launch our foreign aid program on a sufficient scale and in the spirit of statesmanship, we have a fair chance of creating a stable Europe and world peace.

Acting Chairman JAVITS. Thank you, Mr. Lloyd.

Mr. Jonkman?

Mr. JONKMAN. No questions.

Acting Chairman JAVITS. Judge Kee?

Mr. KEE. I note with pleasure that you believe in a liberal appropriation to initiate this program.

Mr. LLOYD. Yes, we do. We believe that at least the full amount which the administration has asked for should be appropriated.

Mr. KEE. \$6,800,000,000?

Mr. LLOYD. That is right.

Mr. KEE. I note in your statement, Mr. Lloyd, that you say that this should be administered by an independent agency, not under the State Department. Do you mean that it shall not be under the direct control and direction of the State Department?

Mr. LLOYD. We say, "Not a part of the State Department." What we mean by that is that it should be independent in the sense of having its own personnel and its own head and its own responsibilities, but it should be, of course, directed to work with the State Department on foreign policy and to conform to the foreign-policy directives of the State Department and the President.

Mr. KEE. That is practically the plan as set up in the present bill that we have before us, is it not?

Mr. LLOYD. Yes; I think that is correct.

Mr. KEE. We have an administrator who has broad powers, with the right to not only consult with, but make use of, all the Government departments and their agencies.

Mr. LLOYD. Yes; that is substantially it. I think, however, that there are some indications in the present bill to the effect that the

personnel may not be entirely under the administrator of the organization.

Mr. KEE. The present bill also provides, which I think you will agree is a necessity, that in matters affecting foreign policy the President speaking through the Secretary of State shall have the last word. You approve of that?

Mr. LLOYD. We agree with that. That is absolutely necessary.

Mr. KEE. You do not believe that it should be a corporation?

Mr. LLOYD. No. I think a corporation is likely to have certain advantages in the way it can handle the funds, and so on. But a corporation with a large board is likely not to have the necessary flexibility, and is likely to get too involved in making, or not losing, money.

Mr. KEE. The bill creating this agency as an independent agency can be framed so as to give it a sufficient flexibility, the same as a corporation.

Mr. LLOYD. Yes; that is quite right.

Mr. KEE. We have a bill before us, dealing with the administration of this program, which stipulates that it shall be administered by a corporation with 14 directors, 8 of whom shall be the voting directorate, and those 8, appointed by the President, shall be nonpartisan, 4 from each of the major political parties of the United States.

I would like to have you comment on that plan.

Mr. LLOYD. Well, sir, I think our general line would be on that, that such an organization sounds cumbersome. There is a desirability in having proper advice and counsel from private interests and representative groups in the Government. But I do not think—and here perhaps I speak not so much for ADA as out of my own experience—I do not think that a Government operation can be encumbered with a lot of boards and committees, and so on, to the degree that your suggestion would seem to me to involve.

Mr. KEE. I think that is all, Mr. Chairman.

Acting Chairman JAVITS. Dr. Judd.

Mr. JUDD. I have no questions now.

Acting Chairman JAVITS. Mrs. Douglas.

Mrs. DOUGLAS. I notice, Mr. Lloyd, with some interest, that you recommend that certain controls be reimposed.

Mr. LLOYD. Yes.

Mrs. DOUGLAS. If those controls are not reimposed, what do you think would happen as a result of this program?

Mr. LLOYD. Well, Mrs. Douglas, I am not an economic prophet, and I am just as glad I am not because they always seem to be wrong. But I do think that it will be increasingly difficult, as inflation progresses, to meet the demands of the program and to get the essential materials. This will have to be a selective program, in many respects. I do not see how you can be sure of getting enough grain or enough steel, for example, without some form of control to assure that it is there.

I do not think we can base our foreign policy on the long chance that we will have good crops. It seems to me that we have to go a little further than that.

On the general level of increasing prices, of course, if this present tendency continues we should have to reappropriate every few months to keep ahead of the price level.

I think that controls are absolutely essential, and that the failure to have any controls would seriously impede the program. Of course if it were a choice between controls and enacting the program, I would say go ahead with the program and do what we can.

Mrs. DOUGLAS. If we do not have controls, do you feel it will cost us much more?

Mr. LLOYD. It will cost us a great deal more. One of the troubles with the British loan, obviously, was that the price level increased so throughout the world, and particularly in the United States, that the money appropriated was not enough to do the job. One of the things all these countries are suffering from, it seems to me, is that our prices have gone up so.

Mrs. DOUGLAS. Do you think there is any likelihood that we will have these controls or can get them through?

Mr. LLOYD. Well, I think that is a matter in which we are very much interested and have been urging on Congress: the adoption of the necessary controls. I would hope that we could get something through. I am afraid, in the present temper of the country, that it does not look as though we will get all that are necessary. I would certainly hope that we would have the necessary ones.

Mr. DOUGLAS. Thank you.

Acting Chairman JAVITS. Mr. Lodge?

Mr. LODGE. Do you believe that a reimposition of price controls would produce more goods—thereby help the ERP and therefore bring down a gradual lowering of pressure on prices?

Mr. LLOYD. Here you have me out of my field and in the economic realm. I do not know that imposing controls on prices would increase production, but there are certain elements of our economy where production is at a peak and where price increases have nothing to do with bringing new goods onto the market. Certainly in those areas it would be possible to have controls without contracting production, and, by and large, it would seem to me that if we could once stabilize this thing at some point we would get off the spiral. If we could hold the cost of living items we would have some way of getting on a level keel here.

Mr. LODGE. You believe price controls do not result in a diminution of the supply of those commodities which are price-controlled?

Mr. LLOYD. Well, I haven't any evidence that they do. But, as I say, I am not an expert in this field.

Mr. LODGE. Do you think the people who produce items which are price-controlled are just as anxious to keep on producing them as they were before they were price-controlled?

Mr. LLOYD. Well, assuming the controls are at a reasonable level. We had price controls during the war, and our productive effort and achievements were never greater. We had almost universal price control.

Mr. LODGE. You had Government subsidy during the war on almost all those items by Government purchases of one kind or another.

Mr. LLOYD. I think that is true. I think this is also a necessity: If you are going into the business of controlling agricultural prices you have to inescapably face the question of subsidies.

Mr. LODGE. In other words, you feel, if you were the administrator of this program, that you would recommend that the European participating countries not only retain the price control structure they have but perhaps extend it and increase it.

Mr. LLOYD. I would recommend that they achieve stability as best they can. I think in all these countries you have tremendous monetary pressures. You have a tremendous monetary inflation which is doing just the opposite from creating production. It seems to me it is choking production because there is so little confidence in the future of the currency. To the extent that they can bring that situation under control, they should be encouraged to do so.

I would think if you have a well-organized, well-run government and a general acceptability of law enforcement throughout the country you can have price control, as England has had price control, on the basic commodities, and has kept down the cost of living ever since the war. In other countries I think it would be more or less impossible to enforce it efficiently.

Mr. LODGE. You believe price controls are the chief weapons against inflation?

Mr. LLOYD. No; I would not say they were the chief weapon. But I would say that probably at this point in our inflation you would have to have something like them.

Mr. LODGE. You do not believe, then, that price controls attack the real cause of inflation?

Mr. LLOYD. No. I think they are a stabilizing thing, as you can see in England, where price control, combined with the subsidy program, has kept the cost of living down. But that has not prevented money pressures from pushing out into other areas of the economy.

Mr. LODGE. In France, for instance, you have price controls on meat, and when I was there you could not possibly buy a piece of meat at the control price. The meat was sold in Paris on the black market, where the Government could not tax it.

Mr. LLOYD. Yes.

Mr. LODGE. Does that seem to you to be a satisfactory state of affairs?

Mr. LLOYD. No. But I wonder how you will get along if in France you remove controls on meat and rationing and price controls. In Britain, on the other hand, there is very little meat, but you actually get your ration at the meat store. Your price is fixed. I think the stability of Britain during this whole period has been due to the rationing and price control of basic items more than to any other factor.

Mr. LODGE. I can envisage situations in which price controls are necessary, but I am inclined to think that in order to cure the cause we have to think of other things besides.

Mr. LLOYD. I quite agree. I think control of credit expansion is one of the items, as well as many other things.

Mr. LODGE. Mr. Lloyd, on the last page of your testimony, under item V, you say:

Because European states are so small, business there quickly takes the form of monopolies and cartels.

That interests me because, as I see the ERP, one of its major objectives is to federate Europe economically, to create what I would call a sort of United States of Europe in which the important thing would no longer be that European states are small but in which there would be the creation of a European economic structure rather than a structure of separate European nations.

Mr. LLOYD. That is right.

Mr. LODGE. As that takes place, the basis which you referred to there would no longer exist, would it?

Mr. LLOYD. That is correct; yes.

Mr. LODGE. And, in that case, according to you, there might be a gradual denationalization and desocialization, if you like, of those various industries, would you say?

Mr. LLOYD. I think that is a possibility. Of course it would be very, very far in the future, I should think, because in my opinion this creation of the United States of Europe is going to take quite a while and be an extremely painful process. It will be difficult for the people who are undergoing it and also for the administrators of the program, but it might be that if they create a trading area of sufficient size without barriers that their resort to nationalization may not be so necessary.

However, that is conjecture.. I do not know.

Mr. LODGE. Thank you very much.

Acting Chairman JAVITS. If there are no other questions, I would like to ask you a few questions, Mr. Lloyd.

First, would you be good enough to tell us or present for the record at a later date the composition of the Americans for Democratic Action the number of members or chapters or in any other form so we get some idea as to the composition of the organization?

Mr. LLOYD. I can tell you. By count today we have 80 chapters and organizing committees in 30 States and our affiliated student organization, Students for Democratic Action, has about 105 chapters and organizing committees.

Acting Chairman JAVITS. Do you have any estimate of the number of members?

Mr. LLOYD. Nothing very accurate. The membership is by chapter. I think it is probably somewhere around 20,000 members now.

Acting Chairman JAVITS. I notice on page 3 of your statement you say, "Congress might well include in the legislation it passes an affirmation in favor of the creation of the United States of Europe." Do you have the text of any amendment to the bill that you would like to offer on that subject?

Mr. LLOYD. Well, I refer here only to the resolution introduced by Senator Fulbright and Senator Thomas of Utah last session. Perhaps we could get you something a little more specific.

Acting Chairman JAVITS. Would you like to submit something in terms of the legislation which is before us?

Mr. LLOYD. Yes.

(The information referred to is as follows:)

To carry out this idea, I would suggest inserting at the conclusion of section 2 (a) of the State Department bill (H. R. 4840) the following sentence:

"It is further declared to be the policy of the United States to encourage such countries to form bonds of permanent union within the framework of the United Nations, for the purpose of achieving economic unification among themselves and a regional political organization in the nature of a United States of Europe."

Acting Chairman JAVITS. I notice on page 4 of your memorandum, you ask that the doors be kept open to the so-called satellite countries. I assume you mean the Soviet satellites. If they abide by all the rules. What do you mean by that? What are the rules you want them to abide by?

Mr. LLOYD. I am thinking there in terms of the European organization, which we hope can be set up, that is at present the Committee of European Economic Cooperation, and whatever may come out of that. The rules would simply be the rules of an association, so to speak, the fair dealing, that goes on between those nations who are participating. I feel very strongly about this personally, Mr. Chairman, because during my period in London I was working in the Embassy there with the so-called European economic organizations, the coal organization, the transport organization, and the European Emergency Economic Committee. We made every effort to have the participation of the USSR and all of the eastern countries in those organizations. For a time we did have many of them in, at least as observers. But increasingly they got out. One of the great obstacles, of course, was the refusal of the Soviet to produce any statistics. I think the first rule of the club is that everybody has got to put his national statistics on the table, and no fooling, because that is the first, primary requirement of good faith in working out an economic program. Continuing on that line, you would go along on whatever else comes up. The rules, however, would not be laid down by us, but they would be rules which the European nations agree to use in concert for their mutual help and benefit.

Acting Chairman JAVITS. I notice under part 5 of your statement, you recommend that we do not impose any conditions with respect to the nationalization of industry. However, would you see any objection to our imposing conditions with regard to the attainment of goals of production?

Mr. LLOYD. Well, you could impose them if you allowed a tolerance. First let me get this clear. Do you mean conditions in the legislation?

Acting Chairman JAVITS. Either legislation or by these bilateral agreements we propose to make, as to how much production shall have been attained by a certain time.

Mr. LLOYD. You can establish targets there. I think in this economic situation we have today with so many disturbing elements, you could not hold them up because they, through some circumstances, did not reach the goal.

Acting Chairman JAVITS. You see nothing inconsistent between your desires and the establishment of production targets?

Mr. LLOYD. No. I think they could be established again with the consent of these nations.

I feel very strongly that a lot depends on the administration of this program and we cannot expect to stand off here and lay down the law as to what they should do with steel and so forth. We have to have people there who have their confidence and are working with them. In that spirit, I think we could certainly establish production goals.

Mr. KEE. You would not impose penalties if these nations did not hit their target, if they made an honest effort?

Mr. LLOYD. If they made an honest effort.

Acting Chairman JAVITS. Are there any other questions?
(No response.)

Acting Chairman JAVITS. Thank you very much.

The hearing will now adjourn until tomorrow at 10 o'clock.

(Whereupon, at 4:25 p. m., the committee adjourned until 10 a. m., Thursday, February 5, 1948.)

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

THURSDAY, FEBRUARY 5, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:15 a. m., in the Foreign Affairs Committee room, United States Capitol, Hon. Donald L. Jackson (acting chairman) presiding.

Acting Chairman JACKSON. The committee will come to order.

This morning we are privileged to have Mr. Chat Paterson, the national chairman of the American Veterans Committee, before us. You may proceed, Mr. Paterson.

STATEMENT OF CHAT PATERSON, CHAIRMAN, AMERICAN VETERANS' COMMITTEE

Mr. PATERSON. As long ago as July 1947, the national planning committee of the American Veterans Committee passed a resolution stating in part [reading]:

We warmly support Secretary of State Marshall's offer of large-scale American assistance to European nations on condition that they agree on a common program of reconstruction among themselves. To refuse such aid would force Europe into starvation, despair, and chaos, which would make impossible the establishment of a lasting peace. We propose that United States aid be used to raise living standards, not to raise armies. Whatever the cost in dollars to the United States of this assistance, it is negligible compared to the alternative. Neither peace nor a prosperous America can long exist in a wrecked and ruined world to which the United States refused to extend the credits and goods which are indispensable to reconstruction.

Under conditions of full employment, the American economy is capable of providing this aid without a decline in living standards, without retarding further economic development, and without interfering with appropriations for veteran training, reclamation, housing, public power, and other urgent needs.

Again in November 1947 we reaffirmed our support through an additional resolution which stated in part [reading]:

1. Europe today is threatened with a complete economic break-down, which can be prevented only by immediate and decisive American aid.
2. Political democracy and individual civil liberties can only be realized in an economy which provides a decent standard of living.
3. In Europe today democracy is strained to its limits by economic hardship, and may not survive any further deterioration in living standards.
4. European recovery requires vigorous action by the governments of Europe to improve the production and distribution of basic necessities of life. But without American aid, recovery is impossible. To give this aid is in our self-interest. A collapse of the European economy and the subsequent destruction of democracy there, must threaten a sound American economy, the free institutions of the United States, and world peace.

5. An over-all program for European reconstruction necessary for the achievement of those economic conditions in which democracy can exist can be achieved only through an integrated European economy such as that proposed by the 16 nations participating in the Paris Conference.

6. The domination of Europe by a reconstructed Germany can be avoided only within the framework of such an integrated European economy.

7. The refusal of the nations of eastern Europe to cooperate in the formulation of a coordinated program for European recovery makes all the more difficult the task of rehabilitating the devastated economic structure of both western and eastern Europe.

The full resolution is attached to Mr. Root's statement at the end of this testimony.

Last month Oren Root, Jr., a prominent member of our national planning committee, presented AVC's testimony before the Senate Foreign Relations Committee. A copy of his testimony is attached.

Acting Chairman JACKSON. Is it desired to have that testimony appear in the record of this committee?

Mr. PATERSON. It is.

Acting Chairman JACKSON. Without objection, it will appear in the record at this point.

(The matter referred to is as follows:)

TESTIMONY OF OREN ROOT, JR., REPRESENTING THE AMERICAN VETERANS COMMITTEE (AVC)

As the spokesman for the American Veterans Committee and as an individual citizen, I come here to urge favorable action upon the proposed European recovery program. I have attached to this prepared statement a copy of the resolution on this subject adopted on November 16, 1947, by the national planning committee of the American Veterans Committee. I shall not read this resolution, but I would appreciate its being made a part of the record.

Specifically, I urge this committee and the Congress to take the following action:

1. To authorize the whole 4½ year program.
2. To act promptly and in all events before the exhaustion of interim aid on April 1, 1948.
3. To establish clear lines of responsibility and authority for the administration of the program.

In my view, the question should not be how much can the United States afford to send to Europe. The question should be how much is necessary to save Europe from chaos and totalitarianism, because a Europe fallen into chaos and totalitarianism would threaten this Nation's very existence. We cannot afford to let Europe sink into chaos and totalitarianism any more than we could afford to let the Axis win the war. We may not like to admit that American prosperity and freedom depend upon European stability and freedom, any more than some persons liked to admit in 1938 to 1941 that German and Italian military depredations were a threat to American security, but the one is as true as the other.

We placed no limit on our war effort and, for the same reason, we must not now place limits upon our effort for European recovery. The measure of what is needed is the measure of what we should supply, because if Europe fails to recover, nothing we in America own will be worth much for long.

As a matter of fact, however, the estimated cost of the Marshall plan is small compared both to the issues at stake and to other expenditures of our Government. Secretary Marshall estimates it at 6.8 billion dollars for the first year, with the over-all total reaching 15.1 to 17.8 billion dollars. In the fiscal year 1947 this Government spent 7.8 billion dollars for veterans of its past wars, in addition to such sums as were spent by States and municipalities. As one of those veterans, it seems to me that an average expenditure of 4 billion dollars per year for 4 years is worth while if that expenditure holds any substantial hope to prevent the creation in our lifetime of several million more veterans, living and dead.

I think, too, that the proposed expenditure of an average of \$4,000,000,000 per year for European recovery is just as important an expenditure for national defense as the \$11,000,000,000 proposed for the Military Establishment in the President's budget for the fiscal year 1948.

Including interest on the national debt, which is almost entirely a war debt, we are now paying for past wars at the rate of \$12,000,000,000 per annum. The

cost of any future war is incalculable. The annual estimated cost of the Marshall plan is the equivalent of the cost of 28 days of World War II. If there is any hope at all that this expenditure can prevent World War III, certainly it should be made and made without hesitation.

When you do approve this program, as I am confident you will, I very much hope you will establish clear lines of responsibility and authority. Let us profit from the mistakes we made in preparing for the war. It seems to me that our whole effort to prepare for the war was tremendously retarded by the fact that not until the creation of the War Production Board did we have anything like a unified direction of our industrial effort. We must not repeat that confusion. Personal jealousies, departmental jealousies, even jealousies between the executive and legislative branches of the Government, are too high a price to pay when the stakes are so great. Congress cannot eliminate those jealousies from human nature, but Congress can set this program up in such a way that their effect will be reduced to a minimum.

In urging approval of the Marshall plan, few people have put much emphasis, publicly at least, upon the moral aspects of our responsibility. I think this is a mistake. Americans are more sensitive to moral and religious motivations than any other people in the world. Our very system of government is based upon the Judeo-Christian concept of the dignity of the individual; our Declaration of Independence states that all men were endowed by their Creator with certain inalienable rights. These are moral and religious concepts. They are basic in the American creed. The followers of Hitler, Mussolini, Stalin, and their ilk may be satisfied to act solely in terms of materialistic and mathematical calculations of what is to their own advantage. But Americans are different. Americans will never be happy with all their vast wealth and power unless they do whatever is necessary to save the 300,000,000 people of Europe from ruin, atheism, and slavery. That is the real reason why the great majority of our people are for the Marshall plan. And that is why, in my judgment, this committee and this Congress, as the servants of those people, should approve and implement it.

I want to conclude this statement with a quotation from a speech made by Elihu Root 42 years ago when he was Secretary of State. Speaking at Rio de Janeiro on July 31, 1906, Secretary Root said:

"It is not by national isolation that these results have been accomplished, or that this progress can be continued. No nation can live unto itself alone and continue to live. Each nation's growth is a part of the development of the race. There may be leaders and there may be laggards, but no nation can long continue very far in advance of the general progress of mankind * * * A people whose minds are not open to the lessons of the world's progress, whose spirits are not stirred by the aspirations and the achievements of humanity struggling the world over for liberty and justice, must be left behind by civilization in its steady and beneficent advance."

RESOLUTION ON THE EUROPEAN RECOVERY PROGRAM (MARSHALL PLAN), AS ADOPTED BY THE NATIONAL PLANNING COMMITTEE OF THE AMERICAN VETERANS COMMITTEE, NOVEMBER 16, 1947, PHILADELPHIA, PA.

Whereas,

(1) Europe today is threatened with a complete economic break-down, which can be prevented only by immediate and decisive American aid.

(2) Political democracy and individual civil liberties can only be realized in an economy which provides a decent standard of living.

(3) In Europe today democracy is strained to its limits by economic hardship, and may not survive any further deterioration in living standards.

(4) European recovery requires vigorous action by the governments of Europe to improve the production and distribution of basic necessities of life. But without American aid, recovery is impossible. To give this aid is in our self-interest. A collapse of the European economy and the subsequent destruction of democracy there, must threaten a sound American economy, the free institution of the United States, and world peace.

(5) An over-all program for European reconstruction necessary for the achievement of those economic conditions in which democracy can exist can be achieved only through an integrated European economy such as that proposed by the 16 nations participating in the Paris conference.

(6) The domination of Europe by a reconstructed Germany can be avoided only within the framework of such an integrated European economy.

(7) The refusal of the nations of eastern Europe to cooperate in the formulation of a coordinated program for European recovery makes all the more difficult the

task of rehabilitating the devastated economic structure of both western and eastern Europe.

Therefore, be it resolved that:

— (1) The American Veterans Committee—

Reaffirms its endorsement of the Secretary of State Marshall's program for the reconstruction of Europe through economic assistance to all European nations, irrespective of the economic system of any participating nation, willing to co-operate in good faith in a coordinated plan for such reconstruction;

Urges that Congress appropriate the funds requested by the nations participating in the Paris conference, as recommended by the Harriman report;

Urges that as a necessary prerequisite to such European recovery plan that immediate economic aid be extended to France, Italy, and Austria pending the full adoption of such program;

Urges that the foreign-aid program be implemented by vigorous action to prevent inflation and to increase production.

— (2) The reconstruction of Germany in connection with the European recovery program shall not be conducted in a manner that will result in a resurgent Reich capable of dominating Europe economically or politically.

— (3) The offer to participate in the Marshall plan be kept open to all European nations, in order that the complete integration of the European economy necessary to full recovery may be attained.

— (4) We call upon our fellow veterans of the European nations to urge upon their governments full participation in the European recovery plan to the end that civil liberties, democracy, and peace may be reestablished on a firm foundation.

Mr. PATERSON. There is no need for me to go into a further discussion of the points raised by Mr. Root. However, I would like to make several points with regard to the program and its administration. I make these because I feel that they are in line with the thinking of our membership and within the framework of the resolutions adopted by AVC:

1. There should be no cut in the proposed appropriation of 6.8 billion dollars. If the program is vital enough to be worth 5 billion then it is certainly worth the additional amount.

2. Speed should be urged in enacting the program. It has been estimated that it will take two full months from the passage of the bill until supplies actually arrive in the other countries. In setting up the administration of the program give it flexibility and incorporate the experience gained through the war period. Mr. Root points out that:

It seems to me that our whole effort to prepare for the war was tremendously retarded by the fact that not until the creation of the War Production Board did we have anything like a unified direction of our industrial effort. We must not repeat that confusion. Personal jealousies, departmental jealousies, even jealousies between the executive and legislative branches of the Government, are too high a price to pay when the stakes are so great. Congress cannot eliminate those jealousies from human nature, but Congress can set this program up in such a way that their effect will be reduced to a minimum.

No other country can mobilize like America can on something it really feels is essential. The crucial question is whether we are able and willing to take necessary domestic steps to set an example to the rest of the world of how they should put their own house in order.

3. The Ruhr should be internationalized. Germany and its people are unreconstructed. I am sure members of this committee saw Mr. Sumner Welles' recent article in the New York Herald Tribune in which he described our de-Nazification program as a "tragic farce."

While we admit some improvement in German economy is called for, it is essential that German production be geared for the benefit of the peoples who suffered at Germany's hands.

Our primary objective is to revive economies of ERP nations, and Germany only to the extent necessary for her to supply necessary goods. The Ruhr should be put in the hands of nations participating in ERP—these countries can best determine the priority and the use of such German production. I have drafted a sense resolution to this effect which I think should be passed by this Congress, thereby making clear our intentions with regard to the Ruhr.

I think this resolution might be changed as to wording, but it contains the essential points:

PROPOSED RESOLUTION ON INTERNATIONALIZATION OF THE RUHR

Whereas increased industrial output in Germany is deemed to be essential to the revival of the economies of the 16 ERP countries; and

Whereas the Ruhr contains the bulk of the industrial facilities whose production is important to European economic revival; and

Whereas all reports from Germany testify to the continued prevalence of Nazi ideology among the German people; and

Whereas certain of the present key managers of Ruhr production have in the past been outstanding Nazis and prominently connected with the German cartels which in the past dominated the European economy; and

Whereas the success of the European recovery program depends on the elimination of the forces which in the past have worked to the detriment of the peace of Europe: Be it therefore

Resolved, That the United States propose that the Ruhr be placed under the joint international administration of the 16 nations participating in the European recovery program to insure that its production facilities are used for European economic revival without creating a new menace to European peace.

Some of the production men, as I say, have been outstanding Nazis. I think of Heinrich Kost and Heinrich Dinkelbach. I believe Dinkelbach was the chief paymaster for the Nazi Stahlwerke which was the board of directors of the steel cartel, and I believe it made a contribution of approximately 50,000,000 marks to the Nazi Party.

I understand he is now in charge of steel production in the Ruhr. The same with Heinrich Kost, who was the right-hand man of Fritz Thyssen during the early days of building up Nazi economy.

4. There has been considerable talk about the desirability of appointing business administrators for this program. We suggest you place just as much emphasis on labor representation in this program. The bulwark of American democracy abroad may well have to be the democratic trade-union movements. Attackers of this program in Europe have called this program an imperialistic, capitalistic crusade. What better answer could there be than to insure full representation of the American labor movement in the policies and administration of this program and thereby show the people of the world that the American workers are actively behind this operation? I say this as one not connected in any way with the American labor movement.

5. The motives of the European recovery program are under constant Communist attack. The charge that United States aid is inspired by an imperialist desire to exploit the peoples of Europe has taken root among the not inconsiderable numbers of Communist Party members and supporters in western Europe.

This argument can best be met by making it clear that this aid is a direct contribution from the United States taxpayer to the European people. The provision that up to 5 percent of the money appropriated

may be encumbered by guaranties to American citizens or corporations who invest in approved projects provides a talking point for this imperialist propaganda.

Furthermore, such guaranties should be unnecessary. They will probably provide guaranties for investments that would have been made anyway.

6. The American taxpayers should not be obliged to provide the necessary funds for this program while the well-to-do Europeans continue to hold on to their private hidden investments in the United States.

Immediate steps should be taken to assure that such private assets are duly registered and called upon by the governments of the individuals to the extent that the crisis requires.

These private sources can then be used for security for the governmental loans of these nations. This is no time for certain European individuals to shirk their responsibility for the recovery of their own nation.

I have not gone into Mr. Root's testimony, and have only gone into those things which he has not discussed.

Acting Chairman JACKSON. Thank you very much, Mr. Paterson, for a very comprehensive statement.

As is usual at these hearings, following such a statement, the session is thrown open for questions.

Mr. Jonkman.

Mr. JONKMAN. I have no questions, Mr. Chairman.

Acting Chairman JACKSON. Mr. Jarman.

Mr. JARMAN. Mr. Chairman, I regret that circumstances beyond my control caused me to be late, and denied me the pleasure of hearing Mr. Paterson's testimony.

I have no questions, except I noticed a headline in the paper this morning, and decided later to read an article along the line of the investments in this country that you spoke of.

Mr. PATERSON. I did not happen to see that, but I believe I have seen most of the articles appearing on that subject.

Mr. JARMAN. Thank you very much.

Acting Chairman JACKSON. Mr. Javits.

Mr. JAVITS. Mr. Paterson, I am very much interested in your comments about Germany. That is a subject which is very much before us, and I must say it is the first time that I have heard this idea that the cooperating nations should take over the management of the Ruhr.

Now, will you tell us in detail, by what diplomatic and procedural steps you would accomplish this objective?

Mr. PATERSON. I must say that the actual administrative phase of it I have not gone into very deeply.

As I said, I tried to translate a resolution that had been passed at one point, calling for internationalization of the Ruhr. I believe at this point, for example, with the combination of Mr. Dinkelbach and other gentlemen, they are the top people in "Bizonia." I do not know whether this would mean a pulling out of America. If it were internationalized it would certainly include these other 16 countries.

I believe the steps could be taken if we were determined to do it because Britain and the United States do control those two zones and there is no reason in the world why through the United Nations, some program like that cannot be carried out.

Mr. JAVITS. Is it not the fact that any internationalization of the Ruhr discussed in the past has been four-power internationalization?

Mr. PATERSON. As you will know, I did not restrict it to that.

Mr. JAVITS. Would you tell me how the United Nations could be tied into the ERP when the United Nations is not tied into the 16-nation European committee. How could you suddenly bring in the United Nations, as you just said?

Mr. PATERSON. As I said, I have not gone into detail. I would have to give it considerably more time, which I would be glad to do.

What I was trying to do was simply lay out a basic principle which could govern the Ruhr at this particular time.

Mr. JAVITS. Would you like to submit a detailed plan by which the 16 nations could internationalize the Ruhr?

Mr. PATERSON. Yes, I would be glad to do that.

(The information referred to is as follows:)

FURTHER INFORMATION ON A PLAN BY WHICH THE 16 NATIONS PARTICIPATING IN THE MARSHALL PLAN COULD INTERNATIONALIZE THE RUHR

I believe that it would be possible to provide in the German peace treaty that the ownership of the major industries in the Ruhr be turned over to the 16 nations participating in the Marshall plan. Provisions should be made to assure ownership by this group of nations of Germany's coal, steel, and chemical industries in the Ruhr and Rhineland, with fixed compensations being paid to the public or private owners of these industries and resources. The economic administration of the Ruhr should be vested in these nations. A commission elected by these nations should be empowered to make all decisions by majority vote as to administrative problems. Attention should be given to assuring that management of the Ruhr resources is vested in reliable personnel, not formerly connected with the Nazi or with German cartels. Management personnel should be appointed by the members of the 16-nation governing group. The terms of transfer of the Ruhr resources to this consortium should provide that the commission allocate all coal and steel products in the Ruhr and Rhineland on a percentage basis to the various nations, including Germany, requiring these resources to meet their stated goals under the Marshall plan as stipulated by the Paris Conference in 1947.

Mr. JAVITS. Now, you say Heinrich Kost; and what is the first name of Dinkelbach?

Mr. PATERSON. Also Heinrich.

Mr. JAVITS. That they are now leading industrial managers in steel production in the Ruhr?

Mr. PATERSON. Steel and coal.

Mr. JAVITS. And they have a Nazi record?

Mr. PATERSON. Yes.

Mr. JAVITS. Would you submit for the record the details of their past?

Mr. PATERSON. Yes.

(The information referred to is as follows:)

DETAILS OF THE PAST OF HEINRICH KOST AND HEINRICH DINKELBACH

HEINRICH KOST

In October 1947, despite the strenuous opposition of France, the Netherlands, Belgium, and Luxemburg, the military government in Bizonia decided to relinquish to German officials the authority of production as well as allocation of Ruhr coal. A German coal management was created for the purpose of reviving the coal production of the Ruhr. Heinrich Kost was appointed general manager of the German coal management (New York Times, October 27, 1947).

Heinrich Kost was a well-known German mine manager who became general director of the Rhine Preussen Co. just as Hitler came to power. The Rhine Preussen Co. is one of the largest of the Ruhr coal producers. The company

forms a part of the famous Haniel Trust which is one of the largest concerns of Germany dealing with coal, steel, rolling stock, etc. The Haniel family has become tremendously wealthy under the Nazi regime. Heinrich Kost has been connected with the Haniel Trust for a number of years and during World War II held directorships in several major industries and cartels. The cartels with which Kost was associated helped finance Hitler's rise to power and, later on, Germany for aggressive war.

Heinrich Kost joined the Nazi Party in 1934, years before the Nazi Party put pressure on businessmen to take out membership. Because of this fact, and because of Kost's intimate association with Germany's major cartels, his appointment as manager of the Ruhr coal production was sharply attacked by the Ruhr coal miners' unions and by many democratic fellow Germans. It is noteworthy that most of the other members of the German Ruhr Coal Commission were also prominently connected with the Nazi Party or working very closely with it.

Among the representatives of the German mine owners special mention must be made of Waldimar Oppenheim, a very intimate friend and collaborator with Baron Kurt von Schroeder, a general of the SS and fuehrer of the Nazi banks, and the man who was in a position to bring Hitler and Von Papen together, leading ultimately to the appointment of Hitler as chancellor and Von Papen as vice chancellor of the Third Reich.

Writing about the new German administration of the coal industry which is so vital to the recovery of Europe, the Washington World Report of December 16, 1947, made the following comment: "Allied officials take the position that they will not interfere in administrative operations and will give advice only when asked."

HEINRICH DINKELBACH

Heinrich Dinkelbach was appointed supermanager of the Ruhr industry by the British authorities in October 1946.

Heinrich Dinkelbach is a notorious Nazi, a member of the board of directors and the financial brains behind the Vereinigte Stahlwerke. He has been associated with that notorious steel combine since before the advent of the Nazi regime. He has worked in the closest possible terms with the founders of the combine, Albert Vogler and Ernest Poensgen, the leaders of the German heavy industry and the founders of the international steel cartel in Europe. Through Dinkelbach millions of marks were paid to the Nazi Party.

The Vereinigte Stahlwerke was established in 1926 by Vogler, Poensgen, and Friedrich Flick—recently tried as a war criminal. The influence of Germany's leading iron and steel combine extends beyond its affiliates both open and concealed. The Vereinigte Stahlwerke holds the largest quota in the strategic Rheinisch Westfaelische Kohlen Syndikat which controls about 75 percent of Germany's coal industry. The Vereinigte Stahlwerke also controls, indirectly, the International Steel Cartel in Luxemburg. The political influence of Germany's largest steel combine was not based on the number of its directors in the German Parliament, but arose from long association and support of pan-German and Nazi movements. The Vereinigte Stahlwerke was behind the Nazi drive for military conquest.

The records found by the military authorities in 1945 in the office of the Vereinigte Stahlwerke in Dusseldorf revealed that Dinkelbach was closely allied with the Nazi policy for a number of years. When he was appointed by the British to become the chief trustee of the iron and steel industry in the British zone, his membership and activities in the Nazi Party were deliberately overlooked. Soon after he came to power and by virtue of his new position he succeeded in freeing 27 of the 31 high officials of the Vereinigte Stahlwerke who had been previously arrested as notorious Nazi criminals. It is noteworthy that the majority of the Vereinigte Stahlwerke high officials were members of Nazi criminal organizations such as the SS and SA.

The well-known London weekly, News Review, of August 7, 1947, described Heinrich Dinkelbach's present position in the following terms: "Herr Heinrich Dinkelbach holds in Germany today the place once occupied by such powerful figures as Alfred Krupp, Hugo Stinnes, and August Thyssen. He is their direct successor. He is the Ruhr industrial magnate, model 1947."

Dinkelbach's activities were described by the same weekly in the following terms: "Within the limits of disarmament and four-power level of industrial projects, he is reorganizing the whole set-up (the Ruhr industry). He had the same kind of a job under the Nazis from 1933 to 1939."

The prominent French newspaper, L'Ordre, reported last year that his son, Friedrich, who distinguished himself in his fights as a member of the SS, was

liberated immediately after Germany's capitulation and was returned to Dusseldorf where he is now working with his father.

Dinkelbach is now planning the revival of Germany's heavy industry from the North Cumberland House in Dusseldorf—the house which was formerly called the Stahlhaus, where the leaders of the German heavy industry used to meet to plan the conquest of Europe. In 1926, when the giant Vereinigte Stahlwerke was formed, Dinkelbach was appointed to the job of welding the numerous concerns that went into the combine into one workable, self-supporting “from the earth to the finished product” machine. He is now planning to rebuild the same machine with the blessing of the British authorities.

Mr. PATERSON. The information I gave was that he was mentioned in Mr. Thyssen's book. The two of them are listed as members of the board of directors under Hitler at that time.

Mr. JAVITS. I notice what you say about cutting this amount for the ERP from \$6,800,000,000 to some other figure. Is it your idea that this committee and the Senate Foreign Relations Committee should not review the amount to see whether they believe it is justified but should just pass it because it is asked for?

Mr. PATERSON. There is no question of not reviewing it.

Mr. JAVITS. Suppose it is decided that \$6,800,000,000 is wrong, that it should be \$6,600,000,000. Would you see any objection to reducing it?

Mr. PATERSON. Mind you, I have not had the occasion to hear continually witnesses on this and have not had access to other particular documents, but then it seems to me that \$6,800,000,000 is itself even lower than the minimum put forth and represents a cut itself. I must say I have taken at face value the statements that have been made by several people before the Senate Foreign Relations Committee, that that did represent a cut, a minimum cut, and if it were brought down below that it might be more of a relief program than a recovery program.

Mr. JAVITS. You do not for a minute desire us to take your statement as meaning that we should not review the amount.

Mr. PATERSON. No. I did not want to go into detail.

Mr. JAVITS. I notice you oppose this provision with respect to the guarantees of American private investment abroad. If you were convinced that “a plan”—not “the plan,” but “a plan”—would contribute to the European recovery program success, you would not be against it, would you?

Mr. PATERSON. I must say I have not had the time that the gentlemen of the committee have had to really go over this thoroughly. I know that, for example, certain large concerns are planning on reestablishing their interests in Germany. I assume they will do that anyway. If the conditions are not such that they cannot do it, why should the Government stand the loss any more than they should?

I do not see why that 5 percent should be there.

Mr. JAVITS. Have the veterans in your organization expressed themselves on this issue of the reindustrialization of Germany?

Mr. PATERSON. In the resolution adopted in July that I referred to briefly that is not attached here. One of the statements in it is—and that, incidentally is the reason it is probably not reemphasized in the November resolution [reading]:

We recognize the danger that American credits may be misused to rebuild German military strength, without inspection and controls as after World War I. We urge that any increase in the level of German industry be accomplished through the imposition of strict control.

Mr. JARMAN. I forgot to say what a fine looking, able-appearing new chairman we have, and commend him on his excellent handling of the committee.

Acting Chairman JACKSON. The Chair thanks you.

Mr. JARMAN. With reference to your fear, which I heartily share, that any substantial reduction of that amount would cause it to become a relief program only, I might say that we have considerable testimony developed from my questions to the witnesses, who probably are much more familiar with the situation than you are, to the effect that just that would happen.

As a matter of fact, I have asked two or three of them this. I have assumed it might be cut approximately to two-thirds.

I ask them the question, if they thought it was possible that 4.5 billion would accomplish two-thirds as much as 6.8 would, or in other words, whether it would not be wasteful, and the positive opinion that has been expressed by those to whom I propounded the question was that it would not, that it would not produce two-thirds of the results. You are not alone in your opinion.

Mr. PATERSON. I envy the committee for their position of hearing all these things.

I have spent about 5 years outside of the United States recently and am interested in your opinion on foreign affairs but I must say I do not have quite the time to study things that I would like to and unfortunately have to work on just too many pieces of legislation.

Mr. JARMAN. Thank you very much, sir.

Acting Chairman JACKSON. Any further questions?

Mr. Kline, the president of the American Farm Bureau Federation, is also to appear before the committee.

Mr. Kline, may I, on behalf of the committee, welcome you this morning?

Mr. Kline is the president of the American Farm Bureau Federation. You may proceed, Mr. Kline.

STATEMENT OF ALLAN B. KLINE, PRESIDENT OF THE AMERICAN FARM BUREAU FEDERATION

Mr. KLINE. It is a pleasure to appear before this distinguished committee, for there are perhaps no more important committees in the world today than those of the United States Congress which deal with foreign relations and foreign affairs.

I, along with millions of other farmers, share the deep conviction that our Nation must meet the responsibilities of world leadership. Less than 2 months ago our voting delegates, representing over 1,275,000 farm families, or approximately 5½ million farm people in 45 States and Puerto Rico, adopted a strong resolution on international cooperation. The parts of this resolution dealing with the recovery plan are as follows [reading]:

We favor cooperation, within our productive and financial ability, in the European recovery program. Foreign-aid programs should be based upon the principle of helping the people of the various nations help themselves. No program of help is good unless it will lessen the need for aid in the future. It is essential that steps be taken to help war-torn nations restore dependable value to their currencies and expand industrial production, as well as the production of food and fiber to raise their living standards and restore their ability to carry on normal trade relations.

Expenditures for relief should be considered as part of the cost of the war and handled as such. The expenditures for capital goods, however, should be considered as loans and means provided for repayment. We favor a policy which will encourage the making of private loans and investments abroad. We believe that private foreign investments can be mutually beneficial to both this Nation and the receiving nation.

We favor the establishment of a bipartisan commission appointed by the President and confirmed by the Senate to administer the long-time aid program, which must be closely coordinated with the activities of the Department of State, the Department of Agriculture, and other interested Government agencies. In the formation of the commission, agriculture should be given adequate representation.

We should make certain that the aid is used for the purpose intended. The individual recipients of any aid should be informed that this aid came from the United States and was produced by free people working under a system of private enterprise.

The paramount question in the minds of millions of farmers is, What can be done to attain an enduring peace?

Farmers realize that there is no easy answer to this age-old problem. They are unwilling, however, to let the present opportunity go by default. It has been afforded us by the victorious conclusion of the most costly war in the history of the world. We must carefully weigh the cost and yet let us never forget that war is the most horribly expensive of all methods of settling international disputes.

Our Nation finds itself in a position of world leadership involving many new and grave responsibilities. We must accept this challenge in the same fearless manner as did our forefathers in making the most of the opportunities out of which our ancestors created this great democracy. American farmers are proud of the splendid bipartisan manner in which our foreign policies have been handled since VJ-day. We wish to commend the Congress for the fine statesmanship displayed and sincerely hope it will continue.

The American farmer is a strong believer in the private enterprise system. He feels that one of the major long-time contributions that can be made to civilization is for this country to maintain a strong, virile, and productive system of private enterprise, to serve as a citadel of democracy in these troubled times.

It is significant that while some are attempting to discredit the capitalistic system, many areas of the world are at the same time knocking at our doors, seeking the fruits of our productive enterprises. The farmer has learned, through bitter experience, that we cannot isolate ourselves from what is happening to other segments of the economy. We are all dependent upon one another. Likewise, he has learned that this Nation cannot isolate itself from what is happening to governments and people in other parts of the world.

We realize that this aid program will cause some temporary hardships upon this Nation; but it is our conviction that, if the program is handled wisely, our Nation is strong enough to meet this challenge through the private enterprise system, and will not have to resort to a regulated economy, foreign to our democratic principles.

It is of extreme importance in any aid program that recipients be clearly informed that this aid was produced and furnished by the free people of the United States. They should further know that much of it has been furnished without hope of reward other than that of a prosperous and peaceful community of nations.

It has been my privilege to have been in Europe three times within the past 4 years—once during the war and twice since the war. I am

not alone in this experience. Perhaps more farm leaders have been to Europe since the close of the war than in any previous decade.

This is mentioned simply to illustrate the interest among farm people in meeting the challenge of present-day problems. It is my conviction, and that of my associates both those who have traveled with me and the vast majority of farmers throughout the country, that Europe needs help in order to get started on the road to recovery.

It is our feeling that the mere shipment of food alone will not meet the problem. We must make it possible for Europe to obtain the things necessary to get production started. They need machinery to produce necessary goods and services. Steps must also be taken to help stabilize their currencies. It is a vicious circle. Recovery in Europe depends upon both production and exchange of goods and services. At this time, even when necessary goods have been produced, trade is slow or even impossible because currencies are of little value and even then not dependable. This is a vicious circle which must be broken before permanent recovery can make headway. While we must send enough food to enable people to work effectively, we must at the same time see that they have the means to produce other things to insure that we do not merely stabilize a relief situation.

It must be apparent that this Nation cannot solve all the economic problems of the world—that much of the undernourishment of the world is centuries old and is not a direct result of the war. While these problems cannot be ignored, I feel that we should recognize that Europe is the key to the reinstatement of that sort of production, trade, and government in which a democracy can survive, and that our major effort should be concentrated for the time being upon bringing about economic recovery in this area.

It goes without saying that any aid program should be designed to help the people of the nations help themselves. In extending this aid, careful safeguards should be provided to insure that it is used for the purposes for which it is intended.

Whenever the aid is not so used, it should be terminated. Extreme care and wise administration must be provided to avoid spending huge sums of money which leave the recipient nations no better off than they were before. Production by the people of Europe themselves, accompanied by the opportunity to exchange their goods for things they need, is the only permanent solution to the problem.

The administration of this long-term aid program presents a difficult and complex problem. Our resolution calls for administration of the program by a bipartisan commission appointed by the President and confirmed by the Senate. The resolution also recognized that the activities of this commission would have to be clearly coordinated with the Department of State, the Department of Agriculture, and other governmental agencies which would participate in the program.

In this case, as in other cases where an important issue faces a democracy, there are varying ideas concerning the best solution, and quite often each proposal contains many points of merit. The end result is often compromise which is more workable than the original suggestions. It must be recognized, however, that under our present form of government the Department of State is responsible for our foreign relations and contracts with other nations. At the same time it is necessary to realize that this aid program has a number of impacts

upon our domestic economy which are not necessarily within the jurisdiction of the Department of State.

In discussing this matter on Tuesday of this week, our board of directors thought that the best solution would be to establish a bipartisan commission of six members, with the Secretary of State or his delegated representative serving as chairman, and the other five members appointed by the President and confirmed by the Senate.

This policy commission would be held responsible for the program and required to report quarterly to the President and the Congress. Since food is one of the major items involved in this program, we feel that a person familiar with agriculture should be on the commission. Authority to establish advisory committees to the commission should be provided.

We believe the program should be financed out of current receipts of the Government. We believe that past history indicates that many of the loans made under the program for current consumption may never be repaid and that it might be a mistake to establish too rigid conditions for the repayment thereof. We feel, sir, that we should strive to make loans for capital goods on a business basis.

We would like to see the aid program provide the greatest possible latitude for the making of loans by private individuals. Perhaps the conditions for aid to the respective countries should contain some reasonable protection for American capital to insure that it has the same treatment as domestic capital in the country involved.

It is my conviction that there are opportunities for American business to make productive investments in devastated countries which, under proper conditions, would be extremely beneficial to the citizens of those nations, and at the same time be advantageous to American business and finance.

The aid program should contain provisions designed to promote international trade on a sound basis. It is apparent that much of Europe cannot exist without a considerable exchange of goods and services.

It is also apparent that American agriculture will need foreign markets. During the 1920's and 1930's from 60 to 75 percent of all our agricultural exports were to the countries participating in this program. Before the war, western Europe produced only about two-thirds of its total food. The United Kingdom was less than one-third self-sufficient in food.

Belgium, Norway, and Switzerland were about 45 percent self-sufficient, while western Germany produced about 60 percent of its food requirements. It is apparent that there are possibilities of maintaining permanent markets in Europe which would prove very beneficial to American agriculture.

Adjusting our expanded volume of wartime production to peacetime demands will be easier if we have foreign markets. There has been a close correlation between the amount of undesirable regimentation that it has been necessary to place upon agriculture in the past in order for farmers to survive, and the volume of foreign trade.

You will ask, "Can American agriculture stand the impact that this program may have upon it?" I believe it can. The program calls for exports of less than 10 percent of our production of farm machinery.

While this is a slight increase over what has been exported in the past, it is likely that this increase can be offset by increased production, which would make machinery available to our farmers at about the present rate. The program provides for continued exportation of United States nitrogen to western Europe at about the present rate, which is 8 percent of the total commercial supply. This requirement will diminish after 2 years. Shipments of phosphate rock would be continued at about the present rate, which is around 4 percent of our domestic production.

From the standpoint of the impact upon consumers, the program actually calls for a smaller quantity of food exports than in other recent years, but there is no use denying that the relief program places strains upon our economy which would not be there if the goods were not shipped out of our Nation. These strains can be lessened, however, if care is exercised to utilize those products which may be in excess supply and thus alleviate the pressures on other commodities. Like most other worthwhile things in life, this program cannot be had without some sacrifice by our own people. I believe that the potential benefits from the program outweigh the sacrifices which we will have to make.

In conclusion, may I state that the American Farm Bureau Federation has great confidence that this Nation will rise to meet the challenge of the times. We wish it were unnecessary to be discussing this aid program. We wish that now, 2½ years after the war, a permanent solution to the problem of peace had been effected, or was near at hand.

This, however, is not the case. We have great confidence in our private enterprise system, and in our democratic form of government. The members of the American Farm Bureau Federation feel that we can help these needy nations to help themselves in such a manner that it will be in our own long-time best interest, and will also be of immeasurable value to the people in the recipient countries.

In summation, I think we can point out some of the major elements affecting the farm bureau with regard to this European recovery program.

In the first place, we are certain that a European recovery program ought to be handled on the basis of a bipartisan approach. We certainly commend the Congress for the position which has been in the past dominant in that area, and we are certain that it ought to be the major concern of both parties, that this thing be considered on the basis of what the situation requires and not on the most vulnerable position in the armor of the other party. That does not mean anything in particular, but I think you know what it means.

The European recovery has to be European. There is not any doubt about it at all. I have heard people say, "Can we feed Europe?" The answer is, of course, "No." We cannot begin to feed Europe. Neither can we afford to contribute from our own production the kind of thing which would make up for traders. It means recovery in the kind of production and the sort of trade, to make it possible for Europe to survive by its own efforts.

Nothing we could do would take the place of a plan evolved by Europe and put into effect by Europeans. Our job is to kick this thing off.

One of our dangers will be that we might get into a position where we stabilize relief in Europe. It is a very serious threat, and it would be a great calamity.

For instance, where we could furnish food, now and just food enough to keep Europe alive, and were we to fall down on the proposition of getting recovery started by the sort of supplements which are concerned with machinery for production, and the kind of thing that will increase the capacity to produce on the part of European workers, then we are simply continuing an impossible situation.

There are in Europe a good many more people than can live in Europe on the soil. This population was developed with a production and trade which enabled them to buy food from all over the world, and when that is renewed, there will be a great step taken.

We think there is a tremendous interest on our part in this thing. It is not an altogether selfish interest but if one wished to consider it from an altogether selfish viewpoint, it still makes very good sense for the United States.

I have had the good fortune or misfortune to have been in Europe during the last 4 years. Once during the war I spent a couple of months in Britain and in the past two springs I was there and both times I visited Germany. I was confident as I could be that there is little possibility of living in the United States, unless we live in a world where nations like those of Europe enjoy again that which they enjoyed prior to this war, a relatively high standard of living and some hope.

Those citizens who are willing to work and have some initiative must have some hope that if they work hard and do their best they might be able to buy an overcoat next winter.

Until we have restored some economic order, there are too many people with too little food and production and trade is either so poor or so disorganized that they do not fit the people there.

There is always the threat of an inimical organization in Europe in some form with which we cannot get along. We are convinced we are not experts. However, also, there must be coordination between the State Department and the administration of European recovery.

It would be a tragedy if the United States, with the amount of resources which will inevitably go into this effort, if we were to handle it in such a way that we were at loggerheads with ourselves.

We have suggested that there ought to be an administrator who was either appointed by the Secretary of State or someone appointed by him. We think also, though, that we ought to coordinate this thing by having appointees of the President confirmed by the Senate.

The Congress has to be tied into this thing. We do have to overcome the tendency which the State Department has to do things and tell us about it afterward, and not to have the people in on the proposition as it goes along. This European recovery program is big business. It will concern the distribution of vast quantities of materials. It is necessary to have it well administered and the State Department is not set up for that sort of thing.

It is a little complicated and as we suggest here, perhaps a compromise that might be worked out would be better than some of the proposals which were made to start with.

That, Mr. Chairman, concludes my oral statement.

Acting Chairman JACKSON. Mr. Jonkman.

Mr. JONKMAN. You said in your statement:

We realize that this aid program will cause some temporary hardship upon this Nation. It is our conviction that if the program is handled wisely, our Nation is strong enough to meet this challenge through the private-enterprise system and will not have to resort to a regulated economy foreign to our democratic principles.

If this demanded a correlation including price control in the United States, would you still prefer it?

Mr. KLINE. I would like very much, when that occasion was said to be here, to have the opportunity to evaluate the occasion. I would doubt that it was here, yet.

If I might discuss that just a little bit, I will say that I do think it is probably true that many of the controls such as you are suggesting now might be necessary because of the Marshall plan, are in effect in Europe now, and many are there because of necessity.

The shortage of goods and the inflation which has been disguised by such means as this, make it necessary to do something to facilitate the distribution of our goods.

However, Europe is having a very difficult problem. It is a little overstatement but not too much so, to say that Europe has discontinued the use of money. You can get the things distributed by coupons for very little money.

Now, for additional labor and increased ingenuity he gets more money, he does not get more coupons.

He must go into the black market or luxury market, and there the inflation is very apparent and very real. He can buy little with his own money. He considers leisure is more important to him than money.

Over and above this matter of work on the part of the worker it is well to remember that Europe lived by trade and that her population cannot possibly exist on the soil as it is. The trade of Europe prior to the war depended upon the use of money and credit and was evolved during the nineteenth century pretty much on the basis, relatively, of free trade.

All those things are changed by the situation. It is necessary to get export licenses and import licenses, and with various controls of the exchange itself, trade is entirely controlled.

Imports and exports are controlled in all these countries. So you have the distribution in the country controlled, the imports and exports controlled and many people blithely assume that if we were to become a little short of this, that or the other in this country, we could take care of inflation and everything by putting in a few little controls.

I have seen these controls first-hand, when they were not a few little ones, but were all over the place, both here and in Europe.

I am not at all sure that they are an easy answer. Black markets go right along with the luxury markets. The inflation shows up inevitably.

When we come to this time when some people in America might say, "Now, we better introduce this other system because our system of relatively free markets is not working so well," then I would want the opportunity to look it over rather carefully. They would then be saying, "This is a rather terrible emergency." We would then have

to gage whether we might be able to get the sort of production which was essential and still throw in these controls and take off administrative ability, in order to manage the controls. I think we are quite a long way from it now.

In food, we exported about 7 or 8 percent. Pound-wise we sent about 13 or 14 percent of the domestic distribution.

Mr. JONKMAN. If you were convinced that with \$4,500,000,000, we could retain our free economy, but that with \$6,800,000,000, the strain would be so great that we would have to go into a controlled economy, would you then advise the \$6,800,000,000?

Mr. KLINE. The answer again is "No," but again I would have to check all the details and that would get to be the sort of explanation where you would have to say, "Let me ask another question."

Mr. JONKMAN. If we are trying to save free government in the world, and the Western Hemisphere is the only place where it exists, will we gain anything by releasing it and abandoning it in the Western Hemisphere, as compared to our own interests or world interests?

Mr. KLINE. The most important thing in the world today, both from our standpoint and the world's standpoint in my opinion, is to make this American system work and make it be successful.

Make it successful both in the production and distribution of goods.

Mr. JONKMAN. That does not answer my question. Is it working if you go into a controlled economy?

Mr. KLINE. No.

Mr. JONKMAN. That is all I wanted to know.

Mr. KLINE. That is almost too much, because the fact of the matter is that we have many controls in this country which practically everyone is in favor of. We do not have complete free enterprise, sir. We have all sorts of little abridgments. Such as the Federal Power Commission and the Interstate Commerce Commission.

Nobody is in favor of letting the railroads set the rates by themselves yet. It is an infringement of free enterprise, to set up a commission to restrain them.

I think the maximum amount of free enterprise will make this thing work, with the minimum amount of controls that will be in the public interest as we go along. We have to appraise that from year to year.

Mr. JONKMAN. That is all, Mr. Chairman.

Mr. JARMAN. Your appearance here brings pleasant memories to me. First for the very fine and patriotic attitude your great organization has always taken since I have been in the Congress, on such momentous problems as this.

Furthermore, it brings equally pleasant recollections of a very fine, delightful, able southern gentleman from my State who has heretofore appeared in the capacity in which you appear today, and which capacity you have now taken.

I am sure you realize that in stepping into the shoes of Ed O'Neal you have stepped into large shoes.

However, from what I have already heard of you, if there is anyone in your organization capable of filling those shoes I believe you are the man and I congratulate you on the opportunity which is yours.

Mr. KLINE. Thank you, both for myself and Mr. O'Neal.

Mr. JARMAN. It is highly appropriate, I believe, that when you appear before this committee, that it be presided over by a man, who

although a very junior member of the committee, is a distinguished member of the committee and the Congress from your State.

I just said awhile ago when the previous witness was here and I looked up and saw my good friend Don Jackson, the gentleman from California presiding, I commented on what a fine and able looking chairman the young man made, and I think that is appropriate.

Mr. LODGE. Hear, hear.

Acting Chairman JACKSON. The young man also thanks you.

Mr. JARMAN. I am going to read your statement very carefully, because I like so much the first sentence of it and I hope the constituents of all the members of these committees will entertain the same appreciation of them as you do when you say [reading]:

There are no more important committees in the world today than those of the United States Congress which deal with foreign relations and foreign affairs.

I hope our constituents enjoy that same appreciation.

Mr. KLINE. Am I to understand from your comment that I am from California?

Mr. JARMAN. That is what I understood.

Mr. KLINE. Well, I am from Iowa. It is practically the same thing.

Mr. JARMAN. I beg the pardon of the gentleman from Iowa, for suggesting that he came from California, but it is just next door.

Mr. KLINE. Both in the same great country.

Mr. JARMAN. I was misinformed.

Now of course you are not technically versed in this, I am sure but in view of the question propounded to you by the gentleman from Michigan, I am wondering if you have studied the question sufficiently to have a definite opinion on this question. As you know, the amount suggested and requested in this testimony as being necessary to accomplish the purpose we all feel must be accomplished for the first 15 months, is \$6,800,000,000.

There are proposals to reduce that amount. I do not believe and I hope there is no proposal to reduce it so drastically as to \$4,500,000,000, but I select that amount because that is approximately two-thirds of the \$6,800,000,000.

From your experience in your visits to Europe and the study you have made of this proposal, do you think that \$4,500,000,000, which is two-thirds of \$6,800,000,000, would accomplish two-thirds the good toward the end we want to accomplish, that \$6,800,000,000 would? In other words, would two-thirds the amount of money accomplish two-thirds the good?

Mr. KLINE. Mr. Chairman, I believe the answer would be no. However, it is difficult to give a well-considered answer. This is in terms of billions of dollars and it has to get down to terms of relief on the ground and rehabilitation.

It does, however, bear on the statement which I made orally: The most important thing in Europe is to get recovery of European production. We are faced with the absolute necessity of assisting with food. If we go far enough and do quite a little bit with food, and quite a little bit to meet the exigencies as we go along, but do not do anything about getting their own program of retooling started, then it would be true that this money would not accomplish percentage-wise the total that it was of the total expenditure, because we would tend to stabilize the relief situation.

Or if you insist, we would not continue the relief situation anyway, we would tend merely to continue, as far as our effort was concerned, an impossible situation by enabling people to live through the winter.

The most important thing of all is to get production started in Europe, and the expenditure which we make there getting production started is the sound expenditure. That is the expenditure which can be productive. That is, furthermore, the only kind of thing that can be repaid.

Acting Chairman JACKSON. That was exactly my reason for the question.

Mr. JARMAN. I believe that such a reduction would reduce the effort largely to a relief matter which would either have to be continued year after year, or we would have to stop it, whichever was our choice and we would not get to the real productive part of the program which is rehabilitation and the commencement of construction.

My agreement with your statement was what prompted my question. Thank you very much.

Acting Chairman JACKSON. Dr. Judd.

Mr. JUDD. Following up the remarks of my genial friend from Alabama, on your having difficulty filling the shoes of your illustrious predecessor, it is perfectly clear from your statement here this morning that you brought your own shoes and are filling them very admirably.

I think you have made one of the finest, best-balanced, most realistic statements, both of needs and of what is necessary to satisfy those needs in ways that will be sound and enduring and mutually beneficial that we have had in the whole hearings.

I notice you speak of the exports of farm machinery, fertilizer, and so forth.

When you were in Germany did you have opportunity to visit any of these areas where there were nitrogen plants of enormous capacity but which are not now operating at anything approaching full capacity or not operating at all, and some of which have even been dismantled? Did you go into that problem?

Mr. KLINE. Yes, sir; we visited with the folks in connection with our military administration over there, about the whole fertilizer problem, and particularly the nitrogen problem. We visited with the joint administrative officials of the British and American zone at Stuttgart and we had a number of conferences with German officials.

We met with the board of directors of a cooperative. We met also with the German administrative officials under the joint administration at Stuttgart.

It is agreed there on all sides that there is capacity to produce the necessary nitrogen.

I did not go through the plants and it would not be of much help if I did because I do not know anything about nitrogen plants.

The immediate difficulty is coal. I presume you have heard that story a great many times.

It is my own impression that the most immediate necessity for the improvement of agricultural production in our zone in Germany is fertilizer. The production of fertilizer is an industrial proposition and the whole thing stems back again to this industrial break-down of which I spoke before.

Mr. JUDD. As a farm expert did you run across instances where in some of the countries Americans were trying to raise agricultural techniques, methods and procedures to the level of Iowa for example, and therefore were taking machines into areas which did not have any way now and will not hereafter to get foreign exchange to buy oil and parts for the tractors and other farm machinery which were being sent from America.

To do this raises their position temporarily but when the United States walks out in 1952, it leaves them with a modified agriculture system which they cannot support.

Did you find evidence of that in any countries?

Mr. JONKMAN. The gentleman is asking too much to ask that the level be raised to that of Iowa, the agricultural level?

Mr. JUDD. Well say, "even Alabama." You know what I am driving at. This ought to be recovery and not an attempt to carry on a great social or industrial or agricultural reform, especially if it tries to bring them to levels they cannot sustain on their own power.

Mr. KLINE. I did not personally visit any such place. I did visit places where the introduction of large machinery would be bound to fail, until there were all sorts of alternative use for people, because there are enough people to do the work with hand tools and you must do something with the people.

However, that type of production is very intensive. It gets every little foot of land. Therefore, I say the most essential thing is fertilizer.

You ask about shipping machinery which does not count. That has to do with the long-term trade proposition for the United States which might have considerable importance.

Four years ago this month I visited the Political and Economic Policy Club in London. And I remember the discussion with regard to machinery. Dr. Brogan, who has been in this country a number of times, finished off the argument. He said, "With regard to a British farm machinery manufacture, there is no good British farm machinery. There is only good American farm machinery."

We also have the possibility of developing considerable trade here. It is a sore spot with farmers because they want the machinery themselves and the fertilizer themselves.

They think we should not do the things you suggest, which consists of putting machinery in places where the people do not understand tractors anyway and where there is no prospect of long-range servicing of that machinery and extension of trade in that area, but there are many mechanized areas where the plants have broken down that ordinarily supplied them.

The German tractor factories are not in production. There are places where machinery is very necessary indeed, in order to keep their production up. There are also possibilities of a very economical use of machinery in some of those areas, even though it might only be served for a few years until the machinery wore out.

It would be most foolish for us to send some machinery over there and not have enough foresight to see that it had the capacity to be serviced. A \$2,000 tractor can break down for a 50-cent part and set around for months.

Mr. JUDD. There has to be some balance and in my own mind the extent to which we ought to get these people dependent upon us has

never been clear. Their shortage now is in American dollars, because we are the only productive plant in the world that is relatively unscathed.

Must we not try in this program, to get people so they are not quite so dependent upon American dollars?

On one hand we want to build up markets so when our shortages are filled, American farm-machinery manufacturers will have places where they can sell their products.

However, if those countries cannot have dollars with which to pay for the goods, will they not be back here asking for loans?

Mr. KLINE. That is true. This dollar shortage is just what you suggest. It is a shortage of things that dollars will buy.

I think a lot of people are confused about the talk about dollar shortage. The fact is that dollars are exchangeable for things which people want.

They are short because people want a lot of the things.

Also, the break-down of production over there is part of this dollar shortage. We do not want them to be dependent on us for things they can and should produce.

That is what I mentioned awhile ago. That would be stabilizing relief. That we certainly want to avoid and so do intelligent Europeans.

What we want to do is kick production off over there. In the long run, dollar shortages abroad can only be taken care of by imports of various sorts into this country. These loans eventually have to be repaid or they are no good.

Mr. JUDD. Is it not true, then, that insofar as we build up these economies, making them dependent on things which can be gotten only from America, we are laying the foundation for the necessity of modification of some of our import programs?

Mr. KLINE. The last statement I made could be misunderstood. I said the loan is no good unless it can be repaid. I think we have an investment in European recovery which is a sound investment, but when we export a commodity in which we have a very great advantage in production and therefore have high wages and high standards in that industry, we can expect that we might profit from that by importing something in which some other country had an advantage, or some special valuation because it might be made by hand, or some raw material which the United States does not have in unlimited supply, such as oil.

There are so many things that we need in this country. If we want to replace our supplies, we do have to trade. That is the only way to overcome a dollar shortage in the long run.

Mr. JUDD. I think that is all.

Acting Chairman JACKSON. Mr. Javits.

Mr. JAVITS. Mr. Kline, I am very much interested in your statement here about farm machinery, nitrogen fertilizer and phosphate rock, because there was a bitter battle made over a previous bill of ours on the floor, on the grounds that we were taking the bread out of the mouths of the American farmers by doing anything which in any way went along with these programs that you referred to.

Without in any way embarrassing you or your organization, do I understand that you feel this ERP proposes a fair allocation under present circumstances as between our own needs and European needs?

Mr. KLINE. Yes, that is correct. We could use all this ourselves and more besides.

Mr. JAVITS. It follows out with the statement you made, which incidentally I would like to compliment you on very much. It is a thesis which my colleague, Mr. Lodge, has constantly made a point of, that you cannot do this ERP without straining. Somebody must give up something.

You feel, then, that as between the farmers of the United States and the farmers of Europe, under the circumstances, the division of farm machinery and fertilizer represents a fair measure of justice?

Mr. KLINE. That is an estimate and the best one we could make.

Mr. JAVITS. As a city Congressman, I am most interested in your sentence on the last part of page 6 which says [reading]:

These strains can be lessened, however—

referring to the strains of the program—

if care is exercised to utilize those products which may be in excess supply and thus alleviate the pressure on other commodities.

I would like to ask you a few questions on that score: Are farmers themselves deeply concerned about these very radically increased costs of food to the city consumer?

Mr. KLINE. Yes; we are very much concerned from a number of different angles.

One of them is because there is a phenomena of inflation and this inflation has been of long standing and is very severe.

Our prices rise in inflations and our costs rise more slowly but eventually get somewhere near an operating balance.

Inflation in this country has always been followed by deflation and the longer they lasted and the more rapidly they rose, the sharper the peak was at the point.

They went up very rapidly just before they started down and they then went down rapidly.

Farm prices are most elastic and they go down most rapidly. Farm costs are one of these sticky things, having gotten up under this level of operating income, so that they were in balance, they stay there. Net income tends to disappear.

That is a selfish interest.

We are also interested in a public-relations angle. The city man buying high-priced food thinks the farmer is getting wealthy and laughing in glee at all the difficulties. Therefore we are a little concerned about it. The fact of the matter is, the farmers in my country who sell cattle and hogs for these very high prices, and they are high now, are not just exactly happy about it. I do not mean to say they do not take the money but I do mean they say to themselves, "We probably will get some trouble out of this, so we better save this money and be careful with it, because there are bad times ahead."

That does not mean that they do not try to avoid those bad times, by any means. That is one of the reasons for having a farm bureau organization.

What this sentence applies to is that there are some foods already in very good supply.

Oranges are extraordinarily cheap. Grapefruit is extraordinarily cheap. Grapes have gone down. Some grapes now sell for only a little more than a third of what they sold for last year.

I talked to one of my friends from California in December, who had just gotten paid for a shipment of table grapes where he lost money. The freight rates and handling charges are all fixed, so the price the consumer pays sometimes looks pretty high, yet, while the producer is losing money because these fixed costs stay in.

In the distribution business, margins often are fixed and the reduction by the farmer does not show up at the retail counter.

It does become the responsibility of consumers everywhere, that if they are hard-pressed for money, and some of them are—it should be their responsibility to study this food situation and buy the kind of foods which are available in good supply, and not have an easy assumption, "If somebody would do something all at once I would be taken care of."

It is difficult.

Mr. JAVITS. Do I understand that some program has been evolved in your organization which you suggest to help city dwellers meet that situation?

Mr. KLINE. We have made only general suggestions. A good many housewives are rather clever at this sort of thing. Some others probably are not quite as well informed with regard to food value, and there is always the matter of choice as to whether you want to spend more of your income for good quality food, or whether you will take something which is a substitute that has good nutritive value. Those are free choices, that ought to be free. I think we should always remember also that there never has been a condition in times of stress, as there is now after this great war, when everybody was doing very well at the same time.

I think our average is very good. I do not mean to imply that we should not try to improve it.

Mr. JAVITS. Has your organization been opposed to these price rises?

Mr. KLINE. Definitely.

Mr. JAVITS. Would your organization be opposed to some broad scale, well financed, widely advertised, national conservation program which would teach consumers what they should do?

They could work in close cooperation with you, and try to find out where we are cheating ourselves, as city dwellers, where we are not being smart, and advice, counsel, guidance could be given in connection with the situation, so the city dweller can help himself.

Would you gentlemen feel that is cooperative with or antagonistic to you?

Mr. KLINE. No; I think that is very good. As a matter of fact I am meeting this afternoon with a small group, including the Secretary of Agriculture, to talk with him about this situation, and how we can get better use of the available supplies.

In addition there are some things we can do in the line of getting maximum use of every source of food we have. That is always possible, to improve the sources of food we have, to get food out of them.

Mr. JAVITS. Very well.

Acting Chairman JACKSON. We will have questions from the agricultural expert of the State of Connecticut, Mr. Lodge.

Mr. LODGE. I am also very happy to congratulate the chairman, even though his status is only temporary.

I am tremendously interested in your statement, Mr. Kline. I think it is significant and of great interest to us.

I should like to ask you, aside from the stake which we all have in the recovery program, aside from the strategical implications, what would be the immediate effect on the farmers of America if there were no foreign drain upon the products of this country?

Mr. KLINE. It is difficult to gage. However, some of the food support programs which people think are responsible for high prices and which currently have little, if anything, to do with it, would come into effect on a commodity like wheat, for instance.

Wheat has been produced in this country in response to a demand which was known to be—this European recovery plan, feeding our Army in Germany and feeding people under the military government, and so forth—we produced last year 1,400,000,000 bushels of wheat, where the normal, prewar, was 750,000,000 bushels of wheat, approximately.

If we took out the demands which enabled us to ship abroad 550,000,000 bushels of bread grain, there would be some difficulties and adjustments. The adjustment this year would have been relatively easy, because we produced a few hundred million bushels too little corn, so we could have fed the existing livestock and more people would have more meat, and the market conditions were such that it would have been a relatively easy time to make the sort of an adjustment which would have been required.

Mr. LODGE. There are a certain number of things that could be done under this program to relieve strain on American wheat.

One of the things that can be done, to take one example, is the agreement made recently between the Russians and British, whereby the Russians exchange some of their wheat for part of the British industrial output.

Now of course under an arrangement of that kind, we would be called upon inevitably to replace or provide some of that industrial output which the British would be sending to the Russians.

On the other hand, the wheat which the British would get would relieve the strain on American wheat.

Would you in your position, as president of the American Farm Bureau Federation, be in favor of that type of agreement?

Mr. KLINE. I do not know the exact agreement here but in general we would be in favor of the accumulation for western Europe and Britain of supplies of food from east of the iron curtain, including both Russia and the Danubian basin. The fact of the matter is this European situation looks ever more impossible and a recovery program in Europe seems ever so much less likely, unless we do have a reinstatement of the complementary activities of western Europe and eastern Europe.

Mr. LODGE. I am very glad to have your statement on that. I think you have made a very responsive answer.

That is one of the points that we have been wrestling with here. It is that question of applying to this whole program, the catalyst for revival of trade between western and eastern Europe, feeling, as many of us do, that the insufficiency of that trade is one of the prime causes of economic prostration in Europe.

Would you also say, then, that it would be a good thing for us to exchange our industrial goods, our capital-goods surplus, for South

American wheat and particularly Argentine wheat, in order to achieve the same sort of beneficial arrangements within the Western Hemisphere which we propose for Europe and thereby relieve the load on American wheat?

Mr. KLINE. There is a very special urge now to protect food supplies in America and especially to protect against inflationary rises in the prices of some of the more desirable foods. Obviously the removal of some of the extraordinary pressure on our domestic supplies by other places would be favorable to the farmers.

I have explained why the farmer is not in favor of high prices for his cattle. For many reasons it just is not a good idea.

However, when you raise the question of Argentina, it is a little difficult. Argentina has done some things of which you are probably aware, in the matter of scuttling the wheat agreement and selling for highest possible dollar in these international markets, which makes the question of Argentinian trade a peculiar question and a difficult question and one that deserves separate treatment.

When you say [reading]:

How much drain will we put on the American economy in order to furnish to Argentina the particular kind of machine tools which she needs to do some domestic things, in order to get her to release wheat to Europe to release us from a commitment for a lot of wheat—

and I think we would have to consider the purposes which she expected to use the tools for, and how much steel was concerned and so forth. I would want to qualify that one more than I did the first one.

In general, I would like to see it happen. I would like to see as much wheat come from other places as possible.

Mr. LODGE. In general, you would like to see every area of the world, including the Orient, produce those items which it is most fitted indigenously to produce.

Mr. KLINE. That is right.

Mr. LODGE. With respect to the figure of 6.8 billion dollars, since that figure is predicated largely on the "balance of payments" basis and therefore is a question of dollar deficits, would you feel that if there is an early currency devaluation on the part of the 16 participating nations that such a devaluation, by increasing the exports from those nations and thereby reducing their dollar deficits, might well make it unnecessary for the Congress to appropriate such a large sum?

Mr. KLINE. There are certain ways of improving our situation by getting more in return for what we send over and thereby reducing the net expenditure of dollars from this country, or the net export of goods.

I would like to get it back on the goods basis.

On the other hand, it is important to remember that the reason this program is going along is because production in Europe is so bad.

I have walked up and down the streets in Paris, in London, in Frankfurt, Stuttgart, and by golly there are not many things there we want.

Mr. LODGE. However would you not say that one of the other benefits to be derived from a devaluation of currency is that it would almost inevitably result in increased production abroad, especially with regard to farm products. As you pointed out in your testimony, people are using coupons.

The farmer does not want to sell his produce, because he has no confidence in the value of the money. Therefore would it not be true that a devaluation of currencies would not only result in more production abroad, it would result in more exports from abroad and in more dollars abroad, and it might also result in a lowering in the cost of living in America because of the increased imports in America?

Would you say that would be true?

Mr. KLINE. Oh, yes. The stabilization of currency abroad is a very vital part of this thing, so the people can have confidence in money, so a farmer can sell a cow and get the money and feel confident that with the money he can buy something either now or later.

I believe it was in Stuttgart where I went through an export show, showing all the things made in the American zone, so the Americans could go there and buy those things.

I asked questions of them with regard to these commodities.

"Are they ready to sell?" "No; they are not ready to sell, but there is a factory here, there is a labor supply, we are ready to give allocations for the materials required for this production, and we are ready to discuss with this merchant and the manufacturer in America a deal, and if they can get together, and if we see our way clear on these other matters we will approve it and you have a deal and we can give delivery in 6 to 9 months, on any of the commodities in this display."

If it were considered a display for a single manufacturing city, it was quite a display. However, considered as a display for a great industrial zone, it was nothing to brag about.

We could easily be overoptimistic about how much we can get out of that European economy in the more immediate future, in exports.

Mr. LODGE. However, you would say, would you not, Mr. Kline, that since the American dollar is the unit of currency in the world today, rather than the pound sterling or rather than gold, that in so far as these foreign nations bridge the gap between the legal and real value of their currency—when I say "real" I mean in terms of dollars—to that extent they will be willing to produce more and thereby relieve the strain on our economy.

Would that not be so?

Mr. KLINE. Yes; that is right. Trade will be more or less facilitated if we can get to a place where there are not a lot of controlled price levels here with the grave difficulties that arise in trying to get trade to flow between those areas.

Mr. LODGE. May I then just follow up with this question: In view of the possibility that a devaluation of currencies may relieve the balance of payments deficits of the 16 participating nations, within the 15-month period, which is the one immediately projected, would you say to the Congress: "Nevertheless go ahead with the top figure, and the Administrator may be able to effect substantial savings which will be carried over to future years"? Or would you say to the Congress: "Try to estimate somehow what effect these devaluations will have on balance of payments deficits and therefore appropriate a lower figure than 6.8 billion dollars"?

Mr. KLINE. You will appreciate that your question is difficult.

Mr. LODGE. I do indeed.

Mr. KLINE. I do believe, however, that we should appropriate in such a way that we are sure the Administrator can avoid this proposition of just stabilizing a relief situation. It does seem to me also

that we ought to have in this board of directors or whatever the Congress deems it wise to set up to operate the European recovery program, both the power and capacity always to keep in mind that what we wish here to do is kick this thing off, to put the minimum strain on our economy, which gives them the necessary chance, providing they do the things which they also have to do.

Mr. LODGE. In other words, you would say it was not worth taking the chance of having the whole program fail for lack of sufficient funds. It would be better to appropriate the maximum that may be necessary, and that anything that may be saved, because of these measures, can be carried over in reduction of subsequent appropriations.

Mr. KLINE. I do not like the word "maximum." I always say "the minimum."

I would be sure that this amount was the minimum which might be sufficient.

Mr. LODGE. Let us say on the most pessimistic assumptions; on the assumption that there is no devaluation.

I take it that the figures from the administration are based on the assumption that there will be no devaluation. It is based on the previous years' estimates, when there was no devaluation.

If we could precipitate these reforms, you would say that would be a saving to be carried over into future rather than something we should anticipate now. Is that correct?

Mr. KLINE. Yes; it is correct. It is correct at the same time that I think we shall be penny-wise and pound-foolish on this thing, until we do have an effective program.

That means it goes over and above this matter of keeping Europeans alive. It enters into a progressive promotion of improvement in their production and trade which will make it possible for the kind of government we would like to see in Europe succeed.

Mr. LODGE. Mr. Chairman, may I ask one more question?

Acting Chairman JACKSON. Go ahead, Mr. Lodge.

Mr. LODGE. I wanted to ask you, Mr. Kline, whether you feel that the price-control structures in the several participating nations should be altered; and if so, how?

Mr. KLINE. I believe that, under circumstances, stringent as they are, with regard to availability of many commodities in Europe, we probably would have done a lot of the things that those countries do.

On the other hand, it is my personal opinion—which the British did not ask me for, and the Dutch did not ask me for, and the French did not ask me for—and it was a member of the Foreign Affairs Committee here that asked me—I think they could release some of the controls advantageously and should do so as soon as possible.

Mr. LODGE. Because the meat was rationed, you simply could not buy it. If you wanted it, you went to the black market.

Mr. KLINE. If they released all the controls, the meat would disappear, the first thing you know. It is a difficult proposition.

Mr. JUDD. The trouble, in the long run, will be the same as with wheat. We were told that the wheat planting in France had been reduced 20 percent.

By that they reduce the amount that will be available next year, because under control they do not plant as much as they can raise.

You might tell us, if you and your research experts went into this question of 6.8 billion dollars, whether or not it is a reasonable esti-

mate. Of course, that is merely the total sum of some 17 or 18 other figures, and it means you would have had to go into each of those to determine whether they were realistic estimates of the individual countries' needs.

Mr. KLINE. We have not gone into that that way. We have contacted a few people in the State Department, and a few little things like that.

That is all.

Mr. JUDD. We have not yet had anything before us that goes into that realistically.

The sum is just a total of the others. I want to get at the others, one by one by one.

Acting Chairman JACKSON. I have a very interesting communication here, which, without objection, will be inserted in the record.

It is directed to the committee from Congressman Cole of New York. It is a communication from Mr. Wymore, of Liberty, Mo.

He makes a most interesting suggestion relative to the machinery exports, in that he suggests that the level of industrial development in Europe is not adapted at the present time to the use of large quantities of power machinery.

His suggestion, in brief—which is based on a year and a half in Europe and a close study, so Mr. Wymore says, of conditions—is that machinery exported by the United States should be in large measure horse-drawn or draft-drawn machinery as being more adaptable and less likely to become immobile through lack of repairs.

Would you care to comment on that suggestion?

Mr. KLINE. There might be some merit in it. There are some difficulties involved, though, because our horse-drawn machinery, like our tractor-drawn machinery, is not adaptable to the power and conditions in many circumstances.

Here you will see a cow going down, pulling a 12-inch plow. Well, you cannot buy 12-inch plows in this country. You see a cultivator being used for cultivating small grains, where somebody guides it by hand, and it has a little shovel between each of the rows, and there is a man who guides it, and then there is a fellow leading the ox up ahead.

We do not make that kind of machinery.

In the area where there is mechanization, however, they do use tractors, and the Germans produced a great many tractors before the war. Ford has a big factory over there, which produces a lot of Fords. They are not as good as they ought to be.

There are those areas that have a lot of mechanization, and even where there is a lot of hand labor there will be one tractor or two tractors in those areas to supplement the supply and make up for the lack of production which has been thrown out by war destruction.

Mr. LODGE. Would it also effect a substantial saving in petroleum products.

Acting Chairman JACKSON. That is also brought out in the communication.

Mr. KLINE. Yes; and petroleum is a real problem.

Acting Chairman JACKSON. Without objection, the communication will be inserted in the record.

(The letter referred to is as follows:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., February 4, 1948.

The HOUSE COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

DEAR SIR: I have just received a letter from Mr. J. B. Wymore, of Liberty, Mo., a part of which I will quote herewith:

"I would like to express my opinion in regard to farm machinery which is to be exported under the Marshall plan. At a recent meeting in Kansas City of the implement and hardware dealers of this region, many of us expressed the opinion that it is rather foolish for the United States to export power machinery to the foreign countries. I read many of the articles written by persons traveling in Europe at the present time, and nearly all comment on the large percentage of tractors and power-operated farm equipment which is idle due to the lack of repair parts and experienced mechanics and operators. I was in Europe for nearly 1½ years, and I know from a personal experience of the abilities of farmers in these foreign countries. The people do not appreciate the abilities and efficiency of modern power equipment. As many as 50 and 75 percent of the tractors which have been shipped to European countries since the war now remain idle, because of poor management.

"Their fuel supply is also an important factor in the continuous operation of power equipment. We believe that instead of shipping new tractors and power machines to these countries we should send them great quantities of new and rebuilt horse-drawn machinery. This would tend to relieve the severe shortage of power machinery here in the States. There are great quantities of horse-drawn machinery available in all parts of the country. This machinery can be procured at reasonable cost and reconditioned so that it will serve efficiently for several seasons. The machines, being simple in construction, offer few problems and could be kept operating much easier by inexperienced users.

"The majority of European farms being small and operated entirely by peasants, these machines would find many more capable users than will the complicated power-operated machine; we believe the American people are much more in favor of sending machinery which we consider obsolete to our methods of farming. As you have been told many times, the European countries are just now attaining what we consider obsolete methods.

"There are many more points which might be considered toward the export of horse-drawn equipment."

I shall appreciate it very much if you will give this matter your serious consideration and let me have your comments thereon at your earliest convenience.

Yours very truly,

WILLIAM C. COLE, M. C.

Mr. JARMAN. Following up that machinery discussion, and also the question by Mr. Javits, when we had the interim aid program, we had two amendments proposed, and they had considerable support, both of them, from my part of the country, particularly.

One was to prevent the shipping of anything under that program which was in short supply in this country. Another was to prevent the shipping of fertilizer as long as it is in short supply.

Now, I anticipate that such amendments will be advanced this time. The farm machinery to which you refer and the fertilizer—they are in short supply. In fact, nearly everything that will be needed for this program is more or less in short supply, is it not?

Mr. KLINE. Yes.

Mr. JARMAN. Of course, you spoke of the fruit and the grapes. That is an exception.

Mr. KLINE. Dried fruits we can use for export, but a good many of these commodities are in long supply here simply because they do not fit.

Mr. JARMAN. In other words, is it or is it not fair to say that the passage of either of those amendments of which I spoke would just

practically ruin this program or prevent it from accomplishment of its purpose at all?

Mr. KLINE. It seems to me that the program ought to recognize—and certainly, as far as the American Farm Bureau Federation is concerned, we do recognize—that there will be some hardships in places. This is a delicate problem for us—this export thing.

We have many commodities available for export. We think all of them ought to be studied carefully and let necessities govern in many cases.

There is no doubt about the willingness of the American farmer to buy all the machinery available.

There is no doubt at all about his capacity to use all the fertilizer available. There is not any doubt but what the domestic economy would use the steel.

There is no doubt at all about the use of our petroleum products.

I think that your question is a good one and should be very thoughtfully considered, but we must recognize in answering it that we are going to deal with some things we would use ourselves.

Mr. JARMAN. It naturally follows, does it not, that since the program could not possibly be effective if we did not ship anything in short supply, and since it is to the best interests of the farmers of the country as it is to the country as a whole that Europe be saved, it would not be to the best interests of the farmer of America to pass such amendments, would it?

Mr. KLINE. I think one so stringent as to say you could not ship these things unless they are not in short supply would not be in our best interests. After all, we are not only farmers, we are citizens.

Acting Chairman JACKSON. There being no other questions, Mr. Kline, I would like to thank you very much for your remarks this morning, your statement, and your very capable assessment of the situation.

Mr. KLINE. Thank you very much, Mr. Chairman. It has been a privilege.

(Thereupon, at 12:50 p. m., the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

Acting Chairman JACKSON. The committee will please come to order.

This afternoon it is a very great pleasure to have a very distinguished Southern Californian with us, a very distinguished jurist, who has practiced law in Los Angeles for 55 years.

I trust that it will not be out of line with our bipartisan policy in the Foreign Affairs Committee to mention that Mr. Scott nominated Herbert Hoover at the Chicago convention for the Presidency. (

He was for many years a great friend Hiram Johnson's and has been president of the Los Angeles Board of Education.

I believe you are prepared with a statement, Mr. Scott.

Mr. SCOTT. I am, sir.

Acting Chairman JACKSON. Proceed, sir.

**STATEMENT OF JOSEPH SCOTT, PRESIDENT OF AMERICAN
LEAGUE FOR AN UNDIVIDED IRELAND, LOS ANGELES, CALIF**

Mr. SCOTT. Mr. Chairman and gentlemen of the committee, I wish to thank your distinguished chairman for introducing me in that cordial fashion. That is typical of our California spirit. We do not heave rocks at each other if we can possibly avoid the operation.

It is true I have been in California many years and have seen a great deal of history in the time I have lived there. I felt part of my duty to interest myself in public affairs. I never earned a political office except the office of the president of the Board of Education of the City of Los Angeles. I have been president of the community chest, the chamber of commerce, and have otherwise tried to make myself a useful citizen.

Mrs. Scott was a native of San Francisco. She wonders why I am gallivanting all around the country. I passed my eightieth milestone a little while ago, and I hope you will think I came here on no frivolous purpose.

I am Irish. My mother was born in Ireland and married my father there in a little town in the southeast corner of Ireland. That country gave this Nation the great Commodore Jack Barry, who lived in the United States and died here. He loved the United States of America.

Gentlemen of the committee, it is 100 years since Ireland felt the "rebellion" as they call it, of '48. All through the pages of history, if you read them carefully, gentlemen, you will see that youth has to demonstrate its nerve, courage, indifference to danger, and risk. In '48 they arose in Ireland because the conditions were intolerable.

The potato famine arose because the whole crop of potatoes throughout Ireland was diseased and unable to be taken as food. During that terrible epoch most foodstuffs could not be exported out of Ireland. The people arose as the people in this Nation arose. The uprising was abortive.

But to show the mettle of the men who went into that hopeless campaign, the three leaders, Meagher, Mitchel, and Duffy, Meagher became a great fighting general in the cause of the Union, and Mitchel went down south and favored the cause of Robert E. Lee and his grandson became the mayor of New York, John Mitchel. Duffy became the Prime Minister of Australia.

These men were born as you men were born, with the idea that God created you as free and equal. We were so endowed by our Creator.

Going up to the Statue of Thomas Jefferson yesterday, my heart was comforted by the statement on that memorial from Jefferson:

Can the liberties of a nation be secure when we remove the conviction that these liberties are the gift of God?

The Irish are a liberty-loving people, and they believe in a living God. They receive that, they seem to think, to some extent, from St. Patrick, because he was a slave on the hills of Antrim, from the time he was 14 until he was 19. He was a slave in every sense of the word to the ancient Druid Irish. He hated slavery because he pas-

sionately realized all the degradation of slavery so he cherished the idea to be a freeman. He came back to Ireland as a missionary, and he evangelized the whole of that nation and taught the Irish to fear nothing but God above.

That is why they have been reckless in some respects when it comes to the question of personal courage.

We are here, gentlemen of the committee, as taxpayers. I appear simply as a buck private, ordinarily, but these men who had the convention in New York about 3 or 4 months ago insisted on my being president of an organization of which there are about 2,000 delegates from all over the Nation.

I was elected president.

They are concerned about this Marshall plan. They are concerned that they are sending money from this country, which goes to London, and from there to Belfast. One of the most reactionary and degrading specimens of imperialism right today is in the northeast corner of Ireland.

Call them Irishmen, or call them what you want to. The rising of 1916, on the same plan as the rising of 1946, was abortive, and young men again were in the forefront of that battle, with the same kind of spirit, gentlemen, that Nathan Hale had when he tied a rope around his neck and he said, "My one regret is that I have but one life to give for my country."

They love the ideals of their country and the ideals Patrick Henry gave to them and have done so down through the centuries.

They fought and lost.

As Padrig Pearse proclaimed himself the president of the Irish Republic and died with a smile on his lips and the sun of Heaven on his face, unafraid. He wrote a letter, a very remarkable letter, to his mother a few hours before he was executed.

One of the men in that battle was De Valera, now Prime Minister of Ireland.

We represent, I will say, gentlemen of the committee, all forms of American politics and all types of Irish politics.

There are men who believe in De Valera, Padrig Pearse, and who go along that way, and there are others who belong to the parliamentary form and the American way. The chairman has told you what my affiliations are, but there are some hard-boiled Democrats around here. I have quite a time getting along with them, but I have managed to save my face with them.

We are a united group, all Americans. I came to this country after I matriculated into and graduated from London University.

You should have seen the faces of the pure, decent Irish girls getting aboard a ship, leaving their motherland, brokenhearted, realizing their fathers and mothers were being booted out of their cottages by the redcoats of England, because of the exactions of the alien absentee landlords living on the fat of the land in England. You see those Irish girls as I saw them, and then you see them as I saw them coming up the Bay of New York with the Statue of Liberty in sight. I kneeled down before the Statue of Liberty before these Irish girls and thanked God I was coming to a land where I could call my soul my own.

My little Irish mother told me when she clung me to her bosom—whatever we say about those Irish, they are affectionate people because the family strain and the racial strain is strong in us—she

pulled me to her heart and said, "Boy, wherever you go fear God. And fear nothing else that crawls the earth or under the earth. Just fear God. You will never regret it."

That was the fighting blood of the women of Ireland that made us men folks feel the way we do among other things.

The partition, gentlemen, was caused in this way: After Padraic Pearse and these other brave lads were shot to death, after the revolution was defeated, Eamon de Valera, the present Premier of Ireland, was in that rising and was made prisoner, and he was saved from execution because he happened to be an American, born in New York. Subsequently, in the effort of the English Government to secure a solution of the tragedy, Lloyd George, a wily, shrewd, clever, smart, nimble, agile mental giant, among that kind of people, told Griffith and Mike Collins, who at that time represented the Irish as an ultimatum:

"I have the steam up on the train leaving Euston station. You sign on the dotted line. If you don't, you take the consequences."

And with a gun to their heads, these desperate Irishmen signed on the dotted line. Thus, this so-called partition became effective, cutting off the wholesome part of Ireland, this northeast corner dominated by racial animosity and religious bigotry.

Here is that corner of Ireland today, gerrymandered in disgraceful and contemptuous disregard for political rights of minorities, so that it would make an American city ward politician of today almost laugh in his sleeve at anything as coarse and ruthless as that if it was not for the tragedy of it.

They haven't a chance to be accorded a reasonable vote.

They were cutting that northeastern part of the heart of Ireland out of it. We lawyers in California call that a shotgun contract.

The reason why we are particularly sour about this thing is because that northeast corner of Ireland has produced some of the greatest men in Ireland. People say this is a religious question. It is not a religious question. Some of the greatest men we ever had in the cause of Irish independence were men who were not Catholics. John Mitchel, for instance, Wolf Tone, one of the greatest men in all Ireland.

The Irish Presbyterians in the northeast were men who were dependable and fellows who made the battle for freedom in the days of the colonial wars. They were with Washington. That section of Ireland is sanctified by the footsteps of St. Patrick. It is a precious, glorious section of Ireland, and these realists and barbarians, and phonies from Wales and elsewhere said, "You cut this off. Take it as it is."

So from that time to this, on both sides of the border, they have been insisting on this partition line being eliminated.

Woodrow Wilson said:

Well, let us have the termination of this. There is the self-determination of the small nationals. Let the Irish see whether they want that land to stay here or not.

A bloody war was fought in this country to avoid partition. So we feel, and I say this with all due deference to my distinguished gentlemen, it will probably be an annoyance to many because of my appreciation of what these fellows have done. My good friend, Will Rogers, one time told me, "Joe, we can take our boys and put them anywhere, on top of the earth, under the ground, under the sea, on the sea, in

the air, and anytime we meet anybody else we can lick the hell out of them.

"But when you put the old boys at the conference table with these buzzards, we lose our shirts, and they take us to the cleaners."

"We have not won a single conference."

"I was with Wilson at Paris, with the Economic Conference in London, I was in Washington with Harding and Charles Evans Hughes when we got worried about the peace and sunk our battleships in the ocean. Every time you sit down with those buzzards the same thing happens. We lose our shirts and they take us to the cleaners."

Now, what I am suggesting, gentlemen of the committee, on behalf of this widely-represented group of men from all corners of the country, is that as taxpayers this time, a little of the wisdom of Will Rogers be applied. You men sit in conference and say, "Listen, not a smooth dime of that money is going over to Belfast."

I talked to a gentleman in the congressional halls yesterday, and he said the English think that is a reflection upon them. Tell them. It would not be the first time there has been a reflection upon them. Tell them. We do not propose that the American money, whether it is the Irish or not, that that money be diverted from London to keep up that bankrupt government they now are maintaining in Belfast.

Our information is this government is in the red right now in Belfast. They are broke, and they want money, and they want money from the only place they can get it. That is from this country. You remember in the recent war how some of our battleships steamed right out into the Pacific and got a great big broadside into their bellies, and some of them went to the bottom of the ocean. Archbishop Brisbane said that the people of Australia would give thanksgiving to the United States for the American Navy because they saved them from the Japanese.

But we say, at what a price. You will recall the skipper of the great ship on which Father O'Callahan, the Jesuit chaplain, was fighting, said that he was the bravest man he had ever seen in all his life. We of the Irish race believe in the principles of the American way of life. That is not a credit to Hollywood. If they want to take a one-way ticket to Moscow, let them go over there. But I am not of that tribe, and none of us are of that tribe. The Irish believe in two fundamental things which are essential to resist communism. They believe in the right of private property, the right to have their own capital their own. That is one of the things they have been fighting for for centuries.

The peasant farmer wanted to have his own property, and the next thing he has his own property. They believe in the living God. They believe in Jefferson, as I quoted him a little while ago. They believe that Lincoln meant what he said when he said:

This Nation under God shall have a new birth of freedom, with malice toward none, charity toward all, with fondness in the right as God gives us to see right.

The founding fathers believed in God and so did the Irish. That is why we are opposed to communism because it defies the idea of a Supreme Being. With Communists there is no God. There is no everlasting life.

You are phoney when you have such foolish notions.

The Irish, with fidelity to faith and religion, the faith of the fathers, in my humble opinion, see it as no asset to this Nation. With all due deference to your views, we would protest against a solid dime going

to Downing Street, London, to be sent to Belfast. That is a disgrace. It is a blot on civilization today. Nobody accepts it as a solution. That is one of the reasons why we are here.

I have two or three notes I want to check. Then I will proceed. Take for instance, Robert Emmett. He was another Protestant. There is a book out on him right now. The book has been reviewed by the New York Times.

I picked it up last Sunday. It says:

The Orange man of northeast Ulster are simply the lineal descendants of these type of people that poor Emmett and these other people fought. He operated in a country in which the Government penalized the best of the men and rewarded the worst.

Now, that is a sample of what we have.

Now, gentlemen, I know Congressman Lodge's grandfather, who was from Boston. He was a great man and a great citizen. Those men have done one thing up there. They have not been ashamed or afraid to accept public responsibilities of a citizen in public life. But, Mr. Lodge, when I went to Boston in 1889, in the advertising columns of the Boston Globe and Boston Transcript and the Advertiser, and all those other papers, you saw ads "wanted, carpenter—no Irish need apply." "Wanted, cook; no Catholic need apply." "Wanted, a nursemaid; no Irish need apply."

As I told a group of Boston people the other day, and there were 65,000 of them, I said, "I knew Boston in those days, with John O'Reilly, a man who fought for Ireland as a young, patriotic fellow, like they all did in 1867, in the days of Patrick Donohue, Gen. Patrick Collins. That was your situation in Boston in those days, in 1889."

Now Boston today is 75 percent Irish and Catholic, but the Irish in 1889 in Boston didn't lie on their bellies and let people make a doormat of their backbones. The blood of free men was in their veins, and they stood up as free men and look what it has got for them.

Seventy-five percent of that town is made up of that kind of people. So we, gentlemen of the committee, have felt that at least we could do a little more for our Ireland on this side of the water, without having them shot down like pheasants.

Practically all of them that went over there were shot down, or executed, like Parnell and O'Connell and the rest of them. I will tell you, gentlemen, that you can look at the pages of history and find them all, either executed as felons or dying of broken hearts.

Here at least we have a chance to help Ireland and help the cause of America, help the cause of democracy and have some consideration for the taxpayers.

Out in my State some of my extreme Democratic friends seemed to think that there was gold bullion at the bottom of the Potomac River and that you should pull the gold up and shove it over to England. But now the money comes out of their own pockets. Their income taxes and everything else have reminded them that not a smooth dime comes out of here unless it comes from the taxpayers' pocket. But, as a thoroughbred American and with a little brogue my ancestors gave me, I am emphasizing it.

I am the father of 7 children and 17 grandchildren, and when people tell me I should be rocking in a chair I say, "Well, Benjamin Franklin was a little older than I am and he was some fellow in the Constitutional Convention. That was a great big glorious thing, and we are glad we had him in that capacity."

So, gentlemen of the committee, you go before your constituents a little oftener than my Senatorial friends on the other side of the Capitol, and while we were received with great kindness by them, we are more particularly interested in you, because the anxiety may come to you that you must do this thing because England wants it done.

I have not any grievance against the English, except they gave me the good fortune to come to America. I went to the University of London. Somehow or another I got by. We are concerned lest some people try to "befuddle" you, to use a unique phrase, into believing we ought to help these people there.

Yes; help them. I was chairman of the Los Angeles Emergency Committee during the 4 years from 1931 to 1935. I think I know something about the instinct of the human welfare program. But, gentlemen of the committee, what we are concerned about here is that somewhere in this legislation you will put some of America's desires in there.

.You should say, "No; we will not give you a dime, a smooth, thin dime, to crucify any poor, unfortunate persons under the heel of an imperialistic despotic system."

That is all we are asking for. I think we are entitled to it.

Let me give you one more example, including quite a dispassionate statement made by three men who met in Dublin lately from this separated corner of Ireland.

Two of them were over here sometime ago. One was Patrick Maxwell, a Catholic, and the other was Captain Ireland, from Belfast, a Protestant. He was not ashamed to be a member of the Episcopal Church. He was in the First World War and came over to Los Angeles because he saw the chicanery and hypocrisy as to the rights of self-determination, with Mr. Lloyd George just pulling the wool over the eyes of some of our wholesome citizens who could not see any better.

From that section of the State of Ireland came these spokesmen at a gathering in Dublin, Ireland, January 25, 1948. The first man who spoke was a lawyer, and not using my entertaining language, but just a calm, dispassionate fellow, arguing before the Supreme Court.

This is what he said:

Britain set up partition and could end it. The responsibility was thrown upon whatever government was formed in Eire—

that is Ireland—

to show that it was inexpedient for Britain to continue it. I have never advocated physical force like Wolf Tone in the Glorious Death, and I never will, but if it is not solved the way you have suggested, as sure as the sun will rise tomorrow, another generation will raise and there will be more blood offered at the shrine of British imperialism. The only way to end it is to make it inexpedient for Britain to continue it.

If it is in the red, keep our good American dollars out of that country.

Joseph Stewart, who was a member of Parliament, said that while the Government in Whitehall shed crocodile tears over the minority groups in India, the British Government today callously ignores the aspirations of 80 percent of the Irish people the while she expresses a fear of the expansion on the anti-democratic philosophy of Russian communism.

She insists on stifling the voice and ruthlessly suppresses the exercise of the democratic processes in Ireland.

One of the Senators said that at the present time the friendly isle was essential to Britain. It was their duty to weld the Irish throughout the world into one body, demanding an end to partition. We are here for that purpose.

Gentlemen, I hope you will pardon the vigor of my talk. These doctors tell you after a certain length of time you are supposed to get in a rocking chair and behave yourself and just fold up.

In behalf of those for whom I have the honor to speak, I desire to thank your committee, Mr. Chairman, for this opportunity to be heard, and, for the record, permit me to make it plain who it is for whom I speak: It is for very proud American citizens, Mr. Chairman, hundreds of thousands of whom have signed their names and set their addresses to a monster petition now on its way to the President and to the Congress at Washington—but more of that in a moment.

I also speak at the direction of a very remarkable Irish Race Convention which was held in the city of New York on the 22d and 23d days of November 1947. I carry to you the unanimously expressed wishes and views of that great convention.

The sons and daughters of our American Irish were represented at that convention, Mr. Chairman, by their delegates from 38 States of the United States of America. All of the great Irish-American organizations sent their unqualified endorsements, and were, for the most part, represented in person by their national officers. I mean such organizations as the Ancient Order of Hibernians, the Clan na Gael, the United Irish Counties Association of New York, Inc., the Gaelic League, the American-Irish Historical Society, the Sean Oglaigh nah Eireann, the League for Irish Freedom of San Francisco, the Anti-Partition League of Philadelphia, the Irish Fellowship Club of Chicago, the Irish Cultural Society, and countless others.

I suppose, therefore, that without exaggeration I might say that I speak for millions of our citizens of Irish blood, and I want to tell you why it is that all of them are speaking with a single united voice—a voice which cannot be denied—it is, Mr. Chairman, because they have a very deep sense of grievance.

Let me, as quickly as I can, paint the situation for you in simple and direct words. I quote:

The countless thousands of American citizens of Irish birth or blood are smarting under the indignity of the forcible partition of Ireland by England.

Those words, Mr. Chairman, are taken verbatim from the monster petition to which I have before referred. And to prevent your minds, gentlemen, from formulating the question: "What has that to do with this committee, and with these hearings?" permit me to quote a further line from the preamble of the petition:

That England, by subsidy and otherwise, has maintained this partition against the voice of the overwhelming majority of the people of Ireland.

You quickly catch and note that word "subsidy." You quickly catch and note, too, those words "* * * against the * * * overwhelming majority * * *"

Meanwhile, the President of the United States of America has transmitted to the Congress of the United States his message on the

European-recovery program. The official outline of the European recovery program shows that Ireland was one of the 16 countries invited to the Paris Conference.

The President has predicated his message upon the spirit of democracy, as he sees it. In a later press release he refers to the plan for western Europe as both economic and spiritual. The President has also sent to the Congress proposed legislation which this committee is now considering for report to the House. That legislation calls for American money, vast amounts of it. And out of those very moneys England proposes to continue to support her invasion of Ireland, contrary to the democratically expressed wishes of the people of Ireland.

So, beyond peradventure of doubt, Mr. Chairman, this is the time and this is the place for our citizens of Irish birth or blood to be heard carefully and with grave consideration before further irreparable damage may be done.

Mistake it not, when these sons and daughters of Ireland say in their petition from which I have quoted that they are "* * * smarting under * * * indignity," they have indeed a grievance. Let us examine that grievance, and see what it is.

I asked a grandfather the other day, a simple man, a maker of things all his life, how he could best express it. He said:

My sons were in the service. They were unable to answer the questions of their buddies: "Where did your folks come from?" My sons couldn't say "From Ireland," because there is no Ireland. She is split into 6 counties and 26 counties.

You heard of the man without a country. Well, England has made my sons men without a land of heritage.

But beyond that—my sons, thank God, have come back safe. Now they are raising me a crop of grandchildren. How, in Heaven's name, are those grandchildren going to explain where their ancestral stock came from? You'd have to feed them political history with their milk.

There you have it.

Take it another way. Sit you down at a business conference, or sit you down at a luncheon. Gather at your place of worship, or assemble at your club or at your lodge. Americans all. That typifies the strength of our America. As you look around at your fellow American citizens you tabulate them: Sure, that fellow over there is a Swiss; and that husky giant is a Norwegian; there's a Dane in the corner seat; and that chap over there is English. Each has his country of ancestral heritage. But we come to the stock that John Boyle O'Reilly wrote of, and what can we say of them? Think of the shame of it! If one of them so much as peeps up "my father was Irish," or "my mother's folks came from Ireland," immediately the questions start: "Which Ireland?"—"Where?"—"You mean from the English part of it or from the other part?"

Congressmen—they had a short name for the Pacific Ocean in this last war. They called it "the Irish Sea."

Can we seriously imagine that the Kellys and Burkes and Sheas, or the Sullivans, who went down there to their last long sleep, or that the Murphys, the O'Briens and the McCarthys who were fortunate enough to come back from there, would want the United States of America to subsidize by our money the partition of Ireland—so that in very fact there is no Ireland but only two divided sections of counties of which the spokesman for the leading political party in Ireland has

said: "If partition be not undone, then all that has been gained for Ireland in the last hundred years may be lost."

All that has been gained in the last hundred years. That seems a very casual way to treat a hundred years of event-packed history, Mr. Chairman. Our great United States of America is not yet in its two-hundredth year. But let us look at it from the standpoint of Ireland's history. It was not until after the middle of the twelfth century that the English armed forces came to Ireland. Ever since, then, and in each generation, the battle in Ireland against the invaders of Ireland has continued. And wherever throughout the world the exiled sons and daughters of the Gael were forced to go in order to find the liberty and to make the living which was denied to them by the oppression of the foreigner in the land of their forebears that battle has also continued, and will continue until the end, Mr. Chairman.

So, as of today, for almost 800 years, the Irish have fought the continued foothold of that English invader, and, at long length, they have driven that invader out of 26 of the 32 counties of Ireland.

Why England's subsidy supports a puppet government in the remaining six counties—against the majority vote, again and again recorded—of all of the people of Ireland, and how England does this, is too long a story for me to detain you with today, but there are two things which I can do without taking time: First, I can file with you copies of David O'Neill's 38-page brochure *The Partition of Ireland, How and Why It Was Accomplished*, asking you, Mr. Chairman, to regard that exhibit as an extension of my remarks; and, second, I can emphasize for this record, the fact, that since the last printing of Mr. O'Neill's publication saw the light, the head of England's puppet government in the six counties, namely Sir Basil Brooke, the six-county premier, has admitted in a public speech that the minimum subsidy by which England sustains the unnatural partition of Ireland is \$40,000,000 per year. Later authentic reports show that Sir Basil Brooke's figures are far too low. In many years, England's subsidies go much higher than published reports. She tries to conceal the figures, but qualified estimates place the average at \$200,000,000 per year.

(The brochure referred to is as follows:)

THE PARTITION OF IRELAND—HOW AND WHY IT WAS ACCOMPLISHED

(By Daniel O'Neill)

PART I—"INFLAMING ULSTER"

There were two general elections, a Presidential election, local elections and five by-elections in the free part of Ireland in the period from 1943 to 1945. All these elections were strenuously contested. Four parties took part in them: Fianna Fáil (Government), Fine Gael (principal opposition), Labour, and Clann na Talmhan (Farmers), as well as many Independent candidates. Neutrality excluded, these parties differed on almost all public questions except one. The one was partition; on that every party spoke with the same voice; partition was a grievous wrong against the Irish Nation and must be undone.

Dismemberment of a nation

What is this partition which draws all parties in free Ireland into a unity against it, which transcends all party differences and binds into one every section of the Irish people in four-fifths of Ireland? Partition is the dismemberment of one of the most ancient nations in Europe. For all the years of recorded history and for many a century before history was written, Ireland was one nation, with indisput-

able boundaries set in the sea. Before the Christian era, it recognized itself as a unit; a high King of Ireland acknowledged by lesser kingdoms was the symbol of that unity.

This unity survived all the changes that 2,000 years of history can bring. It was not broken by invasion. It was not broken by internal revolt. Under it, Ireland passed from paganism to Christianity, from a pastoral civilization to one in which she led Europe in many of the arts. Under it, Ireland as a single nation had her great victories and her great defeats. In the days of her power she sent armies overseas, in the days of her subjugation her sons could arm only in secret, but in both periods there was only one meaning to "Ireland"—that is the whole island.

Only one Ireland

This unity, which triumphed over every misfortune and every failure was as evident in the modern political struggle as it had been in the centuries before it. There was only one Ireland all through the eighteenth and nineteenth centuries. Grattan spoke for it, Emmet died for it, the Young Irishmen and Fenians rose in its name, Parnell led it, and the men of 1916 began their immortal proclamation with the words:

"Irishmen and Irishwomen! In the name of God and of the dead generations from which she receives her old tradition of nationhood, Ireland, through us, summons her children to her flag and strikes for her freedom."

The signatories to that proclamation were all executed, but their sacrifice only strengthened the Irish will to be free, and in the general election of 1918, their followers carried an overwhelming majority of the seats in the whole of Ireland. The following January the elected deputies—those who were not in prison—met in Dublin, established Dáil Éireann, the Parliament of Ireland, and in the name of the Irish nation, declared the independence of Ireland.

The act of a stranger

In 1920, after the unity of Ireland had once more been demonstrated in the local elections held throughout the Nation in that year, this most ancient Nation was partitioned. It was partitioned by an act of the British Parliament for which none of the Irishmen in the House of Commons could be got to vote, not even those from northern Ireland. The dismemberment was, and could only be, the act of a stranger who had no understanding of Irish history or Irish culture or Irish tradition. It is true that the national minority concentrated in the northeast of Ireland had, under the inspiration of the British Tory Party, opposed home rule or, indeed, any form of Irish self-government. They desired an Ireland, all Ireland, inside the British Empire and governed by the British; the majority desired an Ireland, all Ireland, outside the British Empire, governed by Irishmen. Neither the majority nor the minority proposed a solution of their conflicting views the cutting-up of the motherland that both loved. That, a foreign power proposed and carried out.¹

A bloody pawn in a party game

This outrage was committed upon Ireland not because those who committed it thought it was necessary for the good of Ireland. They did it in pursuance of their own party politics. When the Liberals were in office in 1886, Gladstone proposed a home-rule bill for Ireland. The Tories saw that on such a measure they could arouse both racial antagonism and religious fears and direct them against the Liberal Party. Their leader, Lord Randolph Churchill, anticipating that the Liberal leader would bring in such a measure, decided beforehand what the British Tory Party's counter would be.

"I decided some time ago," he wrote on February 16, 1886, "that if the G. O. M¹ went for home rule, the Orange card would be the one to play."²

He played it. He went to Belfast and there so effectively stirred up sectarian passions that his son, Mr. Winston Churchill, writes of his "rousing England and inflaming Ulster." He inflamed it so that, as again his son tells us, "the attitude of the Protestants in the North of Ireland became daily more formidable." The excitement in Belfast did not subside. Dangerous riots, increasing in fury until they almost amounted to warfare, occurred in the streets between the factions of Orange and Green. Firearms were freely used by the police and by the combatants. Houses were sacked and men and women were killed. So savage, repeated, and prolonged were the disturbances, breaking out again and again in spite of all

¹ "We never asked for partition, and we never wanted it"—Lord Glenforsa, former chief whip of the Six County Unionist Party, speaking on October 10, 1946, at Belfast.

² G. O. M. (Grand Old Man) Gladstone.

³ Winston Spencer Churchill, Lord Randolph Churchill, vol. II, p. 59.

efforts to suppress them, that they became in the end the subject of a parliamentary commission, the evidence and report of which are not pleasant reading, and proved, when finally published, damaging to the Orange Party." The whole Tory leadership concentrated on this sectarian incitement with such good effect for the party that they actually brought down the Gladstone government and drove the Liberals out of office for 20 years with a short break from 1892 to 1895.

Old methods revived

Ireland, still unpartitioned, became again the bone of contention between the two great English parties in 1912 when Asquith introduced his home-rule bill. Here we come upon an instructive and significant parallel. When Lord Randolph Churchill realized that Gladstone was going for home rule he took steps, even before the bill was introduced, to raise the sectarian issue, not because he felt that Protestants in Ireland were in any danger, but because by that means he could bring down his political opponents, the Liberal government. Twenty-six years later, Mr. Bonar Law was the British Tory leader and he adopted exactly the same tactics. Before the Liberal Premier had introduced his home-rule bill, Mr. Law, accompanied by others of the Tory leadership, crossed to Belfast and not only played the Orange card against the Liberals but played it in exactly the same way. Lord Randolph Churchill had organized and reviewed a marchpast of 70,000 Orangemen. Mr. Law reviewed 80,000. Lord Randolph, in an incendiary speech, encouraged them to take extra constitutional action and promised them the full support of the British Tory party. Mr. Bonar Law did the same. The effect of Lord Randolph's speech and promise was that the Orangemen, feeling themselves privileged by such support (for it included men who had held the highest offices under the British Crown), put the inflammatory speeches into action and brutally set upon the Catholics. We have seen Mr. Winston Churchill's description of what followed his father's speech in Belfast. The same sequence occurred in 1912.

"Catholic workmen were assaulted both in the yards and in the crowded approaches. Some were kicked and beaten; others assailed by showers of iron nuts and rivets—'Belfast confetti': during the month of July 1912, there were 25 assaults inside and 55 outside the yards, '5 of the most dangerous characters, threatening the lives of the sufferers.' The Catholics employed by Workman and Clark were driven out of their employment, as they complained, by the threats of their Protestant fellow-workmen, and refused to return until their safety was assured."

"Two thousand Catholic workers had been driven from the shipyards in scenes of considerable brutality."

What had thus begun was continued at intervals for many years. Whenever it seemed that Ireland was likely to become either self-governing or wholly free, British Tory leaders crossed to Belfast, and there fanned a brutal sectarianism into flame solely to inconvenience their political opponents in Britain. In 1912, however, the Liberals were in a stronger position than they had been in 1886, and, therefore, it would need more powerful organization to secure their defeat on the long chosen ground, the home rule bill. Thus it came about that several British ex-Premiers, many other former Cabinet Ministers, many high-ranking British officers were soon engaged in proceedings which involved the creation of the first private army in 20th century Europe—the Carsonite Volunteers, who were armed by the illegal importation of weapons, and, under the leadership of the British opposition, pledged themselves to resist a British Act of Parliament in arms. British Army officers stationed at the Curragh mutinied rather than interfere with the conspiracy. Faced with this array of leading British statesmen and senior British officers, Asquith, then British Premier, surrendered and proposed the partition of Ireland.

Maneuver and deceit

Thus had partition its origin in the maneuvering of one English political party to get the other political party out of office. The Tories, by inflaming racial and religious prejudices throughout Britain and the northeast, had created conditions which threatened the security of the Liberal government. The Liberal government, rather than stand by their own principles which were enshrined in their own act of Parliament giving self-government to all Ireland, surrendered to the armed threats and to save themselves proposed that Ireland be dismembered.

⁴ Winston Spencer Churchill, Lord Randolph Churchill, vol. II, pp. 65-66.

⁵ Ian Colvin, *The Life of Lord Carson*, vol. II, pp. 132-133.

⁶ George Dangerfield, *The Strange Death of Liberal England*, p. 88.

What was born of a partisan maneuver was perpetuated in deceit. In order to secure the assent of some of the Irish Nationalist leaders to this new policy the Asquith government pressed it upon Mr. Redmond, head of the Irish Parliamentary Party, on the grounds that it was purely a temporary measure and that, after 5 years, the excluded counties, which were to be only four, would revert automatically to the control of the National Parliament. At the same time pledges were being given to the Belfast leaders by the British that partition would be permanent.

More than 300,000

Before the new "settlement" could be put through the First World War intervened and self-government for Ireland was shelved while Britain took the field for the liberty of small nations. Irishmen were recruited for that war on pledges issued by the British War Office, which stated that when it was over, Ireland (not a part of Ireland) would receive the same independence as Belgium: "They (the Allies) cannot then in the face of Europe give freedom to all small nations and leave Ireland out," said a British official War Office recruiting poster. It is estimated by Gen. Sir William Hickie that more than 300,000 Irishmen served in the First World War. That the vast majority did so believing Ireland also was to be freed or given home rule is indisputable. But a number of Irishmen of deeper understanding decided, in view of Britain's shelving of the whole question of Irish self-government, that nothing would win them liberty but the assertion of independence in arms.

A rising took place in Easter week, 1916. It was crushed ruthlessly, all the signatories of the proclamation of a republic issued on the morning of the rising being executed and, with them, the greater number of highest ranking officers of the revolutionary army. But Britain, no longer able to hide from the world her denial of freedom to Ireland, busied herself, with much publicity, in preparing a measure of Irish self-government. There was little sincerity in this apparent concern for Ireland's rights; the explanation is to be found 3,000 miles away where America, deeply shocked at the execution by firing-squads of men of a subject nation seeking liberty, seemed to recede still further from entering the war. It was thought in London that a gesture toward Ireland might help to undo the harm done by the suppression of the rising. Lloyd George was given the task of finding a solution to the Irish question.

A significant letter

He promptly revived the proposal to partition Ireland, and on this occasion did actually succeed in persuading the Irish parliamentary leaders that the exclusion of the Northeast would be purely temporary, and by that means won their consent to the proposal. It is significant of the manner in which partition was eventually accomplished to notice that Lloyd George, while persuading the Nationalist leaders of the temporary nature of the solution, was writing as follows to Sir Edward Carson, the Orange leader:

WHITEHALL, SOUTH WALES,
May 29, 1916.

MY DEAR CARSON: I enclose Greer's draft proposition.

We must make it clear that at the end of the provisional period Ulster does not, whether she wills it or not, merge in the rest of Ireland.

Every sincerely,

(Signed) D. LLOYD GEORGE.

Will you show it to Craig.

A new plan

The popular revulsion against the partition proposed defeated the attempt to soothe the American opinion and a new offer was made by Lloyd George, who had since become Premier. The British would set up a convention of Irishmen and let them decide on a plan for self-government for all Ireland. When, however, the convention was created, it was found to be not an elective but an appointed body in which the Sinn Féin movement, now representing a majority of Irishmen and women, was to be given 5 seats out of 101. This "Irish convention" was not to be permitted to declare for Irish independence, which was what the Irish people now desired. Its main purpose was to deceive the United States into believing that Britain meant at last to deal honestly with Ireland and so the convention was kept talking until America was securely in the war. Then it was brought to an end by the receipt of a letter from the British Premier completely changing its terms of reference and declaring that such agreements as had been come to by the majority of the delegates could not be accepted and that, in fact,

even the limited self-government which was being considered was impracticable. During the sittings of the convention, the Unionists of the predominantly Nationalist area joined with the Nationalists themselves in an effort to avert partition by making extraordinarily generous concessions to the Northern minority. That minority, however, actively encouraged by the British Tories, blocked every effort at a settlement. Home rule for all Ireland being no longer useful to the British cause in America, was dropped by the British Cabinet.

By their acceptance, even temporarily, of partition, the Irish Parliamentary Party, although still holding the vast majority of Irish seats (the last election was in 1912), had lost the confidence of the electorate. The people had transferred their support to the new movement led by men who had taken part in the rising and who stood for full independence for the whole of Ireland. The first electoral test after partition had been proposed came in December 1918. At that election, the Irish Parliamentary Party vanished, only 6 of its 73 members surviving. That was the measure of the people's anger against the partition proposal and of their determination that Ireland as a unit should be fully free.

A vote for freedom

That general election of 1918 is significant not only for the defeat of the Irish Parliamentary Party, but for its actual results. In all Ireland, those who stood for full self-government were returned in an overwhelming majority—79 to 26. Even in the province of Ulster itself in this election—the last election before partition was accomplished in 1920—there were returned a majority of deputies standing for a independent Ireland. In votes cast, including estimates for the constituencies in which no opponents to independence were nominated, the electorate decided:

For self-governing Ireland.....	1,211,516
Against self-government.....	315,394

Local elections were held in Ireland in 1920, again before partition was accomplished. They showed that in 206 corporations and councils there were 182 in which the majorities were for a self-governing Irish Nation. In 19 only were majorities against self-government and in 5 others the membership was given.

No one wanted it

It is here necessary to stress a point already made. Up to December 1920, no party in Ireland wanted partition. The mass of the Irish people demanding independence obviously did not want partition, but neither did the Unionists of the Northeast, who, even when they strove for the exclusion of Ulster, did so in the hope that home rule would thus be defeated and all Ireland remain in the British Empire and under the as yet unshaken patronage of their own class.

In view of this national opposition, the steps taken by the British Government to impose partition had to be thoroughgoing to be effective. They took a twofold form:

- (i) To inflame, as in the past, sectarian passions in the northeast.
- (ii) To inflict such punishment on Ireland in her struggle for freedom as to break her will to resist dismemberment.

With this double aim Lloyd George, in December, 1919, introduced in the British Commons the measure now known as the Partition Act. When its terms became public they created anger and revulsion. Even the antihome rule Irish Times said on February 1920:

"The bill has not a single friend in either hemisphere, outside Downing Street."

That friendlessness was emphasized later, when the bill came to be discussed and when not a single Irish member of any party voted for it. This all-party antagonism faced Lloyd George with the task of creating conditions in which the hated settlement could be forced on the Irish people. Let us follow the British plan as it developed.

The Irish resistance

After the war, Ireland applied the principle of self-determination of nations to herself. Her elected deputies met in Dublin, set up a National Parliament, and, as a symbol of the indivisibility of Ireland, invited to its sessions the Unionist deputies elected in the northeast. This Parliament in turn elected a government, and Ireland became, by open and democratic processes, a republic. Britain, in the next 2½ years, sought to overthrow that Republic by sheer military might. Instead of granting Ireland the same independence as Belgium, as was promised to the hundreds of thousands of Irishmen who had enlisted for the war (the Irish casualties were twice those of Belgium) the British Government declared the

elected Parliament an unlawful body and recruited and dispatched to Ireland the Black and Tans. This terrorist army was loosed upon the people. Scores of towns were burned and wrecked, industries were smashed up, private residences destroyed for "reprisals," prisons filled with resisters, many captured in action executed, and systematic assassinations carried out, elected leaders being shot in their homes at night.

Help from abroad

When a year of terrorism on this enormous scale was found not to have broken the Irish resistance movement, the British realized that eventually they might have to make peace with leaders so heroically supported by the people. Instead of the desire for independence weakening, it was daily becoming stronger. Vast moral support was given to it by the exiled Irish and their friends throughout the world. In the United States, public opinion was deeply moved by the unequal fight, and American citizens sent generous aid to the insurgent Irish Government. The British Cabinet, despairing of a decision by brute force, resumed more energetically their preparations for the partition of an Ireland which seemed to be successfully shaking itself free.

The British Government elected in 1918, although Lloyd George was Premier, was predominantly Tory. Its sympathies lay mainly with those whom earlier it had encouraged to create a private army and resist in arms an act of Parliament passed by their opponents, the Liberals, and who had even organized mutiny to serve purely party ends. Indeed, the personnel of the Government at this time included some of the very men who had taken part in the armed opposition to the British Parliament.

Pogrom again

It will, therefore, be no surprise to learn that exactly the same methods as the Tories had used on former similar occasions re-appeared as at a given signal. In the summer of 1920, in Derry and Belfast, the principal Unionist newspapers began to publish letters of incitement against the Catholic minorities in both cities in which there was considerable unemployment. These letters became more violent and suggested that members of the minority had no right to employment, that they were keeping work from loyalists, and that action would have to be taken. Soon these incitements were taken up more generally by Unionist speakers, and on July 21, 1920, Catholic workers were set upon in the shipyards and the linen mills. This was the beginning of pogroms of a horrible nature in which many hundreds of Nationalists—men, women and children—were killed and wounded by armed mobs who operated without any but the most ineffectual interference by the British authorities. Scores of thousands were forcibly driven from their homes and hundreds of these homes were then set on fire by the mobs. Week after week, month after month, these scenes disgraced Belfast, Derry and other northern towns. They lasted, indeed, for 2 years. The British police and military could have stopped them in an hour had it not been British policy to incite a sectarian conflict. Such a conflict of Protestant and Catholic might produce the same conditions as in 1886 and 1913-14, now regarded as favorable for putting through the proposal of partition.

An unacceptable bill

The time for completing the proposal was considered ripe in the autumn of 1920. Lloyd George's bill for the better government of Ireland which sundered a unity that has lasted since before the dawn of history was a self-evident maneuver. He was aware that the bill was utterly unacceptable to the mass of the Irish people, who, he stated in a speech about this time, would be satisfied with nothing less than full independence. He was also aware that the Northeastern Unionists, concentrated in two of Ireland's 32 counties, did not want partition.¹ They were simply opposed to any self-government for Ireland. He made his bill law with no intention of operating it as a whole. He wished to secure the advantage for Britain of a partitioned Ireland before the undaunted assertion of independence by the Irish majority compelled him to negotiate with Ireland's real leaders (whom at this time he was dismissing contemptuously as a "murder gang"). It is of great significance that, when the bill came before the British Parliament in which the Six-County Unionists were fully represented, not one of them took part in the division by which the principle of partition was accepted. Hostile as they had been made to the Irish majority, they could not bring themselves to vote for the dismemberment of their own nation.

¹ "We never asked for 'partition' and we never wanted it"—Lord Glentoran, former Minister for Agriculture and Unionist chief whip in the Belfast Parliament speaking on October 10, 1946.

Thus began partition. Never sought for by any party in Ireland, never intended by its authors to be anything else but a move in British politics, it committed upon one of the oldest nations in Europe a wrong which, while it lasts, makes true friendship between the two neighboring nations of England and Ireland impossible.

PART II—THE PROBLEM TO BE FACED

Since a Parliament was set up in Belfast all the institutions of State—a Government, a judiciary, a civil service, a police force, etc., have been created. As a result, there has now grown up a vested interest in the maintenance of these institutions and in the continuance of partition on which the Unionist majority think their maintenance depends. Consequently, there is in the Northeast today a party which desires partition. That, as will be clear from what has already been said, is a direct result of British policy. But it poses a problem which all interested in Ireland have now to face.

The facts

That it may be faced in the full light of facts the details of the partitioned area should be understood. The first requisite of an understanding is to know exactly what the area is. This can best be done by observing what it is not. Lloyd George, whose bill partitioned Ireland, was anxious to mislead international opinion on the matter. In fulfilling this task, he accomplished something no geographer had ever attempted. He put the most northerly part of Ireland into "Southern Ireland." He called the six counties which his bill cut off from the body of Ireland Northern Ireland, and the remaining 26 counties Southern Ireland. It is as if the area of York, Westmoreland and Durham were to be called Northern England, and all the rest of England, including Cumberland and Northumberland, Southern England. It is as if Wisconsin, Ohio, New York and Pennsylvania were called the Northern States and all the rest, including Maine, New Hampshire and Michigan, the Southern States." Such nomenclature applied to England or the United States would be absurd. It is no less absurd in regard to Ireland.

The partitioned area is not Northern Ireland. Neither is it the historic province of Ulster which is nine counties. It is a purely arbitrary area without any natural boundaries. Its tortuous border is 270 miles long in a country only 300 miles in length and passes over mountains and across rivers, dividing farms, villages, streets, and even houses in half. Not only does the cut-off area partition Ireland, it partitions Northern Ireland too, the greater part of which is outside the area, and it partitions Ulster, three of whose counties, including Donegal, the largest, are outside the area also. Neither geography nor history justify partition, no physical boundaries exist to explain why six counties were chosen to be separated from the nation whose life of thousands of years they shared.

Not Ulster

The six counties were chosen as the area to be partitioned for one reason only, that it was the greatest extent of country which the concentration of Unionists in Belfast and its contiguous hinterland could out-vote. Sir Edward Carson, the Ulster leader, himself argued against including the three other Ulster counties because, if he did, he told the British Parliament, "You would have no chance of successfully starting a Parliament in Belfast," as there were 260,000 Nationalists in these counties, which, with the 430,000 inside, might outvote the Partitionists. As has been already said, in the last election before the Partition Act was passed, the province of Ulster returned a majority of Nationalists. Had the Partition Act cut away Ulster, it might have immediately voted itself back into Ireland.

The area which was, in fact, chosen is not territorially Unionist. Almost half the cut-off area has Nationalist majorities. The two counties of Tyrone (largest county in the area) and Fermanagh are in the majority Nationalist, so are the old Parliamentary constituencies of South Down and South Armagh which adjoin free Ireland. So also is the second of the only two cities in the area, Derry. There is no question, therefore, of a Unionist homogeneous area to justify partition. Indeed, if four of the six counties, Tyrone, Fermanagh, Derry, and Armagh, were to vote as a unit, the majority would be Nationalist and they would vote themselves into free Ireland.

No racial difference

Nor is the area racially different from the rest of Ireland. The six-county population is predominantly of Gaelic stock, as is Ireland as a whole; even those who were brought from Britain during the plantations to occupy the lands from which the natives were expelled came, in a majority, from areas which had previously been peopled or partially peopled from Ireland.

Again, the partitioned area has no religious unity which would justify separation from the rest of the country. In fact, the most numerous religious group within the area are of the same persuasion as the majority in Ireland, i. e., Catholic, despite the propaganda about the "Protestant North." These are the figures:

Catholics.....	428, 290
Presbyterians.....	390, 931
Church of Ireland.....	345, 474
Methodists.....	55, 135
Others.....	59, 915

Industrial workers

Another excuse given to justify partition is that the six counties are industrial while the rest of Ireland is agricultural. It is not so. The greatest single industry in the Northeast, as in Ireland as a whole, is agriculture in which 164,811 are engaged. The number of industrial workers as shown in the last census of production, published in the official Ulster Year Book, of 1938, was 143,176, while in the same year the number of industrial workers in the rest of Ireland was 166,174. These figures do not mean that the six counties are not more industrialized than the 26 counties, for the difference in area and population has to be kept in mind. But they do mean that agriculture and not manufacturing industry is the six counties' chief occupation. The six counties have at present many more industrial workers than they had before 1939. This is abnormal and is due to the transient effects of war. In fact, the two main industries of the North—shipbuilding and linen—were in the years between the wars so crippled that, in the whole of the so-called United Kingdom, unemployment high everywhere was highest in the six counties, which was officially scheduled as depressed area No. 1. The fictitious prosperity which war brings has momentarily changed that,⁹ but, in the 24 years of the separate existence of this Northeastern state, more than half that period was spent in an almost unbroken industrial slump, due largely to the impossibility of a state so cut off from its natural markets ever being prosperous under normal conditions.

Treatment of minorities

The main effort made to justify partition was based on the grounds that it was necessary to save the Protestant minority in Ireland from persecution at the hands of the Catholic majority. Of all pretenses this is the most dishonest. Nowhere in the whole wide world is a minority better treated than the Protestant minority in the free part of Ireland. It not only shares in every benefit, in every grant, in all public appointments, in the freedom of worship enjoyed by all citizens and groups; it holds a position in the public, economic, political and social life of free Ireland far outstripping that due to it by its numbers. It is so weak in numerical strength (only 6.6 percent of the whole) that its persecution would be easy. In fact, its rights are jealously protected by the State and special arrangements are made to insure, for instance, the continuance of its schools. Of public appointments even of the highest kind—for instance, judgeships, memberships of State Commissions, etc.—it receives an apportionment many times that to which its numbers would entitle it.¹⁰ On December 12, 1945, the Irish Times, organ of this minority, said in its main editorial:

"So far, the Government of Eire has had an exemplary record in religious affairs. It has never discriminated in any way between the sects. * * *

It would be impossible for any Nationalist paper in the Northeast to say that of the six-county government. That government has systematically denied to the Catholic minority, not in this case of one 6 percent, but one of 33 percent, the rights due to it even as ordinary citizens. Its schools are discriminated against, public appointments of importance are virtually denied it (it is estimated that though the Catholics, by their numbers, must supply in the neighborhood of 33 percent of the revenue, their share of public salaries is 4 percent, its electors are disfranchised, it has been the subject of several murderous pogroms.

⁹ The transient nature of the six-county war prosperity is shown by the fact that the latest unemployment returns for the two areas (October 1946) shows the six-county unemployment (1 in 44 of the population) was much greater than in free Ireland (1 in 67).

¹⁰ Since June 1945, the Irish Government has made a series of appointments to boards, committees, etc. The average representation given to the 6.6 percent minority on these bodies was 37 percent.

Prime Ministers lead in bigotry

That this discrimination against the minority and their exclusion from public appointments is no haphazard result of thoughtlessness, but a set policy decided at the highest levels, the following quotations show:

The six counties have had three Prime Ministers since its foundation: Lord Craigavon, Mr. J. M. Andrews, and the present Premier, Sir Basil Brooke. All have openly encouraged the exclusion of the minority from employment either under the subterfuge that they are not loyal or directly. Sir Basil Brooke, the present Premier, said in 1933 (12 years after the State was set up):

"Many in the audience employ Catholics but I have not one about the place."

The previous Premier, Mr. J. M. Andrews, speaking in the same year, said that it had been "alleged against the Government," that there were 28 Catholic porters in the Parliament House.

"I have investigated the matter," he said, "and I find that there are 30 Protestants and only one Roman Catholic there only temporarily."

The first Premier, Lord Craigavon, declared in 1934, "We are a Protestant Parliament and a Protestant state," and later that year said:

"Public appointments are given to men and women who are loyal (i. e., to the Protestant state) to the core."

This practice of discrimination was then already of long standing. The Minister for Agriculture, Sir E. M. Archdale, said 9 years earlier (March, 1925):

"I have 109 officials and so far as I know there are four Roman Catholics, three of whom were civil servants turned over to me, whom I had to take when we began."

The minority was proscribed in 1925, in 1934 and is today.

No political unanimity

From all this it is evident that there are no grounds of racial difference, no grounds of religious unanimity, no grounds of economic divergence, no grounds of economic self-sufficiency, no grounds that religious or political discrimination is exercised in the free part of Ireland to justify partition, just as already shown there are no grounds of history or of historical geography or of physical geography. The only other reason that might be put forward for the separation of this area from Ireland would be the political unanimity of those who inhabit the area. As already indicated, there is no such political unanimity. Politically, as far as can be ascertained from the latest statistics, which, as will later be explained, are not really a sufficient indication of the strength of the minority; the position is:

Total population.....	1, 279, 000
Nationalists.....	428, 000
Others.....	851, 000

The "others" are not a political entity. They are divided into official Unionists—the only vociferous upholders of Partition—Labour supporters and Independents. Before we break up the total of those who are not Nationalists into its component parts it is necessary to describe the electoral system of the area.

Taking the franchise away

That electoral system is surely the world's outstanding example of how a minority may be disfranchised under a democratic facade. In the British act under which the six counties were established as a separate state, proportional representation was decreed to be the system of election. Under proportional representation strong minorities are guaranteed their full representational strength. Not only did the Belfast Government abolish PR as soon as it felt it had the power to do so, but it rearranged the electoral areas not only for elections to Parliament but for elections to all local bodies. The plan on which this rearrangement of constituencies was based was a simple one. It drew electoral areas of the most absurd configuration—one of them crosses a mountain—in order to enclose the greatest possible number of Nationalists and the smallest number of Unionists into one division. To that area was then given one representative. The remaining areas in the neighbourhood were divided into several divisions in which Unionists had an assured majority and to each of these was given one representative.

Unequal value of votes

By this means, 10,000 Unionist votes were given the same electoral power as 20,000 Nationalist votes, and in fact in County Down where every 22,486 Unionists have one member of Parliament, 39,861 Nationalists have no representative, and in County Fermanagh, 32,455 Nationalists can elect only one member but 25,529 Unionists can elect two. This process was carried into the elections for local government authorities down to the smallest town council. Absurdities are so numerous that a choice of examples is difficult. Here are a few: In Tyrone, 73,600 Nationalists get only 11 seats on the county council, the minority of 59,109 get 16. In Dungannon urban district council, 1,959 Nationalists elect 7 members but 1,803 others elect 14. In Castlederg Union area 5,158 Nationalists get 6 seats: 4,990 others elect 16. In the second city of the partitioned area, Derry, 27,062 Nationalists can elect only 8 members on the city council but 18,097 others can elect 12.

Under so glaringly unjust a system it is evident that the minority, knowing beforehand that it cannot elect its due percentage of representatives, gives up hope and it is always a feature of six county parliamentary elections that between a third and a half of all the seats are filled without contests. On a count of heads the Nationalists should be able to secure at least 17 seats in the six-county parliament, and where there are three-cornered contests, a few others. In fact the Nationalists have never been able to secure more than 12.

Opposition poll in Belfast

In the last election, 13 of the official Unionists, 1 Unofficial Unionist and 6 Nationalists, i. e., 38 percent of the House, were returned unopposed, something unique in electoral history. In the contested areas for the remaining 32 seats, out of a total poll of 358,000, the Government polled 186,000 votes, while all shades of the opposition secured 172,000. In Belfast City, the opposition parties polled more heavily than the Government candidates. If those figures were to be applied generally throughout the area, the Unionists would have 27 seats and the opposition 25. In fact, the Unionists have 33 seats and the entire opposition 19.¹¹

The election results are, as has been said, largely decided by the manner in which the constituencies have been gerrymandered, and in consequence, there has never been a change of government in the six-county area in the whole 25 years of partition. The unjust and undemocratic nature of partition is reflected in the complete dishonesty of the electoral system by which it is maintained. Nominally any vote is the equal of any other (the main test of a democratic system), but, in fact, the Unionist vote is in the six counties made the equal of at least two Nationalist votes and in many areas of more. But, even under such a system, the fact emerges that there is far less political unanimity in the six counties than there is in the 26.

The trick is repeated

It has been part of partitionist propaganda that the dismemberment of Ireland was accepted by the whole people and was ratified by Dáil Éireann. As will be obvious from the fact that every party in the 26 counties has in the forefront of its program the abolition of partition, this is not true. Indeed, the putting forward of that plea by the defenders of dismemberment is a reminder of the general trickery that went into the creation of partition. We have shown that, when partition was first mooted, Asquith, and then Lloyd George, tried to get the consent of the Irish parliamentary leaders to the exclusion of the Northeast area from the operation of the home rule bill on the definite ground that the exclusion would be temporary. In 1921, the trick was repeated in a different form on the signatories of the Anglo-Irish Treaty. Article XII of that treaty was so worded as to mean that a plebiscite would be taken of the areas desiring exclusion. Such a plebiscite would have reduced the partition area to two counties which would be so small as to render its continued existence as a separate State impossible. The British Premier and his colleagues persuaded the Irish signatories that, not only was that interpretation of Article XII right, but that, when the time came for the establishment of the boundary commission envisaged in the article, they would back that interpretation with all their influence.

To reunite Ireland

The treaty was thus accepted by those who voted for it as an instrument for the reunion of Ireland. That was how the British wished it to be read to make

¹¹ Figures cited on this page are taken from *The Partition of Ireland: Statement by Northern Nationalists 1938*. See also Fabian Society pamphlet, No. 54, by John Hawkins (London).

sure of its acceptance. When, however, its terms came to be fulfilled—Collins and Griffith, principal signatories of the treaty, now being dead—the British Premier and his colleagues did the very opposite to their promise to the Irish signatories. They threw all their influence publicly behind an interpretation of Article XII which perpetuated partition, thus influencing the boundary Commission (which meanwhile had been set up with two British nominees, and one Irish), not only to declare for the existing boundary, but to seek to add other parts of Irish territory to the separated area.

Under duress

The outburst of Irish anger at this proposal was so great¹² that the British never officially published the Commission's report, but using the threat of publication as duress, forced a compromise upon the then leader of the Irish Government, Mr. Cosgrave, that he would consent to the deletion of article XII from the treaty, thus indirectly stabilizing the existing boundary. The vote in favor of this action in the Irish Parliament was taken on December 10, 1925, while the Republican deputies were still excluded from that chamber. The agreement embodying the deletion of article XII was passed, but only 71 deputies voted for it, which was well less than half of the house of 153 members. On the same day, the Republican members met outside the house and issued the following declaration:

"In the name of the Irish nation and the Irish race, in the name of all who have stood and will yet stand unflinchingly for the sovereign independence of Ireland, we, the duly elected representatives of the Irish people, by our names appended hereto, proclaim and record our unalterable opposition to the partition of our country."

Before the deputies signed this declaration, Mr. de Valéra, addressing them said:

"We deny that any section of our people can give away the sovereignty or alienate any part of this nation's territory. If this generation should be base enough to give them away, the right to win them back remains unimpaired for those to whom the future will bring the opportunity."

The Irish Labour Party also issued a manifesto denouncing the agreement as an "unmitigated betrayal."

Is partition the solution here, too?

All through its short history, from the first moment of its origin as a mere move in a wholly British political game, partition has had as its fruits—trickery, deceits, pogroms, broken pledges, dishonored treaties, denial of elementary democracy, base injustice to the minority, economic depression and political frustration. By its fruits it stands wholly condemned.

But a problem remains. It is a problem not unknown in other nations; indeed, it is one of the most ordinary problems of national governments—that of a dissenting minority. If every such problem were to be settled by detaching part of the historic nation and attaching it to another country, there would not be a bodily whole nation either in Europe or America. A solution by the partition of its territory would be abhorrent to every right-thinking citizen of any State. In the British general election of 1945, the southern shires voted in majority against Labour. In the United States Presidential election of 1944, 10 States forming a more or less solid block, voted in majority Republican. Is the solution for these minority problems partition? Europe was kept on the verge of war at many international crises after the partition of France in 1870; the attempted partition of the United States caused the terrible Civil War of 1861; World War I was made almost inevitable by the cutting off of Alsace and Lorraine from France; World War II really began in the partitioned territories of Central Europe. Partition is a wrong to which no people seem able to accommodate themselves.

A possible solution

In Ireland, it can be settled entirely peacefully. What is required is an arrangement by which the special political outlook of the minority, concentrated as it is in the northeast, is given just recognition and protection, even to the extent of permitting the area to retain its autonomy, subject to full justice for its own minority. The reunification of the whole territory could then be effected under an all-Ireland parliament in which the minority will naturally have the representation to which its strength in the nation entitles it. Such a solution would

¹² The Irish Independent, principal supporter of the treaty settlement, commenting on this new interpretation, made it clear that those who accepted that settlement did so only because they believed clause XII would undo partition. In an editorial on September 8, 1924, it said: "If it were capable of bearing any other meaning but that placed upon it by Michael Collins, Arthur Griffith and the Irish people it would never have received 5 minutes consideration in this country."

be fair to the minority, just to the nation and in accordance with democratic principles.

Benefited nobody

Partition has benefited neither Britain nor the six counties. For Britain it has meant a crippling loss of prestige throughout the English-speaking world. There the injustice of partition is widely understood because Irishmen, wherever they be, feel the wrong as deeply as those at home, and they enlighten others. In consequence, whenever Britain asserts her concern for liberty in these parts of the world, her sincerity is at once suspect. Men say she wants freedom for others, but she does not grant it to her nearest neighbor. This, indeed, explains the ineffectiveness abroad of much of the British criticism of Ireland's neutrality during the war. Irishmen in Ireland had only to look over the border to know that the high-sounding principles in British war propaganda were not to be applied to them; while those abroad had merely to think of partition to know that a nation dismembered by another nation cannot be reasonably criticized for not fighting on the side of her mutilator.

Weakens Britain

Further, the existence of partition must weaken gravely the effectiveness of British foreign policy. Questions which give rise to international fears as this pamphlet is being written can be shown to have in them a striking similarity to what happened in northeast Ireland—an outside power inciting a minority to revolt against majority rule in order to give to that outside power a special dominant position in that particular piece of territory. How, in face of what has been done and is being perpetuated in Ireland, can Britain object with any effectiveness to what is happening in these areas, vital though those happenings are to British interests? It may be that these questions will be settled satisfactorily to all concerned, but the fact that similar situations will recur points to the necessity for Britain to have clean hands when entering into conference with other powers. While partition lasts, Britain's international position in such disputes cannot be strong.

What the northeast lost

The six counties have lost immeasurably by partition. In the interwar years, as has been mentioned, the economic situation in the partitioned area was so deplorable that subsidies from Britain were required to keep the Government afloat. In the war years, there was definite prosperity in the area, but the six counties had to send enormous sums to Britain—well over £100,000,000 from that small area—as an imperial contribution, thus dispersing the resources out of which the effects of the slump, already beginning, might have been alleviated. Situated as it is, without free access to its natural markets in Ireland, the partitioned area cannot, if the past is any indication, expect prosperity, even in normal times. Because the minority is permanently persecuted in an effort to compel them to accept a permanently inferior position and acquiesce in their separation from their own fellow-countrymen, there are not even the conditions necessary for internal peace and for that respect for governmental authority essential if a community is to be brought through difficult times without dire hardship.

Social services

It is said that, if the 6 counties did rejoin the 26, the standard of living of the average 6-county citizen would be reduced. But there is never any proof brought forward to support this contention. There was far more poverty in the 6 counties in the 17 interwar years, 1923-39, than there was in the 26, and had the 6 counties come into free Ireland before the war, it is free Ireland that must have suffered economically. During and since the war, the British social services have been extended or promised to the six counties, and it is said that, if the six counties were merged in the rest of Ireland now, those social service benefits would be reduced. That is true only superficially. Benefits in the northeast are better in certain social services than in the rest of Ireland.¹³ In others, they are not, and the 26 counties spend generally far more on social services in proportion to the state revenues than is spent in the northeast. And it must never be forgotten that these services are mainly for providing benefits to relieve unemployment and its consequences of sickness and poverty. A healthy economy is the real

¹³ If some of the social service benefits are high in the six counties so is their cost to the individual citizen. In taxes the average family of five paid in 1945: in the six counties, £202, and in free Ireland, £88. The difference (£114) was far more than the difference in social service benefits.

guaranty of individual well-being, not the value of services designed to relieve distress. Such a healthy economy for all Ireland could well be the outcome of reunion and could itself provide the economic basis upon which social services might be brought to any standard that necessity might demand. It is, however, certain that no social services could compensate the six counties for the widespread unemployment and economic depression in which partition expressed itself in the interwar years and looks likely to express itself in the peace period just beginning.

The strategic aspect

Finally, it is said by those opposed to the ending of partition that, were Ireland reunited, Britain could not expect the substantial strategic advantages which were provided by the presence of British naval and military forces in the six-county area during the war. That simply begs the whole question. If partition had been ended before the war broke out, there might have been an entirely new situation. Ireland as an island can be most successfully defended as a unit. As lately as May, 1946, the organ of the pro-British minority in Dublin published a series of articles on Ireland's defense, in which the following occurs:

"At the present day, the old historical injustices which have so often adversely affected the relationships between the British and ourselves have largely lost their force. What does persist is the running sore of partition. Primarily a political question, partition, nevertheless, has its importance on the military side. The defence of such a small island as this must, for effectiveness, be unified. It is not only ridiculous, but also extremely dangerous, for an artificial frontier to split what is essentially a strategic unit. Partition not only endangers the goodwill which should exist between Britain and Ireland, but threatens also the safety of Britain," (Irish Times, May 1, 1946).

During the war, Britain herself recognized the danger of partition, and in many of her war measures, conceived all Ireland as a unit. A reunited Ireland would have been so obviously better able to defend itself against aggression, a free Ireland so obviously ready to accept from Britain all the aid she needed if her own strength were overtaxed, that no aggressor would have sought to attack Ireland, which would then be, as the free part of Ireland partly was, a shield to Britain's flank. Out of that fact alone, Britain would have gained almost all she enjoyed from the occupation of the six counties with the immeasurably greater advantages which just dealing with Ireland would have brought her throughout the world. An Ireland with her recognized freedom to defend, an Ireland whose rights are fully respected by Britain will always be more concerned than any other nation with her nearest neighbor's safety and well-being. That concern, in the long run, is a far more important element in Britain's strength in time of war, as is now being recognized with regard to Egypt and India,¹⁴ than any supposed advantages of an occupation which embitters against her a far-flung race and minimizes grievously her reputation for just dealing, impugns her sincerity and consequently restricts fatally her influence for good in world affairs.

Conclusion

Partition is a wrong that must be righted. It has proved itself to be the source of evil for both parts of Ireland and for Britain herself, and it can with truth be said that nothing good has ever come out of it for any of the three communities affected by it. It can be ended without injustice to the Unionist minority in Ireland; indeed, its undoing may well prove to be the beginning of a new, more fruitful and more influential life than that minority has ever known. In an unpartitioned Ireland, the whole nation can cooperate to make the motherland an example to the world.

Mr. SCATT. I recognize that in a vastly changed world order, there may be some Senator, or some Congressman, with but a few Irish in his constituency, who may say: "Oh well, this is a new strange world we are living in. Other countries are partitioned. Other countries are split apart. Why not Ireland?"

¹⁴ In the British White Paper on India of May, 1946 (Cmd. 6821), partition is emphatically rejected as a solution of the Indian minority problem (Moslems are, like the Unionists in Ireland, about 25 percent of the whole) on the grounds that to set up two states would injure India economically, not solve the minority problem and make more difficult the defense of India. It is particularly pointed out that those in favor of partition asked for areas in majority non-Muslim, and that "every argument that can be used in favor of Pakistan can equally in our view be used in favor of the exclusion of non-Muslim areas from Pakistan." Compare Tyrone and Fermanagh, two counties in majority Nationalist, forcibly included in the partitioned area.

The easy quick answer, Mr. Chairman, is that the very antiquity of Ireland has ingrained the fight of the Irish against the invasion of the English to such an extent that the fight has become an integral part of worth-while Irish character, and in the very nature of things that fight can never end until the invader ceases to encroach upon Irish soil. Until then there can be no permanent peace in the world, Mr. Chairman, because history shows that in generation after generation the Irish in Ireland have adopted every legitimate means just as the American Colonies sought aid from France in the necessarily bloody battle to win independence.

Ireland's background, Ireland's antiquity, merits freedom and independence, Mr. Chairman.

It is not my purpose to unduly spend any of the time of this honorable body, and I suppose that I might, with every fairness, ask this committee to take judicial notice of the antiquity of the Irish. So, for the purpose of the record, let me say merely this:

From more than seven centuries before the birth of Christ, the historians have adduced what they consider as the beginning of indisputably authentic Irish history.

I quickly carry you over more than nine centuries, during which law, and learning, and the arts progressed in Ireland. During those centuries, the land which we now know as England came under the domination of the Romans. Ireland remained with the Irish. During those centuries the world saw a new light, the Man of Galilee was born, and lived, and was crucified.

Two hundred and twenty-seven years after the birth of Christ, there came to the high throne of Ireland, Cormac the son of Art. Cormac gave us the Psalter of Tara, a compilation, mind you, of the then previously enacted and functioning laws of Ireland. No wonder there is pride in the people of Irish blood, Ireland's sons and daughters everywhere.

Merely in passing, and because there is a moral and a lesson to be well drawn from it, may I add that Cormac's father was the son of that Irish King known as Conn of the Hundred Battles. Seventeen centuries later, this battle which we are fighting here today is but another phase of the age-long battle of the Irish, because so long as a single foot of Irish soil remains within the possession or control of the foreign invader, so long will the sons and daughters of Ireland battle for Ireland throughout every country of the civilized world.

Then, two centuries more, and in A. D. 432 St. Patrick comes to Ireland. And Ireland took St. Patrick and Christianity to its warm Irish heart.

I don't have to tell you the story of that. Just let me remind you of the one incident: That of the Irish chieftain who was brought to renounce paganism and to embrace Christianity. St. Patrick stood before him, face to face, and for freedom of hand the saint took his spiked crosier and rammed it down into the soft Irish earth. Then he proceeded with the instructions to the new convert. It was not until he finished, that looking down he saw the ground covered with blood, and found that he had rammed his bishop's crosier right through the foot of the convert chieftain. That chieftain had never winced. He had not shown a sign of pain. And when St. Patrick apologized and asked him why he had not said something, the chieftain merely said that he thought it was part of the ceremony, that the

suffering was just something to bear, a little token of the price of being a Christian.

Maybe there is a lesson in that for the troubled new world of today, Mr. Chairman.

Here we are, preparing to make vast sacrifices of our substance for a supposedly democratic and largely Christian western Europe, Mr. Chairman. And we are told to build high hopes upon that western Europe for our own safety, Mr. Chairman. We are told that it may keep communism out of America, out of our own United States.

I point this honorable committee back to that chieftain who knew how to suffer. I point you back to that little land of Ireland where communism never could show its dirty head. I point you back to that little island of saints and scholars, which, through all of the early centuries and down through the Middle Ages, sent the teachings of Christianity and of democracy to all lands. In spite of her own sufferings at home, Ireland spread the light, Mr. Chairman, and in America's vast new projects of today and tomorrow, whatever form these projects may finally take, you will find no safer, no braver, no truer spot than little Ireland. You will neither find communism in Ireland, nor will you find it among Ireland's sons and daughters in our own land, Mr. Chairman.

But by what rule of logic, by what method of reasoning, can it be held a sensible thing to keep that stronghold of light and of Christian religion, that European outpost of Christianity and of democracy, divided against itself? The answer does not lie in logic or in reason, Mr. Chairman. The answer lies in the stubbornness and in the cupidity of England. Let us examine it:

England has about the same area as our own State of Illinois. But she is overpopulated and she is industrially outmoded. Those are the admissions of her own statesmen and of her own spokesmen. Her density of population is about 715 to the square mile. Even according to the estimates of Mr. Churchill, she must move out about one-third of her population. Probably one-half is nearer to the real picture.

Ireland has about the same area as our own State of Maine. But she is underpopulated, and is industrially underdeveloped. Her population is about 115 to the square mile. Even according to our own Department of State, the 26 counties of Ireland must be a good credit risk. The State Department's report to the Senate committee, Mr. Chairman, is that in the event of advance of moneys as contemplated by the so-called Marshall plan, the advance to the 26 counties would be by the way of loan, whereas the advance to Britain must perforce, and obviously, be very largely by way of grant.

May I divert here, to suggest what must be quite apparent to your learned committee, and that is that no such two classes of money should ever be disbursed from a common or mingled fund. He who approaches the banker to seek a loan upon his credit, approaches that banker with head up, seeking that which he can in honor take and which he expects to pay back. But, he who approaches a donor seeking a gift or grant necessarily comes with hand outstretched, and is in no position to discuss terms. He is a beneficiary. He must listen to and obey the instructions of the donor.

But little Ireland—again as I say of the size of our State of Maine—is burdened by England with two governments, two sets of customs,

an unnatural internal customs border more than 270 miles long; two sets of police; two sets of armed defense forces; two sets of everything from the highest to the lowest.

If the 26 counties, so circumstanced, and as just a part of Ireland, are a worthy credit risk for our taxpayers' moneys, why would not all of Ireland—the Irish Nation—under one sensible government of her people, and with England's needless waste and squandering eliminated, be in very fact an excellent credit risk?

Of course, the real answer is that the division of Ireland is England's plan, it is the age-old continuance of the policy of divide and conquer. What was once the Pale of Dublin has now in economic fact become the Pale of Belfast and of the six agricultural counties which serve that industrial city.

And, of course, the implements by which England maintains the division are subsidy and gerrymander. Again, I refer you to David O'Neill's pamphlet. Or, if you need some more figures, I refer you to Cahir Healy's *Mutilation of a Nation*.

It is true that the gerrymander may be a problem for the Irish in Ireland to handle; but the subsidy is certainly not a thing for us to grant, Mr. Chairman.

Whence come the moneys which the Executive asks you to vote, Mr. Chairman? Answer: From the taxpayers. Well, taxpayers are before you, Mr. Chairman.

Speaking in the representative capacity in which I appear here today, it would be obviously improper for me to express either advocacy of or opposition to the projected legislation which lies before your committee. Each citizen is entitled to his or her own opinion upon the merits or the demerits of the so-called Marshall plan.

But upon one thing I do speak with all the emphasis that is at my command—and I bring to you all of the steadfast earnestness of the multitude of voters who have sent me to appear before you.

I speak, and I protest, and we shall continue to speak and we shall continue to protest from henceforward—against the sending of a single dollar of American taxpayers' money to Britain while the Government at 10 Downing Street persists in the insane division of Ireland. It is beyond successful dispute that England is financing the partition of Ireland with American money. American citizens of Irish blood who are worth their salt are burning with hot indignation over this, Mr. Chairman.

As members of this honorable committee know, this Irish question is no new thing in Washington. But the difference is that it is no longer truly an Irish question. It is an English question.

The Irish in Ireland have demonstrated superb abilities in troubled times to govern themselves.

Our Irish citizenry in the United States have given us of their valor and of their zeal, in peacetime and in wartime, since the foundation of this, our Republic, Mr. Chairman.

In the form and manner provided in the Constitution of the United States they are now bringing their protest to Washington. They have the right to be heard.

They say that England instituted the partition of Ireland under impelling threat of superior force. This is a fact of history, Mr. Chairman. Lloyd George admitted it, and gloried in the fact.

During the period of actual hostilities, and during the first step of reconstruction, our Irish voters have preserved an admirable attitude even when vast sums were being sent to England apparently to be very largely squandered.

But now, Mr. Chairman, what future moneys are to go, if any, are to go avowedly for constructive, and allegedly for American protective, purposes.

If this be so—there should be no waste. We assert that England's subsidy of Irish partition is unadulterated waste. We assert that it is both economic waste and military waste. Obviously a divided Ireland is less effective as a warm friend of the United States of America than would be a united Ireland.

If we are correct in saying that there should be no waste, then it follows that there should be no palpable violation of the democratic principles for which we assert that we are building. England's violation of democratic principles in the six counties of Ireland is open, is adverse and is notorious.

If there should be no waste, there should be no weakening of the geographic and national units which might be expected to be a source of sound defense in the event of armed struggle between conflicting ideologies. England's interference in Ireland is a continuing cause of such weakening. It should not be permitted even to continue; much less should it be financed by the United States of America.

In the United States of America, we give much weight to free elections, Mr. Chairman. I call to your attention the fact that a free election was held yesterday in the 26 counties. But each of the conflicting political parties is in complete agreement with its opponents upon one thing, Mr. Chairman—partition of Ireland must end. That is a major plank in each political platform in Ireland.

Should question arise as to the propriety of what I am today discussing before your honorable committee, and of your action upon it, I call to your committee's attention the fact that this question of propriety was thrashed out before the Committee on Foreign Affairs of the House of Representatives at the third session of the Sixty-fifth Congress almost 30 years ago. I refer to the record of the hearings on House Joint Resolution 357, December 12 and 13, 1918. As a result, that question was affirmatively determined, and the decision was in favor of Ireland's cause. Likewise in the Senate before the Committee on Foreign Relations, Sixty-sixth Congress, first session. The Senate went on record 60 to 1 in favor of Ireland's cause.

Not until by the valor of Ireland's sons, and by the force of public opinion throughout the civilized world was England driven to it, or did England seriously approach the problem of her withdrawal from Ireland. Then, 27 years ago she devised the accursed plan of partition, and drove the 26 counties into a bloody civil war.

Today, Ireland as Ireland is confronted by the enforced secession of 6 counties out of 32. It is the same kind of secession that had to be settled by our own Civil War—but with this added insult: England is actually subsidizing, directly and unashamedly, the entities which constitute the six seceding units in Ireland.

Upon behalf of my people I protest. I say that the United States of America cannot afford to subscribe to such an iniquitous outrage upon human liberty. That is my case, in the merest outline, Mr. Chairman.

May I thank the chairman and the committee for the time and the courtesy extended to me upon this hearing, and may I offer, upon behalf of my colleagues and myself, to furnish any other facts, data, historical or other matter for the record which may be required by the committee or by its chairman.

If I may, I would like the privilege of extending my remarks in the record.

Thank you very much.

Acting Chairman JACKSON. Thank you, Mr. Scott. I am sure, without reference to the merits or demerits of your case, that you have certainly stated your contention forcefully and well.

As is generally the custom of the committee, we will ask the members if they have any questions to ask of you.

Mr. JONKMAN. I have no questions.

Acting Chairman JACKSON. Mr. Richards?

Mr. RICHARDS. I have no questions.

Acting Chairman JACKSON. Mr. Judd?

Mr. JUDD. I have no questions.

Acting Chairman JACKSON. Mr. Javits?

Mr. JAVITS. I have no questions, Mr. Chairman, except to observe that I was in Dublin only last October and visited the Prime Minister, Mr. De Valera, and a number of his ministers and I feel that the witness before us is in the true Irish tradition of ruggedness and conviction.

Mr. SCOTT. Thank you very much.

Acting Chairman JACKSON. Mr. Gordon?

Mr. GORDON. No questions.

Acting Chairman JACKSON. Mr. Lodge?

Mr. LODGE. Mr. Chairman, I would like to say that we in the committee are very pleased not only to have you before us, but we are very pleased to have your Congressman sitting beside you as temporary chairman of the committee. I am one of the many who think that he is doing a particularly fine job down here.

Mr. SCOTT. I am glad to hear that, sir.

Mr. LODGE. I know that what you have submitted to us will receive every consideration by the committee.

Mr. SCOTT. Thank you, sir.

Acting Chairman JACKSON. The temporary chairman also thanks you.

Mr. Mansfield?

Mr. MANSFIELD. Mr. Scott, I want to compliment you on the fine presentation you have made here for the case of Ireland. It is a question that has been shouting for justice for a good many decades, and those of us of Irish descent are well aware of the problem and we hope that something can be done by means of which this unholy and unfair partition of Ireland can be overcome and Eire be once again a united nation.

You mentioned some Irishmen, among them Mitchel, who fought for the South, Duffy, who became Prime Minister of Australia, and Meagher, who was a general in the Union Army. But speaking from a personal point of view, you forgot to add to your dissertation on General Meagher and point out to this committee a fact which I think should be well known, and that is that he was the Governor of the Montana territory.

Mr. SCOTT. That is right, sir. I forgot to tell you that.

Mr. MANSFIELD. And a good Governor.

Mr. SCOTT. That is right.

Mr. MANSFIELD. Now, what has been done in the period since the end of the first war on the part of the Congress of the United States to help in whatever way it could in bringing about the uniting of both Ulster and Eire? Do you recall what actions have been taken by the Congress in that respect?

Mr. SCOTT. I cannot say it was done officially. The resolutions were adopted by the House sometime ago in 1918.

Mr. MANSFIELD. Yes, I understand that there was some action taken in the period following the First World War, but no action has been taken since that time.

Of course we have seen a relatively great Ireland come into being, without much in the way of economic sustenance, to back it up. But we do have this perennial question of this division between the north and the south. My next question is this:

On the basis of what evidence you have, would you say that the people of Ulster would, if a vote were taken, show their desire to become a part of Eire?

Mr. SCOTT. Well, if it was a fair plebiscite I think yes, but I would not want it to be handled by Downing Street, London.

Mr. MANSFIELD. I appreciate your viewpoint. I asked you if you had any information which would back up a statement, or a suggestion of that sort.

Mr. SCOTT. I think that a good number of these people are there who have not this religious taint, this fanatical bigotry, which was eliminated from this county, largely, years ago. Those people who were not Catholics because it was economically impractical for them are included. We think it was a plebiscite even in Ulster. We resent that phrase, because a good portion of Ulster, you see, is still in the Ireland area. They only took a part, the six counties.

In other words, they cut off a portion of Ulster in which they thought they would have enough to dominate the entire program.

Mr. MANSFIELD. This is not a matter of religion, is it?

Mr. SCOTT. Not at all. I am glad you raised that question. When this Dublin governor search became organized, Dr. Douglas Hine, a Presbyterian, who was born and lived to become an old man, 80 years of age, was President of Ireland. He was president of that part of Ireland which is 94 percent Catholic.

That will give you the best idea of whether there is religious bigotry. There is religious bigotry in this corner of Ireland, but not in the other part.

My father was a Scotch Presbyterian. But of course my mother handled him. There were not two sides to the Irish question in my house.

There is a little booklet here which is a very distinct and comprehensive review of the whole question in the partition of Ireland. It would do you gentleman a lot of good and enlighten your minds and lift your hearts up to see the facts in the folly of this thing, and you will get some idea why we resent and distrust Downing Street and why I want to see Will Rogers rise from his grave and thank God there is another generation in America.

Mr. MANSFIELD. What I was getting at is the fact that the real basis for the unification of all Ireland would lie in the fact that it would

be a really good economic unit, and would bring a great deal of satisfaction to all Irishmen all over the world.

Mr. SCOTT. That is right.

Mr. MANSFIELD. There is another Irishman waiting to ask some questions, so for the time being I will desist.

Acting Chairman JACKSON. There are some more roots here from the "Auld Sod." Mr. Maloney.

Mr. MALONEY. I regret very much that I was not present at the early part of your statement. If that was as vigorous as the latter part, I certainly missed a great deal. I make the observation, however, that possibly you have gotten a trace of your mother.

Mr. SCOTT. That is right.

Mr. MALONEY. And I do not want to ask any further questions. Thank you.

Mr. SCOTT. Thank you, sir.

Acting Chairman JACKSON. If there are no further questions, on behalf of the committee, I would like to thank you, Mr. Scott, for your contribution to the hearings and I assume you want your other remarks incorporated?

Mr. SCOTT. I think it would be worth your while to read this. I would like to extend the remarks. You have a lot of reading to do. I do not envy your job.

My friend, Hiram Johnson, wanted me to come back to the Senate, but with seven children, I could not afford to be a senator and try to raise a family.

Acting Chairman JACKSON. Thank you very much.

STATEMENT OF JOHN M. COSTELLO, WASHINGTON, D. C.

Mr. COSTELLO. On behalf of the American League for a Unified Ireland, I want to express my appreciation to the committee for the time you have extended to them, and I would like to ask permission for one or two others who are present to make brief statements, possibly 2 or 3 minutes each, and then extend their remarks subsequently in your record, if that may be done.

We have present here a former Congressman, Martin L. Sweeney, from Ohio.

STATEMENT OF HON. MARTIN L. SWEENEY, A FORMER REPRESENTATIVE IN CONGRESS, FROM THE STATE OF OHIO

Mr. SWEENEY. Mr. Chairman and members of the committee. For the record, my name is Martin L. Sweeney. I am a former Congressman from Ohio.

With several other individuals, we appear before your committee as a result of a mandate from an "Irish race convention" held in New York City November 22 and 23, 1947. This convention of over 2,000 delegates from 38 States of the Union met to protest the continuation of a partitioned Ireland. The call for this convention was issued by the Hon. Michael Donohoe of Philadelphia, a former Member of Congress from Pennsylvania. Practically every Irish-American organization in the United States responded to that call and sent delegates to the assembly as a result of the deliberation of the convention.

The American League for an Undivided Ireland, Inc., was organized. The president of this league is the Hon. Joseph Scott, the distinguished attorney from the State of California, and the gentleman who has just so eloquently addressed your committee.

The brochure you have before you briefly explains how the partition of Ireland was accomplished in 1920 by a "shot-gun treaty" which brought into existence two distinct forms of a national government in a country geographically the size of the State of Ohio. The free state government of 26 counties in Ireland functions with its Parliament in Dublin. The British-controlled government of six counties located in northeastern Ireland functions with its Parliament in Belfast. This "Belfast government" has been, since 1920, a source of irritation to the civilized world. By a clever system of gerrymandering, the Catholic minority in the six-county area is denied equal representation in the national and local administration of their government. Religious bigotry is rampant in this section of Ireland. Discrimination and the denial of civil liberties to large segments of the population is notorious for its boldness.

Four hundred and twenty-five thousand Catholics in the six-county area pay 33½ percent of the costs of government in that area without fair representation and only 4 percent are allowed to participate in the administration of government affairs. In peacetime, during the past 27 years, as many as 60,000 British soldiers have been quartered in the Belfast sector. During a period of unusual prosperity, this six-county government has sent across the Irish Sea as much as £100,000 to the British Crown. Today the Belfast Parliament depends upon subsidies from the British Empire to maintain its bridgehead in Ireland.

We present these facts to you members of the Foreign Affairs Committee of the House of Representatives as you study the so-called Marshall plan now under consideration by your committee. To say that the British Empire is defunct would be an understatement. Our recent loan of 3,500,000,000 of American dollars to great Britain confirms the fact.

The present Premier of the Ulster Parliament, Sir Basil Brook, in a budgetary request to the British Crown states the need of \$40,000,000—some reports say as high an amount as \$200,000,000—to maintain a bridgehead for the British Government in Ireland. Let's be frank about the situation. It is expected that in the allocation of grants or loans under the Marshall plan, approximately 60 percent will go to the British Empire. The Empire, in turn, will siphon from the funds furnished by the American taxpayers sufficient moneys to meet the budgetary request of Premier Basil Brook. Because we believe this will happen we are here, Mr. Chairman and members of the committee, as American taxpayers to strenuously protest against a grant or loan to Great Britain. Not one red cent should go to Great Britain as long as she continues to play the role of usurper and denies to the people of Ireland the God-given right to the unity the great majority of that ancient land desire.

The British Empire has released its strangle hold on India. It is currently getting out of Palestine. It should be told by Uncle Sam to get out of Ireland before we even consider her an applicant for more American dollars.

Thirty million Irish-Americans are watching the action of your committee and the Congress. We understand these are troublesome days for not only our beloved Republic but the entire world. As Christians who believe in the corporal works of mercy, we are in accord with a policy consistent with our own safety and our own needs in feeding the hungry, in clothing the naked, and in giving shelter to the homeless.

After two world wars in which we lavishly gave of our young blood and our treasure in an effort to make the world safe for democracy, it would be repugnant, to say the least, if we at this late date directly or indirectly lend our financial support to frustrate the legitimate aspirations of the Irish people to be free of alien domination in one section of their country.

You heard our distinguished president, Mr. Joseph Scott, quote Will Rogers' famous statement: "We never lost a war, but we never won a conference." Along with scores of Members of Congress during my public career, I frequently quoted our late beloved American humorist.

We have been a cat's-paw for the British Empire long enough. Twice in a quarter of a century we have pulled her chestnuts from the fire and saved her as a world power. The previous speaker, I am sure, expressed the feelings of most Americans when he said with reference to the "gimme" attitude of our British diplomats after hostilities are over, "The buzzards always take us to the cleaners."

Mr. Chairman, if we seem somewhat emotional in our appeal, I am sure you and your committee will sympathize with us. The long struggle of Ireland through several centuries to be free from British rule is known to every schoolboy.

On last Monday, February 2, I appeared before the Foreign Relations Committee of the Senate. I recalled to the committee that 84 years ago my father, a young Irish lad, landed in New York, driven from his native land because of the unjust, cruel, and vicious social, political, and economic hardships imposed upon him and his kind by an alien government. Millions of other men, women, and children left Ireland for the same reasons. They found asylum in this great new land. They became the hewers of wood and the drawers of water. They thanked God for the blessings of America. They became loyal subjects. In every military crisis in its history, no race has ever surpassed or equaled the contribution of the Irish to the preservation of the United States of America.

I observe, with pride, the presence before your committee today the Honorable Michael A. Feighan, my successor in Congress from the Twentieth Ohio District. His paternal and maternal grandparents, like my father, were born in Ireland. They came to the United States for the same reasons. Their love of Ireland is second only to their love and devotion to the United States.

Our organization extends thanks to Congressman Feighan for his presence and his contribution to this committee.

In conclusion, Mr. Chairman, may I state that negotiations under way in Ireland to abolish partition are sponsored by Catholic and Protestant alike. The struggle for a unified national independence is not a religious one. It is a political struggle, led as it has been in the past in most cases by men of the Protestant faith. When and how partition in Ireland is abolished is a problem solely for the Irish people

themselves. If this Congress gives any American dollars—grant a loan to Great Britain to delay the struggle, it will, in my opinion, be an indignity to the Irish-Americans of the United States and an affront to the American taxpayers.

Mr. Chairman, the national president of the Ancient Order of Hibernians, founded in 1836, by Mr. Michael A. McGrath of Cleveland, Ohio, is unavoidably detained from appearing today before your committee. I respectfully ask that he be permitted to make a statement for the record.

My personal thanks to you, Mr. Chairman, and your committee for the reception and attention you accorded our organization here today.

Acting Chairman JACKSON. Thank you very much, Mr. Sweeney.

I should point out, I think, before we have a minor revolution here in the committee that the distinguished gentleman, Mr. Lodge, is from Connecticut. That branch of the Lodge family immigrated from Massachusetts.

Mr. LODGE. May I say, however, that I am very sensible to your reference and Mr. Scott's reference to Boston, Mass., because I am originally from there and having had a great deal of contact all my life with Americans of Irish descent I have every reason to have not only a high regard but a warm feeling for them.

Mr. SCOTT. Thank you very much.

Mr. COSTELLO. I would like to call for a word from James Cummins who comes from San Francisco and is representing the United Societies of San Francisco, Calif.

STATEMENT OF JAMES CUMMINS, REPRESENTING THE UNITED SOCIETIES OF SAN FRANCISCO, CALIF.

Mr. CUMMINS. I am James Cummins, representing some 52 Irish societies in California. I don't have much to add to the remarks of Mr. Scott or Mr. Sweeney, but I would like merely to repeat that we are particularly interested in this plan that is coming up today.

Our people, we feel, have contributed much to the history and background of this great country, and as taxpayers we feel as though the time has come when we may no longer make a contribution to maintain the border that has been the cause of much bloodshed in the old country.

I do not know that there is anything further.

Mr. COSTELLO. Thank you very much.

Acting Chairman JACKSON. Thank you, sir.

Mr. COSTELLO. The next person we would like to present is Mr. James J. Comerford from New York, president of the United Irish Counties Association of New York, Inc.

Acting Chairman JACKSON. Mr. Comerford.

STATEMENT OF JAMES J. COMERFORD, PRESIDENT, UNITED IRISH COUNTIES ASSOCIATION OF NEW YORK, INC., NEW YORK CITY, N. Y.

Mr. COMERFORD. Mr. Chairman, I am a resident of New York City and have been for 24 years. I am president of the United Irish Counties Association of New York, Inc., an organization composed of 32 fraternal organizations, with a paid-up membership of 70,000 mem-

bers in New York, and having an additional associate membership of 93,000, all of whom are citizens and taxpayers in the State of New York.

Their term of citizenship ranges from 20 years or more, for the majority, and all of them are citizens for at least 10 years.

I personally protest vigorously against any money being given by the United States to Britain, who in turn will give that money to subsidize the government in northeast Ireland, which is not a government elected by the majority of the voters in Ireland.

This is my basis for so doing: I selected this country to live in voluntarily. I have great admiration for this country. I am a close student of American history. I graduated from two universities in this country, and hold degrees from them. Therefore, I present my point from the American point of view.

I believe in the democracy of the United States and in the great principles that it always has held out; and in so doing, I refer to the people of Ireland, where a general election was held in 1918 for 32 counties, in which 80 percent of the people voted for one government. In 1920, 82 percent voted also for one government. I have in mind the entire map of Ireland as one entity; but here despite the registered voters' choice in a free general election under the legal law of the land that country has been cut apart and in two; under two governments, now.

That is not democracy in accordance with the will of the people that we know in the United States. Therefore we are against that, because I cannot say as an American myself today that when we speak about democracy and how it is exercised in other parts of the world that we have shown good faith when we let that condition exist in Ireland, where people showed by their will that they wanted one government in Ireland, not two.

In addition it is not proper to have two governments in Ireland in order to take care of a small minority with one of them. That is not our concept of democracy in America—namely, to have one government for the majority and another government for the minority.

The majority want one government; but despite this a minority is allowed to have one government also. In addition, from the point of view of security, I would say speaking of the American point of view if that boundary is removed in Ireland, it will be one country strategically placed and a wonderful asset in the coming times which are looking not so good at the present time, when the United States may need that land for its own purposes, for matters of defense; for Ireland, if it is satisfied with one government of its own representation, it may be in a better position in the future than in the past during wartime to be more friendly toward the United States in an energetic way.

I protest, on behalf of my organization, the United Irish Counties Association, this money going from American taxpayers to be used by the government in Belfast to perpetuate the slavery of those people in those six counties against the will of the majority of the Irish people.

Acting Chairman JACKSON. Thank you very much.

Mr. COSTELLO. The next person we would like to present is Mr. Cornelius F. Neenan, chairman, organization committee, American League for an Undivided Ireland.

STATEMENT OF CORNELIUS F. NEENAN, CHAIRMAN, ORGANIZATION COMMITTEE, AMERICAN LEAGUE FOR AN UNDIVIDED IRELAND, NEW YORK CITY, N. Y.

Acting Chairman JACKSON. We will be glad to hear from you, Mr. Neenan.

Mr. NEENAN. I am a resident of New York City, an American citizen and taxpayer, and chairman of the organization committee of the American League for an Undivided Ireland. I wish to make my protest along with those other gentlemen who have appeared before your honorable committee.

The partition of Ireland was perpetrated by the British Government through an act of the British Parliament in 1920. At that time I was a member of the Irish Republican Army fighting against the Black and Tans in Ireland for an independent and united Ireland. No Irish member of Parliament either Union or Nationalist, from north or south, voted for that act which divided the Irish nation. It was another milestone in England's century-old policy to divide and conquer Ireland.

Gentlemen of the committee, England is primarily responsible for this unnatural division of the Irish Nation and the British Government continues to subsidize and support it. That brings us to the question of grants and loans to Britain under the European recovery program which is before you for consideration.

With my colleagues who speak for millions of American citizens I protest against any aid to England that will permit her to perpetuate the partition of Ireland.

We oppose any grant or loan to Britain—or the consideration of any grant or loan by our Congress—until Britain clears out of Ireland. That desirable result can be accomplished if our Government will make the necessary and appropriate representations to the British Government. Abolish the partition of Ireland and you will not only secure the reunification of Ireland but you will help to lay the foundation for a lasting peace in Europe.

Acting Chairman JACKSON. Thank you very much, Mr. Neenan.

Mr. COSTELLO. Next we will hear from Mr. John J. Reilly, director, Federation of Irish Societies, Philadelphia, Pa.

STATEMENT OF JOHN J. REILLY, DULY ACCREDITED REPRESENTATIVE OF THE FRIENDLY SONS OF SAINT PATRICK AND THE ANTIPARTITION OF IRELAND LEAGUE OF PENNSYLVANIA, PHILADELPHIA, PA.

Mr. REILLY. Gentlemen and Mr. Chairman, my name is John J. Reilly. I am chairman of the executive committee of the Friendly Sons of St. Patrick of Philadelphia, and duly accredited representative of that society. I am the past national president for 14 years, of the American Association for the Recognition of the Irish Republic.

To add to the opinions of the men who spoke, I would like to point out that in the years before 1914, as the result of a very strong movement for home rule, the British Parliament passed a home-rule bill for all of Ireland, but the First World War interrupted that, and it was not put in operation.

During the debate on home rule in the House of Commons, one of the objections made by the opponents of the home-rule bill was that the islands were too small for two governments, one in London and the other in Dublin. But, because of the emergency and because of the influence in America in favor of Irish freedom during the years 1918-20, the British were forced to give Ireland her freedom, and at that time they cut off the northeastern portion of Ireland so that this could be used as a future bridgehead. As the gentleman who spoke before me indicated, not one single Irish vote was cast in favor of this division of Ireland.

I would like to call the attention of the committee to the fact that the United States Government, and rightly so, is doing a lot of educational work, a lot of foreign broadcasting, to encourage democracy in the other parts of the world. We do not need to do any encouraging of the people in Ireland, north or south, in this respect. They earnestly desire to have a democratic state, but they cannot have it. They want a democracy. There was no need for us to impose that type of government on the Irish people. It is their own selection as was indicated before it was withheld by force from them. Imitation is the best form of flattery. The Irish people are imitating us. Their constitution, which was accepted in 1937, is a duplicate of our Constitution but brought up to date, if you will.

Mr. Chairman, those are the remarks I would like to add to those of the gentlemen who preceded me.

Mr. COSTELLO. Next we would like to call Mr. McNelis of the Federation of Irish Societies in Philadelphia.

Acting Chairman JACKSON. Mr. McNelis?

STATEMENT OF PATRICK J. M'NELIS, PRESIDENT, FEDERATION OF IRISH SOCIETIES, PHILADELPHIA, PA.

Mr. McNELIS. Thank you, Mr. Chairman.

Mr. Chairman and gentlemen of the committee, my name is Patrick J. McNelis. I am president of the Pennsylvania Federation of American Societies for Irish Independence, representing 32 organizations with an aggregate membership in excess of 50,000. I wish to express my appreciation for the courtesy extended in permitting me to appear before your honored committee. Mr. Chairman, as American citizens, we are deeply impressed with the great need for the program you are considering, but as taxpayers we are much concerned as to how the vast sums of money required for the operation of this plan are to be allocated and how they are to be used. It is but natural that after fighting the greatest and costliest war in history to preserve our concepts of the democratic way of life, we should carefully scrutinize the recipients of our aid to see that no part of these funds is to be used to establish, sustain or perpetuate any institution or form of government repugnant to our ideals and against which we did battle. It is a matter of record that in 1920, without the vote of any Irishman, Nationalist or Unionist, the Government of Ireland Act was adopted by the British Parliament, and with the aid of the British military, a Fascist state was set up in northeastern Ireland. It is a matter of record that military law was set up in this statelet in less than 6 months after its establishment and continues to the present. It is a matter of record that just a few months ago

the British Parliament passed a bill extending and implementing the Special Powers Act of 1922 that provides for this military law, and which has since been incorporated into the framework of that Government making it openly and factually—a policed state. It is a matter of record that just recently Sir Basil Brooke, Premier of the Northern Ireland Government admitted that Great Britain subsidizes that state to the amount of \$40,000,000 annually.

We have it on good authority this figure is actually closer to \$200,000,000. It is therefore quite evident that in supporting and sustaining this despotic government Great Britain is spending annually a vast sum of money that could well be used in bracing her own economy. In view of these facts, it would seem quite evident that any funds advanced to Great Britain for aid, would be used in part to maintain the Gestapo institution known as the Northern Ireland Government. As taxpaying Americans who will have to foot the bill for this project, we are interested in seeing that none of these funds is to be used in such a fashion. We submit that in supporting their puppet government in northeastern Ireland, Great Britain has disqualified herself from participation in the European recovery plan, and we demand that before Britain can be eligible to participate in these benefits, she abandon her support of this Fascist state by withdrawing completely all financial and military aid to a government whose principles and record are so repugnant to the American concepts of democracy.

Acting Chairman JACKSON. Thank you, Mr. McNelis.

Mr. COSTELLO. I would like to call Mr. Robert Clarke.

Mr. CLARKE. I have nothing prepared, I yield to the next gentleman.

Mr. COSTELLO. Would it be all right for those who have appeared to extend their remarks?

Acting Chairman JACKSON. That will be all right.

Mr. COSTELLO. Mr. Owen B. Hunt, a prominent official of the State of Pennsylvania.

STATEMENT OF OWEN B. HUNT, PENNSYLVANIA

Mr. HUNT. Mr. Chairman and members of the committee, for the benefit of the record my name is Owen B. Hunt. I came to the United States of America as an immigrant in 1913. I served in the First World War, with the One Hundred and Ninth Infantry, Twenty-eighth Division and participated in six major engagements, from Chateau Thierry to the Argonne.

I served in Governor Earle's cabinet in the Commonwealth of Pennsylvania for 4 years, holding the portfolio of insurance commissioner, and I have been very actively connected with the Irish movement in Philadelphia and Pennsylvania during the last quarter of a century.

To add to what has been said by the people who preceded me, I wish to develop two points. The first is that the present government in the north of Ireland is a police state, whole and entire. We hear a lot of protesting today against police states. The papers are full of it. It has been discussed openly in the House of Representatives, and in the Senate of the United States.

That is what our boys died for on the Normandy beachhead, to break up a police state. Men and women who now live within the con-

fines of the northern Ireland government have no rights at all. The writ of habeas corpus does not exist. People can be taken out of their homes at any hour of the day or night and thrown into prison with no charges of any kind preferred against them, and kept there indefinitely.

That is the basis of a police state.

Therefore, we protest sending money from the United States of America, taxpayers' money, to support such an institution.

The second point I wish to make is in answer to a question that was raised by Congressman Mansfield, as to what the vote might be in the north of Ireland today.

I am very closely connected with this problem. I have been a student of it for a long time. I believe that if a plebiscite were given to the people who reside within the six counties in the north of Ireland, as to whether or not they would wish to leave their present status and come into the Dublin government, the British could only be reasonably sure of carrying two counties, possibly Antrim and Downs.

To prove this contention to your satisfaction, the British Government, within the last 20 years have gerrymandered throughout the north of Ireland, and representatives acting as the agents of the British district, have gerrymandered the districts at least three times.

If they weren't afraid of the residents in the north of Ireland voting themselves into the Dublin Government, why should they gerrymander the districts within the six counties?

I believe if the people were given a free vote in the north of Ireland, they would, by an overwhelming majority vote themselves into the Dublin Government.

Mr. MANSFIELD. What the gentleman has just said exercises the point that I was trying to make, that a majority of the people in Northern Ireland, would, if given the opportunity, join with Eire.

Mr. HUNT. Definitely. They are so much afraid of it that they have to continually gerrymander districts in order to maintain a vote favorable to themselves.

Mr. RICHARDS. Why do not the people in those counties go ahead and have a plebiscite of their own?

Mr. HUNT. How can people have a vote in a police state?

Mr. RICHARDS. They could go ahead and set up an organization and vote, could they not?

Mr. HUNT. They must do that by force, and that we do not advocate at all. They can only give free expression to their will in this direction by physical force. That is not good, because as one of the witnesses that preceded me has said, there are approximately 60,000 British troops there. In addition to that, they are not satisfied with the British troops. They have what they call B specialists. They are organized thugs.

They go around in civilian clothes, and are fully armed, walking into anybody's house at any time of day or night, without any law or written order, to take the people out. They are not satisfied with doing that. They definitely discriminate against the families where they take a man prisoner and throw him in jail. They will prevent the family from either getting relief or employment.

Now, I happen to be very active in the Green Cross. That institution was organized to raise money to take care of and to keep the

bodies and souls of the families together where one member of the family is in prison, not awaiting trial, but they are without any charges of any kind preferred against them in jail, because the police authorities did not like the color of his eyes and hair, or something else.

Mr. RICHARDS. Do they have freedom of speech and freedom of assembly?

Mr. HUNT. Oh, no. They have none of that. If they criticize a public official they are thrown into prison without any charges preferred against them.

Mr. RICHARDS. There is no opposition?

Mr. HUNT. The writ of habeas corpus does not apply. Once a man is incarcerated in prison, he stays there.

I want to emphasize that where the writ of habeas corpus does not run, then you have a police state—complete, whole, and entire.

We have pleaded with them time and again. They sometimes let those fellows out of jail. They do not keep them in there indefinitely, but the last report we had on it through the Green Cross, which is headed by the Bishop of Down and Connor, and he dispenses the money himself to the families, or through his direction and I think there are at the present moment not so many as there were a year ago, but there are 25 or 30 families now that are definitely involved in that case through the six counties.

Mr. RICHARDS. The reason I asked that question is that I understood there were opposition newspapers which could say anything they pleased, as we do in the United States.

Mr. HUNT. The opposition newspapers are negligible. This is a letter we have received from one of our men over there during the last 2 weeks. This is the position:

I could give you hundreds of instances of persons being carried off by RUC as well as the special sectarian B specialists.

I did not see this letter before. One of the men of our committee first handed it to me.

Without their being informed of the charges against them, such people may be kept in custody for just as long as the government thinks well. No court is open to them.

There is no newspaper in charge of the six counties that publishes anything they might term detrimental to the government. They would be immediately suppressed. That is ancient history. There is no question or doubt about that at all. There is no freedom of speech, no freedom of the press, there is a complete police state.

Acting Chairman JACKSON. The chair would like to put one question: Is the position of the organizations represented here today that no funds should be included to England in any case, or that the program should be conditioned to prevent any of the funds being utilized for the purpose of the maintenance of this Irish division?

Mr. SCOTT. Will the chairman let me answer that question?

Our position is that we have a difference of opinion in the committee on the Marshall plan. We simply say to this Committee on Foreign Affairs, and the Congress of the United States, nevertheless we are a unit. If there is any program involved by the proposed legislation here which will divert any money to Belfast, we are opposed to that legislation.

Mr. RICHARDS. Let me ask you this: Do you come here as a representative of the American taxpayers?

Mr. SCOTT. Yes, sir.

Mr. RICHARDS. You say you do not want any of your money used in so-called aid to England or Great Britain. What about the rest of the program? Do you want any money used for that?

Mr. SCOTT. That was not our position, that no money should go to England. We did not say that. We say no money should go to England if any of it is diverted to Belfast.

That is our position.

Mr. JONKMAN. May I ask Mr. Scott one question? These figures have been changed so much, Mr. Scott, these figures involved in this \$6,800,000,000, that I am not sure of what was allotted to Ireland.

I think it was something like \$196,000,000. That is not so material. Does that go to Northern Ireland or Southern Ireland?

Mr. MANSFIELD. That just goes to Eire.

Mr. SWEENEY. We understood that as a loan, to be paid back, not a grant. They could get that through the World Bank or Export-Import Bank. As a matter of fact, this is a matter of record. They did not knock at the door of the Paris Conference.

Mr. MANSFIELD. They came to the Paris Conference freely, and as I understand it any money from Eire, as distinct from the six northern counties would be received from the International Bank or this country and would be in the form of a loan, repaid over a number of years.

Mr. MALONEY. Do you say that that could come from the International Bank?

Mr. SWEENEY. I think the World Bank or Export Import Bank, if they want to make a loan there. They never defaulted on their credit.

Mr. MALONEY. Is that so, or not?

Mr. RICHARDS. If it came from the World Bank, it would not be provided in this legislation.

Mr. MANSFIELD. As far as the World Bank is concerned, it is at the present time in a position to consider loans, but it has not the funds to grant all the loans taken. So I would say that Ireland or Eire would be in a position to apply for a loan there, or to be considered under the Marshall plan and get a loan from this country direct.

Mr. SWEENEY. They have that alternative. They are not foreclosed from borrowing from the World Bank or Export Import Bank.

Mr. RICHARDS. I would like to ask Mr. Sweeney, and I remember pleasantly our association in the House in recent years, provided none of the funds proposed here are used to further the purposes of the Belfast Government, is your group in favor of this legislation?

Mr. SWEENEY. I cannot speak for the group, but I can say this, because of the spirit of the race, being Christians, and Christ-loving people, they believe in the corporeal works of mercy.

They will feed the hungry and clothe the naked, and beyond that I cannot state for them. I don't believe anybody else can. But they are definite on that one problem, that money should not be siphoned off to maintain a bridgehead or form a government in a small state.

Mr. MANSFIELD. In other words, Mr. Sweeney, as far as the Marshall proposal is concerned, the groups here today have an open mind.

Mr. SWEENEY. They are not authorized by this convention to take any stand.

Mr. HUNT. That is right.

Acting Chairman JACKSON. Thank you very much, sir.

Mr. COSTELLO. The next witness is Mr. Charles T. Rice, president, Shamrock Club, New York.

Acting Chairman JACKSON. We will be glad to hear from you, Mr. Rice.

Mr. COSTELLO. Mr. Rice is the national secretary of the American League for an Undivided Ireland, and chairman of the Shamrock Club, New York.

STATEMENT OF CHARLES T. RICE, MEMBER, EXECUTIVE COMMITTEE OF AMERICAN LEAGUE FOR AN UNDIVIDED IRELAND; PRESIDENT, SHAMROCK CLUB, NEW YORK, N. Y.

Mr. RICE. Mr. Chairman and gentlemen of the committee, I desire to make a correction in the characterization of me as national secretary of the American League for an Undivided Ireland. The national secretary of that organization is Mr. James MacDermott of New York City. I am a member of the executive committee of the American League for an Undivided Ireland, and I am also the assistant treasurer of the organization.

I have been a practicing lawyer in New York City for the past 24 years and I am a veteran of World War I, having served in the Three hundred and twenty-fourth Signal Corps Battalion of the United States Army.

Permit me to associate myself in a wholehearted way with the leadership of the American League for an Undivided Ireland, headed by Mr. Joseph Scott of Los Angeles and joined by the members of the American League for an Undivided Ireland and the representatives of the other societies who have addressed you this afternoon.

As a member of the organization and of other Irish and American societies, including my membership in the Shamrock Club of New York of which I am president and of the executive council of the American Irish Historical Society of New York, I am happy to endorse the views that have been put before you by my colleagues today and to support the factual statements that have been submitted for the information and guidance of your committee.

We all appreciate the privilege and courtesy that the members of your committee have extended to us in presenting our views on the important questions now before you. And having regard to your very heavy calendar of business, particularly on this measure under consideration, I will not take up an extended time.

There are a few points which I should like to emphasize however, including some points that have been raised here by Congressman Mansfield of Montana and Congressman Richards of South Carolina.

Permit me to say that Congressman Mansfield has put forward a very cogent and important factor in our consideration of this great question of the partition of Ireland, when he referred to the feasibility of a plebiscite.

From my knowledge of the situation and following the account of the political agitation in Ireland on this question I assert that there is no Irish Nationalist in the south of Ireland and no Irish Nationalist in

the north of Ireland who is unwilling at any moment to have a plebiscite in the democratic way on this question. I have no doubt that should a plebiscite be arranged there will be an overwhelming majority of the people of Ireland in favor of the abolition of partition and the reunification of the Irish nation.

Regarding the very pertinent references that have been made by Congressman Richards on the matter of why the people of northern Ireland do not ask for this plebiscite let me point out that the government of the six counties is actually a police state. In that area a great minority of over 400,000 Irishmen have practically been disenfranchised. If they make any protest the gerrymander machine goes into operation. Since the inception of this government in 1921 there have been no opportunities for the minority party to make its voice felt or to have a plebiscite or a referendum on any important question. To all intents and purposes they are disenfranchised and have no views in public affairs.

In the local administration of any one of the six counties where the views of the majority of the county council might be adverse to the program of the government and order is quickly made liquidating that county council and a commissioner with plenary powers from the government is sent in to administer the affairs of the county, making sure to follow the totalitarian policy of the government. This is only one example of the police powers frequently invoked.

Should a person in opposition to the six-county government policy show vigorous opposition to that policy he may be arrested forthwith and as Mr. Hunt, of Philadelphia, has pointed out the writ of habeas corpus does not run. There is no such thing as trial by jury where any offense may be labeled a political offense by the government. The offender is characterized as a political prisoner and may be held for an interminable length of time without trial.

These are only a few of the items that should be brought to your attention. Religious and political discrimination by the government against a great number of its citizens is the order of the day. Gerrymandering is a favored political weapon of this puppet government. All these intolerable conditions are not only permitted but actually encouraged and supported by the British Government. It is clear that Britain should be called on to terminate her financial support to the partition of Ireland. It is equally clear that we should not be called on to hand out any monies to Britain which will help to perpetuate the partition of Ireland. We desire that not only the peace of Ireland but the peace of western Europe is vitally involved in this situation and that our Government should take immediate steps in our own interest and in the interest of fair play and the democratic way of life to bring about the end of the partition of Ireland. We are opposed to a grant or loan to Britain until she is compelled to withdraw her troops from Ireland and thus permit the unification of Ireland, the establishment of its independence.

I appreciate the time you have extended to us and will ask to be associated with the privilege you have extended to our committee generally to submit statements on behalf of other members of the Irish and American societies of New York who could not be present this afternoon. I thank you again Mr. Jackson and members of your committee for your courtesy and kindness.

Acting Chairman JACKSON. Thank you very much.

Mr. COSTELLO. I do not like to impose too much upon the generosity of the committee, but I have Mr. Richard F. Dalton, a member of the executive committee of the American League for an Undivided Ireland.

STATEMENT OF RICHARD F. DALTON, MEMBER, EXECUTIVE COMMITTEE OF THE AMERICAN LEAGUE FOR AN UNDIVIDED IRELAND, NEW YORK, N. Y.

Mr. DALTON. Mr. Chairman, it is just about 30 years ago, short a few months, since I made my last appearance before a congressional committee of this type.

I would just like to say I have been a businessman since then. There has not been a single Friday in all of that 30 years when I have not had to have the pay roll ready for the men and women who work for me.

Now, I am keenly conscious that over on the left-hand side of each pay-roll check there is a voucher form which appears and which tells how much is withheld for Federal taxes.

I do not have to say to you that the workers are finding that deduction a very considerable burden. But there are deductions which can be taken cheerfully, and there are other deductions which cannot be taken cheerfully.

And if a portion of the deduction of the future is to be a deduction so that Uncle Sam is sending over money to Downing Street, to be siphoned to Belfast, to make good the deficiency which Sir Basil Brooke admits; which the London Economist states is a much greater sum than Sir Basil Brooke states it is; and which we know to be greater than either of them set forth, then the workers, and I think I have a right to speak for some of them after 30 years, the workers are going to be disgruntled and insulted by that deduction which would send money over to continue the economic slavery under which a portion of our people live.

There is one other point. I am keenly conscious of how wonderful you have been in generosity of time to us. I am grateful. At that hearing of 30 years ago, the big question which came up was the propriety of the Congress of the United States acting in a matter such as we had before it then of the right of the people of Ireland to self-determination. The right of the people to self-determination has been withheld from them by force and fraud. I use those words advisedly, and if the committee desires a brief upon it, I will be glad to submit it in extension of these remarks.

That right of self-determination having been withheld, and the Congress of the United States having once determined that they could speak with propriety upon this matter, I say it would be grossly improper for the United States of America to include within the British moneys, whatever way it may go, grant or gift or loan, or gratuity, I say it would be grossly improper to send that money over there to continue undemocratic form of government in a little section of that land which by every rule of right is entitled to self-determination; which has self-determined, which published on Easter morning, 1916, a declaration following our declaration of independence, which set out that it desired to be in fact a Republic, and which in 1937 adopted a constitution modeled upon our own. Which country if permitted

to pursue its destiny would be a bulwark on the shore of western Europe against that thing—I shan't bother to mention it—about which we are all sincerely worrying today.

I close by thanking you very, very kindly, Mr. Chairman, for your great courtesy.

Acting Chairman JACKSON. Thank you very much.

Mr. JAVITS. Could I ask one question of any one of the witnesses?

I would like to know whether or not this question has been taken up with the United Nations or whether you people have done anything to get this question taken up with the United Nations?

Mr. DALTON. I shall say to the Congressman that I would not lift a finger to send this case before the United Nations because I do not believe it is a question which should be the subject of arbitration or of decision by any man, woman, or child, or set of them, outside of the four shores of Ireland.

God placed her there in the Atlantic Ocean. The geographic and national entity was placed there, and such she is bound to be whether by peaceful means or by bloodshed, as they said in Dublin a week ago Sunday.

Mr. JAVITS. Your group feels if there is a plebiscite in all Ireland you would be perfectly satisfied with the outcome?

Mr. DALTON. We feel that very definitely. I may say too, that there is a petition on the way to you which will be signed by hundreds of thousands, and it is asking the United States of America at this time to exercise sanctions in these negotiations which we are having with England, so that the justice which is being sought will be brought about.

Mr. SWEENEY. Does my friend know that Russia has cut the three states so-called from going into the United Nations by veto power?

Mr. JAVITS. Yes. I knew that.

Mr. MANSFIELD. We have with us today one of our colleagues who is very much interested in the question of an undivided Ireland. He has a speech ready, but due to the lateness of the hour, I would like to ask unanimous consent that the Honorable Michael Feighan, of Ohio, be allowed to extend his remarks at this time.

Acting Chairman JACKSON. Without objection, it is so ordered.
(The information referred to is as follows:)

STATEMENT OF HON. MICHAEL A. FEIGHAN, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF OHIO

Mr. Chairman and members of the committee, it is gratifying to me to have this opportunity to appear before the Foreign Affairs Committee of the House.

I urge this committee to give serious consideration to the testimony presented by the members of the American League for an undivided Ireland. I am certain that after this committee has studied and investigated the arguments presented, it will, on the basis of the findings, arrive at a just decision.

Mr. MALONEY. May I make a suggestion that these gentlemen be given 5 days to extend their remarks in this record?

Acting Chairman JACKSON. Yes. Without objection, that will be done.

Mr. JAVITS. May I say if these gentlemen feel we have been generous to them, I feel I have learned a great deal about a very important subject and I would like to express my appreciation.

Acting Chairman JACKSON. I would like to say, Mr. Scott, and to the rest of you gentlemen, that your presentation has been most

thoughtful and has given us all a great deal to think about. Thank you very much.

Mr. SCOTT. Thank you very much.

Acting Chairman JACKSON. We will adjourn now until Tuesday morning.

(The following communications have been submitted for inclusion in the record:)

STATEMENT OF FORMER CONGRESSMAN MICHAEL DONOHUE, OF PHILADELPHIA

When World War I broke out in August 1914, the home rule for Ireland bill was on the statute book, passed by both houses of Parliament and signed by the King. Its operation was postponed pending the outcome of the war.

Opposition to home rule had been led by Sir Edward Carson, an Irish barrister, who had organized a rebel force called the Ulster Volunteers, imported arms from Germany and fomented a mutiny among some British officers at the Curragh Camp.

Prime Minister Asquith, author of the bill, induced the Irish Nationalist Party to agree, in the interest of harmony, to a temporary exclusion of part of Ulster; his first assurance being that only four of the nine counties would be affected and that the partition would end within 5 years.

War on Germany having been declared, John E. Redmond, leader of the Irish Party did his utmost to have the young men of Ireland join the British forces. His eloquent voice was heard on platforms all over Ireland calling on the people to forget the wrongs of the bitter past now that England was fighting for human rights and particularly for the freedom of small nations. Over 300,000 Irishmen joined the colors, including a brother of Mr. Redmond, William H. K. Redmond, a member of Parliament, who was killed in action at Messines Ridge in Belgium, and Thomas Kettle, a member of Parliament and one of the most gifted men of the Irish Party, who gave his life in the battle of the Somme.

On the basis of unimpeachable records of World War I over 50,000 Irishmen lost their lives in the war, not including any of the thousands from the Dominions of the British Empire, who died in the belief that their sacrifice would mean full freedom for their old home land.

Praise of Ireland's noble stand was on every tongue in England. Sir Edward Grey, the Foreign Secretary, said: "Ireland is the one bright spot on the horizon of Europe and of the world." Chesterton, moralizing on Ireland's forgiveness of the wrongs of past centuries: "England is unworthy to kiss the hem of Ireland's garment."

And yet, in the middle of the war, when Ireland, with implicit faith in Mr. Asquith's pledge that partition was only a temporary expedient, was thus aiding England in her most desperate hour, the new Prime Minister, Lloyd George, was secretly betraying the Asquith pledge, as the following letter shows

MAY 29, 1916.

MY DEAR CARSON: I enclose Greer's draft proposition. We must make it clear that at the end of the provisional period Ulster does not, whether she wills it or not, merge in the rest of Ireland.

Ever sincerely,

D. LLOYD GEORGE.

"Ever sincerely." Was there ever a more subtle piece of duplicity, a more damning example of perfidious statesmanship?

In the face of what has been done in the case of Ireland how can America have faith in the pledges made by British politicians in times of stress?

John E. Redmond died in March 1918, broken in spirit and utterly disillusioned, the Irish Party that he led for almost 20 years practically destroyed. Stephen Gwynn, a member of the party and one of his biographers says: "We had followed Redmond's policy and we shared Redmond's fate. We had done our best to help the British Government and that Government itself defeated us." Carson, the ex-rebel of prewar days, had honor and power and glory thrust upon him. He was raised to the peerage as Lord Carson and made a member of the Cabinet of his "Ever sincerely," D. Lloyd George.

Lloyd George gave as excuse for partition, differences of race and religion. How much more justification would he have had for setting up a separate parliament for his native Wales with its predominantly Celtic population and non-conformist creed, rather than for a minority in a corner of ancient Ireland, whose boundaries are irrevocably fixed by Nature's hand?

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STATEMENT OF THOMAS H. BUCKLEY, CHAIRMAN OF THE COMMISSION ON ADMINISTRATION AND FINANCE OF THE COMMONWEALTH OF MASSACHUSETTS

As chairman of the New England Committee of the American League against the Partition of Ireland and speaking in behalf of the half million members of the affiliated New England organizations, it is my sincere belief that the American taxpayer in which class all of our members may claim membership has a deep interest in the program of European recovery. We are steadfastly opposed to the grant of a single dollar raised by American taxation to Great Britain as long as part of the expense of Great Britain consists in the maintenance of a puppet government in the northeastern part of Ireland.

It is apart from the traditions of American liberty that any part of any nation should be dominated against the best interests of all the people of that nation. In Massachusetts where free government in a democratic form first began with the signing of the Mayflower compact the Americans of Irish descent protest vigorously the misuse of American taxpayers' money for such purpose.

It is needless for me to reiterate the contribution made by the men and women of Irish ancestry to the welfare of the New England States. We firmly believe that the maintenance of a forced partition of any part of Ireland defeats the principle for which American taxpayers have contributed in two great world wars so generously of their sons and resources.

STATEMENT OF MICHAEL A. MCGRATH, NATIONAL PRESIDENT OF THE ANCIENT ORDER OF HIBERNIANS AND LADIES AUXILIARY IN AMERICA

Gentlemen, my appearance before your committee is in my capacity as the national president of the Ancient Order of Hibernians and Ladies Auxiliary in America.

The Ancient Order of Hibernians was organized in the United States, in June 1836.

It affiliates itself with the American League for an Undivided Ireland, whose national president is the Honorable Joseph Scott, of California, who speaks before you for 30,000,000 men and women of Irish blood by virtue of a mandate from the Irish race convention, held in the city of New York, November 22 and 23, 1947.

We are deeply concerned with the attempt of the British Empire to receive a grant or loan from the United States, under the Marshall plan, that your honorable committee now has under consideration.

Our opposition is primarily directed to a proposed allocation of money which Sir Basil Brooke, Premier of the Ulster Government, who has stated that a minimum sum of \$40,000,000 is necessary to carry on the military and some civic operations, in the northeast six counties of Ireland.

I am certain that your committee, and I believe the people of the United States, are fully aware of the weakened financial structure of the British Empire. The implication of this financial weakness was evident in 1946 when the Congress of the United States approved a loan of \$3,750,000,000 to this same British Empire.

The thousands of men and women enrolled in the membership of the Ancient Order of Hibernians and Ladies Auxiliary, vigorously protest as American taxpayers, the sending of one red cent to the British Empire, for the purpose of maintaining a bridgehead in ancient Ireland, and to delay if possible, the action of the large majority of the inhabitants of that ancient country to abolish the artificial boundary that has existed against all reason since 1920, and was set up by virtue of a shot-gun treaty, reference to which has been made to your committee.

I am sure that your committee is not unmindful of the millions of Irish nationals who immigrated to these United States, who assimilated themselves and played a major part in the establishing of this Republic, and its maintenance down to this present date.

The magnificent contribution of Irish blood in every war in which our Nation has been compelled to engage, is not exceeded by any racial group, with all respect to the splendid contributions made by other groups to preserve our Union. From the time of the Continental Congress down to the present time, the halls of your national legislature has resounded to the many tributes paid to the loyalty and valor of young Irishmen and women to this country of their adoption.

Whatever emotional appeal myself or the various witnesses register in our opposition of the British grant or loan, call it what you may, is understandable from the standpoint of race pride.

The membership of the organization that I have the honor to represent, are Americans first. Their fealty has never been in question and it is as faithful and loyal American citizens and taxpayers, that we are vitally concerned with political, social, economic, and financial welfare of the United States of America.

Men and women of the Irish race everywhere, have always followed the admonition of the Saviour, to feed the hungry, clothe the naked, and give shelter to the homeless. We join with you members of the Congress in the extension of christian charity to all oppressed people everywhere in the world.

This protest that comes from the millions of men and women of Irish lineage in the United States, is one that I respectfully submit to the Congress of the United States. It should be heeded. Before any allocation of money under the Marshall plan to the British Empire, there should be a definite and positive understanding that the American taxpayers' money will not be used in any fashion to thwart or delay the unity that Ireland enjoyed for centuries and which she seeks now to maintain in fact.

I submit this statement for your consideration.

STATEMENT OF JAMES J. COMERFORD, MEMBER, AMERICAN LEAGUE FOR AN UNDIVIDED IRELAND

James J. Comerford, a member of the delegation authorized by the American League for an Undivided Ireland to present the views of that organization at hearings held before the Foreign Affairs Committee, United States House of Representatives, states that besides being a member of the above organization he is president of the United Irish Counties Association of New York, Inc., which is an organization composed of 32 individual fraternal societies having a collective paid-up membership of 70,000 members in New York and having an additional associate membership of 33,000, all of whom are citizens and taxpayers in the State of New York.

Mr. Comerford, speaking for this organization, states that the members of the United Irish Counties Association representing a large body of voters and taxpayers believe that part of their taxes during the past years of 1946 and 1947 as well as in previous years has been used to help advance monetary loans to the Government of Great Britain; and that Britain in turn has used part of this loan to pay the costs for the upkeep of the armed forces which she maintains in the six counties—Antrim, Armagh, Derry, Down, Fermanagh, and Tyrone—in northeast Ireland against the will of the majority of the Irish people; and to pay the maintenance in the city of Belfast in northeast Ireland a government which not only is unable to finance itself but which is known to have never been elected by the consent or vote of the majority of the Irish people.

As citizens and taxpayers of the United States, the members of the United Irish Counties believe that as long as Britain occupies northeast Ireland by force that their tax money, paid by them as American citizens, is being used in northeast Ireland by the British Government for purposes which are not only contrary to the principles of American democracy but which are also alien to the very traditions of American institutions.

The members of the United Irish Counties, many of whom are life-long citizens of the United States and the remainder with citizenship of over 20 years, have proven by their individual records to be loyal and useful citizens and firm believers in the principles and institutions of American democracy. As students of history, they know that for almost 800 years the Irish people in Ireland have constantly and consistently endeavored to gain their full freedom from the political domination of Britain; they know that in modern times—1918 and in 1920—the registered voters of all of Ireland in these two free and legal general elections voted by a majority of 80 percent for complete independence of Ireland from Britain and to have one government only—a republican form of government for all 32 counties of Ireland.

Despite these facts as stated in the preceding paragraphs, there is in existence today as a result of British armed interference in Ireland two governments—one in Dublin elected by the people of 26 counties and serving them only, because Britain through force prevents the people of the six other counties from being

represented or voting for one government for all of Ireland, and another government in Belfast to "govern" the people of the six other counties. Ostensibly this Belfast government is supposed to be the government of the six counties mentioned, but in reality it is only a puppet government designed as an instrument by Britain to prevent the people of all of Ireland to carry out their expressed wish for only one government for all of Ireland.

The members of the United Irish Counties believe that the concept of democracy cannot be strained to this extent; namely:

(1) To have two governments now in Ireland despite the fact that 80 percent of all the voters want only one government for all of Ireland.

(2) To have a puppet government in Belfast financed to a great extent by money contributed by American taxpayers.

(3) To have the British Government use money paid as taxes by Americans for purposes hostile to American ideals, namely, to perpetuate slavery by forcing a government on people against their will.

(4) To have the money paid by American taxpayers used to maintain British armed forces now occupying the six counties of northeast Ireland for the purpose of protecting the interests of the Belfast puppet government and of preventing the Irish people from exercising their democratic rights to have only one government for all their nation.

Because of the use of our money—paid as taxpayers—for the purposes hereinbefore stated, we believe that in accordance with the first amendment of the Constitution of the United States, we as citizens, have a grievance and, consequently, we respectfully present our grievance to the Congress of the United States.

STATEMENT OF JAMES MCGURRIN, PRESIDENT GENERAL OF AMERICAN-IRISH HISTORICAL SOCIETY

History records that in each generation since 1798 the young men of Ireland have had recourse to warfare in order to reassert the right of Ireland to independence.

That independence has not as yet been completely won.

Knowing history it is our duty to use every effort to avert further bloodshed.

Men from O'Neill's country, within the six counties of so-called northern Ireland, have within the past month publicly asserted that unless the issue can be peacefully settled in their time, the young men of the coming generation will again offer blood sacrifice upon the altar of British imperialism.

This is a terrible statement but we have no reason to doubt its sincerity.

With the knowledge afforded by study of history at our command, we have every reason, and we have every Christian duty, to endeavor to avoid such eventuality.

The United States of America is asked to allocate huge sums of American money for the feeding, the clothing, the fertilizing, the seeding, and the equipping of western Europe.

Surely it is our duty to circumscribe any grants to England with conditions which shall assure to us, as Americans, that the harvest of hopefulness and of promise which we are endeavoring to plant shall not be moistened with the blood of young Ireland.

These are serious thoughts, but they spring out of a study of Irish history.

May God guide our legislators so that Columbia's proud position as the patroness of human liberty shall once again be affirmatively evidenced in any action finally taken by our Congress and by our President.

STATEMENT OF MR. JOHN F. O'LOUGHLIN OF ELMHURST, LONG ISLAND, N. Y.

Gentlemen, this statement is made on behalf of a large number of citizens of Greater New York, who, like myself, are opposed to the granting of any further loans or gifts from the Public Treasury of the United States to the British Government as long as it continues to violate the principles announced in the four freedoms and in the Atlantic Charter. The pledges contained in those two documents were declared to be the policy of the United States and Britain while the recent great war was being fought. Even at the time, when British statesmen were proclaiming their devotion to and interest in the cause of human rights and

human freedom, those rights and that freedom were openly and brazenly violated in northeastern Ireland, where the imperial Parliament in London had set up a puppet government for the purpose of keeping senseless and godless sectarian hatred alive to serve the British imperialist policy of "divide and conquer."

The partition of Ireland was devised by the British Government to promote hatred and disunity instead of love and concord. The well-defined boundaries which the Creator of the universe set around the ancient Irish Nation were changed by the London Parliament, which passed into law the Partition of Ireland Act, for which not a single representative of an Irish constituency, Nationalist or Unionist, voted.

The Government known officially as the Government of Northern Ireland, which was established in November 1922 has functioned since its inception as a bigoted and fanatical despotism, which has deprived the minority over which it rules of practically every civic right.

That Government could not have continued to exist without the subsidies given to it out of the British Imperial Treasury. In recent years the British Government has been able to pay those subsidies out of the grants and loans which it has received from the United States.

The harm which has been done to Ireland through the gift, mis-called a loan, of nearly \$4,000,000,000 given to Britain by the United States in the recent past cannot be undone, but the Government of the United States, of which the Congress is a part, should not continue to share responsibility for Britain's injustice toward Ireland by giving, through the Marshall plan, other billions of the American taxpayers' money to enable the British Government to support and subsidize the Government of Northern Ireland, in violation of American principles. If the Congress should vote another large gift to Britain, under existing conditions, it will condone her injustice toward Ireland, which millions of American citizens resent and condemn.

When your honorable committee and the House of Representatives and the Senate vote on the Marshall plan they should have an assurance from the British Government that the wrong which has been done to Ireland will be undone and that not another dollar of the American taxpayers' money will be used for the suppression of human rights in northeastern Ireland, or in any other part of the world.

STATEMENT BY JAMES SHALLOO, MEMBER OF EXECUTIVE COMMITTEE, AMERICAN LEAGUE FOR AN UNDIVIDED IRELAND, MEMBER OF IRISH FELLOWSHIP CLUB, AND DIRECTOR OF THE UNITED IRISH SOCIETIES OF CHICAGO, ILL.

In considering the European recovery program which is before your honorable committee for decision, it is important to take into account that a substantial portion of the enormous funds required is earmarked for the British Government either by grant or loan. In a further consideration of this question it is also important to take into account that the Irish Nation was divided and is still divided by the operation of an act of the British Parliament. The partition of Ireland is the responsibility of the British Government which maintains a bridgehead in the six counties of northeast Ireland by the extension of enormous annual subsidies.

As a citizen and taxpayer I desire to register a vigorous protest against any grant or loan to the British Government so long as the partition of Ireland exists. The Irish people have struggled for more than 750 years to maintain their unity and to secure their independence. The partition of Ireland which was inspired and brought into operation by the British Government will continue to be a source of agitation and unrest in Ireland and will militate against the establishment of that peace in western Europe, which we all desire.

I join with my colleagues who have appeared before your honorable committee to register this protest against the intolerable conditions which now exist in Ireland and which bar the way to the reunification and independence of that friendly country. Furthermore, I submit to your honorable committee that the occupation by British armed forces of the six counties of northeast Ireland presents a very dangerous situation and should be terminated without delay. Representations by our Government to the British Government will get results. We are asked to give billions to Britain. Let Britain clear out of Ireland before we consider the grant or loan of one dollar of our money.

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STATEMENT OF EDMOND EGAN, PRESIDENT OF THE BRIAN BOBU CLUB, NEW YORK CITY

Mr. Chairman and gentlemen, all of the important phases of the question of the partition of Ireland have been ably presented to you by my colleagues at this hearing. For my part I desire to register unqualified approval of the statements that have been made for the record today. I speak for a representative American society, and I also voice the sentiments of a great number of acquaintances and friends who are interested in these problems which are before you for consideration. They are vitally concerned about the extraordinary proposals of the European recovery program. They are, of course, anxious to extend all available assistance to the distressed peoples of Europe.

In the working out of the program familiarly known as the Marshall plan, however, the great majority of our fellow citizens believe that some of the intolerable political conditions in Europe should be rectified. Among these conditions they stress the unnatural division of Ireland which was forced on the Irish people by the British Government. This division of Ireland which resulted in the establishment of a puppet government in the northeast corner of the country has been perpetuated and fostered by the British Government for the past 25 years. Its continued existence depends largely on the enormous annual subsidies paid to it by the British. This puppet government is the most undemocratic in Europe. It discriminates in political and religious affairs against almost half a million of its citizens who have no voice in the government under which they are forced to live. It was brought into operation without the vote of one Irish member of the British Parliament and if a plebiscite were allowed today, there would be an overwhelming majority in favor of putting it out of existence.

We bring this serious situation to your attention and with all the vigor at our command, we ask that this unjustifiable condition be rectified. We maintain that no funds of the United States, either as a gift or a loan, should be put at the disposal of the British Government so long as she maintains and supports the partition of Ireland.

(Whereupon, at 3:40 p. m., the committee adjourned, to reconvene at 10 a. m. Tuesday, February 10, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, FEBRUARY 10, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:15 a. m. in the Foreign Affairs Committee room, United States Capitol, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will come to order.

We are honored this morning in having with us Mr. Lewis H. Brown, who is at the head of the Johns-Manville Corp. and is one of the outstanding businessmen of America.

We are very glad to have him present his statement to us.

STATEMENT OF LEWIS H. BROWN, CHAIRMAN OF THE BOARD, JOHNS-MANVILLE CORP.

Mr. BROWN. I am appearing before the House Foreign Affairs Committee at the request of your chairman.

I am sure that I was asked to appear primarily because Gen. Lucius D. Clay, military governor of Germany, last spring suggested that I spend as much time as possible in Germany for the purpose of writing a report on what should be done to get Germany back on her feet and off the American taxpayer's back as soon as possible.

I was keenly aware of the fact that the German problem was part of the greater European problem. I, therefore, visited Britain, Sweden, Belgium, France, and Switzerland as well as spending the required time in Germany. At the end of the summer I made my report to General Clay. Copies in confidential form were distributed to most of the Members of Congress and to a large number of top officials and executives in this country and abroad. Later, because of demand, it was published in book form in this country under the title, "A Report on Germany." I have here a copy published by Farrar, Straus & Co., which I would like to submit as part of the record for reference.

Also, with your permission, I would like to put into the record for reference a copy of an article that appeared in the November issue of Collier's magazine which is a condensed version of the high spots of A Report on Germany.

(The book was filed with the committee.)

Mr. BROWN. For the record, I have tried to summarize in five pages the essential fundamentals of my viewpoint and conclusions in what I call a basic statement on Germany.

BASIC STATEMENT ON GERMANY

(By Lewis H. Brown)

The war wounds of Germany are very serious. The physical destruction of housing is terrific; probably never in the world's history has there been such a destruction of dwellings. The destruction of the transportation system is very great and includes locomotives, cars, barges, bridges, yards, roundhouses, etc. In the Russian zone wholesale stripping must be added; there is perhaps not a single complete two-way trunk line now east of the Elbe and a great quantity of German rolling stock has disappeared. The destruction of the industrial plant, while very serious, has been exaggerated and about 70 percent is estimated to be restorable. To all this destruction of physical things must be added the under-maintenance of a decade and the destruction of manpower. There is a very great maldistribution of population in western Germany—an excessive proportion of aged and very young and a great shortage of young men in the best working ages due to war deaths, crippling, and prisoners of war, of whom Russia probably still holds several million, regardless of what she says.

These are the war wounds. Terrific as they are, they are not in themselves fatal. The Germans, normally very hard-working and efficient people, could recover from the war wounds quite rapidly if a healthy economic system were in operation.

But there isn't. That is the most important point about Germany. The entire economy is diseased and this prevents the healing of the war wounds. That is why, after 2 years of peace, there is actual deterioration (except very recently, in some sectors) instead of recovery.

The German economy is diseased for the following reasons:

(1) *Its unity has been destroyed.*—First, by the iron curtain which cuts prewar Germany in half. East of the curtain is prewar Germany's food basket, consisting not only of the Russian zone, but what is far more important, the agricultural states mainly taken over by Poland from which the German population has been expelled—East Prussia, Pomerania, Silesia, Posen. From these areas east of the curtain came the bulk of Germany's surplus food, particularly rye for bread, potatoes, vegetables, dairy products, beet sugar, etc., raised mainly on efficiently operated estates and large commercial farms. West of the curtain (and including the sectors we have to feed in Berlin) are the highly urbanized and industrialized American, British, and French zones with 48,000,000 people of whom only about 8,000,000 are farm population which before the war was able to produce about one-half of the food needs of the 40,000,000 nonfarmers. Today, with the shortages of fertilizers, seeds, feed, and farm equipment and parts, the farmers of western Germany are producing much less than half while the former flow of food from food-surplus east to food-deficient west has become a bare trickle. Hence, hunger in the west, people too weak to work hard, low output of coal and steel, and vicious cycles of shortages running through the whole economy. It is as if the factories and cities of our own Northeastern States were cut off from our food-surplus Middle West. We have further destroyed Germany's unity by dividing her into four zones, three of which are in western Germany. We have, moreover, set up 12 Laender or States in the western zones each with a German government that creates barriers and red tape.

The net result of all this is that the former free flow of food, materials, men, and money across all Germany is now practically nonexistent, replaced by a dozen barriers to the free flow of trade. This makes for paralysis and economic disease.

(2) *The German economy suffers from politically enforced restriction of output and "plowing under" of physical assets, including human assets.*—Through the Potsdam agreements we restricted Germany's production of steel, machinery, fertilizers, and other producer goods that both she and all Europe desperately need, to absurdly low levels. Only recently have these levels been raised. We embarked on a policy of removal and dismantling of plants that should have been converted to peacetime production so reparations can come out of current output rather than from capital assets. We carried the denazification program to such extremes that a great deal of the best brains of Germany are doing manual work instead of being at the jobs they are best fitted for. These measures, the outgrowth of the Morgenthau philosophy, have, to a considerable extent, "plowed under" the potential production, the plant for production, and the brains of Germany.

(3) *The German economy, because of weak and ineffective money, provides inadequate incentives for people to work, venture, and export.*—There is extreme inflation in Germany, suppressed but effective nevertheless, which has deprived money of its power to operate an economic system. The war quadrupled Germany's money supply. On top of this, Allied occupation military marks were issued in big volume, about 4 billion reichsmarks in the western zones and anywhere between 12 to 18 billions by the Russians, much of which has filtered into the west. At the same time wages and prices have been fixed at practically the 1938 level. These are absurdly low in view of the huge amount of paper money in the country. The effect is that no one (including of course the farmer) wants to part with his goods for money and the wage earner will not give hard work for money. The cost of this attempt to repress an obvious and severe inflation by fixing prices and wages as if the money volume were still at prewar levels, is the wholesale demonetization of money, substitution of a money economy by primitive barter, and a rampant black market. The basic result is that the economic system has lost its mainspring, that is, money for which people will work hard, take risks, and part with their output.

(4) *The German economy suffers from excessive regimentation that paralyzes enterprises.*—When Germany was preparing for war in the Hitler days, an elaborate system of regimentation was devised by Schacht and others to force German economic effort out of normal market channels into production of armaments and later actual war effort. The highly intricate apparatus set up for this purpose, often called Schachtism by Europeans, consists of wage fixing, price fixing, allocation of raw materials, control of distribution of finished goods, licenses to buy, produce, import, and export, etc., etc. We became familiar with this apparatus during the war when it was necessary to divert economic effort into war channels but we demobilized it rapidly after the war as we saw how it strangled initiative and checked the flow of goods into the commercial market.

But in Germany this apparatus has never been demobilized. On the contrary, it has been made far more complex. Under Hitler, there was only one center of economic control and red tape—Berlin. But we have added four zonal occupation governments and 12 German Lander governments, each of them a center of control and red tape.

(5) *The German economy suffers from a severe psychological depression.*—This is as great a barrier to recovery as the physical obstacles as psychology is a reality of the first order. Great numbers of Germans are inhibited from working hard, attempting any venture, or making any plans for the future because they see no hope ahead. There is a psychological complex of "hopelessness," one of the most commonly used words in Germany. What we would call a crisis in confidence (and we all know how important confidence is to get things going) exists in Germany in its severest form.

The basic question therefore is, What should be done? Obviously, we should attack the causes, not the symptoms, of the disease. The five basic causes have been outlined. To restore Germany to health we must combat each cause of disease.

To combat Germany's disunity, we must re-create unity as far as possible. It is no longer possible, without going to war, to restore to Germany the food-surplus areas of the east now held by the Poles and Russians. What is left to us is to operate the British, American, and French zones as a unified economy. This is evidently the intention of the State Department. We must set up a central government, keeping supervisory control for western Germany and we must see to it that all restrictions and barriers to the smooth flow of materials, men and money within this area are promptly and completely removed.

Even with a properly functioning trizonia, western Germany's struggle will be very severe. Let us keep in mind that she has one-third of the population of the United States packed into an area smaller than Illinois and Indiana which together have less than 3 percent of our country's area. When the farmers of western Germany again produced as much as before the war there will be still some 20,000,000 urban dwellers whose entire food supply must be obtained from abroad. Or, putting it another way, western Germany's 8,000,000 farm population, operating at prewar level of output, can only produce half the food required by her 40,000,000 nonfarm dwellers. Hence, we must give her every possible encouragement to export so she can earn foreign exchange to pay for imported food. Otherwise, she will stay on our back for decades. At the same time, we should actively encourage modernization of her agriculture and, in a later phase, emigration of surplus population.

To combat the political restrictions on output and the political "plowing under" we have forced on Germany we must abolish these obstacles immediately and completely. We should let Germany produce to the limit she is capable of, except of course for war purposes. We should stop plant removal and dismantlement forthwith. We should end the denazification trials except for those in category 1; that is, those who were originators of nazism and those against whom incontrovertible evidence exists of crimes against humanity.

To combat inflation and ineffective money we must drastically reduce the existing money volume, insist on a balanced budget for a central German government, create a central bank with powers to effectively control credit, allow wages and prices to rise wherever practicable to levels dictated by the market, assure the Germans of enough food and a certain limited volume of consumer goods through importation and her own manufacture so that money will again be valued as the means that buys desirable goods. We must, further allow the German mark to find its place among foreign currencies.

To combat the regimentation of the German economy we must demobilize, as much as practicable, the apparatus built up by Schacht before and during the war plus the apparatus superimposed on it by the occupation governments and the German Laender governments. We must do so in order to release the enterprise initiative and will to work for which Germany was once famous. We must build in western Germany a European bridgehead for the advance of the private enterprise system, provided the Germans wish it once they are again able to pay their passage. We must end the paper as well as physical barriers that prevent a market economy from functioning. We cannot do it all at one time. In an economy of the severest scarcities such as in present-day Germany, some controls, rationing, allocations, and even price and wage fixing are unavoidable. But we can decontrol step by step, as realities permit, to give free prices and free initiative full opportunity to perform their historic function of increasing production. To freeze controls is to freeze scarcities. As adequate exports are a matter of life and death to the German economy, the German exporter must be given free rein and liberated from all but the most necessary controls to reenter the foreign market and be allowed to keep practically all of the foreign exchange he can earn.

To combat the severe German psychological depression, we must reestablish confidence. The first and most fundamental thing is to give the German confidence that if he is willing to work hard he is reasonably assured of sufficient food for himself and family. The fear of endless hunger with no prospect for a full stomach in sight, is the greatest and severest depressing factor in Germany and applies to every category of manual worker and brain worker alike. We have been shipping a lot of food to Germany. But there are a lot of people there and the food has been just enough to keep them alive, not make them work hard. There is no economy in that whatsoever. It merely results in assuring that the Germans will stay permanently in the American bread line instead of developing sufficient physical vigor and psychological morale to work hard and become self-supporting. We must give the German entrepreneur the opportunity to again make money and take off his mind the dead weight of fear of plant removal, extreme denazification, and excessive nationalization. We must, further, give the Germans confidence that if they work hard and try hard to become peaceful citizens of our western civilization, they will be accepted by it and allowed to run their own affairs, produce whatever they are capable of, short of war materials, enter the world markets like any other nation, participate in the Marshall plan and in the counsels of western Europe as equals, and finally find once again an honored place among the nations.

I had two objectives in going to Germany. One was to determine what could be done to get Germany back into production and off the American taxpayer's back. The other was to determine how to accomplish this objective without ever again exposing the world to a revival of German militarism. This can be done simply and easily by creating a small force of experts, appointed by the three western occupation governments acting as a unity, with full power to supervise the ultimate destination of key materials and prevent any attempt by the Germans to divert or stock-pile them for possible war use. It is moreover time that we weighed the possible resurgence of German militarism in the light of the actual realities as they exist today.

The facts are that no nation in modern history has ever been taught such a lesson as Germany regarding the result of making aggressive war; her power to make war is today nonexistent, and her will to make war is likewise now nonexistent. But even more important, western Germany is, next to Britain, the

greatest food-deficient area in the world. She must import food for 20,000,000 people and with her eastern bread basket gone she must get the bulk of it from overseas. That puts her completely at the mercy of the sea powers—the United States and Britain. She must play ball with them because she has no other choice but starve. It is high time we quit seeing ghosts. Western Germany is economically, and therefore politically and militarily, irretrievably tied to the West.

In order to save your time I would like to read a short summary of this statement simply to refresh your minds on some of the fundamentals involved.

Germany's war wounds would have begun to heal long ago if she had a healthy economic system in operation. She is diseased for the following reasons:

1. Germany's unity has been destroyed. Highly industrialized western Germany with 48,000,000 people is cut off by the iron curtain from eastern Germany which formerly produced most of her surplus food. Insufficient food in the Ruhr is the foundation of the vicious cycle that leads through coal shortage and steel shortage to shortages in every economic sector of Germany and in fact all Europe. Germany's unity was further destroyed by splitting it into four zones.

2. Germany suffers from politically enforced restriction of output and plowing under of its industrial and human assets through the Morgenthau philosophy.

3. Germany's money is too weak to act as incentive to induce people to really work, venture, and export.

4. Germany suffers from excessive regimentation that paralyzes enterprise, including the vitally important exportation of goods.

5. Germany suffers from severe psychological depression. To bring health to Germany's diseased economy we must—

- (1) Operate the three western zones as a unity and remove all barriers that restrict the free flow of goods, men, and money.

- (2) Stop forthwith all restrictions on output, plant removal and dismantlement, and excessive denazification.

- (3) Give Germany effective money by drastically reducing its volume and producing and importing food and essential consumer goods to give it effective buying power.

- (4) Demobilize, as much as is practicable, the elaborate apparatus of regimentation that restricts enterprise.

- (5) Give the Germans hope of a better life ahead if they work hard and cooperate fully.

Given the above program, particularly good money with real purchasing power, the Germans will work hard and surprise the world with the rapidity of their recovery. Our job should be to plant Germany on her feet so she can get to work and solve her problems. But the foundation of everything is food as western Germany is 50 percent food deficient.

I would now like to make a statement of three important conclusions:

1. There is no chance for the Marshall plan to succeed unless Germany is immediately started on the road to recovery.

2. Germany cannot be started on the road to recovery as long as we continue to operate under the Morgenthau philosophy which was embodied in the Yalta and Potsdam agreements and the Joint Chiefs of Staff directive 1067. Congress should specify the broad terms of a new policy to govern western Germany so that the President and

Secretary of Defense can issue new directives for the guidance of our people in Germany.

3. I question the wisdom of a basic policy decision of the President as reported in the press, under which the State Department would take over direct control of the American occupation of Germany on or about July 1, 1948. My main reason for this is that the State Department has always been a policy-making Department. It is not an executive or an administrative organization. Most of the rank and file in it are trained at making policies but not in administration. In facing the Russians in eastern Germany and Berlin and in dealing with the other military governments in the British and French zones, I think we would have been stronger if we had brought about an integrated military government patterned after the SHAEF organization with which we successfully invaded the continent of western Europe.

However, now that the decision has been made to turn over the American zone to the State Department for administration, I think there are several basic points that must be followed if we are to expect success. Among these, in my opinion, are:

1. A new foreign policy of what we are trying to do in Germany must be stated. In my Report on Germany I outline my recommendations on this at length:

2. The three western zones—American, British, and French—must be integrated. Anything short of integration, both economic and political, of western Germany, will leave areas too small to provide for economic self-sufficiency.

3. When the British, American, and French zones are integrated there will be three or four times as many civilian personnel as will be required to operate them. Congress, in making appropriations, should force a great reduction in personnel. What we need is to delegate to the Germans themselves responsibility for running their country and getting their economic machine into operation.

May I reiterate that I think it is impossible to have a successful recovery of western Europe as long as Germany remains a cancer in the belly of western Europe.

We ought not to raise up Germany while leaving western Europe in the economic slough of despondency. But on the other hand, we cannot help western Europe to get on her feet unless Germany is also headed for recovery.

I would like to submit for the record a five-page basic statement on Europe.

(The statement referred to is as follows:)

BASIC STATEMENT ON EUROPE BY LEWIS H. BROWN

Europe's ills are very deep-seated. Physical war destruction is only one of them and is transient and therefore relatively minor. The only effective thing the Marshall plan can do is to help Europe get on her feet so she can begin solving her basic problems. If we try to do the latter for her, we will bankrupt ourselves, probably without accomplishing anything permanent. It is very important that we understand which of Europe's ills are readily curable and which are not.

Europe's curable and relatively transient ills are the following:

(1) War destruction, far more serious than during World War I, because in the second war the destruction was concentrated most heavily in Europe's industrial heart, Germany. Curable with time.

(2) Two excessively bad crops in western Europe. Curable, possible this year.

(3) Inflation, stemming from wartime deficit financing and scarcity of consumer

goods. Sharply aggravated now by price fixing (which prevents mopping up of excessive money in hands of public) and by attempts at excessive capital-goods production in relation to consumer-goods production. Result is devaluation of money, reduced will to work and venture for money, low output per man, artificial manpower shortage, excessive time and effort devoted to black market, etc. A byproduct is the unrealistic official rate of exchange of European currencies in relation to hard currencies. Result is European goods are unreasonably expensive, discouraging exports. Inflation is curable.

(4) "Terms of trade" at present are against western Europe. She must import great quantities of food and raw materials which have risen much more in price since prewar than the manufactured goods she must export to pay for the former. One main reason is the enormous American production boom which consumes vast quantities of food and raw material in United States. Unfavorable "terms of trade" position is curable as sellers' market changes to buyers' and when American boom declines.

Europe's much more basic and less curable ills are the following:

(1) Europe has been split between East and West: Formerly eastern Europe supplied western Europe with great quantities of food and raw material for which the West paid with manufactured goods. Exchange of goods between the two sectors of Europe has been greatly reduced and the reduction threatens to be a permanent feature because of the iron curtain and rising industrialization of the East. The reduction began after First World War. Czarist Russia was huge exporter of food and raw materials in exchange for western Europe's industrial goods. But after revolution in 1917 there was sharp and permanent change. Industrial development of Russia as a closed economy consumed her output of food and raw materials. Although Russia's share of world production increased from 4 percent in 1918 to about 12 percent in 1941, her foreign trade never again reached the figures before the revolution. Now Russia is applying the same process of forced industrialization to all her satellites—eastern Germany, Poland, the Danubian countries, the Balkans. Result will be that western Europe must look abroad for a far greater proportion of food and raw materials than ever before. Situation incurable except by war to force iron curtain back to Russia's 1939 boundaries. Even then, eastern Europe's industrialization can't be halted long. There will of course some exchange of goods between East and West but not enough to secure western Europe sufficient continental food and raw materials.

(2) Europe has practically lost her Asiatic empire: India, Burma, East Indies, French Indo-China—from whence she drew great volume of cheap raw materials and large profits because of low-cost Asiatic labor. Incurable; the day of European imperialism in east Asia is almost over.

(3) Europe has been transformed by two world wars from greatest creditor to greatest debtor area in the world: Formerly the income from foreign investments and other invisible exports (merchant marine, banking, brokerage services) received by west European countries was sufficient to pay for nearly one-quarter of their total imports (chiefly food and raw materials) from the rest of the world. This huge source of income has almost vanished and been replaced by necessity to export to pay debts. Situation probably incurable except in a minor way.

(4) Europe's social and economic system has changed profoundly from a once vigorous capitalism to various degrees of socialism, ranging all the way from iron-handed but relatively effective police-state socialisms in the East to hybrid and not very effective socialisms in the West. Hand in hand with this development has gone destruction of the European middle class, the main instrument of the former vigorous capitalism, by war losses, inflation, revolution, and legislation. Perhaps curable in West, but very doubtful. All eastern Europe is rapidly on its way to purely Russian-type of socialism. Western Europe may make milder form of socialism work effectively with many vestigial remains of capitalism. Governmental venture will replace private venture in major spheres. Enormous bureaucracies and red tape are likely to make Europe less dynamic, economically, than in past.

The function of the Marshall plan should be to help Europe to her feet so she can get to work as rapidly as possible on her curable ills. Marshall plan aid can be used to help restore war-damaged and undermaintained mining, agricultural, and transport plant, especially in such key sectors as the Ruhr and the British coal areas. It can help assure better crops by supplying fertilizers. (It is generally held that 1 ton of nitrogen fertilizer exports is equivalent to shipping 15 tons of food.) It can help check inflation and revalue money by supplying food and a certain amount of other consumer goods and by insisting, as a *quid pro quo* that currencies be realistically revalued both internally and externally in relation

to the dollar. It can ease the unfavorable terms of trade against Europe by supplying necessary raw materials as well as food.

Marshall plan aid, if sufficient and wisely used, and given reasonably good crops here and in Europe, ought to solve the problem of Europe's curable ills in 4 years or so.

But Marshall plan aid cannot possibly move the iron curtain back and restore the former East-West flow of trade in Europe to its former dimensions. It cannot give Europe back her Asiatic empire. It cannot remake her a great creditor area. And it cannot reestablish capitalism in the American sense. Only Europe herself can do that. We cannot impose our institutions on her.

We should cease to support Europe in a major way after the curable ills are well on their way to being cured. If we nevertheless keep on pouring in our money to try to offset Europe's lost East-West trade, the loss of her empire in Asia, the loss of her creditor position, and the loss of economic dynamism through the decline of private enterprise, we ourselves will encounter such huge losses that we will almost certainly experience a most dangerous inflation in the United States, destruction of our middle class, transformation of our own still vigorous and highly effective capitalism to a government-controlled system, and very likely another war.

Western Europe can only solve her loss of eastern Europe, the Asiatic possessions, and her creditor position by opening up and aggressively developing great new sources of food, raw materials, and economic wealth of all kinds. By opening up our own West we rapidly cured the wounds of our Civil War. The areas in which Europe is most likely to find her opportunity to open up new sources of wealth to heal the wounds of the two world wars are Africa and the Middle East. The latter has half the world's oil underground. The former is almost virgin, immensely rich in natural resources, and practically all of it is under the control of west European countries—Britain, France, Belgium, Portugal. But the economic development of Africa should be a joint west European enterprise in which the Germans, Italians, Dutch, etc., should fully participate.

Western Europe must furthermore open up new sources of wealth at home, through modernization. Compared to the United States her agriculture, mining, industry, and transport are badly antiquated. A customs union is a fundamental requirement in order to obtain a large enough mass consumption area without which mass production and modernization on the American scale are impracticable. But we should not be called upon to supply more than an irreducible minimum of the huge quantities of capital goods needed for the modernization of western Europe except on a commercial basis. To attempt to do the full job through a lend-lease, give-away, basis would be excessively inflationary in the United States.

The 16 west European nations participating in the Marshall plan, together with western Germany, have about 270,000,000 people, technologically much more advanced than eastern Europe. Russia has about 200,000,000 people and her east European satellites another 90,000,000. Western Europe, economically recovered and on the path to modernization and development of the Near East and Africa, should have no trouble holding her own against Russian and Communist imperialism if she acts with a reasonable degree of unity, economically and politically. In that case a new balance of power is established in Europe and a third world war can be postponed for a long time. It is the only hope for the prevention of World War III within a couple of decades. Moreover, a prosperous western Europe will exert a very strong pull on the countries, now Russia's satellites, between the iron curtain and Russia's 1939 boundaries.

The present European recovery plan (Marshall plan) as laid before Congress is based largely—though not wholly uncritically—on the Paris report of the 16 participating European countries. That report is quite unrealistic in many ways. It is based on the thought that by about 1952 western Europe can export enough to pay for its needed imports and at the same time come close to resuming its prewar standard of living. This in turn is based on a proposed volume of new capital formation (plant expansion) in Europe in the next 4 years that is obviously unrealistic. As an American technical publication has pointed out regarding proposed expansion of electric power capacity in Europe, the 16 nations propose to build 22½ million kilowatts of new power capacity in 51 months whereas the United States (with a far more powerful and entirely undestroyed industry) proposes to increase its capacity by only 15 million kilowatts in 60 months.

The Paris report overestimates western Europe's power to expand and modernize its productive capacity because, to a large extent, it ignores "the more basic and less curable ills" which this statement mentions. Granted, nothing is more to be

desired than the modernization of Europe's producing plant. But the fact remains that it cannot be done in 4 years or for that matter in 10 or more years. Excessive "belt tightening" or "austerity" defeats itself after a time and leads to dictatorships.

Moreover, Europe isn't really at all well on the road to carrying out the Paris report plans. It is now heavily exporting capital goods in return for food, raw materials, fuel, etc. Britain, particularly, is exporting so much machinery, steel products, equipment, and other capital goods that she has had to severely reduce her program for domestic capital investment. The French will have to similarly reduce the unrealistic Monnet plan to modernize France. This export of capital goods by western Europe, which so desperately needs it for itself, of course reduces the pace of modernization and therefore the future productivity and standard of living of Europe. It is part of Europe's desperate plight that she requires a huge volume of capital investment at home while, at the same time, the rest of the world demands capital goods from her as payment for the basic necessities of food and raw materials which Europe must import to keep alive and work.

Europe is therefore obviously on the horns of a dilemma. If she is to pay for imported food and raw materials (in contradistinction to being given these by the United States), she must export the goods the overseas world wants—and these are the very capital goods that Europe herself needs for restoration and modernization. What we can do is to give her some of the food, raw materials, and capital goods she needs most desperately. But we can't give her all she needs. That would break us through inflation.

We are compelled to advise her not to try to accomplish too much, to modernize and expand producing capacity over a longer period of time, and to postpone the day when her people can resume the prewar standard of living. We must advise less belt-tightening in the first four years so that extreme austerity will not sharply reduce the will to work, but belt tightening to a reasonable degree over a much longer period of time. In other words, it must be understood that the recovery and modernization of Europe is a generation's job, not a 4-year project.

The object of the Marshall plan should be to get Europe on its feet so it can begin to get busy on a generation-long job while at the same time feeding herself and reasonably satisfying her consumers (who are also her workers) through commercial exchange of goods to as great an extent as possible but at a standard of living considerably below prewar. We have no business guaranteeing Europe her prewar standard of living while she is engaged in heavy capital formation (a process which normally requires belt tightening).

Mr. BROWN. I hope you will permit me to read a brief summary of that basic statement in which I have attempted to give my general viewpoint as to how far we should go in helping Europe.

Some of Europe's ills are transient and readily curable, others are deeply rooted, almost incurable, and must be offset by new long-term developments.

The transient, curable ills are:

1. Two very bad crops. We can help with food and fertilizers until she has a copule of good crops.
2. War destruction. It will be made good in time and we can help by setting Europe on her feet but not by financing the job of restoration.
3. Inflation. Money has lost a lot of its power in Europe to function as the dynamo of the economic system. There is far too much money chasing too little goods. We can help by insisting on drastic reduction of the money volume and by shipping food, a limited supply of consumer goods, and a certain amount of producer goods and raw materials so Europe can produce and transport an increased volume of consumer goods.
4. The terms of trade are at present against western Europe. We can help by supplying some food and raw materials.

The deeply rooted ills are due to the following:

1. Europe has lost its unity.

2. Europe has lost most of its Asiatic empire that formerly supplied large volumes of raw materials at low cost.

3. Europe has been transformed by two world wars from the world's greatest creditor area to the greatest debtor area.

4. Europe's social and economic system has changed profoundly from a once vigorous capitalism to various degrees of socialism, ridden by bureaucracies, and is less dynamic than under her former system.

We should confine ourselves to helping Europe to her feet, so she can get to work on her transient curable ills with some assistance from us in the earlier stages. We should not attempt any solution of Europe's long-term problems. It would be too great a strain on our economy, could produce a virulent inflation here, wreck our middle class, and consequently fundamentally change our social, economic, and ultimately, our political system.

My broadest general conclusion regarding Europe is that our help is essential to get the western countries on their feet, to serve as a rampart against the advance of communism and Russian imperialism.

Let me repeat again so that I may not be misunderstood, I strongly favor trying to get the 270,000,000 people of western Europe on their feet economically because I sincerely believe that this is necessary to create a balance of power that will stop the spread of the iron curtain westward to the North Sea.

But this does not mean, in my mind, that we must saturate the whole length and breadth of western Europe with a downpour of American dollars. We can do Europe more good, with a lot less American money, by concentrating our efforts. Most of the countries of western Europe have already recovered remarkably and will soon be going concerns again. Two countries, however, threaten to take a long time to become going concerns again, western Germany and Britain. Our efforts will have to be concentrated on these two countries which are in any case the most important in Europe.

I question the validity, from our standpoint, of the figures presented to America by the Committee on European Economic Cooperation. Through this report, America has been presented with a bill for the entire deficit balance of trade for the 16 participating countries in Europe.

Congress should accept these reports as broad estimates of the situation—an appraisal of the magnitude of the problem.

We should not accept any part of it until we have an organization that can go into each country, really study the situation in detail and work out specific agreements as to what each country is going to do to help itself, what it is going to do to help other neighboring countries and what residue in concrete physical terms is necessary to make the plan function.

Especially the Administrator of our European recovery program should have an over-all representative in Europe who should work with representatives of all the 17 nations in order to look at western Europe as a whole and decide collectively which things should come first for the recovery of western Europe. Thus, we could avoid a mere scramble with each nation trying to get as much as possible for itself irrespective of the real necessities of the whole. As a matter of fact, some nations need nothing or very little until after certain basic things are underway, and by that time, I think some of them will need nothing.

It is very important that we solve the problem of the type of organization that is going to be set up to undertake the administration of this program. We must set it up so that men of outstanding ability can be enlisted—men who have the experience, the ability, and the capacity to analyze these problems from a realistic standpoint and will negotiate such agreements with our friends in the participating countries as will help them where help is really needed.

On the whole, I think the report of the Brookings Institution on this subject points the way to a solution of the problem.

My only difference with the Brookings report is that I think there should be a policy board, of which the administrator should be a part, whose job would be to study and decide policy. The administrator should be completely responsible for the execution of the policy and for coordination of policy with the Secretary of State and with the President.

I would therefore recommend an amplification of the Brookings report in reference to an advisory committee or board. I would recommend that Congress call this a policy board of directors. It should be made up of the most practical businessmen and bankers that can be induced to devote full time to this activity. They should have varied experience so that collectively the policy board would represent real practical experience in all the varied phases of the problem.

But I think it would be important for Congress to prescribe that policies adopted should be agreed to by a majority of the whole board, which of course includes the single administrator as the head of the policy board.

You will note that whereas the Brookings Institution report stated that the board should be "advisory only to the administrator," I believe that the board with the administrator as chairman should actually collectively determine policy—that is, policy within the limits written into the bill by Congress—but that the administrator should be clearly responsible as the executive officer to carry out policy.

The problem of maintaining a united front on foreign policy in each of the participating countries is one in which I have real sympathy with the Department of State and with our ambassadors and embassies in each of these countries. It is my opinion that this problem is not insoluble. I believe the solution lies in a clear-cut delegation of responsibility and in clear-cut instructions being issued to their respective representatives by the Secretary of State to his ambassadors and by the Administrator for Economic Recovery to his representative in each country. It seems to me that the essence of this whole problem is in getting men of real caliber to undertake the key positions in these activities not only here but in the participating countries. Men of such caliber are not usually concerned with personal aggrandizement.

This leads me to a major point I would like to make on organization. I do not think it is possible to secure, for the salaries that are customarily paid in Government service, the kind of men who can successfully carry out this enormous task. This job is essentially a temporary function. It will last 3 or 5 years and by that time should be disbanded.

The kind of men who are needed are the kind who already have made a success, attained positions of responsibility and high salary. Most

of them have accumulated a retirement status that means more to them than current pay under present taxes.

The important thing from the standpoint of the United States is to get men who will have the ability to analyze problems, see the essentials that need to be done and particularly to avoid doing what should not be done. Such men can save the United States billions of dollars; and from my experience abroad, the type of men that our fellows are going to be up against are outstanding men of great ability and experience and we would make a great mistake, in my opinion, to send "babes in the woods" against those fellows over there.

It is my definite recommendation that in order to get the kind of men necessary to operate on this basis, that Congress should prescribe that key men in this organization, may, at the discretion of the administrator, be borrowed from industry, banking or any other walk of life, pay them a dollar a year salary and permit them to continue to be paid by the organizations from whom they are borrowed. Give these men an expense allowance to cover the added expenses to which they would be put by leaving their present homes and going where necessary to accomplish their task.

I am confident that with the right policy, the right organization and the right men, we will not merely be forced to accept a hurriedly drawn committee report based on the deficit balances of trade but rather a reanalysis by our own people based on the realities, day by day and month by month, changing as they inevitably will, in which the net result should be that we will give away a great deal less than is now being talked about. We will lend and perhaps be repaid for a much bigger percentage than is now contemplated. As the participating countries get on their feet, they themselves will see that they need less help from outside than was contemplated in the dark days of despair in the summer of 1947 when their report was written.

Should Uncle Sam play the part of Santa Claus? I raise this question for the express purpose of clarifying one of the points around which I think the greatest public opposition exists.

Since the threat of the spread of the iron curtain to the west is the same problem as confronted us with Hitler and his Nazi gang, we must as a matter of preservation do what can be done to hold the line hoping that time will bring about changed conditions that will enable us to go ahead with the United Nations in the establishment of some semblance of world peace.

The real problem is to prevent or win World War III.

It is generally agreed by many experts that the best means of prevention is to try to get 270,000,000 people in western Europe on a better economic basis so that people west of the iron curtain eat better than people to the east of it.

I am in favor of trying to do this job.

On the other hand, I sincerely disagree with a good many people to the means and methods to be used to accomplish the ERP objectives upon which we agree.

For example, as I have previously stated, I do not think we should take the committee report of the European nations as a budget for the activity of our new organization on European recovery.

If Congress in their instructions to this new organization said: "Here is the plan which we approve. Your job is to make it effec-

tive," you would commit the new organization before it got started. You would rob it of any bargaining power it might have.

In other words, I do not see any reason why Congress should determine now that \$28,000,000,000 or \$17,000,000,000 is necessary. Nor do I see any sound basis for determining that \$6,800,000,000 is necessary right now.

I don't believe that the American people are in any frame of mind to play Santa Claus. Since the end of the war, we have distributed about \$20,000,000,000 that is rather reminiscent of a world-wide WPA. I think most Americans agree with the objective of what we were trying to do with this \$20,000,000,000. But I think they are not very happy over the way we actually did it.

I think the majority of the American people are in favor of the basic thing we are trying to do under the Marshall plan as it was originally expressed at Harvard. I do not think the American people will carry through to the finish unless the execution and administration in the future is a very great deal different than it has been in the past on the \$20,000,000,000 already spent.

As nearly as I can make out, the State Department program, recommended to Congress, placed about 80 percent of our expenditures as a give-away and about 20 percent as a loan. This statement that I have just made is no doubt an oversimplification. I make it, however, as a means of emphasizing what I think should be done. I think we should, from the standpoint of basic policy, reverse the figures so that 20 percent of our help is emergency give-away and 80 percent loans which are to be paid back.

Now I know the transfer problem, and we know it better than the public. They can't pay in dollars and, if they can't pay in goods or services over a period of years, they should pay now in the currencies of their own country, and we should invest this currency in securities in those countries. Such securities later could be brought to the United States and sold to investors for dollars with which to pay back the original loan from the United States.

The main reason I make this recommendation is not because I think we will be entirely repaid, but because I believe sincerely that once the people in Europe realize that Uncle Sam is not Santa Claus they will themselves revise downward their estimates of what they think the United States of America should supply. This alone might cut their requirements by several billion dollars over a 5-year period.

There has been a great deal of discussion behind the scenes and the press as to whether it is proper for us to attach conditions to the loans we make to the participating countries. This question was being discussed last summer in Europe when I was there at the Embassy in London and with Will Clayton in Geneva and the Foreign Office in Paris and so forth.

I think there are some kinds of conditions that would be improper. But if we are dealing on a business basis then it is perfectly proper to make businesslike conditions in connection with any loan.

In talking to one of the outstanding bankers of Great Britain on this point, I asked him what Britain's practice has been when she served as the banker for the rest of the world. He replied:

Great Britain has been the banker for the world for a couple of hundred years or more and in the loans that we made we never hesitated to stipulate proper conditions for repayment of the loan.

When Switzerland recently loaned France money she stipulated that payment should be made in so many tons of coal and commodities each month.

I think the European participating countries would understand us better and have more confidence in the success of the plan if we approached these problems with the same kind of realism that they themselves use.

In making up our loan to Great Britain, we ought to attach the condition that we will supply Great Britain with food and other necessary supplies in proportion to the extent she exports coal to western Europe. That is Great Britain's job. She ought to be doing it. She did it before the war. Great Britain can get paid for coal exported. We have no chance of being repaid.

I do not, for one moment, maintain that there are not two sides to these problems. All of these problems are complex. In trying to make them understandable, I have deliberately oversimplified them.

But I have done this in order to indicate to you an avenue of approach that ought to be pursued by any organization we set up.

The great problem confronting Congress is how to write into the bill the fundamental requirements necessary for success. If Congress doesn't do it directly, they ought to hold up appropriations until they have, through discussion with the executive branch, brought about the desired end result.

I have tried to touch on some of the high spots of this problem that I think important enough to be brought to your attention. I am at your service in case you wish to ask questions.

I testified at much greater length before the Foreign Relations Committee of the Senate, but here I have tried to hit only the high spots on the assumption it would be for the record and you could get the balance by asking questions.

Chairman EATON. Thank you, Mr. Brown.

As usual you have been most illuminating in the presentation of your views.

Would you tell us why England is in such dire necessity, as compared, for instance, with the others? You named two countries there.

Mr. BROWN. I think England is in very difficult circumstances, because she has 48,000,000 people, which is just about the same size as western Germany, and with her land, she can feed only a portion of them.

There are about 28,000,000 people in Great Britain that cannot be fed by the present productivity of the soil. I think if she changed her agricultural processes she might be able to get that down to perhaps 20,000,000 that she cannot feed.

England has always had to buy food and raw materials from abroad, convert it into manufactured goods, sell those goods abroad or sell services like, for instance, shipping or banking, to pay for the food and raw materials she needs.

The war has cost Britain a great part of her foreign trade. She had to convert to war plants even more than we did. Her foreign trade has been disrupted entirely. The loss of some of her foreign investments and the disruption of some of the trade abroad has put her in a most difficult position.

When the end of the war came and Britain began to convert from wartime manufacturing to peacetime, she thought of course that in

a couple of years or 3 years she could get back where she could buy her food and raw materials with the exports that she manufactured. It was for that reason she borrowed from us \$3,700,000,000.

The fundamental fact, however, is that at the same time she started to reconstruct her industries, she adopted a program of socialism. Instead of putting first things first, she put last things first. She spent a lot of money on housing that perhaps at that time she could not afford. She spent a great amount of money on increased benefits for social security, which were good in themselves, but only if you can afford them.

She tried to maintain a standard of living for people which she could not pay for. She did a good many things that did not consist of putting first things first.

For example, in 1945, I talked to M. Goot, the former Finance Minister of Belgium. That was after VJ-day. I asked him what Belgium proposed to do because we had a factory there. He outlined a program which was very simple. He said the first thing Belgium should have is timbers to fix up the coal mines to dig coal so they could get the power plants operating, so they could get the factories going.

Every one of the 12 steps he outlined was of that simple, fundamental character, where production was the essence of what they were going to have if they were going to eat.

In England they did the opposite.

I think that is unfortunate because the \$3,750,000,000 is gone, they still are not able to make enough exports to buy their food and raw materials. If they do not get help from America they are going to have to cut their per capita consumption of food from 2,700 calories a day to about 1,700. They are in a desperate fix.

However, take, for example, the coal. At the very time they should have been digging coal to their utmost they went to a 5-day week. I think the 5-day week is the right length of week if you can do it and if you can produce enough to pay for it. However, in England they needed desperately to increase their coal production from 200,000,000 tons to 250,000,000 and going to a 5-day week was the wrong thing to do at that time.

Secondly, they failed to offer their miners the right kind of an incentive to dig coal.

I recommend to the people in Great Britain that they offer a blue coupon for every extra ton of coal dug during the week and a red one for every extra ton dug on Saturday. I then said, "Take some of the \$100,000,000 American loan, buy some consumer goods and gadgets, such as the miners' wives and daughters have not seen for 10 years, put it in the cooperative stores, and say to these people, 'With these coupons and your shillings you can buy some of these things, food, clothes or gadgets, and nobody can buy them without these coupons.'"

I said, "Whereas the Government cannot make the miners work at the point of a bayonet, I will guarantee you their wives and daughters will get them to work on Saturday."

Now, Sir Stafford Cripps did not agree with that. He said that was contrary to the long-range socialistic objectives, and they did not want to offer one group of people anything they could not offer everybody. He called it "equality of sacrifice."

I said I thought it would result in equality of misery for all of the

people of Great Britain because unless they could get something to eat, they were going to get awful hungry.

That is the essence. I think we must help Great Britain, but I think it would be silly for us to ship a billion dollars worth of coal to western Europe where we cannot get paid for it.

England has the coal. If she would work 6 days instead of 5 she can increase her production by at least 30,000,000 tons a year and if she offered an incentive she could get back to 250,000,000 tons and with that she could again sell to Europe and get paid for coal in many things she needs.

I think we ought to make the export of coal one of the conditions to Great Britain, as to what she is going to do to help Europe get on its feet.

I would say she could do either one.

If we must both feed England and ship coal to Europe, I think that is more than our share.

I would induce England, by the way in which we stipulate the conditions, that she do her share. I would also do that with other countries. I think we can make those conditions very well, and I think if we are wise in the way we stipulate them, that we can use them as incentives to get a lot more production and that is the only thing that is going to enable Europe to get on her feet.

Chairman EATON. Your idea was to have a much larger proportion of these funds go to England than any other country over there?

Mr. BROWN. No; I would not say that. I would say that probably from my viewpoint the place where the most funds are needed in the beginning is in Germany. Germany has been terribly destroyed. I think it was rather ironical that I, who had helped purchase \$45,000,000,000 worth of guns, tanks, and ammunitions with which to destroy Germany, was asked to go back and make suggestions as to how we could put Humpty Dumpty together again and back on the wall. However, it is plain to me that wholly aside from how we might dislike Germany, that she is the key industrial center, and the Ruhr is the heart of Europe. I think coal production there in the Ruhr is the essence of it. I would use food as an incentive to the miners of Europe to get production up to prewar.

I would do every one of these things, not from the standpoint of trying to do good to others or to save people from starvation but as a cold-blooded method of getting the economic machine working so that these people can support themselves, get off the backs of the American taxpayers, and fit in with our basic, self-interest in the world problem of economic and political strategy that confronts us.

Chairman EATON. What would you say about the deadline of the 1st of April? Supposing we went over that, what would happen?

Mr. BROWN. Well, I think that if we could have functioned last April it would have been better, but I do not think there is any such time element as that which will either make or break us. I think we are making a decision and a very basic decision that is one of the most important we have ever had to make next to the one of actually entering or waging war. I think we will be involved in this problem, not for 1 year or 2 but 5 or 10 years. I think we are entering on a long-term objective which as I stated is either to prevent or win World War III.

I think therefore it is much more important that we get our prin-

ciples and our policies right, than that we get them at any certain time.

I think it would be better to have more interim aid if necessary. I don't see why it is necessary but I would rather have that than to make a mistaken decision in a hurry.

Chairman EATON. You would not inflict the interim-aid problem upon this committee again, because we would certainly cease to exist as human beings.

Mr. BROWN. I would rather do that than make an improper decision. We are making a basic decision and we should get to the realities and get set to handle it properly.

This problem is one of how to get the economic machine working. I do not care how much money you dispense like manna from heaven, you will not get the economic machine working over there. You must do it in an intelligent way.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. Mr. Brown, I wish to thank you for this book. I am looking forward to reading it with a great deal of interest.

Mr. BROWN. Thank you.

Mr. JARMAN. Coal production has improved considerably in England in the last 6 months.

Mr. BROWN. It has improved some.

Mr. JARMAN. Is that due to the imminence of the Marshall plan?

Mr. BROWN. When you say it has improved considerably, let us get that clear: Prior to the war, England produced 250,000,000 tons of coal a year. At the rate they were running this summer they were producing about 180,000,000 tons a year. The improvement since summer has been in the magnitude of about 20,000,000 tons. In other words, they produced just under 200,000,000 tons this year. So when you say it has improved considerably, it is 20,000,000 tons.

Mr. JARMAN. That is not good.

Mr. BROWN. The reason coal production is low in Great Britain is because they made a basic mistake during the war of taking the miners out of the mines and sending them into the armed-services. The coal mines in Great Britain for a hundred years have been badly managed. They paid the miners too little, and the working conditions were bad. They were trying to have low-cost coal as a basis of the British economy. That led them to the wrong kind of thinking.

When the miners went into the armed services, a good many of them ate better than they ever did before. When the Government discovered their mistake and asked the miners to leave the services and go back, a great many of them did not want to go back because they were eating better than they ever had in their lives.

Therefore they had a shortage of about 75,000 miners that were unavailable at VJ-day. They did not do much about offering an inducement to get the miners back because their whole idea was the fetish that if they nationalized the mines that would cure the problem, so, in my opinion, they wasted about a year or a year and a half trying to nationalize the mines.

The problem of a great bureaucracy trying to take over and operate thousands of mines was such a problem that they did not cure anything. They made the situation worse. The miners have been terribly disappointed that just because they got nationalization they did not suddenly solve all these problems.

It was only last spring that they went to the 5-day week—the end of April. That also had been one of the things they had tried to obtain and very rightly, for many years, but it was at the wrong time.

The Government then went out and tried to enlist people with mining experience to come back. Up to the time I was there, they were just getting started, and that was in early June, and in August they had about 27,000 miners go back to the mines. That helped the situation. Today they have about 40,000. They are not back to the prewar level of miners yet.

As I told Mr. Bevin, who is a labor leader himself, and a practical fellow, if you give these miners an incentive and give them something they can buy with the money you will have a much better chance of getting them back than you will with oratory.

They have some problems but I think Sir Stafford Cripps feels that in 1948 they will be able to export 6,000,000 tons of coal. That is not very much coal compared to what they could if they worked a 6-day week and gave the miners an incentive.

Mr. JARMAN. They are still on a 5-day week?

Mr. BROWN. They are still on a 5-day week. They have tried to work an extra half hour in some mines during the 5 days. There are some few mines where they give the miners the option of working on Saturday and some few of them work 4 hours on Saturday. The miners say, "What is the use of working? The minute I make more pay they take it away in taxes."

Secondly, all they have is a ration card, and all you can buy with the ration card—you can take about 3 days' pay and since you can't get any more in the stores, they don't see why they should work. They would rather go to a football game.

Unless they get something for their work, they are not going to dig coal, they are no different than you and I.

I do not believe you will get the results unless you give them an incentive.

Mr. JARMAN. Is the objective for next year 210,000,000 tons?

Mr. BROWN. Different ones testify a different amount but as I say, if they get a 5-percent increase for 1948, I should judge that was about what Sir Stafford Cripps' objective is and out of that 10,000,000 he wants to export about 6 and put about 4 more back into the industrial plants of England.

Mr. JARMAN. A 5-percent increase would be 210, would it not?

Mr. BROWN. That is right, about 200 to 210.

Mr. JARMAN. Are we still operating on the Morgenthau plan in Germany?

Mr. BROWN. Yes, the Morgenthau doctrine of trying to convert what is left of Germany into an agricultural nation is the basis of our Yalta and Potsdam agreements and the Directive 1067. While our Government last year issued a new directive, and corrected some few of the things last fall, it was only what they could correct within the basic policy.

General Marshall's statement about dismantling plants, that he made yesterday, was fundamentally made because he is tied to the Yalta and Potsdam agreements in his viewpoint, and while Russia has completely thrown them overboard, we are still trying to go along with them.

Irrespective of whether that may have been desirable emotionally

or whether it was the wish of the American people, I think we can say economically you cannot get the German economic machine functioning as long as those basic policies prevent it from functioning. You must get down to fundamentals to get it started again.

That was what I outlined in my report to General Clay last summer. I think it is simple and fundamental. We went down one road; we got ourselves out on a limb, and then Russia prevented the unification of Germany and prevented even the Morgenthau doctrine from functioning.

Here we are across the fence with one part on one side and one on the other, with Russia pulling one leg and the economic forces the other, and we are in a most difficult dilemma.

I say in spite of some of the niceties we better get off the fence, take Germany and integrate it, in the western part, and get it on its feet. You cannot make the Marshall plan work unless you do.

Mr. JARMAN. I thoroughly agree with that position.

Now you said that if we did certain things they might revise their needs downward. I believe you meant the other countries.

Mr. BROWN. That is right.

Mr. JARMAN. We have revised the Paris report down considerably, have we not?

Mr. BROWN. Yes.

When I was in Geneva in July, I had breakfast with Will Clayton and he had just gotten the preliminary report on the Paris Conference. I went over it with him then and I said immediately, "That is a summary of their needs as they look at it, predicated upon their going about vastly increasing their durable goods industries."

It included France doubling her steel industry.

The only method through which they could approach the problem from their standpoint is to say, "If we can do all these things, and considering what we can import and what we can export, you have a deficit balance of trade."

They added up the deficit balance of trade for the 16 nations and presented the bill to Uncle Sam.

I said to Will Clayton that I did not think that could be a budget which we could accept, or which would work. I said that was a market survey, if you will, of the magnitude of the problem as they see it.

I was in these countries where these conversations were going on. Most of their basic premise was that we were going to do this by grants-in-aid, lend-lease, or gifts. I think if we accept that report as the budget for our organization we are going to be undertaking something which I think is too big a problem for America to undertake. I think it is the wrong approach. I think they are sincere in the magnitude of the problem but their plan involves building electric power plants at a rate faster than we ever built them in America.

I don't think they can do it as a practical matter and I don't see why we should pay for it if they did.

In other words, if we change our premise and say, "We accept this report as the broad basis of what you think is the problem," and then send an administrator and organization to get them together as a whole and say, "Now, let's get down to brass tacks. We will take your proposal but we want to see what are the essentials," I think you will find some of these countries will need no help at all.

I can't see why Ireland would need help and I can't see why Belgium and Denmark should.

I do not see why Sweden and Norway need so much help at this time. Certainly Switzerland does not.

I talked to some of the top men in Switzerland who were bankers and on boards of directors in corporations in Italy and they said, "If Italy had a good wheat crop, she would be three-quarters of the way out of the woods," and they felt that in 2 years Italy should be on her feet.

France is almost entirely a problem of money, which is now being taken care of to some extent. The other situation is the wheat crop and conditions in Europe show a promising wheat crop which may change the picture somewhat in France.

When it comes to some other things in this report, such as doubling the steel industry, I think France has a legitimate right to try to double it but I don't see why our Congress should appropriate money to do it. It is a profitable industry. It should be able to sell goods at a profit and be able to amortize its cost. I told M. Chauval, head of the Economic Foreign Office, on this subject, that I saw no reason why industrial people should not put up part of the money and the French Government put up part of the money. I saw no reason why the International Bank should not make a part of the loan. It is something the International Bank is supposed to do.

If we have to take 5 percent of the balance in order to get the program going from appropriations from the ERP, I don't see why we should not be paid in francs and with these francs buy French industrial securities, and bring them back here and dispose of them when Europe has been restored and there is greater confidence in the country.

Mr. JARMAN. I cannot conceive making any grant to Switzerland.

Mr. BROWN. That was being talked about when I was over there but I do not think it is in the statement.

Mr. JARMAN. Isn't it well to have those countries in on this co-operative effort?

Mr. BROWN. Yes, but you do not have to bribe them. They are just as much interested in stopping the spread of the curtailment as we are.

Mr. JARMAN. I imagine Switzerland can also contribute.

Mr. BROWN. Yes, and so can these other countries. However, I think we should put first things first and they should be incorporated in our agreements with each country and with all 16 countries. When it comes to what should be done first, we need incentives in the Ruhr to get coal dug; we need incentives to get coal dug in England.

We need wheat in France for 1 year; we need wheat in Italy for this crop season.

You can make a list of 10 or 15 things that are vitally essential to get this thing going. A lot of these other problems will be a long time in working out.

Mr. JARMAN. That report that you looked over with Mr. Clayton at breakfast, what was the amount of that?

Mr. BROWN. It was up around \$28,000,000,000, and then they and we reduced it to \$17,000,000,000.

From my standpoint I think it is a mistake to accept any such figure as though we had a budget worked out and that we knew just what we were going to do.

If I were a Member of Congress and could, I would appropriate \$3,000,000,000 or \$4,000,000,000, not with the idea that that was enough but that that is something to start with. I would get my organization set up, which I think is the most important thing. I would get the policies prescribed and I would go to work.

It would probably take 6 months to get men and the organization going. It would be a year before your operation gets really going as it should. Our experience in the war tells us that. You cannot create organizations like this overnight. I think the important thing is to decide whether we are going to try to do this job; second, what policies we are going to follow; third, what kind of organization we will have; fourth, the kind of men we will have in it; and then appropriate some money.

I think it is unfortunate that we said we had to have \$6,800,000,000 or some other figure as though that was a mathematically correct amount, as in the case of running a department of the United States Government. I do not think it can be substantiated on that basis.

Mr. JAVITS. However, you could not start out with no statement of figures at all, could you?

Mr. BROWN. We asked for some idea of what they thought the problem was, and they did. We know something of the outside limits, as to what it is. However, I am sure that if we operate this properly when we end up, 5, 6, or 7 years from now, it will cost us less than these statements we are talking about because they were made in the darkest days of 1947. Already recovery is changing the picture in some places and I am sure that if we have practical realists in charge of this operation and we take it step by step as we go along, we will accomplish our objective with a lot less money than we are talking about now or they were talking about last summer.

Mr. JARMAN. Thank you very much.

Chairman EATON. We have another witness coming, but Mrs. Bolton, do you have any questions?

Mrs. BOLTON. I am very deeply interested in your picture of the situation as you see it.

You say it will take so long to get an organization together, and then we will not get going for a year. What will happen in the meantime?

Mr. BROWN. I think with what organization you have, you will make a few fundamental policy decisions and take a little action on some fundamental necessities, such as wheat for France. Those decisions are relatively easy to arrive at. You know the necessities; you can appraise them and the method of distributing wheat in France is already organized. The French Government buys a million bushels of wheat, they sell it to the millers, who grind it into flour, the bakers get it and make bread, which they sell to the people.

France can pay for a million bushels on that basis. You can take action on those. I think that is what can be done. Taking first things first, they will take the emergency action.

Mrs. BOLTON. The situation in Austria would be very acute.

Mr. BROWN. I think you will have some further emergency action and it will be more or less a continuance of the emergency type of relief in the beginning but I know the problem of getting men and analyzing these things, as far as some of the longer-range problems are concerned, it will take more time.

Mrs. BOLTON. In the matter of banks and loaning, you say you want to reverse the ratios. I understand that Mr. McCoy has made the statement that the bank has some money and that they do not propose to make any loans under that program.

Mr. BROWN. I don't believe Mr. McCloy said he did not propose to make any. I think he said he did not propose to make any fuzzy loans, or that he did not propose to use it for relief loans. In other words, the International Bank is limited to making sound loans that cover a longer period of years than most commercial banks can loan, and in places where the risk is greater than normal bank loans would cover. That was his purpose.

I believe if you get the rest of this thing organized in the right way that the International Bank will be able to sell additional securities, to make additional loans of the proper kind.

Now the kind they could make would be the kind where they were increasing the steel capacity of France. That is a profitable industry.

Mrs. BOLTON. At that point, you spoke of the steel capacity of France being increased. Where does France get her raw materials?

Mr. BROWN. France could only increase her capacity, in case the integrated organization of western Germany had the power to assure France of a long-term coke supply.

In Germany before the war, Germany had 20,000,000 tons of steel a year capacity. France had 6,000,000 tons capacity and, of course, when the war came she found herself at a great disadvantage.

We destroyed about 6,000,000 tons of Germany's steel capacity by bombing. That left her with a possible 14,000,000. She is operating at 3,000,000 tons now and in a year or two, given some kind of a program as suggested, could get to 6,000,000. That would put her about level with France, but with the possibility of going to say, 12,000,000 tons in the course of several years, 5, 6, 7, 8, or 9 years.

France wants to double her capacity from 6,000,000 to 12,000,000 tons. She has the iron ore to do it but she needs the coke supply. She wants international assurance of a coke supply. I think we can give it to her under an integrated western Germany operation.

Mrs. BOLTON. Do you think we can insure getting British coal into western Germany?

Mr. BROWN. I do not think Britain needs to be urged to send coal into Germany. If Britain supplied the rest of western Europe with coal, we could declare a moratorium for a year on the coal exported from Germany. Germany exports about 12,000,000 tons now.

Mrs. BOLTON. Would you recommend having Britain supply western Europe before she exports anywhere else?

Mr. BROWN. I believe she will export to western Europe in good proportion.

Mrs. BOLTON. Thank you very much.

Chairman EATON. Mr. Merrow.

Mr. MERROW. Mr. Brown, on page 8 of your statement, you said that you favor getting 270,000,000 people of western Europe on their feet, because it was necessary to create a balance of power that would stop the spread of the iron curtain westward.

Then on page 12 you said that the spread of the iron curtain to the west is the same problem as confronted us with Hitler and his Nazi gang.

Mr. BROWN. That is right.

Mr. MERROW. My question is this: If we go along with this program, get these countries on their feet economically, how will they be able, after that is done, to resist the Soviet Union from a military point of view any better than they are today?

Mr. BROWN. I think the problem there is first, economic. If you get these people to have enough to eat, west of the curtain, so that they have hope, if you give them some backing, as we can with the Marshall plan, so that their leadership will have the courage to risk their lives in conducting this fight, I think you will solidify those countries, and with their industrial potential built up, western Europe would have more steel capacity than Russia.

I think Russia, who wants to spread, just as the Nazi gang did, will look at what happened to Germany in two wars and will not be very anxious to start a third one. I believe that Russia has military power today to spread to the west if she wanted to take the long-term risk. I do not think we could stop her. I do not think when you get 270,000,000 people there, that purely from the standpoint of the number of men under arms, that it will be enough to stop them, but I believe it will be a great moral deterrent to prevent Russia from preading westward and I think as that develops some of the satellite states that are now under the iron curtain may wiggle out and get to the west. That is the hope.

I do not believe you can get a balance of power, only in armed men, but I think you can in terms of economic might, moral courage, and the type of united front that makes it dangerous for someone to start something of this kind.

Mr. MERROW. It is hard for me to see how this is going to be a great moral deterrent, because certainly in the period of 4 years, even though their capacity to produce steel has increased, they will not be in a position to destroy the Soviet Union in a military way.

I use 4 years, because the Marshall plan is for 4 years, and the President's Air Policy Commission has set 1953 as "A" day or "Atom lay," and it occurs to me that the countries will be greater prizes for Soviet aggression at that time than they are at the present time and if we go along with this program without being fully prepared, proceeding on another program of foreign policy, we would be throwing our money away in this program.

Mr. BROWN. You say if we go along without being prepared. I think we must be prepared in the right way, as the first premise of our foreign policy.

Let me put it to you the other way. Let us say we must choose one or the other, and we choose to be prepared, would you like to have the 270,000,000 people in western Europe in economic chaos, and taken over by Russia without her necessity of going to war, and then if we had to start defending ourselves, what is our strategic position?

I would rather, if we can do it at a realistic cost, to have that 270,000,000 people on our side. They may not be able to defy Russia but I would rather have them on our side with some hope, and the starting point of some allies, than I would be willing to do without them.

Mr. MERROW. If we go along with this program, without, for instance, air supremacy, or an all-powerful air force, then we are making a tremendous mistake.

Mr. BROWN. I agree with you.

Mr. MERROW. In the next 4 years, it will take from \$12,000,000,000 to \$16,000,000,000 to make us the first air power in the world. I think first it is preparedness and an effort to improve these countries to prevent the spreading of the iron curtain. I think the giving of aid would stop the movement of the iron curtain but there is another principle in Russian foreign policy and that is military aggression and I believe if we do not prepare ourselves, and particularly in the air as well as other ways, how are we going to accomplish our objectives, because these nations can be seized overnight after they have been enriched.

Mr. BROWN. I agree with you. I think your first premise is a powerful means of defense and I would put air at the top of the list. But out of the \$11,000,000,000 we are spending for military defense, from my experience as an adviser to the Chief of Ordnance during the war, I would go through it and try to save some of the money we are spending on idle manpower drilling with antiquated small arms in order to concentrate spending on research, atomic warfare, air warfare, and the type of preparedness that can meet the war of the future and not the war of the past.

There is no question in my mind but what there is no substitute for our own military preparedness of the right kind. However, I say the Marshall plan supplements it, it gives us 270,000,000 people in western Europe I would rather have with us than against us and more than that you must have some bases if you are going to make use of your air power in your atomic war.

Now, you have been on these committees and I do not want to talk too much about the bases from which to deliver the message to Garcia. You know what I mean and you better think ahead of where you are going to have bases and whether it is better to keep them now than to be compelled to recapture them later.

Mr. MERROW. I am glad to hear you say that.

I have just one thing more.

In order to get this 70-group program in 1952, we should appropriate during the remainder of this fiscal year, \$500,000,000 for the Air Force and \$6,000,000,000 for each fiscal year thereafter, to get that 70-group program with the proper reserves.

Do you not think it would be much wiser to scale down the proposed appropriation for the Marshall plan and put it into that Air Force so we would have that force to protect the investment we are making here in western Europe over the same period of time?

Mr. BROWN. I have not studied in detail the proposal for the air forces of 70 groups so I could not express an opinion on that and I do not know how much should be taken out of our other military appropriations. I would certainly like to indicate the desire to scale down our expenditures for aid to Europe to accomplish the realistic objectives in the Marshall plan.

I say I do not think it will take as much money as \$17,000,000,000 and I would start on that premise. I think that goes along with your premise that some of this could be utilized for something else.

Mr. MERROW. I am glad to have your opinion on that.

You certainly stated the Russian situation very realistically, and being in complete agreement with a strong air force is very helpful

because in my opinion that is the only thing that will prevent this Third World War of which you spoke.

Mr. BROWN. Are there any other questions?

Mr. RICHARDS. Mr. Chairman, I did not hear the greater part of the testimony of the witness and I therefore will not ask any questions but I shall read his testimony with great interest.

Chairman EATON. I am sorry you were not here, Mr. Richards, because it was one of the most instructive and fundamental bits of testimony that we have had, I think.

Mr. JAVITS. Mr. Brown, I noticed in the last sentence of your statement entitled "Basic Statement on Europe," you say:

It is high time we quit seeing ghosts. Western Germany is economically, and therefore politically and militarily, irretrievably tied to the West.

Now, do I understand it to be the fundamental basis of your thinking on this whole problem, that that point is a fact?

Mr. BROWN. I would say so.

Mr. JAVITS. Would therefore all your thinking have to change if that proved not to be a fact?

Mr. BROWN. Do you mean if Russia actually moved in and took western Germany?

Mr. JAVITS. If all western Germany chose to ally itself with Russia?

Mr. BROWN. Yes. I think such a basic premise would require a reappraisal of the situation.

Mr. JAVITS. Being a prudent businessman and having served with the Army, would you say we should have an alternate plan? In other words, we should not go all-out on the theory that your thesis of western Germany as a buffer against the U. S. S. R. is alone correct?

Mr. BROWN. I think if your basic premise basically changes you must reappraise the situation and have a second plan. To the extent you can do that in advance, that is fine.

Mr. JAVITS. I think we agree on that, sir.

Now, is it a fact that it has been charged right along by many people that German aggression in World War II was at least to some extent the result of rebuilding after World War I, first with the aid of United States loans, and second with the aid of investments by United States private investors in Germany?

Mr. BROWN. I think there was a minor portion of that. I remember some buildings in Germany that were built with American loans but I would say that over the period of some 20 years it was a rather minor factor in building her war machine.

Mr. JAVITS. Did we do anything in that intervening period, once the turbulence of the immediate postwar was over, to suppress German industrial activity?

Mr. BROWN. No, I don't think we did.

Mr. JAVITS. And the end result was World War II.

Mr. BROWN. I don't know whether you would say that was the end result. It was primarily a result of the rise of Hitler. If Hitler had not come up, the mere fact that we did not make loans or repress industry, you wouldn't have had a war. I had a company in Germany and I went there in 1931, and I watched Hitler coming up and I decided to get our company out of Germany. We got out of there 1 month after Hitler came in with the last of our marks in the lining of the raincoat of our manager when he came out. I went into England

and said, "If Britain and France don't do something with three or four divisions to bump this Hitler off, you are going to have World War II."

I do not think it flows from our loans or reconstruction under the Dawes plan or whatnot, nor to the fact that we did not replace industry. I think you have there one of those fellows like Napoleon, a product of the times that furnished the leadership and I don't think you would have had what we had if you hadn't had that leadership.

Mr. JAVITS. Is it not a fact that Hitler won an election by the vote of the German people?

Mr. BROWN. He won several of them.

Mr. JAVITS. He won it in 1933. He did not seize power.

Mr. BROWN. That is right.

Mr. JAVITS. Germany made war with steel, not with Hitler alone, and there was industrial capacity in Germany with which she made this great war.

Mr. BROWN. There was before World War I.

Mr. JAVITS. Before the time came to make this great war, World War II, they had the industrial capacity.

Suppose we rebuild Germany as you suggest, and they again have great industrial capacity—let us say 12,500,000 tons of steel or whatever the top objective is, and then they thumb their nose at us and say, "Now that we have all this we will take up with the Russians and we will finally lick the world; something we have not been able to do on two previous tries, but we think we can do it now," then where are we?

Mr. BROWN. I started my report with the basic premise that one of the things we had to do was prevent the rearming of Germany and I outlined a program of how we could prevent Germany becoming a military nation.

Without going into the details of that now, I say in the absence of Russia taking over by military might, I think we could control and prevent Germany from just thumbing her nose at us. However, if Russia takes over by military might, then the basic premise upon which I operated disappears. If Russia begins to march to the North Sea and puts air-borne troops in the capitals of Europe and whatnot, then our basic situation changes and we have a different problem.

Mr. JAVITS. Is not your basic situation changed also if the Communists win an election in western Germany just as Hitler won an election in 1933?

Mr. BROWN. I would not say that is the case. I would say there are various degrees of socialism and communism, and I doubt very much whether there could be enough power in either France or Germany, for the Communists to take over.

Mr. JAVITS. I want to give you an anecdote which leads me to think you are not right.

Along with certain members of the Herter committee I went to a coal mine outside of Essen, and we interviewed, together with the management, I think nine members of the workers' committee, and of those nine members—think of it, in the presence of American Congressmen, about eight of us—of those nine workers, seven stated directly that they were Communists. They just said so. This was one of the biggest coal mines in the Ruhr.

Now, that sort of gave me and some of my colleagues a rather cold bath, because if we are going to rebuild Germany, in accordance with the ideas you have, and then we are going to find that Germany's national outlet for its heavy industry is Russia with its enormous granary and its hold on eastern Germany, then we will really be up against a combination that we will not be able to beat, and of course we hope it will never be necessary to figure this way, as we were able to beat the Axis in World War II.

Mr. BROWN. However, I do not believe nine miners is a criterion of the situation. I think you can go into some of the mines in Pennsylvania and find nine Communists right there.

Mr. JAVITS. There were some 3,000 workers in the mine, and the nine were their spokesmen.

Mr. BROWN. You can find them in the automobile unions in Detroit.

Mr. JAVITS. They just came out and said boldly that they were Communists.

Mr. BROWN. Our people said that France would not bring the French zone into an integrated plan of western Europe and the reason was the French Communists had too much power politically in France. That was one of the basic premises I had presented to me when I was in Germany, and I had to go into France to find out.

I sent an international labor leader I had known who had talked to the labor leaders in France. When I talked to M. Chauval of the Foreign Office in France, I told him I thought we ought to start our conversation with a fundamental statement about the Communist power and that was that while 6,000,000 people had voted the Communist ticket in the last elections in France, the Communist leader of the French Communist Party himself said he only had 450,000 Communists he could count on and that if they started marching he doubted if he could get more than 300,000 or 400,000; therefore they could make some trouble in France, they might cause the Government to fall, but they could not take over power in France, that the rest of these people were Frenchmen first and Communists second.

I cite that because in my interview with mine managers and labor leaders—and I got in a room alone with these people, and an interpreter, when I talked to them, and it is my impression sincerely that they are so afraid of the Russians taking over that there are very few people in Germany that would like to have it.

They might like to be Communists or Socialists on their own in Germany but they do not want to be taken over by Russia. I do not believe they are going to unless it is done by force. Therefore I agreed with your statement that if Russia moves in by force, then the basic premise changes.

Mr. JAVITS. My statement was twofold, Mr. Brown; first, that Russia was capable of moving in by force; and second, that western Germany was capable of voting Communist and accomplishing the same result.

Mr. BROWN. I think she could but I do not believe she will. I do not believe Russia will move in by force for 3 or 4 or 5 years. I could be wrong on both of those points and you could be right, and then we would have to change the premise.

Mr. JAVITS. If we strengthen German heavy industry are we not

contributing to that danger? It may be what the businessmen call a business risk but are we not contributing to that danger?

Mr. BROWN. What is your alternative? Your alternative is to do nothing and then what do you contribute to the danger? I say the danger is greater to have the economy of Germany fail to function, to have the rest of Europe and the Marshall plan fail and have the people eat less and have starvation and chaos. I think there is a much greater risk of having that happen.

It is much more likely that Russia can take over by indirect means and not be forced to go to military means. I am sure there is a risk but I think it is the lesser of two risks. We are on the horns of two dilemmas where the risk is great and you must take the best judgment as to which risk is less.

Mr. JAVITS. Did you not say western Europe lacked consumer goods?

Mr. BROWN. That is temporarily true. That is the reason the money will not function.

Mr. JAVITS. You mention consumer goods as an incentive?

Mr. BROWN. That is right.

Mr. JAVITS. Suppose the impetus in western Germany were given to consumer goods rather than heavy industry?

Mr. BROWN. If you read my report you will find one of the first things I recommended was additional food supplies brought into the 85 stores of the mining region in the Ruhr and the offering to the miners themselves, coupons for food for themselves and families, that would give them a real incentive to dig coal.

I talked to seven mine managers and the leaders of some of the workmen's committees and I am quite sure that that kind of consumer-goods incentive applied at that particular point would get coal production up faster and within 15 percent of prewar within 6 months and I think that would then be the means by which you get power plants running and with the power plants running not 15 percent but 50 or 60, you get factories going.

Mr. JAVITS. Germany used to export, according to the figures in your book, and they are pretty generally accepted figures, somewhere in the area of 40,000,000 to 45,000,000 tons of coal a year, in a normal prewar year.

Mr. BROWN. Yes, in 1937 she exported about 52,000,000 tons.

Mr. JAVITS. So if she got up to within 15 percent of that production she would be exporting in the area of 40,000,000 tons a year?

Mr. BROWN. Yes, except that you have quite a bit of that coal—these total German figures include parts of Germany now under Poland and Russia, and I do not know what those total figures were in the eastern portion. This is not all from the western portion.

The quantity of coal from the east, which is the Soviet brown coal used for heating, I think ran into quite a bit of tonnage, whereas the coking coal from the Ruhr, which went into France, Belgium, and some of the other countries, had a higher value but not so much tonnage.

Mr. JAVITS. Now materially increased exports of coal from the Ruhr would also serve to take the Germans off the backs of the American taxpayers, would it not?

Mr. BROWN. Yes, and I do not for a moment suggest that Germany should not resume her exports along with Britain, to the other coun-

tries of Western Europe. I say if we declare a moratorium for as much as a year, this 12,000,000 tons that Germany is now exporting, is a means of getting factories going, then you can get steel for the railroads and then you can get machinery made to fix up other factories.

It is a temporary thing I recommend but certainly Germany should again export coal as soon as she gets rolling.

Mr. JAVITS. Would it not be a good hedge, however, to build up this French steel production, even if we had to finance it?

Mr. BROWN. One of the things I discussed with the Foreign Office in France was that I thought we would agree to doubling their production. The only question I make is why we should appropriate money from Congress to do it. I say, perhaps take the last 10 percent of it.

Yes; I think it is a good hedge to build up that steel capacity in Belgium and France. You cannot do it, however, unless you have enough military control of an integrated western Germany so that you can assure them of a coke supply, do not forget that.

Mr. JAVITS. Thank you so much.

Chairman EATON. Thank you, Mr. Brown.

LET'S GET GERMANY OFF OUR BACK

By Lewis H. Brown, chairman of the board, Johns-Manville Corp.

(Here is presented the viewpoint of an American industrialist who made a special study of Germany at the request of United States occupation authorities. Mr. Brown's report, of which this article is a condensation, has been presented to President Truman, the State Department and the War Department. The full report in book form will be published shortly by Farrar and Straus)

Knowing that I had acted as a consultant to Lt. Gen. Levin H. Campbell, Chief of Ordnance, from May 1942 to the end of the war, and learning that I was coming to Europe on a business trip, Gen. Lucius D. Clay suggested that I spend as much time as possible in Germany to get first-hand information as a basis for a report on what should be done to get German industry on its feet and off the back of the American taxpayer as soon as possible.

My approach to this problem has been from the standpoint of an industrialist's attempt to analyze the problem of a bankrupt company and to determine the simple common-sense fundamentals necessary to get the wheels of production turning, and the company on a profitable basis as soon as possible.

Germany is today bankrupt, and western Europe is threatened with bankruptcy. The comparison with a bankrupt industrial company is perhaps applicable. This approach to the problem may, therefore, have merit. The real problem is to bring about the economic reconstruction of western Europe as a whole.

My one regret is that, in dealing with a subject so controversial, there is bound to be disagreement with any course of action recommended. From the enemies of the American way of life, I have no hope of securing agreement. From our friends who abhor all forms of totalitarianism, with its concentration camps inseparable from a police state, I hope for tolerance and ultimate understanding of the imperative need for getting together on a plan of action under which we may minimize the threat to western civilization and preserve its priceless freedoms.

Not even a beginning can be made to a solution of the problem of western Europe unless we Americans recognize and admit that the Morgenthau philosophy (calling for the break-up of Germany into a series of subsistence farms), as dictated by President Roosevelt in Quebec, the Yalta and Potsdam agreements, is predicated on fallacies and has made impossible the accomplishment of the very objectives which we all considered imperative.

We must also recognize that the four-power division of Germany, in view of the attitude of Russia, can never succeed. We must therefore accept the present partition of Germany as an accomplished fact at least for the present. This means that in the American, British, and French zones in western Germany are

48,000,000 people who cannot provide more than 50 percent of their food requirements.

In my opinion nothing can be accomplished in either Germany or western Europe under the Marshall plan unless we in America announce with the utmost clarity an entirely new policy for the revival of Germany which is at present the cancer in the body politic of western Europe. That new policy must deal with four aspects of the problem:

(1) *Organization.*—We must set up an organization to deal with this problem just as we set up an organization under General Eisenhower and SHAEF to deal with the problem of the invasion of Europe.

(2) We must give new hope to Germany and western Europe.

(3) We must use food in order to force the production of coal in both Great Britain and Germany and use coal as a dynamic means to get industry going so that with exports they can buy raw materials and food.

(4) *Repayment.*—We must provide in advance for a practical means of repayment if we expect to be repaid.

Under such a policy our first objective should be to prevent restoration of military power in Germany.

To do this, we must completely abandon the Morgenthau philosophy in favor of a plan that from a practical standpoint can be maintained for 50 years or more.

Germany's Army general staff and munitions plants and war materials industries have already been destroyed under the program originally outlined by the United States General Staff. This called for (1) the destruction of plants and dismantling and transference of these plants under reparations, (2) destruction of the airplane industry of Germany and the prevention of the future development of airplane manufacture, and (3) an inspection and control system small enough to be maintained for 50 years by the Allied governments.

German militarism is dead, and the foregoing measures, if put into execution, will keep it dead. It is time we quit fighting ghosts and got on with the real business of getting Germany back on her feet.

Once it is determined that we must have an entirely new policy for western Germany and western Europe, it will be necessary immediately to visualize a new organization designed to see that the objectives of policy are obtained. We can no longer delay action.

General Marshall expressed the hope that in the November conference (of foreign ministers) the Russians, having obtained their objectives of satellite buffer States, might be willing to agree to the unification of Germany. Few people in Europe with whom I have talked have any such hope. My own belief is that such chance is so small that we should not waste the intervening months but should prepare now for a plan of action based on the assumption that the Russians will not agree to unification at the conference.

Under the recent consolidation of the British and American zones, considerable progress has been made. But we are still faced with the basic fact that there are two administrations, two interpretations of policy, and two methods of making policy effective. The French, of course, have so far failed to join in any unification.

INVASION PATTERN ADVOCATED

The problem of getting effective action that will assure the carrying out of a restatement of policy is similar to the problem confronting the Allies when they were planning the invasion of western Europe. The decision then was to designate a joint commander. General Eisenhower was selected. Under his great leadership and with the backing of the chiefs of state and the Joint Chiefs of Staff, General Eisenhower built a pattern of integration and coordination in the SHAEF staff that assured the success of the invasion operation.

When the Allied troops were battering their way to Berlin and the problem of how Germany was to be administered was under discussion, General Eisenhower advocated the use of the Allied SHAEF pattern for the administration of the American, British, and French zones, believing that only through this demonstrated method of coordination and cooperation could effective action be secured. General Eisenhower was overruled by his commander in chief—President Roosevelt. The resulting quadripartite division has multiplied immeasurably the great difficulties of the past 2 years.

It is my recommendation that Congress, as a condition of appropriating funds for the backing of the Marshall plan, instruct the executive departments of our Government to secure the agreement of Great Britain and France to a consolidation of the three zones under the same pattern of organization that resulted in the

victorious invasion of western Europe by the Allied armies, and that General Eisenhower, as a last service to his country before his retirement, be asked to return to Europe to reestablish quickly this pattern of organization and put at the head of it an American—Gen. Lucius D. Clay—who is demonstrating a great capacity and great knowledge of both the economic and industrial requirements of this undertaking.

Lt. Gen. Sir Brian Robertson, who holds a similar position in the British zone, should be General Clay's chief deputy, and a representative of France should also be designated as a deputy. Similar integration should take place throughout the organization in consolidating the three zones, putting at the top in each category the man best able to secure the desired results irrespective of nationality.

On the one hand, General Eisenhower should build an integrated and coordinated military organization of occupation for the three western zones in Germany, bringing together the military forces of America, Great Britain, and France to be supplemented later by additions from other members of the United Nations. -

On the other hand, General Eisenhower should use his great prestige in Europe to help bring together an integrated and coordinated civilian economic organization to deal with the economic control of western Germany under a policy that would place upon the Germans the responsibility for the administration of their own political and economic destiny.

At the same time this coordinated pattern of organization is being developed in western Germany, its civilian economic counterpart should be in the process of development for western Europe as a means of making sure that the objectives under the Marshall plan will be attained, and that any appropriations made by the American Congress to implement the Marshall plan will not be dissipated or frittered away in side-line activities that have no bearing on the primary and vitally necessary objectives.

CIVILIAN STATUS PREFERABLE

In building this broader organization for western Europe, General Eisenhower should act in a civilian capacity for whatever time is required before taking over his new duties as head of Columbia University.

Given such an organization, our new policy and directive from Congress should require that we first attack the psychological problem of Germany.

As I see it, during the past 2 years Germany has been like a mule which in hauling a heavy cart has fallen down in the mud. Both the Americans and the British have come along, unstrapped the shafts of the cart from the harness, and pulled it back, leaving the mule still lying in the mud. Both the Americans and the British have then themselves got into the shafts of the cart and attempted to pull the load. This is an impossible task.

What we should do is to give the mule enough food while he is still lying down to get some of his strength back, put the shafts back into the harness, hold out the inducement of a large bag of oats in order to give the mule an incentive to get up, and then with a vigorous push from behind get the mule on his feet and make it clear that it is the duty and the responsibility of the mule to pull the cart out of the mud. It will, of course, be necessary to help and perhaps even push, but it is vitally necessary that the German people pull in the interests of their own salvation.

This can be done by the following program, each part of which presents many problems and difficulties but none of which is impossible of attainment.

The program for giving Germany new hope is:

I

Declare an end to the reparations of capital goods. That is, discontinue the practice of moving whole factories out of Germany and into other countries as a part of the reparations due them.

II

Bring to an immediate and early end the process of denazification except for the 80,000 top Nazis. Today the German industrialist is debarred, through the extreme denazification program, from access to the best brains of Germany, and therefore suffers from a severe shortage of technical, supervisory, and executive help.

III

Permit the Germans to export by quickly untying the shackles that now bind their hands and feet. These take the form of regulations prohibiting barter and the making of contracts with foreign business firms. Also, I recommend that the

International Bank should provide for loans of foreign currency with which German industrial firms may buy raw materials and send out salesmen and engineers to secure export business. Also, we should eliminate the regulations remaining from Nazi autarchy and "Schachtism," the red tape and bureaucracy of the German Landerats (provincial governments) and the regulations of the American and British military governments that prevent exports.

The system of "Schachtism" strangles private enterprise with controls and red tape. It comprises the system of price control, wage control, profit control, exchange control, foreign-trade control, rationing, quotas, priorities allocations, special licenses required for even the most minor transactions, red tape, and paper work barriers at a thousand points to that free flow of materials, men and money which constitutes the very life of healthy trade and a vigorous economy.

Practically the whole apparatus of Schachtism is intact in Germany and has been multiplied many times by the fragmentation of Germany into four zones and twelve Länder (provinces) west of the iron curtain. Instead of one center of "Schachtism" in Berlin as in Nazi days, we have 16 little centers.

IV

Invite the Germans to take part in the Marshall plan discussions on the needs of Germany.

V

Proceed with the establishment of a central government for western Germany. Simply to hold an election to permit the German people to select their first central government by popular vote, in my opinion, would be a great mistake. The German people are not yet ready. I would therefore recommend that the central government be established by having the economic councils that are now representative of the German states, and the officials of the Landerats come together in a convention to which should also be sent representatives elected to represent the church, the legal profession, and industry. This convention could select personnel to fill the first offices of the central government, but the heads of the military government should have a veto power on these selections. We should also make provision for the approval of this government at a later date by popular elections.

VI

Abandon the Morgenthau concept of a banking system patterned after the Federal Reserve System in America and institute a central bank for western Germany patterned after the central banks of the other countries of Europe.

VII

Provide a new currency for Germany as soon as a central government with a balanced budget is in effect, a central bank functioning, and sufficient consumers' goods available to give a new currency purchasing power.

HARD WORK CAN CONQUER DESPAIR

Once a policy along these lines is announced, even though it may take months to carry it out, a revolutionary change in the psychology of the Germans will take place and much of their hopelessness will disappear. The German people will go to work again.

Once that is done, we will have made the first effective step to stop the spread of Communism west of the iron curtain.

Given a new policy, new organization, and new hope in western Germany, it is possible to begin to use food not as a means of relief but as an instrument and an incentive to get production going again.

If food is provided to Germany or western Europe only on a relief basis, then it is merely pouring dollars down a bottomless rat hole with no hope of eventually getting either Germany or the other countries off the back of the American taxpayer.

On the other hand, food can be used as a means of getting these countries eventually to stand on their own feet, fully capable of repaying the loans to America providing America will accept repayment in physical goods.

Let us see why the German has so little incentive to work. First, remember that on an average, the Germans are living on a diet of 1,200 calories a day. That is one-half of the diet of the people of Britain and one-third of the diet of the

people in America. No one can do heavy work and produce on a diet of 1,200 calories.

There is more to the problem, however. An exceptionally able young German technician, with a family of wife and one child, gets 300 marks a month take-home pay after social-security deductions. He has a No. 2 ration card entitling him to 2,000 calories per day, his wife a No. 3 card entitling her to 1,550 calories (not much over half required to maintain vigorous health), and his child somewhat less but with a child's supplementary ration of milk and fats. In total, say, about 5,000 calories per day for the family.

If they manage to obtain on the ration cards all the food that produces the 5,000 calories per day they can remain alive though not in vigor or health, and the food will cost them amazingly little. Bought at the stores at the legally fixed low prices on the ration cards, it will cost about 45 marks for the month.

SHORTAGES NULLIFY RATION CARDS

But in practice the full amount of food stated on the ration card will be unavailable for weeks and months at a stretch. There are always periods when there is not butter or margarine, no meat or fish, very little or even no potatoes. In a section of the Ruhr, very recently, potatoes, the biggest item in the German worker's diet next to bread, were unobtainable on the ration cards for almost 4 weeks.

In practice, therefore, this family is able to obtain less than three-quarters of the food and calories called for by the ration cards. That gives them less than half of the calories nutritionists say are necessary for health and vigor. Moreover, their diet becomes enormously unbalanced. Fats, proteins, and protective foods generally being just the items that are most frequently unavailable, they live excessively on bread.

With an enormous void in their stomachs, husband and wife will try to buy more food in the black market. But there prices are so high that the amount of their monthly pay check left over after fixed charges are met will not be enough to buy a single day's food.

Thus each day it becomes more apparent to the German worker than earning money by working hard at his regular job is not the way to get food. That discovery is fatal to production. The way to get food is to sell some personal possession at black-market prices or take it out to a farmer and barter it directly for food at the black-market price level. Hence selling or bartering goods already in excess becomes far more important than working hard producing new goods for pay in reichmarks. And that also is fatal to production.

Because of this situation, I have recommended that dietary experts work out a 5-year plan for the German people proceeding gradually from a 1,300-calorie diet to 2,600 calories, but with special supplementary food incentive diets for specialized groups starting with the underground miners in the Ruhr. I have recommended that under the Marshall plan this basic 5-year diet be guaranteed by the other nations, mainly, the United States, on a declining basis—100 percent the first year, 80 percent the second year, 60 percent, 40 percent, and 20 percent. For a 5-year period this declining guarantee for food would cost about \$2,000,000,000.

If, as suggested above, we make it possible for the Germans to export, they must then rebuild their productive capacity and their exports fast enough to make up the difference in this declining food guaranty. By the end of 5 years they must export twice as much per capita as before the war if they are to buy sufficient food. If they wish to have more than a 2,400-calorie diet, they must produce and export more.

Let's take a closer look at how this would work. The first step in using food as a means of getting production would be to send to Germany meats and other special energy foods and put them in the 75 colliery stores in the Ruhr area.

The Ruhr miners are now producing 220,000 tons of coal a day. There are about 260,000 miners in the Ruhr. Thus over-all output per man per day is about nine-tenth of 1 ton. In prewar it was 1.6 tons per man per day. For a good many reasons they may not be able for some years to do more than 1.35 tons. But, if the latter figure could be attained, it would mean a 50 percent increase in coal, or a total of about 345,000 tons per day. This would mean 35,000,000 tons more per year for Germany, and with that a dynamic German industry would get going.

The problem is how to get it. First, bring back more rapidly the former German Ruhr miners who are prisoners of war working in the French mines where their output is very low. Second, offer each underground Ruhr miner (of whom

there are about 170,000) coupons for extra tons of coal produced so that for 50 percent increase in production he could get 75 percent increase in food for himself and his family.

The annual production of the Ruhr is going at the rate of 66,000,000 tons. The new plan would provide an annual production by the end of 1948 of 99,000,000 tons. But, immediately such an increase in production is promised, it is apparent that the transportation system of Germany cannot haul it away from the mines. This is due basically to the severe bombing of the transportation system during the war.

TOO LONG A HAUL FOR RUHR COAL

Intensive study of this problem indicates that the real difficulty is that we are attempting to export 10,000,000 tons of coal from Germany to Russia, France, Switzerland, Holland, Italy, Belgium, and other countries of western Europe by an unnaturally long rail haul. This ties up railway equipment that is already grievously short.

Moreover, each country securing coal from Germany in cars that have been repaired by the military governments keeps the good cars and sends back cars that are in bad repair. This contributes to the vicious cycle.

The fundamental fact is that in the years before the war coal was supplied by boat from Great Britain to the large ports of Europe. Not only was Great Britain the largest supplier of coal in western Europe, but coal was the basis of her diplomatic power.

The fact that Great Britain is no longer exporting coal to western Europe is one of the biggest contributing factors to the dollar shortage with which she is now struggling—attempting to over come this problem by resorting to austerity, nationalism, and socialism.

In the meantime, no progress has been made in western Germany in the past year in the restoration of the industrial production. Municipal power plants that supply thousands of small plants have been operating at a small percentage of capacity due to a shortage of coal.

If a moratorium could be declared for 1 year to 15 months on the shipment of these 10,000,000 tons of coal out of Germany, a revolutionary dynamic would be inserted into the whole picture of western Germany and western Europe. If these 10,000,000 tons of coal now exported from Germany could be used for a year or 15 months within Germany, the restoration of not only Germany but of western Europe could be assured.

The only way, however, that this moratorium on the export of coal from Germany can take place is for the countries of western Europe to be again supplied by coal from Great Britain.

The leaders of all factions in Great Britain recognize that coal is the very crux of their recovery problem. Yet because the coal industry and the coal miners have presented such a critical problem for so many years, the leaders of Great Britain are reluctant to face this issue. They are trying everything except offering direct incentives to get the miners to dig the coal again in the quantities that they produced in the years before the war.

LABOR GOVERNMENT DODGES ISSUE

For 2 years the Labor government has been avoiding the main issue of the necessity of digging and exporting coal, while using the proceeds of the American loan to buy food supplies that could have been bought in part, at least, with coal if they had gone to work and dug it.

The simple fact is that more and more austerity, while necessary, now only tends to push Great Britain further down in a depression cycle. Austerity cannot take the place of production. As long as Great Britain does not dig and export coal, more loans are simply continuing Great Britain on the American dole, and the British people do not like or want that.

Fifty million tons of coal exported from Great Britain at current obtainable prices would help close the gap that now exists between Britain's imports and exports. It would go a long way toward curing the dollar shortage that is now the crux of the crisis in Great Britain. With coal, Britain could buy a portion of her food and raw material requirements.

Great Britain has the coal. She has the barges with which to haul it. She has the miners with whom to dig the coal. The miners themselves, I am assured, would dig the coal if they were given incentives. They can be given such incen-

tives. But offering the miner added incentives to produce extra coal would, of course, be contrary to the socialistic conception of equality. But if the Socialists continue to insist on an equality of misery they are going to have an increasing amount of misery.

The "soft Socialist" states of western Europe, including England, are frankly experiments, almost certain to evolve into something else, as they rest on the false assumption that men will work hard without either strong compulsions or strong incentives. Thus, in England, the new crisis measures contemplate (or profess to contemplate) sharply increased production and 40 percent more exports than before the war, while at the same time offering the people less food, less consumers' goods, and less forms of enjoyment. In other words, the British state demands more production but offers less inducements.

Can America afford to underwrite these Socialist states that have neither the inducements nor the disciplines of the well-tryed capitalist system nor the iron disciplines of the police state?

If we do, what may happen may well be that we will be pouring our money into a sink that has no bottom. This report has taken one sector, the coal industry, and recommended increased production through the real incentive of increased food and consumers' goods tied directly to output. Should we not insist that American economic support of European states be based on the establishment of an economic system that rests on hard work resulting from genuine incentives tied to output and backed up by a discipline that ties the very possession of a food ration card to output?

It seems to me that we face two alternatives in Europe: The soft Socialist states will either go through crisis after crisis, each requiring new controls and new compulsions, to the full length of the police state, finally replacing the enormously weakened money incentive almost entirely with physical compulsions, thereby reverting wholly to serfdom and slavery; or—goaded by American pressure, if we are wise—they will, step by step as fast as realities permit, drastically alter and deflate the enormous and complicated system of rationing, allocations, controls, etc., and revert to capitalistic incentives even though the terminology remains socialistic. Thus Russia, faced with low output, introduced "Stakhanovism," which is none other than the good old capitalistic piece-rate system and smells the same even though called a Communist rose.

But to get back to particulars, the fact remains that if America must supply an added loan to Great Britain or help through the Marshall plan in the way of food and raw materials to alleviate Great Britain's crisis, then Britain's contribution to the Marshall plan and recovery of western Europe should be to dig and export coal and to postpone further nationalization of industry until she can accomplish it at her own expense and not at the expense of the American taxpayer.

When I went into Germany to study the problem of German recovery. I expected that the answer would be found in Germany. But as my studies developed, it became amazingly clear that the crux of the recovery problem of Germany and western Europe lay in the digging and exporting of coal by Great Britain.

It is also perfectly clear that America cannot continue indefinitely its relief loans to Europe. Yet we must take prompt and vigorous action to prevent the spread of communism west of the iron curtain; and the only way to do this is to help western Europe and Great Britain to get industrial production going and the standard of living rising.

Without question in Germany, and perhaps in Great Britain, it will be necessary to make additional supplies of food available on a declining basis. But this food supply should be made available only on condition that it be used as an incentive to get production going and not merely for relief. It is my definite recommendation that the American Congress stipulate some such plan as this as a condition for the appropriation of funds for the Marshall plan.

FACTS KEPT FROM BRITISH PEOPLE

Even if Great Britain digs and exports coal as outlined, she will still need some additional loans to buy supplementary food and raw materials. In my opinion, the people of Great Britain have not yet been told the truth about the extent of the austerity program required if there is no additional help forthcoming for Great Britain under the Marshall plan.

It is not in the basic interests of America or of the world that Great Britain should be permitted to fall or, under excessive austerity, to delay her economic recovery.

But it is also clear that unless Great Britain is willing to dig and export coal as her contribution to the recovery of western Europe under the Marshall plan, further loans and help from America would not accomplish the objective of recovery.

Even if the cost is several billion dollars a year for the next 5 years in the form of loans, I believe that if these loans are intelligently made, not as relief but as an incentive to get production, that they can be repaid.

Repayment should not be expected until after 5 years, during which western Europe would have a chance to get on a self-supporting basis.

The problem of repayment of these loans to America presents the same transfer problem that confronted us in World War I and World War II. But there is and can be a difference.

Some of the loans required under this program can be made from the International Bank and can be repaid to the International Bank. Some of the loans can be made by private investment bankers and repaid through the normal channels of foreign trade over future years.

But the bulk of these loans will have to be repaid through the transfer of physical goods from other countries to America.

The reduction of tariff walls would go a long way to make possible the repayment of these loans. So far, the program has not accomplished a great deal.

Our Congress might consider a new plan to permit a generalized quota of imports, duty free, up to 10 percent of the physical quantities of the production of any American industry now having a protective or prohibitive tariff.

WOULD NOT INJURE OUR ECONOMY

Over a period of years, such a moderate importation would not be destructive of either American industry or American labor, and over a long period of years would permit the repayment of these loans advanced now for reconstruction.

Another method of repayment that should be considered by the American Congress is to make some of these loans for the reconstruction of Europe through our Export-Import Bank and then accept payment in the years to come in the kind of goods that can be used in our own relief programs. This would minimize the taxes levied internally to meet relief requirements.

In effect it would mean paying out American credit now to bring relief to western Europe and Great Britain and later accepting goods manufactured in Europe that could be used for relief work in the United States.

To stop the march of communism beyond the iron curtain may require another 5 years of intelligent and constructive help from America. But this help should be made as an incentive to production—as a means of helping people to help themselves through an organization, small but competent, capable of seeing that the basic principles are followed and the desired results obtained. It should have sufficient authority as to details so that they can meet changing requirements that will inevitably develop under a 5-year program of this kind.

RUSSIA'S POLICY: WAIT AND HOPE

The inevitable question arises as to what Russia will do in the face of such a constructive plan of action for the reconstruction of western Europe. It is my considered opinion that Russia will not go to war. Her policy is to wait, hoping that America will fail to take action or that England will not dig coal or that France and the other countries of western Europe will fail to get together on a plan of action.

If we fail to integrate our action as we did for the invasion of western Europe, it is my opinion that Russia will realize her hopes—that we fail in western Europe and that this failure will bring about an economic depression of severe proportions not only in western Europe and the British Empire but in the United States as well. The cost of such a recession will, in my opinion, be greater in the end than the cost of preventing it.

I do not know whether we have the collective intelligence or the will to act promptly enough to minimize such a recession. But I believe that our only hope of avoiding these consequences is for the leaders of our Government and the committees of Congress to act with the utmost promptness in developing a plan that can be submitted to a special session of Congress this fall.

We will include in the record a statement by Dr. Ronald Bridges. (The statement referred to is as follows:)

STATEMENT ON EUROPEAN RECOVERY PROGRAM

(Submitted to House Committee on Foreign Affairs by Dr. Ronald Bridges representing the Council for Social Action of the Congregational-Christian Churches)

I am Ronald Bridges, president of the Pacific School of Religion in Berkeley, Calif., an interdenominational graduate school for the ministry. My appearance here is at the request of the Council for Social Action, an agency of the Congregational-Christian Churches. The views I express are my own but they may be found to reflect the views of a very large number of people in the Christian churches of the United States.

First I commend Secretary Marshall and others responsible for the conception of the European recovery program. In a dark time it has given confidence abroad and at home—confidence in our capacity to deal greatly with a great issue.

I commend the conduct of these hearings and the combination of courage, vision, and common sense which evidently animates you who have been obliged to take leadership in bringing ERP to execution.

The Federal Council of Churches has prepared a statement on the European recovery program. It is a good statement, and I am happy to endorse it. The Council for Social Action which I represent had a part in the framing of this document and concurs in it. I ask permission to append to my remarks the original statement of the Council for Social Action, which preceded that of the Federal council, and was, I think, the first to be adopted by any major church agency in the country.

I will not repeat the testimony of these two documents; rather I would address myself to one aspect of the European recovery program: The motivation of the program and the manner of expressing that motivation.

As I read my history, I find that no other great and numerous people have ever acted toward other people in distress as generously and from such humane impulses as we have. Disease, disaster, and dramatic misfortune anywhere in the world have always laid hold of the American conscience. Since so much and such various help has been given, a person of simple mind would think that we must naturally be esteemed and loved the world around, invulnerable in our friendships. The blunt truth is that we are not at all secure in our friendships and that many of the people whom we have helped are acutely hostile toward us. Our well-meant good works and good will have resulted in an amazing amount of ill-will and suspicion—ill-will and suspicion which has been exploited very cleverly. One doesn't have to be very keen to see that we have got to do better this time. The American people are ready, I think, to finance the European recovery program; but if having done so, they find that they have humiliated those whom they tried to help and evoked fresh distrust and suspicion, the whole program will have been fantastically futile. Furthermore, if this humiliation and distrust are successfully exploited by enemies of democracy to produce chaos and war, the American people will know a new and a desperate fury.

In my role here I feel justified in speaking to this sober problem. The Congress will appropriate reasonably, ungrudgingly, I am sure. The type of administration is a vital matter, too. On both these points you have the evidence, the facts, and are in a better position to judge than are most of us on the outside. Beyond presenting the foregoing support for ERP in general, I want to speak, now, to the philosophy of the plan.

We are confronted with a fearful threat to democracy; and cherishing our democratic institutions, wishing others to enjoy them as we do, it is natural that we should want to promote democracy, defend it, propagate it. But democracy is not a virus with which people can be inoculated, a benign-appearing disease with which we can infect people. It is a state of health which must be cultivated—a state of mind that proceeds from the healthy comfortable condition of man. Communism can be forced on people too weak to resist it—not democracy. Communism can be finagled, maneuvered, and imposed by coups. Democracy has to grow organically. People cannot be starved into democratic ways or frightened. They cannot be bargained or threatened into being democratic. If we try any of these tactics or give the appearance of trying them, we damage our own cause terribly.

Nobody is so smart that he cannot be manipulated at times—nor so dumb that he doesn't resent it profoundly when he catches on.

The ERP will pay off in economic and democratic benefits, I truly believe. But if we set up the program and administer it with a cold eye on these benefits to ourselves, it will fail of its high purpose and the very benefits hoped for. Nor is this program to be conceived as giving us the right to speak our piece. This is no superradio program with a democratic commercial—not even a singing commercial.

We are not out for the purchase of global affection. Purchased love is notoriously short lived. We want and need the support of our brother nations. But it can't be bought. And it doesn't come because we do something for them. Affection and respect develop when you do things together. That is the genius of the European recovery program.

Arrogance is the manner of one who is temporarily sitting pretty. The truth is that no one in the world is sitting pretty, but the United States appears to be. The arrogant point of view is that we don't need France, Luxemburg, Denmark. We do. The painful narrative of history teaches that Athens needed Boeotia and Sparta—that Rome needed Palestine. All countries need all other countries—all people, all other people. The interdependence of man is no fancy—not processed, homogenized man, but just man—the son of God.

In short, I see a great hope in the ERP and so do most Christian people. We know that so huge a plan cannot be put in action without some waste—we hope not too much. We know that every good program advantages some scoundrels who are having a lucky season, but we will try not to be too disturbed if a few of them cash in. Some prodigals are being welcomed into this program—and there are always fathead protests when the fatted calf is killed for a prodigal.

The legislation remains to be written, the amount set, the administration set up. Church people and church agencies take a calculated risk when they support such a program at this stage. But there is a greater risk in standing aloof and withholding encouragement from legislators who are trying to find a way out.

We who believe in Christian democracy support such a plan as the European recovery program because it is Christian democracy. That is the kind of thing you have to do if you would live your principles and your faith.

A CALL TO THE CHURCHES FOR FULL AND ACTIVE SUPPORT OF THE EUROPEAN RECOVERY PROGRAM (MARSHALL PLAN)

The people of Europe are fighting hunger, cold, disease, and discouragement. They face the imminent danger of economic collapse, chaos and the spread of totalitarianism. They cannot win back their strength without our help.

Conscience and human decency demand that we share our abundance. Unless American food, tools, machinery, and raw materials are sent at once, there is little hope that Europe can regain her economic and spiritual balance. Other nations have their part in the program of European recovery. But upon us—American citizens—falls the greatest responsibility.

We support prompt emergency aid to Europe to meet immediate needs for food and fuel.

We support the Marshall plan because, in response to an American proposal, it is the plan and pledge of 16 European nations that they will undertake a program of massive self-help, a great increase in production and in economic cooperation. This European recovery program can only be achieved with the help of the United States and other nations.

We support the Marshall plan because it is a practical method of rendering definite help to desperate peoples, of using justly the great national wealth we hold in stewardship to God, of giving courageous leadership in the building of world community.

We support the Marshall plan although we regret that Russia actively opposes it, thereby making it impossible to deal in the near future with the European problem as a whole. Since it is the hope of the 16 nations that the nonparticipating countries will cooperate at a later stage, we urge that our Government hold the door open for such future cooperation.

We support the Marshall plan because we believe it will give the participating nations of Europe a real opportunity to create strong and free governments of their own choosing. We oppose any moves of our own Government which would impose a particular economic or political pattern as a condition for receiving aid.

The temporary sacrifices required of us are not great.

We believe that we must practice thrift with new determination, voluntarily saving everything we can in personal and family use of food and other necessities.

We believe that our efforts to render aid abroad must be undergirded by policies and programs of full agricultural and industrial production within our own country. Farmers, industrial leadership, labor, and government must all share the responsibility for such policies and programs.

We believe that we should limit sharply our natural desires for more profits, wages and salaries, and other income.

We believe that we must protect the people of our Nation by lowering prices and fairly distributing the essentials of life. Specifically, we support such programs of Government control of our economy as may be necessary, including price control and rationing.

We appeal to all religious people to give active support to the prompt adoption, by Congress, of the Marshall plan—both immediate emergency aid and the full 4-year recovery program.

We appeal to religious people to give increased support to the voluntary programs of the churches and welfare agencies for relief and reconstruction overseas.

Finally, we appeal to church people as a measure of justice and equity to support such programs of Government control of our economy as may be necessary, including price control and rationing.—Issued by the Council for Social Action.

NOVEMBER 1, 1947.

Chairman EATON. Our next witness is not here at this time so we will adjourn until 2 o'clock.

(Whereupon at 11:45 a. m., the committee adjourned, to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

(The committee reconvened at 2:15 p. m., following the noon recess.)

Acting Chairman BOLTON. The committee will come to order. We have as our first witness this afternoon, a representative of the League of Women Voters.

STATEMENT OF MRS. KATHRYN H. STONE, FIRST VICE PRESIDENT OF THE LEAGUE OF WOMEN VOTERS OF THE UNITED STATES

Mrs. STONE. I am speaking today for a group of women citizens who deeply desire the enactment of the European recovery program, and who earnestly hope that the United States will act soon and adequately.

The League of Women Voters views the proposed program with the perspective of 28 years of study and action in the field of government. During these years we have quite consciously tried to take our share of responsibility for national decisions in international relations. We have approached the consideration of the European recovery program with a fund of principles of good government, and particularly with citizen experience in evaluating international economic relationships and the bearing which they have upon world stability.

Our realization of the importance of economic foundations of peace dates back to the midtwenties when "economic agreements in the interest of peace" was written into our program for active support.

The League of Women Voters has long held that a sound foreign policy depends upon consistent, long-range thought and action. We have urged the acceptance by the United States of its full share of responsibility for strengthening the United Nations. Especially important, it seems to us, was the establishment of sound economic institutions within the United Nations framework. Accordingly, we have supported the development of the Economic and Social Council. We

worked for the setting up of the International Bank and the International Monetary Fund. We want to see the International Trade Organization come into being.

The league has realized that the United States, as the world's most productive nation, bears a further responsibility. Accordingly, we have maintained the position that "economic assistance by the United States is required to hasten reconstruction and to stabilize the economies of war-torn nations." Earlier estimates of the size of this task were all too low. We must renew our effort if we are to achieve a sound economic basis for the peace.

These considerations have been discussed by our members. Last spring, before the European recovery program was projected, we had scheduled a series of area conferences on problems of world trade to be held in September and October. These conferences were held on schedule, but without exception they became, through the desires of the participants, discussions of the European recovery program. At Dallas, Portland, Minneapolis, Columbus, New York City, Atlanta, Kansas City, and Washington, the European recovery program was considered in relation to the other problems confronting our Nation. Literally hundreds of local meetings are being held in the 550 communities where there are leagues. The concern of our members, I can confidently assure you, is deep and earnest. They are urging full action, as rapidly as it is possible to develop a sound program.

Your committee has already heard explanation of the reasons why a European recovery program is in the best long-range national interest as well as in the interest of world construction. The league recognizes the humanitarian reasons and the ancient cultural ties; we are deeply concerned with the preservation of free institutions; we take realistic appraisal of the political environment of the world today; above all, we seek the long-range goal of world stability and peace. We do not wish to take your time reiterating in detail the fuller expression of these arguments for undertaking the European recovery program. Instead, we should like to call your attention to three particular aspects of the program with which the league is especially concerned:

1. Use of international machinery: The league proposes that the international machinery be used to the fullest in carrying out the European recovery program. The heart of the program—and one of the cardinal points on which its success or failure will hinge—is economic cooperation among the 16 nations. The more effective this cooperation, the faster will be the progress of European reconstruction; without it, there is little hope for recovery.

A solid foundation has been laid in the work of the CEEC—the Committee of European Economic Cooperation. This is the groundwork on which to build. Our Government should encourage the continued existence of the CEEC throughout the period of the European recovery program, to follow through the program agreed upon, to review and revise it as needed, and to initiate new projects of cooperation. The CEEC should serve as the focal point for the gradual integration of the economies of the 16 nations.

While recognizing that the administration of the European recovery program through the United Nations is not feasible at this time, the league is anxious to see the maximum use of United Nations machinery in carrying out the program.

In many instances cooperation is already progressing under the

auspices of the United Nations. The International Bank and Fund, the Food and Agriculture Organization, the International Labor Organization, and the Commissions of the Economic and Social Council—particularly the Economic Commission for Europe—are all concerned with various phases of the problem and can make valuable contributions. Their research staffs have gathered much of the data necessary to make reconstruction plans. They have set up the machinery and have gained experience in dealing with the problems. It is practical, as well as sound support for the United Nations, to take advantage of their facilities. The European Coal Organization has had a notable record in allocating scarce coal supplies among European countries. Its functions have now been taken over by the Coal Committee of the Economic Commission for Europe. Also within the Commission are a Transport Committee, which has recently worked out an agreement to reduce some of the barriers to highway traffic between various European nations; and the Timber Committee, which is following through on the recommendation of the International Timber Conference held last summer. Another outstanding example of economic cooperation has been the allocation of foodstuffs by the International Emergency Food Council, now a part of the Food and Agriculture Organization.

Many of these agencies include countries of eastern Europe which are not participating in the European recovery program. Since the resumption of trade between East and West is a major factor in the reconstruction of the 16 nations, cooperation between eastern and western Europe will serve the interests of the recovery program and should be encouraged as much as possible.

The 16 nations have indicated their desire to use United Nations agencies whenever possible. It is up to the United States to encourage this development, and to allow for the use of European recovery program funds by the United Nations, whenever its agencies are able to carry out portions of the program.

2. Best use of resources: The League is particularly concerned to see that United States resources are put to the best use where they can contribute the most to European recovery. We should like to suggest for your consideration two tests of the effectiveness of United States aid.

The first is the test of performance—the tangible progress toward recovery. The United States should require that the 16 nations make the efforts they have promised in production, in cooperation, and in stabilizing their finances. Through the power of review, and of annual appropriations, we retain the right to pass on these efforts. Our continued aid should be dependent on their continued progress. We would defeat our own purposes, were we to make our aid contingent upon the 16 nations reaching certain goals on specified dates. Recovery depends on too many unpredictable factors; it cannot be forecast to the ton of coal or to the bushel of grain.

There is also the test of observation—following through on the actual use of the resources we provide. The recipient nations must make it possible for observers to see where the European recovery program resources are being used. The United States should have officials in Europe whose task it is to report these facts back to the Government and the citizens of the United States. We suggest that it is appropriate for the CEEC to have its own observers who would

be extremely helpful to the United States representatives. The objective surveillance of Europeans by Europeans who are representatives of the CEEC could do much to lessen any odium attached to inspection. Knowing European habits and methods of carrying on industry, the CEEC inspectors could make a unique and important contribution.

As a citizen organization, we enter a request for clear and concise reports of the progress of the program.

3. Administration: The European recovery program will be, above all else, a focal point of United States foreign policy. The Constitution of the United States makes the President responsible for the conduct of foreign policy. He, in turn, relies upon his deputy, the Secretary of State. It is particularly important that the United States speak with one voice and that the European recovery program representatives abroad be integrated with the regular embassy staffs.

The League of Women Voters believes that a special agency, with a single administrator directly responsible to the President, should be created. In matters of foreign policy, the administrator should be subject to the direction of the Secretary of State. Aspects of European recovery program which can be handled by already existing agencies of government should be so handled. The administrator should have a small, flexible organization staffed by the most highly qualified personnel it is possible to assemble.

Never in peacetime has there been so much reason to bring to bear the best managerial skill from both government and private business. Never has efficiency been so needed. The League of Women Voters has always stood, not for circumventing government, but for making it efficient. Great good could flow from a fresh and thorough attempt to reach a new level of performance in the administration of the United States contribution to European recovery.

The League would also like to point out two dangers which we fear may handicap the program and make it something less than the effective instrument we want to have.

I began by mentioning our concern that action be adequate, and soon. The committee has heard much discussion of the proposed \$6,800,000,000 figure for the first year and a quarter of the program. To the League, there is nothing immutable about this figure. We believe that the estimates have been made and justified with care, but it is for the Congress to consider these estimates and determine upon an adequate figure. We suggest, however, a lesson which businessmen know well. When you are raising new capital to reorganize a business, you make sure your capital will be adequate. It is less of a risk if it is adequate. Insufficient funds invite makeshift methods and often lead to failure.

The League is also concerned with some of the conditions which the Congress may consider attaching to the European recovery program. A fundamental fact of the European recovery program is that, while United States goods are essential, the United States cannot perform the job. It must be done by the 16 nations. The program is theirs, not ours, and it is they who will carry it out.

It would hinder rather than help European recovery if the United States should attempt to regulate the domestic affairs of the 16 nations. We must deal with them as we would be dealt by were we in their situation. We must respect the prerogatives of independent

states. As long as the European peoples themselves, through freely elected representatives, determine their own courses of action, they are exercising the democratic process which we support. One of the objectives of the program is to enable these nations to continue as self-respecting, self-governing members of the world community. Forcing them to be subservient to the United States would defeat the goal we seek.

In conclusion, the League would like to focus attention once more on the long-range significance and the order of magnitude of the European recovery program. In fighting a major war, or in piecing together a shattered world we must rise to our full stature.

Bold strokes are needed. The United States is capable of making them.

Acting Chairman BOLTON. Thank you, Mrs. Stone. We certainly appreciate this very interesting statement you have made.

There may be some questions the committee would like to ask you.

Mr. Jarman.

Mr. JARMAN. I do not believe I could possibly more thoroughly agree with every word of a statement than I do with yours, and consequently I do not have much to ask you.

Mrs. STONE. We certainly like to hear that, Mr. Jarman.

Mr. JARMAN. You are the only witness we have had here for some time with whom I have not disagreed in some respect. However, I do not disagree with anything you have said.

Mrs. STONE. Thank you, Mr. Jarman.

Acting Chairman BOLTON. Mr. Richards.

Mr. RICHARDS. I just want to congratulate you on your very fine statement. We appreciate your coming here and hope you will come more often.

Acting Chairman BOLTON. Mrs. Stone, I am not going to be so easy on you.

Mrs. STONE. Very well.

Acting Chairman BOLTON. You speak of our free institutions. In doing that, have you had any thought of controlled currencies, and whether we are going to urge those countries to free their currencies or whether we expect them to stabilize by controls? Have you people given any thought to that kind of thing?

Mrs. STONE. Yes, we have. We recognize some controls will be necessary. We hope that the 16 nations cooperatively will come to agree on methods and procedures among themselves.

There is no doubt that our advice will be sought, actually, particularly on some of these monetary matters, and it will be a very fine line to draw between advice against a background of principal and intervention. It will be very difficult to draw.

Acting Chairman BOLTON. Have you thought through to the goal of what we might dream of as possible again in the matter of currencies and the standards of them, whether we would do best to move toward a return of the gold standard?

Mrs. STONE. No; I have no position on that and the League has no position. I believe that is getting a little beyond the depth of our citizen's organization, not that we do not have experts who are interested in that, but we try to confine our stand to the ideas of the membership as a whole.

Acting Chairman BOLTON. You speak of international machinery being used to the fullest degree possible. To what machinery do you refer?

Mrs. STONE. We tried to enumerate some of these things to make that explicit. Some of them seem quite minor, perhaps. Perhaps the Timber Committee would be considered a small thing, but it operates within the grounds of an important raw material. And this is the plan which is being worked out for transport between eight or nine countries, making it possible for trucks to go across international boundaries, quite freely, among those countries who signed the agreement. That seems quite important.

Acting Chairman BOLTON. Do you feel that should be written into the legislation or is it a matter of administration?

Mrs. STONE. It is already in the proposed legislation in that it is permitted to use ERP funds for jobs that can be done through the United Nations.

Acting Chairman BOLTON. You are simply enumerating some of the things for our information?

Mrs. STONE. That is right.

Acting Chairman BOLTON. I think that is very helpful.

With regard to the people who are going to administer this, it will be, of course, a temporary job, about 5 years at the outside or maybe a little longer. How are we going to get the right type of people? They must be top-notch people, must they not, with backgrounds, judgment and so on? What would you suggest as a method to pry them loose from what they may be doing and get them to accept a position of this kind?

Mrs. STONE. I believe public opinion is already doing part of that job for you.

Yesterday, I had lunch with a very competent woman who has a good deal of experience in administration. She was personally feeling the challenge of ERP, and even though she was satisfied completely with her position, she felt the great urge again to get in and contribute to that temporary problem and program.

I think also of some of the men I know from Chicago and perhaps you remember some of the very fine men who came in here in the early years of the war—I am thinking of one as well qualified in the field of housing as any one individual, with one of the great Chicago real-estate firms, and I am sure he could be recruited on this program. In other words, I think they see the larger patriotic appeal that this has, and its importance to our long-term welfare.

Acting Chairman BOLTON. You bring in something that is always of interest to me. You would feel that there might be quite a number of very well-equipped, experienced, trained, and able women who might be put into this?

Mrs. STONE. I do, indeed.

Acting Chairman BOLTON. Thank you very much.

Mr. MALONEY. May I ask one question, if you are through with the witness?

Acting Chairman BOLTON. Yes, indeed.

Mr. MALONEY. You state that these 16 countries should stabilize their finances, and keep to the various promises they have given. Later on, you state that we should not attempt to regulate domestic

affairs. Are those statements contradictory or can you line them up together?

Mrs. STONE. Before you came in, I said there must be a very fine line between the advice which we must give and what we are to require, and that we should hope that the CEEC would develop among the 16 nations themselves, a good deal of the strength necessary to cope with that thing.

There is no doubt but what we must be very watchful there of the situation.

Mr. MALONEY. Do you not think the countries will feel we are interfering with their internal affairs by demanding that their currency be readjusted, and mentioning various things we do want to take place?

Mrs. STONE. Probably, to some extent. This appeals to me as one of the greatest challenges to human relations we have ever embarked on, if not the greatest.

Mr. MALONEY. It is a little dangerous, though?

Mrs. STONE. It is.

Mr. MALONEY. Thank you.

Acting Chairman BOLTON. I wanted to read you the resolution with which we started our work in this committee on this subject:

That the committee proceed with hearings on United States Foreign Policy for a Postwar Recovery Program and the first step be consideration of proposals for a European recovery program, including H. R. 4840 and H. R. 4859 and similar measures.

I do that because from time to time we want to remind ourselves that this is not a matter of just Europe or the United States, it is a matter of world recovery, and it is not only world recovery but it is the building of a new world, which is a very different thing again which I believe you women have a lot to do with.

Mrs. STONE. I think we as an organization with long experience in the field of international relations would like to congratulate your committee on that approach.

Acting Chairman BOLTON. If there are no more questions, we take this opportunity to thank you very much for being with us, Mrs. Stone.

Mrs. STONE. Thank you.

Acting Chairman BOLTON. Our next witness is another Mrs. Stone, Mrs. Margaret F. Stone, Chairman of Legislation of the National Women's Trade Union League of America.

STATEMENT OF MRS. MARGARET F. STONE, CHAIRMAN OF LEGISLATION, NATIONAL WOMEN'S TRADE UNION LEAGUE OF AMERICA, 317 MACHINISTS BUILDING, WASHINGTON 1, D. C.

Mrs. STONE. The League is strongly behind the European recovery program for a very simple but a very compelling reason; we have learned that the United States cannot prosper when there is want and chaos in other parts of the world, particularly in those parts with which we normally carry on the great bulk of our foreign trade. Over the years our League members have come to understand that a free flow of trade between our country and the countries abroad, particularly the industrial nations of Europe, has a direct bearing on our own

standard of living here in the United States, and even on our national security.

The object of the plan is, of course, to make the 16 European nations that have already signified their intention of helping themselves and of cooperating with one another, self-supporting, and so we feel that it is all-important to give enough aid to achieve this object. The United States will be pouring money and goods down a rat hole if we give only enough for relief, and fall short of the amount necessary for rehabilitation. The League would urge, therefore, that the full amount of \$6,800,000,000 be authorized for the first 15 months, since this figure was arrived at after long and careful study, and its fundamental soundness shown by the fact that it was closely approximated in two separate estimates carefully made, one by the State Department and the other by the Harriman committee.

While our members do not pretend to be experts on administrative details, the League has taken a definite stand on one or two specific points. We do not favor a Government corporation, but prefer a single administrator responsible directly to the President, but whose actions on matters affecting foreign policy would be subject to the control and direction of the Secretary of State. We believe also that the legislation as finally written should provide for a close tie-up between the representatives of the program abroad and our ambassadors in the countries receiving aid.

A second important point that we cannot stress too strongly is our belief that the United States should not interfere in the domestic affairs of the participating countries. Therefore, we should oppose and do oppose a provision in the proposed legislation that all commodities should be paid for. It will be utterly impossible for these countries to get back on a self-supporting basis—and our purpose will thus be defeated—if, in the course of the next 4 years, we saddle them with a new load of debt. Any financial plan that is workable must be based on each country's ability to pay. There will have to be outright grants for some, loans for others, and perhaps a mixture of both for some. Also, and most important, the holding by the United States of vast sums of local currency of various European countries would inevitably lead to United States interference in the economic and perhaps even in the political life of those countries. We are unalterably opposed to that. We would prefer a plan whereby each country receiving aid would put into a special account the equivalent in local currency of goods and services received by them as a grant, and would use this money for productive purposes and to help stabilize the currency in ways which might be specified in an agreement entered into by the United States and each of these countries.

The National Women's Trade Union League has strongly supported the United Nations and its various organs, and we should like to see written into any foreign rehabilitation legislation a definite statement of United States intention to cooperate in every possible way with the United Nations and its affiliated agencies. Naturally, all of the agreements mentioned above between the United States and the European countries should be registered with the United Nations as required by the Charter.

The matter of time is critical. Prompt action on this legislation is essential to make success of the program possible. Emergency aid has been provided up to April 1, and any delay beyond that date in

appropriating the necessary funds would greatly increase the cost of the program and greatly lessen its chances of achieving the desired goal.

Finally, we look upon the European recovery program not merely as a matter of self-preservation, but as a creative ideal containing the first ray of hope for establishing unity in Europe and eventually bringing about the conditions of peace for which we have been looking in vain since the end of the war.

Acting Chairman BOLTON. We are particularly happy this afternoon to have our ranking Republican back with us, Mr. Chipfield. He slipped on the ice and shattered his elbow. The last time he came up from the hospital to vote, he was in rather bad condition. It is good to have him back.

Mr. CHIPFIELD. Thank you, Madam Chairman.

Acting Chairman BOLTON. Mr. Chipfield.

Mr. CHIPFIELD. You would not feel, would you, that efforts on our part, and on the part of the 16 participating countries, to assist them to stabilize their currencies, so that there would be international exchange or currencies, would be in any way interfering with the domestic affairs of their sovereignty, would you?

Mrs. STONE. No; I should not, Mr. Chipfield, and the 16 nations have signified their willingness and interest in stabilizing their currencies. That should be in the agreement.

Mr. CHIPFIELD. It seemed so to me, because if we do not arrange for stabilization of the currencies and exchange of international currencies, we can bring these countries back to an economic standard of perhaps 1938 or even above and still they would require continued aid. It is just like giving a person blood transfusions without finding the cause of the hemorrhage. Unless we concentrate on that point, so when we are through we will have this international exchange and there will be exports and imports flowing normally, I think the plan would fail.

I for one would like to see more emphasis put on that angle of it. For example, would you agree with me on this: We might get Greece up to an economic standard that was prewar or above, but if the currency was wrong or it was not stabilized and there was no means of exchange, we would be no better off unless we continue to give supplies to them. I believe that is one of the vital problems this committee and the Congress is faced with.

Acting Chairman BOLTON. Will the gentleman yield?

Mr. CHIPFIELD. Certainly.

Acting Chairman BOLTON. You suggest, then, that we may be involved in a reconsideration of some of the World Bank and monetary provisions which do peg the currencies and forbid certain action on the part of those countries, and from which some of them transgressed.

Mr. CHIPFIELD. You will remember we have had this subject with us since the Hoover administration. We had the International Conference on the subject. We had the Bretton Woods agreement and so forth. I wonder if we are not looking through the wrong end of the telescope. When we give this reconstruction help, will they maintain this position without additional help? We talk about a general recovery plan without concentrating on one particular thing that will make them self-sufficient after we give aid. I have been thinking about that situation, and at the proper time, I would like to

have the members of this committee discuss that phase of it. I believe that is the nub of the situation.

I understand you want this program to be adequate. Otherwise you might feel it would be not worth while, it being just relief and not rehabilitation.

I should not suggest trying to pin you down to any suggested breakdown of these amounts that make up the 6.8 billion dollars, but I know we have had little in the way of break-down furnished. In the case of Iceland, we have a figure of \$13,000,000, and for Belgium and Luxemburg, \$323,000,000. Those are the figures given to us.

I wonder if under the Export-Import Bank, if we could not get some money to Iceland. I wonder how essential it is to give grants-in-aid or even loans under a plan of this kind to a country like Portugal. I was in Luxemburg and in Belgium. I saw the extent of recovery there. There was no unemployment.

Just because they are all in the club, here, and are asking for something is not reason to give it to them, unless it is justified. I think a very important thing for this committee to do is screen these requests and see if they are justified.

I do not believe there would be any objection toward our committee doing that and even cut the amount down if it was justified.

Would you agree with that, Mrs. Stone?

Mrs. STONE. I feel it is very important to give enough money to get the countries on their feet and not just enough for food and relief. I am not a financial expert, and I am not an expert in any field.

Mr. CHIPERFIELD. I did not mean to pin you down to any particular figure. I was using those as illustrations, only.

For example here is what we are up against as a committee: First, we have an amount for food that is necessary to carry on, just as relief. They then break it down into special categories. Here is tobacco. For the first 15 months under the 6.8 billion dollars they are asking \$264,883,000 for tobacco. I had the privilege of talking to a man who who was just back from Greece. He tells me one of the principal crops in Greece is tobacco; that they usually had a market for tobacco in Germany, which does not exist, now; that there is a surplus crop of tobacco in Greece and also a surplus in Italy.

Now I think this committee should certainly try to find out, in order to rehabilitate these 16 countries, whether we should spend for the first 15 months, that figure for tobacco.

Acting Chairman BOLTON. I am wondering whether that would be spent for Greek tobacco, or not, and then that tobacco used where it should be used, allowing the Greeks to get the dollars?

Mr. CHIPERFIELD. I was wondering the same thing and was hoping perhaps it could come from the other countries and give us something in return. It would be a three-way proposition.

I do not say tobacco is not one of the essential things.

There is also a figure here for meat of \$227,388,000. Mr. Anderson says the only thing we are going to send over there is horse meat. That is an awful lot of horse meat.

Mr. MALONEY. Will the gentleman yield at that point?

Mr. CHIPERFIELD. Yes.

Mr. MALONEY. When we were in Germany and many of the countries of Europe, there was a surplus of meat.

Mr. CHIPERFIELD. Mr. Maloney, we had testimony here that there is more beef on the hoof in France than prewar.

Those are things we should examine.

We have here \$609,000,000 listed as "Other imports."

If we had an appropriation for a city council or something, and they had "Miscellaneous" in it, amounting to \$600,000,000, you would want to find out something about it, would you not; so when they say to us, "Take it or leave it," I want to find out if this is justified without trying to scrimp or pinch. I think we have a solemn duty here to do a good job, not only in screening this, as far as the requirements are concerned, but you must take into consideration our own availabilities in short supply.

Unless we do that, I do not think we are doing our job. When you come in and say, "You must give them 6.8 billion dollars without taking into consideration those factors," I am wondering if we are not taking too much on good faith. That is what worries me.

No one wants to keep food from hungry people. However, the interim aid bill was to feed people until we could consider this plan. However, there was \$184,000,000 for coal included, not to warm people, but to take care of the French industries. There was \$10,000,000 for France for the International Bank fund. There was \$20,000,000 in there to service the French debt. Therefore, I say it is a complicated question. I thank you very kindly.

Acting Chairman BOLTON. Mr. Richards.

Mr. RICHARDS. I have no questions, Madam Chairman. I do want to say, Mrs. Stone, your statement was very fine and very well thought out.

Acting Chairman BOLTON. Mr. Maloney.

Mr. MALONEY. Mrs. Stone, I am very much interested in what the American people are thinking of this plan. I would like to ask you about your league. How many women do you represent?

Mrs. STONE. I always hesitate to say.

Mr. MALONEY. Give it to me in round figures.

Mrs. STONE. I suppose I represent, really, the 25,000 women in the actual local leagues we have over the country. We have many affiliated unions with women members which brings the number of women who get our literature up to over 1,000,000, but I do not represent that 1,000,000 women. I represent the 25,000 that are in our local leagues in various parts of the country.

Mr. MALONEY. How was this statement endorsed by the women of that league?

Mrs. STONE. We had our convention in May. That was before Secretary Marshall made his famous speech and the plan was evolved. As soon as Secretary Marshall had made his speech, and very soon after that, we sent a letter around to our executive board members who are authorized by the organization to act for them in between our triennial conventions. We had a unanimous vote by our nine board members to support the Marshall plan.

Mr. MALONEY. Did the 25,000 women vote that way or was that just the nine members of the board?

Mrs. STONE. After the board has voted to put anything on our legislative program, that goes out to all of the local leagues, and they are asked to read it at their next meeting. That is done and the leagues then either send in an indorsement or objection to having it

on the program. Therefore, we know that a majority of our members do approve, although individual members may not, of course. They have had an opportunity to send in objections and have not done so.

Mr. MALONEY. Thank you very much.

Acting Chairman BOLTON. I would like to put Mr. Chipfield's question in just a little different way, if I may. We are all deeply concerned with our responsibility to the taxpayers, and we are quite certain that such groups as yours and in fact all women's groups, are interested in that, because women object very materially to debts and borrowings and things of that kind. I think we are perhaps more inclined to keep within budgets.

Mr. MALONEY. You may know some women, Mrs. Bolton, but there are others who are not so inclined.

Acting Chairman BOLTON. I am thinking of women's colleges and so on. Their record is very high for having no debts.

If, as Mr. Chipfield suggested, in our studies of the break-down figures which of course we must and are making, if we find there are ways by which the same results can be had at very much less than the 6.8 billion dollars, certainly you and your organizations would have no objection to our being rather insistent on having it done that way, would you?

Mrs. STONE. No; I am sure I would not.

Acting Chairman BOLTON. The goal will always be before us.

Mrs. STONE. Yes.

Acting Chairman BOLTON. Mr. Jarman.

Mr. JARMAN. Madam Chairman, I do not know whether my attitude toward this proposal is right or not. If it is, to me, these two witnesses this afternoon have provided as encouraging testimony as I have received. They impressed me equally well. To me it is outstanding that the women of this country, or at least those represented by the two ladies who have addressed us, and I imagine they represent a cross section, are far ahead in their thinking, I believe, either of the people in general, or of the Congress. That is, if I am right, the women of this country are evidently far ahead of the thinking of either the people or the Congress.

I agree thoroughly with your statement regarding a careful study having been made by two commissions. While I agree with my colleagues, we should find out all we can about it, at the same time I give those people who made that study, who are also officials of this Government, credit, not only for ability, but for conscientious representation of the best interests of this country, just as we Members of Congress try to do.

Acting Chairman BOLTON. These figures were gathered last summer?

Mr. JARMAN. Yes.

Acting Chairman BOLTON. After all, there has been a good deal which has gone on in those countries. Italy has devaluated the lira and so has France her medium of exchange. So much has happened that it may well be that there is a difference.

Mr. JARMAN. That is right, including the fact that prices are 10 or 15 percent higher.

I also thoroughly agree with your statement that time is of the essence in this matter; that it would be unfortunate for us, even at the expense of appropriating \$1,000,000 too much by not going into

too many details, for us to fail to pass this legislation in time for it to reasonably serve its purpose. However, there is one saving clause of which I hope we will not think too much, either this committee, the House generally or the Senate, and that is the authorization for the RFC to authorize something when the legislation is passed.

Acting Chairman BOLTON. Thank you very much, Mrs. Stone.

We will next hear from Mrs. Mabel Newcomer, a member of the national board of the AAUW.

**STATEMENT OF MABEL NEWCOMER, PROFESSOR OF ECONOMICS,
VASSAR COLLEGE, AND MEMBER OF NATIONAL BOARD OF
THE AMERICAN ASSOCIATION OF UNIVERSITY WOMEN**

Miss NEWCOMER. I appear before this committee to urge, in behalf of the American Association of University Women, immediate action to put into effect the European recovery program.

The American Association of University Women today has a membership of approximately 98,000 women college graduates—homemakers, teachers, and other professional women. The association is organized in every State of the United States in 1,028 local branches.

The association has long been on record in support of international cooperation, fully recognizing that such cooperation requires decisive action as need arises. In 1947, at its national biennial convention, the association voted to support "measures to promote international economic cooperation and reconstruction" and "measures to promote international rehabilitation, including international cooperation for relief in the postwar emergency." The association also voted full support of the United Nations; support of the ITO; international cooperation to encourage the production, distribution, and consumption of food to raise the standard of living and nutritional level of peoples everywhere; and continued support of reciprocal trade agreements.

In accord with the above convention action, the American Association of University Women, following its authorized procedures, supports the basic principles of H. R. 4840.

It is believed that the present situation in western Europe is critical; that without prompt and substantial aid from the United States the future peace of the world is seriously threatened. Extreme poverty tends to create unrest. It was no accident that brought the Nazis into power in a period of prolonged depression.

Need for aid: The need for aid in western Europe is clear. Some countries have restored production to, or almost to, prewar levels. But prewar production does not mean prewar standards of living, since there has been a substantial increase in the population of this area. In addition, there has been a lag in repairs and replacements, and heavy losses in overseas investments. England and the Netherlands, in particular, have suffered from this. Moreover, some countries are still far below prewar production. This is notably true of western Germany whose coal and steel production are the key to recovery of western Europe.

The first need is for food. Western Europe has long been a food-importing area, and the fact that most of the agricultural surpluses of eastern Europe are no longer available to the west together with

the shortage of fertilizer, makes this area more than ever dependent on the Western Hemisphere. My own first-hand information is limited to Germany, where I spent 10 months last year, but it was clear from all that I saw and heard that food rations in Germany were, and still are, wholly inadequate for health and physical efficiency. Only through increased rations can coal production and industrial production as a whole be substantially increased.

Fuel and clothing are likewise needed merely to maintain a relief program. But the problem is not just a problem of relief. It is, I believe, generally accepted that a recovery program is essential. A relief program would prove a continuing burden to the United States, whereas a recovery program should make western Europe self-supporting again. This will not only relieve us from the support of a gigantic and permanent relief program, it will restore our best foreign markets. In the prewar period, more than one-third of our exports went to this area. And, more than this, it will allay some of the unrest which threatens our future peace.

Essentials of European recovery program: (1) If the European recovery program is to achieve its purpose the United States must provide, first of all, adequate funds. The initial \$6,800,000,000 for the first 15 months proposed by H. R. 4840 is none too large, judging from the findings of the Harriman committee and others who have examined the problem carefully. I recognize that it difficult to estimate such needs with any accuracy. The necessary data are difficult to obtain, and crop failures and other contingencies cannot be foreseen. As an economist, however, I am aware that inadequate funds are sometimes more wasteful than excess funds. Business failures often result from too little initial capital. With appropriate controls, excess funds need not be spent wastefully, or at all; whereas inadequate funds can block the program completely. In this case, inadequate funds will at best only finance a relief program which would leave us with a continuing burden. At worst, this might encourage new Fascist or Communist dictatorships.

(2) It is important not only to provide an adequate initial appropriation, but to give some assurance that the program will be supported over a period of years. And, since both adequacy and economy require continuous adjustment to changing conditions, it is important that a flexible and responsible administration be set up, such as that provided for in H. R. 4840.

(3) It is believed that it would be false economy to attempt to specify in any detail the way in which the money is to be spent. As conditions change and the plan develops, limitations that may appear reasonable with our present knowledge might later prove to be serious obstacles to the success of the plan. For this reason the amount of discretion provided in H. R. 4840 appears to be desirable.

(4) It is important, also, that some steps be taken to insure that the benefiting countries use the funds as intended and themselves make every effort to restore production. The original work of the Committee of European Economic Cooperation gives some hope that this will be done. But continued production effort, stabilization of finances, and cooperation among the nations concerned are all essential to the success of the plan. Checks on our part should be possible, through continuous review and suggestion, with, of course, the power to withhold funds when there is serious misuse of our aid. It is

equally important, however, that we do not interfere needlessly. The success of the plan depends on European initiative and cooperation, and this cannot be achieved if we use this aid as a club. If countries included in the program find it necessary to carry socialization of industry further, our European recovery program should not stand in the way of such a decision. As long as this does not retard industrial recovery or prevent the development of democratic government, it is compatible with the basic purposes of the program. Tangible industrial recovery will be the best test of wise use of funds.

(5) Another factor that is important to consider is the extent to which the aid takes the form of loans. It seems probable that not only the amounts provided for relief, but also part of the recovery funds, should be outright grants rather than loans. If European investments were good risks in the business sense, private financing would take care of the problem. We cannot afford to repeat our experience with the debts of the First World War. We collected only ill will in consequence of our demands for payment, which did not contribute to international peace. The ability of European countries to pay after this war will certainly be much less than it was after the First World War.

(6) Finally, it is essential that the way be left open to cooperate with existing international agencies whenever possible. It is recognized that with the present disagreement between the great powers, to put the European recovery program in the hands of the United Nations at this time would only create a new deadlock which would neither strengthen the United Nations nor promote European recovery.

However, the problem of European industrial recovery is of international concern, and the United Nations and related international organizations should be given the opportunity to take responsibility for it whenever this is practicable.

Relation of the European recovery program to the domestic economy: It is recognized that an expanded program of European aid puts an additional strain on our domestic economy at a time when there are few unused productive resources. Yet we, as well as Europe, stand to gain by the European recovery program. It is our investment in peace and prosperity. We can well afford to spend \$5,000,000,000 a year, or even \$10,000,000,000, to get western Europe on a self-sustaining basis again. During the war, we spent approximately \$100,000,000,000 a year for destructive purposes. If we could afford \$100,000,000,000 for war, we certainly can afford to spend 5 or 10 billion dollars today for peace.

It is for these reasons that the American Association of University Women is supporting a European recovery program, and specifically H. R. 4840. We believe that it is the first essential for future peace. And we believe that it is of the greatest urgency.

Acting Chairman BOLTON. Thank you, Miss Newcomer.

Mr. CHIPERFIELD. You mentioned in your statement several reasons why it would be necessary to bring the economy of western Europe up beyond the 1938 or prewar level. Is there not an additional reason that makes that necessary?

Before World War II, these 16 participating countries received about one-fourth of their income, or 25 percent of it, from investments abroad—ships' services and invisible assets which are now either

liquidated or reduced considerably in amount. For that reason, do we not have to bring these countries beyond a 1938 level, to make up for that loss of income?

Miss NEWCOMER. Yes; they must balance their exports now.

Mr. CHIPERFIELD. Thank you very much.

Acting Chairman BOLTON. Mr. Jarman.

Mr. JARMAN. Madam Chairman, I think you had better bring more lady witnesses here. I think we need some to counterbalance some of the testimony of the men.

But for these hearings, I would have been in Alabama this week to address a State conference or convention of your organization, Miss Newcomer. I am very sorry that circumstances prevented my being there, but I think this is sufficiently important for my not having gone.

You said the relief would prove to be a continuing burden to the United States. You also said that inadequate funds are worse than excessive funds. I am fearful that, if any consequential reduction occurs, we will reduce it to a relief program only; and that would just simply be an indefinite proposition which, as you say, would be most wasteful because of concluding it in 4 or 5 years as we hope; if the American standard of humanitarianism remains as it is, I am afraid it would be an indefinite proposition. I believe that is one of the great arguments for authorizing approximately this amount, even if we appropriate a little too much.

Mr. CHIPERFIELD. Madam Chairman, we are fortunate in having an expert here on economic affairs. I would like to have her comment, if she would be kind enough, about the necessity of the stabilization of the currencies and bringing about this international exchange.

Do you feel that that is one of the things necessary to be done, besides general recovery, in order to have a permanent recovery that will not require aid continually?

Miss NEWCOMER. I feel that is extremely important. I have always hoped that the machinery set up at Bretton Woods would do that job.

Mr. CHIPERFIELD. For some reason they seem to be holding off until they find out the effect of this program. I do not say that critically, but I just do not understand why they do not take some action to bring about the recovery that we all desire.

Miss NEWCOMER. I think the two probably have to go together.

Mr. CHIPERFIELD. I think probably so.

Thank you very much.

Acting Chairman BOLTON. Mr. Javits.

Mr. JAVITS. Miss Newcomer, have you any ideas for us, how we might go about checking this amount of \$6,800,000,000? What would you do to really pry into it and find out if it is justified?

You know we have the right to raise it, too, if it is inadequate.

Miss NEWCOMER. I think just the kind of investigating committees that have been working on it will suffice.

It is my feeling that you will never be sure, because the thing changes so continually, and the important thing is to have essential controls and the essential flexibility in the administration so that, as conditions develop and as more information is made available, adjustments can be made. I do not see any possibility of knowing now exactly what sum is going to be needed.

Mr. JAVITS. Do I gather, then, that your statement on page 3 under item 4 is your position:

Checks on our part should be possible through continuous review and suggestion with, of course—

and I emphasize this next clause—

the power to withhold funds when there is serious misuse of our aid.

Now, do you consider the power to withhold funds to be the major policy decision possible under the administration of this program?

Miss NEWCOMER. I think it should be used only in extreme cases. I think it is important to give them the benefit of the doubt.

Mr. JAVITS. Do you feel we should entrust any administrator with the power to withhold funds, or should we reserve that right only to the President?

Miss NEWCOMER. I believe reserving funds for the whole nation or a whole nation, or withholding them for an entire nation, that should be the President's decision.

Mr. JAVITS. Do you feel that would be a matter of the highest foreign policy?

Miss NEWCOMER. I am not an expert in the field of administration, but I should think so.

Mr. JAVITS. Do you feel that residual power to withhold would constitute interference with the affairs of these countries who are parties to the program?

Miss NEWCOMER. I see no possibility of it not interfering to some extent in the affairs of other nations. As Miss Stone said, it is a fine line.

Mr. JAVITS. But it would not be a coercive interference? You do not believe it would be? I refer to the power to withhold.

Miss NEWCOMER. I agree. Let me put it this way: The interference probably would be coercive under certain conditions. It might be inevitable. I am speaking only for myself now. I would not say that you can never interfere. I think it is awfully important not to interfere unless the purposes of the aid program itself are obviously not being carried out.

Mr. JAVITS. Your very next sentence says:

It is equally important, however, that we do not interfere needlessly.

Miss NEWCOMER. That is right.

Mr. JAVITS. Would you say that the power to withhold is not needless interference?

Miss NEWCOMER. It depends on how it is used. Suppose you got a dictatorship which was using these funds for armaments or something of that sort; obviously that is a misuse of the whole foreign-aid program.

What I did say here, I think, is that the test should be whether they are going ahead with production and support the purposes of the program.

Mr. JAVITS. Could we agree that you would not give the power to withhold to any lesser authority than the President or the Congress? You would not give it to an Administrator?

Miss NEWCOMER. Not for a nation as a whole.

Mr. JAVITS. Thank you very much.

Acting Chairman BOLTON. You notice, of course, that Mr. Javits gives evidence of his legal training and capacity.

Mr. Maloney.

Mr. MALONEY. Miss Newcomer, you mentioned that any change of a government to socialism should not affect this plan, or affect our giving or making contributions to that country.

In England, the socializing of the coal industry has caused an increase in the cost of coal production, and a vast increase in the cost of coal production.

Would that lead you to believe we should stop aid to a country that embraced the Socialist form of government and took over government ownership of various industries that would increase their cost of production?

Miss NEWCOMER. Yes. I believe we have no right to say that. I do not believe you can always prove that it is more expensive.

Mr. MALONEY. I think you will find the figures on the coal production in England have increased greatly since the mines have been socialized.

Miss NEWCOMER. That is for a short period. That is not final evidence. Always a new administration has difficulties.

Mr. MALONEY. The overhead, I understand, has considerably increased.

Miss NEWCOMER. I think if you find gross inefficiency, so that the aims of this program are being interfered with, you are in a position to do something about it.

Mr. MALONEY. That brings us to the point of interfering with the internal factors of a country and their sovereignty, does it not?

Miss NEWCOMER. I think as soon as you put any strings on this at all, you have done that. It is a matter of reasonable interference, and that is where you have a fine line.

Mr. MALONEY. Do you believe that the governments of these countries will for a period of years, say a period of 4 years, subject themselves to interference with their own sovereignty? I ask that as a practical question.

Miss NEWCOMER. Do you mean would they accept this?

Mr. MALONEY. I believe they will probably accept it in the beginning, but after a short period of time, there may be new members of the cabinet or the government who will dislike their sovereignty being interfered with in this manner and will object to the plan. What is your thought on that?

Miss NEWCOMER. I do not see that you need to have interference any more than one business enterprise interferes with another when a loan is made. There are certain strings tied to that loan. This happens, perhaps, to be a gift, but you can tie strings to it in the same way you do a loan.

Now the other party to the contract does not have to accept that.

The only point we wish to make, here, is that we should not set up in advance the criteria which will determine whether we give them money or not.

Mr. MALONEY. That will be a bilateral agreement?

Miss NEWCOMER. Yes, but we will not dictate that they may not socialize on the chance that it is inefficient.

If in the long run it turns out to be clearly inefficient and they are

not getting the increase in production, which is our aim, then that is something else.

Mr. MALONEY. I feel it to be rather different than a contractual relationship between two parties, because you can void the contract and each go your separate ways. However, in this, it is a government involved and the good will of a government involved and it is vastly different than just a contractual agreement.

Acting Chairman BOLTON. Though it is government agreement, still the understanding in the beginning is that those accepting these agreements for grants in aid or loans do so on the basis of certain stipulated things, and therefore it would not surprise them. If they violate one of those, the relief is stopped.

Mr. MALONEY. There will then be an unfriendly feeling between that country and our own country.

Acting Chairman BOLTON. That unfriendly feeling may be on our part, that they had not lived up to the thing they agreed to.

Mr. MALONEY. I do not like to see that appeasing relationship develop if we can help it.

Acting Chairman BOLTON. If there is any danger of considering this an appeasement measure, we better not touch it, because this is not an appeasement measure, this is a rebuilding of the self-respect of a nation.

Mr. MALONEY. "Appeasement" may not have been quite the right term, but, taking our past experience, we would do almost anything to avoid rupture with a country.

Acting Chairman BOLTON. We hope this will be a result of the knowledge we have gained out of unfortunate past experience.

Mr. MALONEY. I hope we do gain from that experience.

Thank you.

Acting Chairman BOLTON. Thank you very much, Mrs. New-comer. I am very proud of all three of you and am happy to have had the privilege of being in the chair this afternoon.

Mr. JARMAN. I would like to comment on what a very able as well as charming chairman we have had today.

Acting Chairman BOLTON. The gentleman may not be from Ireland, but he can always be depended upon.

The following communications and statements, being six in number, have been submitted for the record and will be included in the record at this point.

(The documents referred to are as follows:)

INGOLDSBY, COLES & WRIGHT,
Washington 5, D. C., February 9, 1948.

HON. CHARLES EATON,
Chairman, Committee on Foreign Affairs, House of Representatives,
Washington 25, D. C.

MY DEAR MR. EATON: During the February 4 meeting of the Committee on Foreign Affairs, Mr. William Davies received the committee's permission to file a brief for the record on behalf of the Foreign Freight Forwarders and Brokers Association and its affiliated organizations. For your information, a copy of that brief is enclosed.

Many thanks to you and to the committee for the courtesy which has been shown us.

Sincerely,

MARVIN J. COLES.

BRIEF SUBMITTED BY MARVIN J. COLES REPRESENTING THE FOREIGN FREIGHT FORWARDERS AND BROKERS ASSOCIATION OF NEW YORK AND AFFILIATED ORGANIZATIONS

Freight forwarders are the connecting link between our domestic and foreign transportation systems. To explain the functions performed by these freight forwarders, let me give you an actual example of the work they do. Suppose that farm machinery, or any other product, is sold or given to any European country. That machinery is probably manufactured somewhere in the Midwest. The manufacturer places it aboard a train for shipment to the seaboard, consigned to his forwarder or other port representative. On arrival at the port, arrangements must be made for shipping space aboard a seagoing vessel, bills of lading and consular invoices must be prepared, our Government's requirements must be fulfilled, marine insurance must be arranged, and the cargo has to be physically moved from the railhead to the ship's hold. To handle these jobs, ocean freight forwarding firms exist in every major port city and have performed these functions for many generations. Without them, our foreign commerce would have great difficulty in moving.

At the outset, let me add that we are here talking only of the ocean freight forwarders, sometimes referred to as the "foreign freight forwarders," although they are American citizens, because they ship exports to foreign destinations. Let me emphasize, moreover, that all of the freight forwarders' functions are performed in this country. Let me also point out that, in the port of New York alone, these freight forwarding firms employ over 10,000 people. Perhaps the best evidence of the value of their work is that for many many years, almost all large exporters have relied upon their services for the movement of their export cargoes. In brief, their function is to supervise export movements through all United States ports, including the preparation of all documents and Government permits, the arrangement for physical movement of the cargo to the ship, the arrangement of shipping space and the general chaperonage of the cargo in its movements to the sea. In general, they act as the agents of the shipper in performing functions which that shipper otherwise would be required to perform himself, and also perform services for the ocean carrier.

Legislation now pending before this committee for the relief and rehabilitation of the countries of Europe is presently of overwhelming interest to our ocean freight forwarders. While this program means life to many of the people of Europe, its improper administration could mean economic death to our freight forwarding industry. During the coming few years, it is probable that relief cargoes will constitute the major part of all export shipments from this country to Europe. Estimates which I have seen hypothesize that they will make up, directly and indirectly, about 80 percent of all export shipments. Dollar shortages, I am told, are so severe that almost all said foreign purchases will be from these relief funds.

If these relief cargoes are handled through ordinary channels, freight forwarders have no fears and ask no favors. But actions in recent years by our own Government agencies and the agencies of foreign governments in the handling of previous Government cargoes sent abroad, have led to the fear that the handling of relief supplies may put our commercial freight forwarders out of business. The primary fear of the freight forwarders is that under the relief program either a Government agency, or agents of the foreign nation recipients, will handle the actual forwarding of relief cargoes. In our fear we see the possibility of the Army transportation service or another Government agency taking over forwarding functions for all foreign relief cargoes, as they have for shipments to the occupied areas, and even to some unoccupied areas such as Greece, if relief supplies are shipped directly by our Government. If the European relief program provides a system of credits whereby the foreign nations can do their own purchasing in this country, our worry is that, as they did early in the war, the recipient nations will establish their own purchasing missions and handle the forwarding of their purchases through their own forwarding organizations. May I add that these fears are not mere witches' tales. On the contrary, experience with the large-scale movement of Government cargoes during the recent war indicated that they are very real. Our fears are intense because their realization would mean that many freight forwarders would be ruined financially.

Early in the recent war, the extent to which the Army expanded its forwarding activities and the prevalence of foreign nations forwarding missions in this country resulted in serious economic loss to the American ocean freight forwarders. In order to prevent their being driven from the business which they had built up over many years, the forwarders appealed to Congress. After thorough hearings, the Congress decided that their position was just: in the so-called Bland Freight

Forwarding Act, codified as section 217 of the Merchant Marine Act of 1936, as amended, Congress provided that lend-lease and other nonmilitary government cargoes should be shipped through the facilities of commercial freight forwarders such as those I here represent.

May I add that this remedy to the forwarders was given not only on the theory that they should be protected against an unfair type of competition in an abnormal export situation, but also because it was found by Congress that the welfare of the postwar American merchant marine and our postwar foreign commerce required the maintenance of our private freight forwarding industry. The Freight Forwarding Act was not a mere wartime measure, but remains upon our statute books and is still the expression of congressional policy concerning the importance and the utilization of our private freight forwarding industry in the postwar as well as wartime period.

As I previously mentioned, the Freight Forwarding Act contains a separate sentence providing that lend-lease shipments should be included with its coverage. Under that clause, a large proportion of commercial type lend-lease shipments were made through our private freight forwarders. I have been informed by Government people who were close to this program that the service provided by the freight forwarders was not only more efficient and more expeditious than that which had been provided by the Army and by the foreign government freight forwarding agencies, but also that its cost to the taxpayers of this country had been less. It seems to me obvious that if the relief cargoes shipped under the bill now pending before this committee are similarly serviced by private freight forwarders, they, too, can be handled more cheaply and more efficiently than by any other method. It stands to reason that the long existence experienced private enterprise forwarders who have met the competition of each other and who have for generations provided a service which large-scale shippers have deemed more economical to use than to set up their own forwarding organization is the best possible proof that use of private forwarders will be both cheaper and more efficient than for our Government or the recipient governments to set up their own freight forwarding organizations. Moreover, use of these private freight forwarders will be in keeping with the American tradition and will tend to preserve the private enterprise system which is the basis of our economic and social life and which the relief program is designed to preserve throughout western Europe.

One thing I should like to point out most clearly is that the cost to the Government for utilizing freight forwarders is extremely small and considerably less than if the services were to be performed by Government agencies. Revenues paid the freight forwarders come from two sources. First are forwarding fees, paid by the shipper for particular services such as preparing necessary documents. Normally these range from a few pennies to but a few dollars. The second source of revenue of the forwarders comes from what is known as brokerage, and is paid without any cost to the shipper. In return for arranging shipping space and the other services which he performs, the freight forwarder receives from the shipping company 1½ percent of the freight revenue paid by the cargo. For example, if the Government were to make shipment of a commodity which paid the ship company a freight charge of \$1,000, the freight forwarder would receive \$12.50 from the ship-operating company. Parenthetically, I might add that ship rates are in no way affected by this brokerage but are set by general supply-and-demand conditions. If the Government were to set up its own forwarding organization, its costs would necessarily be far greater than the amounts which it would pay to the private forwarders to perform the necessary forwarding functions for cargoes shipped under this bill.

I think that neither you gentlemen nor the majority of thinking Government administrative personnel desire to substitute Government forwarders, either our own or foreign government agencies, for our private-enterprise forwarding system. As recently as 1942, the Congress in the Freight Forwarding Act expressed its opinion that private forwarding should be preserved and was necessary to our foreign commerce. In discussion on the interim aid bill, Members of both Houses of Congress made similar statements on the floor that private-enterprise freight forwarders should be used to handle Government relief shipments. The Maritime Commission has stated that it will, in fulfillment of its duties under the Freight Forwarding Act, urge other Government agencies to use private freight-forwarding facilities. Most important, the State Department has stated in writing that it is its policy to use private freight-forwarding facilities to handle Government relief shipments wherever practicable.

We appear before this committee today to urge one thing. That is that either this legislation or its legislative history clearly indicate the congressional intent

that private freight forwarding be used to handle Government relief cargoes. This can, in my opinion, be accomplished in either of two ways. First would be by actual amendment to the pending bill which could read along the following lines:

"The term 'water-borne export and import foreign commerce of the United States' as used in section 217 of the Merchant Marine Act of 1936, as amended (56 Stat. 171), shall be deemed to include all export shipments from the United States made pursuant to provisions of this Act."

If such a clause were to be added, it would clearly demonstrate the congressional intent that these supplies, as were the lend-lease shipments, should be serviced by private forwarders.

In the event that the committee deems it unwise to burden the pending legislation with a clause to this effect, I think that the same result can be obtained through a clear statement in the committee's report on this bill that it is their intention that private freight-forwarding facilities be used to service these relief cargoes. If this alternative is deemed more advisable, may I suggest something along the following lines:

"Authority is given in the bill for the transportation of relief supplies to the recipient nations. While the authority to transport these relief supplies is broad, it is the intention of your committee that normal private freight-forwarding channels be used to service relief cargoes and that these cargoes should be handled in accord with the provisions of section 217 of the Merchant Marine Act of 1936. It is your committee's view that use of private freight forwarders to handle these cargoes would not only be less expensive to the Government but that it is necessary to insure the preservation of our freight-forwarding industry for service to our post-relief-program foreign commerce."

Whichever alternative the committee deems the more advisable, I urge upon them to make it clear that private freight-forwarding facilities shall be used to handle these relief cargoes. In the absence of such a congressional mandate, the freight forwarders must continue fearful that forwarding by Government agencies or by the missions of the recipient nations will destroy their long-established enterprises. Not only would this be of personal detriment to the forwarders concerned, but it would also be detrimental to the postrelief program foreign commerce and merchant marine of America. For if the handling of these relief supplies results in putting the freight forwarders to the wall, the ultimate result in the normal commercial period to follow would be to put a serious impediment on the smooth flow of our future export commerce. I urge upon you gentlemen the desirability and necessity of clearly expressing your intention to preserve the private ocean-freight-forwarding industry by requiring its use to handle shipment to be made under the pending bill.

WOMEN'S ACTION COMMITTEE FOR LASTING PEACE,
New York 28, N. Y., February 9, 1948.

HON. CHARLES A. EATON,
Chairman, Foreign Affairs Committee,
House Office Building, Washington, D. C.

DEAR MR. EATON: Under date of January 22 the Women's Action Committee for Lasting Peace wrote to your committee asking that a representative be heard on the European recovery program. The letter was acknowledged, but we have heard nothing further.

We are therefore writing to send you a statement of our position on this measure and ask that it be included in the records of the hearings.

Hoping that this may be done,

Sincerely yours,

VIRA WHITEHOUSE,
Mrs. NORMAN DE R. WHITEHOUSE,
National President.

STATEMENT ON THE EUROPEAN RECOVERY PROGRAM

The Women's Action Committee for Lasting Peace considers that the European recovery program is the most important matter to come before Congress during the postwar period. It can have the same decisive effect on reconstruction toward a permanent peace that lend-lease had as the economic spearhead for victory.

The European recovery program was conceived with vision and has been worked out on the basis of comprehensive planning and careful calculation on both sides of the Atlantic. We expect Congress to approach the matter in the same constructive spirit.

We urge that the European recovery program should immediately become the subject of informed Nation-wide discussion. The United States cannot afford to submit it to the pitfalls and delays of election-year wrangling.

The Women's Action Committee for Lasting Peace wishes particularly to stress the following points:

1. ERP must be carried out on a scale which will make it a genuine recovery program, thereby avoiding the recurring necessity for relief.

(a) Congress must act promptly before the situation in Europe becomes worse and therefore more difficult to handle.

(b) Appropriations must be sufficiently large to achieve the purpose. Half measures, or even 90 percent measures, will not suffice.

(c) The plan must remain comprehensive. The nations of Europe must have assurance of continuity in aid over the 4-year period.

2. The administrative machinery for the program should be as simple as possible. Flexible administration is important, particularly in view of the fact that the situation in Europe will not remain static.

3. While precautions should be taken to provide for the most effective development of the program and to guard against misuse of our aid to Europe, Congress should not attempt to legislate an intricate set of rules for ERP. The nations of Europe should not be forced into humiliating strait-jackets as the price of ERP. The program should remain dynamic. As problems develop they should be worked out on the basis of consultation.

4. The ERP agreements to be negotiated between the United States and the 16 European cooperating nations should be drawn up within the framework of generally agreed principles. Every effort should be made to encourage an integration of European economy. Allocation estimates should be made either through the UN Economic Commission for Europe, or by some machinery set up by the cooperating nations.

5. In carrying out the program the revival of German industry is essential, but this revival must be correlated with the needs of the rest of Europe. The Ruhr should be brought under international control to prevent the revival of its war potential.

6. In order to avoid inflationary pressures on our own resources, ERP funds should be used to purchase materials in Latin America or elsewhere when such materials are in short supply in this country. However, these purchases should not be made at exorbitant prices.

7. In order that the most effective use be made of our resources and productive capacities in view of national and world shortages, domestic controls should be set up to prevent further inflation and to insure a sufficient distribution of scarce materials. These should include a revival of rationing, either at the commodity level or, if necessary, at the consumer level, and of price control of key commodities.

NATIONAL RETAIL FARM EQUIPMENT ASSOCIATION,
St. Louis 1, Mo., February 5, 1948.

HON. CHARLES A. EATON,
House Foreign Affairs Committee, House Office Building,
Washington 25, D. C.

DEAR CONGRESSMAN EATON: Here is a one-page condensation of testimony which vitally concerns a very important man, your American farmer-constituent.

My testimony, which was heard by Senator Vandenberg's Senate Foreign Relations Committee February 3, stated in brief:

(1) Too much power farm machinery sent to Europe under ERP will work serious hardships on the American farmer.

(2) It will not do the job for European agriculture that is intended.

(3) The outline plan of the National Retail Farm Equipment Association (17,000 farm equipment dealers Nation-wide) to collect, recondition, and export horse-drawn equipment, which is obsolete here, to Europe's needy farmers.

I believe reading the attached page, or the attached complete testimony (6 minutes reading time) will be worth the valuable time you spend.

Yours very sincerely,

PAUL M. MILLIKEN, *Executive Secretary.*

"We propose to use the manpower and facilities of our 17,000 (farm equipment) dealer members throughout the Nation to comb the farms for usable horse-drawn equipment, bring it in to the dealers' repair shops, thoroughly recondition it and make it available for shipment abroad," if the idea should be accepted by the agency designated by Congress to administer the European recovery program, Paul M. Mulliken, executive secretary of the National Retail Farm Equipment Association, told members of Senator Arthur H. Vandenberg's Senate Foreign Relations Committee February 3.

Stating that: "We believe that it is an unsound practice to attempt to completely mechanize western Europe agriculture overnight," because of the relative smallness of the average farm and the problems European farmers would have with power farm machinery, Mulliken offered details of a plan to collect horse-drawn machinery.

"We made a small-scale survey in December (1947) to dealers in 45 States which showed that there are ample quantities of most horse-drawn machines * * *"

Mulliken pointed out United States Department of Commerce figures which show tremendous increases in the amount of equipment sent to the 16 countries in 1946 and the first 5 months of 1947. These countries will be short of fuel, trained operators, skilled mechanics, and adequate service facilities to handle large amounts of power equipment.

"The western European small acreage farmer who never needed, wanted, or expected complete mechanization of his few acres should not be provided United States equipment now at the expense of American farmers whose 1948 acreage goals set by the United States Department of Agriculture are substantially higher than 1947," he concluded.

(Copy of complete testimony attached.)

STATEMENT ON FARM MACHINERY REQUIREMENTS UNDER THE EUROPEAN RECOVERY PROGRAM, BY THE NATIONAL RETAIL FARM EQUIPMENT ASSOCIATION

My name is Paul M. Mulliken. I am executive secretary of the National Retail Farm Equipment Association composed of 17,146 farm equipment retailers located in rural communities throughout the United States.

My purpose in appearing before the committee is to extend the offer of assistance of these dealers in providing a portion of the farm machinery requirements of the European recovery program. The proposal we are making would provide this assistance without impact to American agriculture.

No group is more aware of the value of farm mechanization to the agriculture of a nation than the farm equipment dealer-members of our organization who do business exclusively with farmers. We also recognize fully the need for farm machinery in western Europe. However, we believe that farming conditions in western Europe vary greatly from those prevailing in the United States, due largely to the size of the individual farms.

For example, in France the average farm consists of only 24 acres, while in Texas, which has relatively the same total area, the average size farm is 329 acres. In the Netherlands 90 percent of all farms are under 50 acres in size and 50 percent of them are less than 10 acres.

Sweden has a total of 420,000 farms but 120,000 of them consist of less than 5 acres; 270,000 have between 5 and 50 acres. Thus, 93 percent of the total of the farms in Sweden are smaller than 50 acres in size.

In the whole of the United Kingdom the average amount of all cropland per farm is less than 35 acres.

Only one-fifth of the area of Greece is under cultivation. The 6,000,000 acres of farm land are split up into nearly 1,000,000 farms with less than 7 acres on the average. Only 13 percent of all farms consist of more than 12½ acres.

In Italy only one-tenth of the land is arable. The average size of Italian farms is less than 16 acres. In 1939 there were 8,756,858 persons engaged in agriculture. It is rather obvious that with less than 2 acres of farm land per person engaged in farming there is not much need for power farm equipment.

You will note that reference has been made to 6 of the 16 European nations but these are the ones most frequently referred to in discussions of agriculture requirements under the European recovery program. It is not inconsistent to believe that agricultural conditions are comparable in the other 10 countries involved.

It should be most readily apparent that modern power farm equipment such as is currently being built by our factories would be neither practical nor feasible

on farms comprising 5, 24, or even 35 acres where the individual fields would be still smaller. The knowledge of farmers' needs possessed by the farm equipment retailers of the United States convinces us that exporting huge quantities of tractors, combines, pick-up balers, and other power farm equipment to Europe is unsound. Even if ample supplies of fuel were available, there would be a shortage of trained operators, skilled mechanics, and adequate service facilities. This was proven in innumerable instances under the United Nations Relief and Rehabilitation program.

We believe that it is an unsound practice to attempt to completely mechanize western European agriculture overnight. Farm mechanization must be a progressive movement just as it has been here in the United States. We began to use power farming methods before World War I and haven't yet completed the job after more than a third of a century.

Mr. Chairman and members of the committee, it seems to us in the retail farm equipment industry that there is a way whereby the small acreage farmers in these devastated countries could be greatly assisted in their recovery efforts. We believe that their greatest immediate need is for the horse- or animal-drawn type of farm machines. We are aware that farm machinery manufacturers here in the United States are building very small quantities of this type of equipment. Most of the long-line manufacturers (including Allis-Chalmers, B. F. Avery & Sons, J. I. Case, John Deere, Dearborn Motors, Harry Ferguson, International Harvester, Massey Harris, Minneapolis-Moline and Oliver) have either discontinued altogether the production of horse-drawn machines or make so little of it that the amount is negligible. We are not at all certain that the jigs, dies and other fabricating equipment is still available—we are confident that their production lines are not intact.

To reestablish production and assembly lines in these plants would undoubtedly be extremely costly and perhaps uneconomical. To build large quantities of new horse-drawn farm machines would divert great amounts of steel and other critical materials in addition to requiring man-hours of labor and plant facilities that are so sorely needed for the production of power farm equipment for the American farmers.

It is highly essential that our farmers be supplied with new machines if they are to continue to produce the foods, fats and fiber urgently needed here at home and throughout the world. I am sure that every Member of the Congress who represents a rural area is fully aware of the acute shortages that exist here in the farm machinery supply.

As executive secretary of the National Retail Farm Equipment Association, I am here to offer the assistance of our membership to the agency that the Congress may designate to administer the European recovery program. We believe that there is a way whereby the greater part of the farm machinery needs of European farmers can be met without materially diminishing the supply of new power equipment for our own American farmers. We know that there are sizeable quantities of good, usable—but not needed—items of horse-drawn machines to be found on the farms of the Nation. Much of this equipment is reasonably new. It was retained by the farmer as stand-by equipment when he mechanized his farming operations.

In order that we might be certain of our facts, we made a small scale survey in December. Letters were written to some 250 representative dealers in 45 States. Replies were received from 213 dealers coming from 44 States. (We have no information about conditions in Arizona, Nevada, New Mexico, or Wyoming.) We asked dealers to advise us (1) if there was any usable machinery on the farms in their trade territories; (2) if farmers would dispose of it at a fair price; and (3) if the dealers would be willing to cooperate in collecting it, reconditioning it and making it available for export. From the replies received, we are convinced that there are ample quantities of most horse-drawn machines (except fertilizer distributors), although the supply is not uniformly distributed over the country. Many dealers report that they have discussed this proposal with their farmer customers and invariably the farmers are most enthusiastic.

We propose to use the manpower and facilities of our 17,000 dealer members throughout the Nation to comb the farms for usable horse-drawn equipment, bring it in to the dealers repair shops, thoroughly recondition it and make it available for shipment abroad. This is as far as we could proceed since retailers do not have the knowledge or facilities needed to engage in export work.

Our members have engaged in this type of endeavor on two previous occasions. In the fall of 1942 and through 1943 when there was an extreme shortage of quality scrap iron, we were requested by the Salvage Division of the War Production

Board to collect worn-out, broken-down farm machinery for the scrap dealers to help increase the supply of steel so highly essential in successfully prosecuting the war. The unprecedented achievements of the dealers in this effort are clearly shown in the records of the Salvage Division and will forever reflect credit upon our industry.

In 1944 a representative of the Agricultural Commission of the Mexican Government came to Washington seeking permission to buy a quantity of horse-drawn farm machinery for his country. Even at that time our factories were not building any appreciable amount of that type of farm equipment. Due to shortages of raw materials and manpower, our industry was subject to WPB limitation orders. It was quickly decided that no new machinery could be supplied to our friendly neighbor on the south but General Acosta was directed to go to St. Louis to see if the National Retail Farm Equipment Association could assist in any way. I am happy to tell the committee that we procured for the Mexican Government all of the horse-drawn machinery that they wanted, and we did it without retarding food production here in any respect.

It does not seem appropriate at this time to attempt to develop further the details of this proposal. If the idea should be accepted, I can assure you of the complete cooperation of our associations in formulating and executing the dealer's part in the program.

In closing I would like to make reference to farm machinery exports since the end of the war, particularly because I believe the situation needs clarification.

In this connection, I refer you to an article captioned "Analyzing farm equipment exports" reprinted from the February 1948 issue of Farm Equipment Retailing, a reprint of which is attached hereto.

As stated in that article, there is a general impression in this country (except among farmers and implement men) that there has been little or no farm equipment exported to the 16 countries to be considered under the provisions of the European recovery program, and yet, the export figures compiled by the United States Department of Commerce show tremendous increases in the amount of equipment sent to these countries in 1946 and the first 5 months of 1947; no doubt due to large shipments under UNRRA.

We believe that a study of the analysis will lead members of this committee to the conclusion that the western European small acreage farmer who never needed, wanted, nor expected complete mechanization of his few acres should not be provided United States equipment now at the expense of American farmers whose 1948 acreage goals set by the United States Department of Agriculture are substantially higher than 1947.

ANALYZING FARM EQUIPMENT EXPORTS

There is a general impression in this country (except among farmers and implement men) that there has been little or no farm equipment exported to the 16 countries to be considered under the provisions of the Marshall plan, and yet, the export figures compiled by the United States Department of Commerce show tremendous increases in the amount of equipment sent to these countries in 1946 and the first 5 months of 1947; no doubt due to large shipments under UNRRA.

To illustrate, by far the greatest export increases went to Russia and Russian-dominated countries—Austria, Czechoslovakia, Poland and Yugoslavia—although other countries, France included, received substantial increases.

When Poland was free—and spending her own dollars—back in 1938—she imported only \$32,000 worth of farm machinery and implements from this country. But in 1946 United States manufacturers, under UNRRA, were obliged to ship \$2,291,000 of farm equipment, a percentage increase of 7,060 percent over 1938. And for the first 5 months of 1947, until controls were removed from exports, Poland received \$3,000,000 in farm equipment from the United States or a percentage increase over all of 1938 of 9,275 percent.

Czechoslovakia managed to get along on \$110,000 worth of United States farm machinery production in 1938 but required \$1,329,000 worth in 1946, a percentage increase over 1938 of 1,108.2 percent and in the first 5 months of last year received \$1,133,000 worth, a percentage increase over 1938 totals of 930 percent.

Yugoslavia did with a mere \$24,000 worth of United States farm equipment in 1938 but received \$2,183,000 worth in 1946, 9,000 percent more than 1938. In the first 5 months of last year Yugoslavia had received farm equipment from the United States valued at \$991,000, an increase of 4,029.2 percent over 1938.

Russia, whose tractor plants were reported destroyed during the war, needed

\$147,000 worth of equipment in 1938 but received \$1,618,000 worth in 1946, a percentage increase over 1938 of 1,000.1 percent. In the first 5 months of 1947 Russia received \$2,324,000 worth of equipment for an increase of 1,487.7 percent over 1938.

The United Kingdom during 1938 purchased \$3,496,000 worth of farm equipment from the United States and in 1946 this was increased to only \$3,972,000 or 8.5 percent more equipment. For the first 5 months of 1947, slightly more, \$3,987,000 worth, was purchased which amounted to 13.5 percent more than 1938. Unlike western European countries, Great Britain seems to have been able to manufacture much of its own equipment.

France received \$1,386,000 worth of farm equipment in 1938, \$11,754,000 worth in 1946 for an increase of 748.05 percent. In the first 5 months of 1947 France received equipment valued at \$8,522,000, or a percentage increase over 1938 of 514.8 percent. France is one of the 16 nations under the Marshall plan set to receive a large amount of aid.

North American countries during the first 5 months of last year received a 124.8 percent increase in United States farm equipment over the amount they received in 1938; South American countries received approximately the same amount as in 1938; African countries received an increase of 27.3 percent. European countries 155.1 percent more; Asia and Oceania countries an increase of 7 percent.

Figures are not available from the Bureau of Census on exports made after May 1947, when controls were lifted, but these were probably much less after the expiration of the UNRRA program.

For comparative purposes the year 1938 was chosen (1) because it was the last year when world-wide peace reigned and (2) farm equipment exports from this country were greater in 1938 than they had been in a score of years.

Since almost 100 percent of all farm equipment exported since 1945 to the above-mentioned countries should be presumed to be in operative condition, it is obvious that farm equipment export needs called for by the Marshall plan should take into consideration the existence in these countries of this huge amount of equipment.

There is a question in the minds of many farm equipment men as to how and on what basis the needs of ERP were determined. For instance there is considerable variance in United States export statistics relating to farm equipment—even in the same Government bureaus and departments.

The Bureau of the Census, United States Department of Commerce, reports farm equipment exports of \$69,578,000 in 1944, while the United States Statistical Abstract, published by the same United States Department of Commerce reports (p. 901, 1946 ed.) that exports of tractors and agricultural implements in 1944 amounted to \$166,608,000, a difference of \$97,030,000. It may be assumed that the larger figure includes shipments under UNRRA and possibly crawler-type tractors.

In another example the United States Bureau of Commerce reports exports of tractors and agricultural implements in 1946 of \$85,142,000. However, the Bureau of Foreign Commerce and Navigation, in the same United States Department of Commerce, reports that exports for the calendar year 1946 amounted to \$157,559,000, another difference of \$72,417,000. In this case also the larger figures include shipments to Canada as well as shipments under UNRRA.

Some of these differences may be explainable by the fact that the Bureau of the Census figures are not based on shippers' export declarations at point of export but rather upon reports received from manufacturing companies. "Therefore," states the Bureau of the Census, "the statistics are limited in their reliability by the extent to which the manufacturer knows that the farm equipment shipped from his plant will be actually exported."

On the other hand, the export figures of the Bureau of Foreign Commerce and Navigation are based on actual shipping declarations (f. a. s.) and include UNRRA shipments for the periods mentioned.

A more specific analysis of these statistics will certainly be helpful in the consideration of the Marshall plan. The western European small-acreage farmer who never needed, wanted, or expected complete mechanization of his few acres should not be provided United States equipment now at the expense of American farmers whose 1948 average goals set by the United States Department of Agriculture are substantially higher than 1947.

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., February 7, 1948.

HON. CHARLES A. EATON,
Chairman, Foreign Affairs Committee,
House of Representatives, Washington, D. C.

DEAR DOC: The other day I spoke with you concerning that article in the Atlantic Monthly under the title "Working Our Dollars Abroad," which in brief is a plan to insure American capital of the convertibility of foreign currencies into American dollars to cover plant investment, depreciation, and dividends.

The administration bill before your committee now carries a provision in broad language to carry this idea into effect.

Quite a number of businessmen ready to invest abroad have talked to me about it. In addition thereto I wish you could find time to examine the letter of Charles Will Wright which is attached. You will probably not find time to read the other material but you will note from his letter that Robert Garner, vice president of the World Bank, is also interested. I hope you can put this in your file and have it handy when you get to this item in the bill. I shall be deeply grateful.

Sincerely,

EVERETT M. DIRKSEN.

2540 MASSACHUSETTS AVE. NW,
Washington, D. C., February 5, 1948.

HON. EVERETT M. DIRKSEN,
House Office Building, Washington, D. C.

MY DEAR CONGRESSMAN DIRKSEN: I have read with great interest your excellent article "Working Our Dollars Abroad" in the Atlantic. You have presented a clear picture of what should be done to encourage American private capital to enter this rather risky field of investment. I spent a few months in France, Italy, and Greece last spring and brought back some well worth while mining projects which would increase the output of lead-zinc, and manganese ores, but for the reasons you give, none of our mining companies were willing to risk investment in Europe. However, if their investment is properly safeguarded as you suggest they would consider such investment.

A few weeks ago, I discussed a plan with Robert Garner, vice president of the World Bank, by which the local governments would agree to make the payment in dollars of all net profits due American investors from the operation of approved projects and in case of confiscation the local government would give full compensation to the American investors in dollars at the rate of exchange at the time of investment. Such an agreement between the American investors and the local government would then be presented to the World Bank for indorsement. Mr. Garner is studying the proposal. To further encourage American investors, the local government should agree to exempt from import duty all machinery and supplies required to carry out the projects for a period of three years. I would be glad to discuss this matter with you at your convenience and the importance of sending a few technical men from interested industries to start the ground-work in working out details of projects that will need European recovery program aid.

Yours sincerely,

C. W. WRIGHT.

A LONG-RANGE PRACTICAL PLAN FOR THE RELIEF, REHABILITATION AND INDUSTRIALIZATION OF THE WORLD BY THE AMERICAN PEOPLE

During the lifetime of this generation, the population of the world has increased by hundreds of millions. During the same period, the nations of the world have stupidly fought two devastating World Wars and thereby destroyed or disorganized thousands of billions of dollars' worth of wealth and wealth-producing facilities.

The result of this destruction and disorganization is the loss by almost countless millions of people of employment, security, hope and religion. This in turn, has given us disillusionment, poverty, hunger, disease, crime and all of the isms, including communism.

Today, the people in the United States, through the operation and production of our free-enterprise system, enjoy a standard of living of which there is no equal nor has any other way of life ever produced a near equal. As part of the price of

continuing individual, political and economic freedom, we must help the other people of this world to help themselves.

The people of the world are already divided into two broad divisions: Those under communistic control without personal, political, or economic freedom, and the rest of the people of the world including the citizens of the United States. This division in itself adds to the economic woes of the people by making it impossible to treat the whole world as an economic unit. We must make economic adjustments in the free part of the world and certainly not make it worse in our long-range plan, by subdividing it into western Europe, China, Latin America, Philippine Islands, India, etc.

During World War II the American people collectively were the deciding factor in liquidating fascism and nazism. In so doing, we apparently built something worse—communism. If our free-enterprise system is to solve the economic problems of the world, particularly and initially including western Europe, let us not build something worse—statism.

It is really unfair to the people of Europe or elsewhere when they are in economic trouble to force them to adopt statism. By all means, we should make a set-up so that they may adopt our way of life—the American system of free competitive enterprise which, through production has given the American people with less than 6 percent of the world's population, one-half of the wealth of the world; resulting in both the highest standard of living the world has ever seen and our ability and inclination, at the same time, to give relief and aid to the rest of the world on a scale heretofore undreamed of.

The presently envisioned Marshall plan was apparently born in Paris with the aid of political representatives only from 16 western European nations, although it deals in matters involving practical production and distribution, for which they were not fitted or trained. Any American businessman, with knowledge of the facts, can tell you that the proposed Marshall plan figures for deliveries covering, for example, electrical power generating equipment and steel-mill equipment for 1948 and 1949 and probably even 1950, are absurd.

The estimated total cost of the Marshall plan as now presented is approximately \$20,000,000,000 covering relief, rehabilitation, and industrialization to the planners' liking. The planners apparently believe that by spending this amount of money, we will in some mysterious way save them in our interest from embracing communism.

In the great majority of cases, the recipient governments, under the proposed Marshall plan will use the machinery to further the socialization of industry and to the definite detriment of private enterprise. It will provide the knock-out blow for many of the remaining private enterprise die-hards, for the governments will have new plants with relatively small capital investment and operating tax-free. Private enterprise faced with this competition will soon capitulate.

The planners do not contemplate giving the American taxpayer possible relief by the benefited countries agreeing to give the United States a certain percentage of any favorable trade balance, which any one of them may develop during the next 20 to 40 years. The one thing we can be sure of in this life is change, but some people believe that our present relative economic position will continue indefinitely.

The crowning fallacy of the whole plan is the assumption that with American machinery, the European governments can duplicate private American production. Of at least equal importance to the machinery are American business management, methods, engineering, processes, designs, distribution, research, etc. (commonly called know-how), plus the free competitive system with personal rewards for the skillful and the talented.

Machines without know-how had better be left at home. Know-how does not come in a package. Even if it did, the oil refineries, the steel mills, the tire factories, the artificial fertilizer plants, the chemical plants, the electrical manufacturing industries, the automotive industries, etc., need a continuous stimulus from ever-increasing improvements, developments, and research. The Marshall planners, to date, have not even thought about this.

The Marshall planners are trying to convince our free competitive enterprise system to, in part, liquidate or hamstring itself to solve Europe's economic problems by building up state-owned enterprises in Europe. Accordingly, as an alternate, the following is offered for consideration:

THREE PROBLEMS

Under this alternate plan, the relief of destitute people in Europe or elsewhere in the world; the rehabilitation of essential industries and services destroyed or disorganized by World War II; and the helping of other countries to create wealth

through industrialization will be separated and considered and handled as they should be, as three separate and distinct problems.

Relief

If certain segments of the free populations of the world are really in need of food and fuel and clothing to survive the coming winter in reasonable comfort, and if their governments are unable to take care of them, let the facts be presented and the American people will do their part. Controls, however, should be established so that never again will we duplicate mistakes made by UNRRA with governments allowed to use gifts from America for political control or economic gain.

Successful relief like successful industrialization requires experienced administrative personnel. Accordingly, all gifts for relief should be administered by an experienced agency, such as the Red Cross, Salvation Army, or Catholic charities. Moreover, we should insist that a substantial percentage of not less than 25 percent of the food, clothes, and fuel given by the American people, should be given to the needy people of the recipient countries. In connection with the balance, acceptable assurances should be given that in no cases, will relief material given to a foreign government be sold to the consuming public at higher than the prevailing retail prices in the United States.

Rehabilitation

It is really surprising how little industry, outside of Germany and Japan, was actually destroyed during World War II. The real problem of rehabilitation is not carrying out new industrial developments but rather—

1. Rehabilitation of the farms including fertilizer, farm implements, seeds, and breeding stock.
2. Rehabilitation of the transport systems, particularly including railroads and the establishment of maintenance and repair shops.
3. Rehabilitation of their fuel producing and distributing facilities.
4. Rehabilitation of currencies so that when people are paid, it really represents work.
5. Rehabilitation of Germany and Japan so that these countries may take their rightful places, politically and economically, in the family of the nations of the world.

The rehabilitation of currencies is something which should be handled by the International Monetary Fund, for which it was expressly organized and set up. The rehabilitation of Germany and Japan should properly be handled by the Department of State and involves the signing of equitable peace treaties and the establishment of democratic governments acceptable and responsible to their people and to the world.

The rehabilitation of farms, transport, and fuel supplies is something that could properly be handled on a grant-in-aid basis. At the same time, as the American people are going to pay the bill and the American people wish to further the American way of life rather than some form of "ism," controls should be established so that materials for rehabilitation, although given to benefited countries, will not be sold to the ultimate user at higher than prevailing retail prices in the United States. Moreover, in connection with the rehabilitation of farms in particular, some reasonable percentage of the materials should be given to farmers without funds.

Industrialization

When it comes to helping other countries to create wealth through production, we must take a long-term view; we must zealously guard the American taxpayer's money; we must consider the possibility of the United States some day having an adverse trade balance; we must remember that while Europe, including England, is suffering from a devastating war, they are suffering equally economically, because the days are gone forever when the rest of the world is satisfied to send them their raw materials for processing and for resale back to them—the rest of the world has built and continues to build their own wealth-producing industries; we must remember that there are now two worlds and that western Europe is always subject to seizure by the Soviet, if it were made sufficiently attractive for them to do so; and, above all else, we must act internationally to protect the American system of free competitive enterprise and not use up our substance to build state-owned industries abroad.

I recommend that we immediately drop the idea of giving western Europe 10 or 15 to 20 billion dollars worth of machinery and equipment with which to build state-owned industries. In place of this, I suggest that a board representing government, industry, finance, labor, and shipping under the chairmanship of an

American Under Secretary of State be established with powers to consider and approve projects anywhere in the world outside of the United States of America, by American private enterprise with its managerial and manufacturing and distribution know-how, and up to a total estimated value of say, 20 billion dollars.

This board should be given authority so that once it has considered and approved a project—

(a) The American Government guarantees that in the event an approved foreign property is confiscated or otherwise taken over by foreign government, any time during a 25-year period, the American investors will at that time be reimbursed by the American Government with the equity in the property becoming the property of the American Government.

(b) The American Government guarantees for a 25-year period, that if the property makes money, the American investors will receive sufficient dollar exchange to pay dividends in dollars annually up to 3 percent of the dollar investment.

(c) License agreements covering American know-how, must be separately approved by the board but once approved, the American Government for the life of the license agreement, but not exceeding 25 years, guarantees sufficient dollar exchange to service the agreement.

(d) To encourage this American "risk capital" or "dynamic capital" to go abroad and create wealth through production and spread the gospel of the benefits of the American way of life, all dividends received by American investors from approved projects will, for a 25-year period, be free of United States income tax.

Foreign currencies which may be received from time to time, by the United States Government in making dollars available for dividends or for know-how, as covered under (b) and (c) will be used in the foreign countries for running the American Embassy or other United States Government activities.

If this plan is adopted it will provide many advantages, including:

1. It will remove the barrier of fear which for years has held back private American capital from going abroad. Private capital always seeks safety. Previous experience with confiscation and inability to bring even reasonable earnings home in the form of dollars will be eliminated. Accordingly, we may anticipate new ventures in great number being undertaken, either 100 percent American or preferably, by mixed corporations.

2. It will strengthen the American way of life and the American system of free competitive enterprise around the world including the United States.

3. If the American people are to support a cold war this plan will give us a goal—free, competitive enterprise in the free part of the world—worthy of sacrifice to win and not an end result of socialism, nationalism, statism, sovietism, or totalitarianism in any form.

4. It will cost the American people far less than original outright gifts for the interest and amortization of the cost of the gifts would be far greater than the American taxpayer's exposure under this guaranty plan. It is even to be noted that making dividends income-tax free, causes no loss to our Treasury Department when compared to the contemplated Marshall plan, under which the goods will be given away which means obviously, no dividends.

5. It will insure competent management, and know-how going with our machines to the mutual benefit of benefited foreign countries, their industries, their labor, the American taxpayer, and the American investor.

6. It will insure an orderly and economic world development as populations shift, as they must, to countries which are surplus food producers.

7. In the event that our relative economic position changes, the American people will have private enterprise properties, around the world which could be a lifesaver to this country. The British people for example, are now literally eating the railroads that they owned in the Argentine by swapping them for beef. Such a swap would not be possible if they had given the railroads to the Argentine in the first place or if they held a batch of worthless I O U's or defaulted bonds.

8. The American aid would be for the free part of the world generally, but initially, could be directed by the board to aid largely western Europe.

9. Instead of being directed by a few men of political prominence our aid to the world would be directed by thousands of American businessmen, able and experienced, in the ramifications and intricacies of their particular part of the program.

10. It will insure greater imports into the United States because the American firms with foreign investments will be seeking countless ways and means of increasing their income. Moreover, these companies know how to sell in the

United States, which apparently most foreign countries and companies do not understand. In addition, we may be sure that such imports will supplement and add to our standard of living rather than to tear it down as may be the case if imports are made under governmental decree.

WILLIAM E. KNOX, *New York 5, N. Y.*

(Reprinted from the January 1948 issue of *Mining and Metallurgy*, monthly magazine of the American Institute of Mining and Metallurgical Engineers)

REJUVENATING EUROPEAN MINING

HOW THE MARSHALL PLAN MAY HELP EUROPE'S MINES AND MITIGATE U. S. SHORTAGES

(By Charles Will Wright, consultant on foreign mines: member, AIME)

Mineral production in almost all European countries suffered a sharp setback because of the war. Plants were damaged, transportation facilities disrupted, and labor dispersed and demoralized. Since the war, due to lack of confidence and economic stability, there has been little incentive to rebuild and expand the mineral industries even though a big demand at high prices exists for mineral products.

Most mining and metallurgical companies in Europe hesitate to invest their capital because of the tendency toward nationalizing industry, high taxes, and low output of labor, as well as the deficiency of mine supplies and equipment within their countries. In short, they do not have faith in the future, and for these same reasons and fears most of the mining companies in America will not risk capital investment in Europe.

In Europe, including the United Kingdom, free enterprise has been losing ground and as a result the foundation of their economic welfare is being undermined. American mining interests willing to take the initiative could help in counteracting this influence if a way were found for them to cooperate with the European producer without too great a risk.

Before the war ended, Russia had already started rebuilding and developing the mineral industries not only in her own territory but also in those countries within her sphere of influence. Thus the potential of the so-called Eastern bloc is rapidly increasing.

In the mining districts of western Europe are many attractive ventures which, with our technical knowledge, modern machinery, and with market contracts for their products, could be developed into important producers. Such inducements would go a long way toward encouraging the local mine operator to expand his activities.

Interesting proposals

In recent months articles have been written by economists, industrialists, bankers, and government officials proposing various methods of aiding Europe, as well as our own economic welfare, through the Marshall Plan. All have merit, particularly those favoring the building up of industrial production through private enterprise rather than by governmental agencies.

An outstanding article is that of W. Averell Harriman, Secretary of Commerce, *We Must Import to Live*, published in the *Saturday Evening Post* of May 17. In reference to the metal industries he states, "How long can we maintain the kind of industrial economy we now have on the basis of the dwindling reserves of minerals and metals we now possess." As an example he cites lead. "We are gravely short of lead although we are producing more lead than any other nation in the world. Our lead reserves have been depleted and despite special price inducements to make it profitable to operate marginal lead deposits, we find it impossible to equal our former records."

Henry Ford II, in the *Ford News Bureau* of September 29, 1947, states:

"We ought to assist other nations to increase their productive capacities by exporting to the top of our ability the necessary tools, material, and know-how. But it is also important that we try to make it clear to the entire world that the shortest and surest way to real production efficiency is that of a free people, working for their own best interests."

Another excellent article is that by Winthrop W. Aldrich, president of the Chase National Bank, on "American Interest in European Reconstruction." In it he states:

"While no one can guarantee further developments, all experience teaches that

obstacles are overcome by faith and courage reinforced by competent organization and the will to succeed. A determined effort on our part will enable the peoples of western Europe to become self-supporting in reasonably short order. Moreover, if our Government gives vigorous support to reconstruction, the costs of additional aid can be held to a minimum, in that American private enterprise will be induced to add its own capacities to the task of reconstruction. Direct participation by American business will infuse new life into private enterprise of western Europe, which is the essential basis of increased production, trade, well-being, and political stability."

Mr. Aldrich proposes the establishment of a Government corporation—the United States Corporation for European Reconstruction—and states:

"The corporation should endeavor to encourage direct investment by American firms and corporations in the plants and industrial equipment of western Europe. Direct investment, the 'partnership basis of private capital,' will, I am sure, take place on a substantial scale if the investment of such American funds is given nondiscriminatory treatment and adequate safeguard by foreign law and above all, if the American investor is convinced that there is a reasonable prospect of continued world political stability and security over a long period of time. In the long run, direct private investments will make the most contribution to European recovery and reconstruction with minimum expenditure, accompanied as they are by managerial skill and know-how of American business."

The World Bank issued copies of a recent speech by Robert Garner, executive vice president, who states the position of the World Bank as follows:

"The bank cannot supply the funds for all requirements; it can only be a trail blazer attempting to meet urgent and critical needs in the hope that in increasing degree private capital and industry will step into the picture. Without better technology, without full use of the best know-how in every line, Europe may not be able to reach an acceptable level of productivity nor to produce goods at costs which will be competitive in the markets of the world. However, the capital and know-how will not be available unless favorable conditions exist."

At the annual meeting of the AIME I presented a paper entitled "Problems and Procedures in Acquiring Foreign Mining Properties." This was accompanied by charts showing the large extent to which the United States has in the last 5 years been dependent on imports of 32 different minerals, ores, and metals. We imported from 80 to 100 percent of 21 of these mineral products to meet our requirements and from 30 to 60 percent of the other products. Granted, these were war years, but as our peacetime uses for mineral products are constantly expanding, the wartime consumption of yesterday may well be the peacetime requirements of tomorrow. Therefore, with the increase in industrial production our needs for certain minerals from foreign sources are bound to increase in the near future. In my article I made the following statement:

"The future position of the United States in foreign sources of mineral supply depends upon early action by our mining companies in acquiring a strong foothold in the countries still open to us before other nations get control of these available mineral resources. The statistical tables indicate our increasing dependence upon foreign sources of strategic mineral supply and the need for our Government to support strongly those companies that are willing to risk investment in foreign countries. The demands for majority control formerly insisted upon by United States companies investing in a foreign mining enterprise are no longer practicable because of the political tendency favoring local control in the exploitation of local mineral resources. It is therefore better to combine with local interests in such enterprises, retaining the management and sales agencies for the products in exchange for the capital required for the mine developments, operations, and for the purchase of necessary machinery. Such cooperative partnerships are now being carried out successfully by some of the large mining companies and they are protected against adverse political developments and excessive taxation."

The most concrete and definite proposals are those submitted by the House Select Committee on Foreign Aid, known as the Herter committee, which tie in European mineral production with the Marshall plan and the stock-piling program. Let me quote from the preliminary report dated November 22, 1947:

"In principle this country is already committed to a program for stock-piling strategic materials on a large scale. Congress passed the National Resources Protection Act in July 1946, with an initial authorization of \$200,000,000, only part of which has been appropriated. Although almost 2 years have elapsed since legislation was adopted for the acquisition of such stock piles, progress has been slow owing to the heavy demands of civilian industry in the reconversion

period. For instance, consumption of nonferrous metals in the United States not only has absorbed the entire available domestic production but also has required relatively heavy imports. In addition, stocks held by the Government at the end of the war have been drawn on to meet civilian needs.

"Under present conditions, therefore, large stock piles can be accumulated only by expanding total world production.

"If, therefore, consumption continues at a high rate, it is clear that stock piles can be accumulated only by importing metals.

"Because production of strategic metals and minerals in western Europe is considerably less than the over-all requirements of that area, western Europe itself can make little contribution on the stock pile. If, however, the colonial territories controlled by the countries of western Europe are included, a respectable total can be shown.

"Therefore, the ideal arrangement would be for the colonial governments involved to undertake a firm commitment to supply a stated tonnage annually for a period of several years—10 to 20 years being an ideal period for assuring a normal return on capital without either undue profit to the producer or unwise use of scarce equipment for developing and exploiting mining properties.

"If the United States agrees to take such a stated annual tonnage, the colonial governments could then in turn make similar agreements with the individual producers. Presumably it would be necessary to establish a minimum price for each material and provide for fluctuations in line with market trends generally.

"Provided that necessary safeguards are established, there is no question that, in the mineral field at least, American capital is available to take over or supplement European investments in many colonial areas.

"Thus far in 1947 the United States has imported, either as ore or as metal, a net monthly average, after allowing for re-export, of 20,000 tons of copper, 23,000 tons of zinc, and 16,000 tons of lead. On the assumption that the volume of business activity in the United States persists at its present levels, this country will continue to import these metals on about the same scale, since domestic mine production is for all purposes running at full capacity."

It is apparent from these proposals and other published articles that there is a widespread feeling that now is the opportune time for our Government, backed by our industrialists, to cooperate in the development of foreign mineral resources and thus prepare the field for private industry, in cooperation with the managerial and technical experience of American companies, to take over in the near future

THE APPROACH

The Herter committee is to be complimented for having presented such a clear picture of the situation relative to the mining industries and our stock-piling needs. But a lot still remains to be done before the objectives can be accomplished and it is now necessary to work out the mechanics in order to get the program under way without too great a delay. Let us analyze the Herter proposals by considering the following questions:

(1) Will the local governments be able to make long-term commitments for deliveries with the local private producers at prices that will be acceptable to the United States Munitions Board, as this is the only agency that has the authority to direct stock-pile purchases by the Treasury?

Governments and private industry often do not agree on terms, and other countries may be ready to step in and offer higher prices for the products, or the local market prices may be higher than those we may offer. The answer would be to authorize the granting of United States dollar credits against future delivery of mineral products at the prevailing local market prices.

(2) Are the mines in position as to ore reserves and plant capacities to increase their present output?

Some may be, but many used up their developed reserves during the war and now find it difficult to get mine supplies and equipment to maintain their present output so they will need help for new mine developments and plant equipment.

(3) In making long-term agreements for stock-pile purposes, will our Government be obliged to ask for bids from the various producing countries on quantities and prices for their products and have to deal with the lowest bidder?

As such action would delay purchases it would be better if our Government were to make purchases through authorized agents of the large United States consumers who deal directly with the local producers rather than dealing through the local governments. However such purchase contracts should be approved by the local governments and properly safeguarded.

(4) Will there not be demands upon our manufacturers for machinery and equipment which may be impractical for their operations?

This was the case in large orders for coal-mining machinery by both the British and Russian Governments. Unwise orders can be eliminated if a competent American mining engineer with proper authority is attached to the local government agency which is supposed to control the amount of aid to be granted to such projects.

(5) What assurance can American capital, both private and governmental, have from our Government or from the country in which capital is to be invested, that its share of the products and profits may be returned to the United States?

American capital will insist upon more backing by our Government than it has had in the past, when foreign governments have confiscated their holdings, applied discriminating exchange regulations, high export taxes, and production controls. Also the foreign governments that want American capital and technique must adjust their mining laws, tariffs, taxes, cartels, and exchange regulations to encourage our investment in their country.

BACKGROUND EXPERIENCE

Before making suggestions as to how to proceed to get early action on the Marshall plan and the ways it can help to increase mineral production in Europe, I should mention my background experience and recent contacts in Europe.

I was in charge of mining operations in Italy for 18 years, joined the Bureau of Mines as chief of the mining division in 1927, and from 1935 to 1940 was chief foreign minerals specialist throughout Europe. I returned there in 1945 for 6 months to make a resurvey of the European mineral industries. I was, therefore, able to see the "before and after" effects of the war on the mining industries in Germany, Spain, France, Italy, Greece, and England. In 1945 I discussed with the mine managers their needs for future operations, and reported on these to our embassies in each country and to Army headquarters in Paris, Frankfurt, and Rome. This spring I made another 3-month trip to France, Italy, and Greece and met the directors of many mining companies, producers of products required by our industries. They are all looking to America for the necessary dollars to purchase our up-to-date mining machinery and for our engineers to aid them in introducing methods to increase output per man-shift and reduce losses. They are well aware that American mining companies are the world's leaders in large-scale mining operations and they are anxious to make cooperative agreements with them. The directors I saw represented the owners of lead-zinc mines in northern Africa, Spain, Italy, Greece, and Turkey; mercury mines in Italy; manganese and cobalt mines in Morocco; bauxite and chromite mines in Greece; chromite mines in Turkey; and potash mines in France. During the past few months some of the mining men I met in France and Greece have called upon me in New York presenting again their problems, but I could give them little encouragement. Also the owner of important mercury mines in Italy writes that he wishes to make a long-term contract with United States consumers who will advance dollars for the purchase of plant equipment for his mine. The mine owners in Europe have plenty of local currency to defray all costs for installation and operating expense, and some are ready to enter into agreements on a 50-50 basis with American companies in the future exploitation of their properties.

In view of the necessity for having an assured supply of these minerals for our industrialists, every effort should be made, not only to follow up these contacts but to make new ones, and thus help to get the mines and metallurgical plants in Europe in full capacity production and to build up exports of these products to the United States in exchange for financial and technical aid.

HOW TO INITIATE EARLY ACTION

All will agree that early action either by our Government or by private industry is urgent. Since private capital naturally hesitates to invest in Europe under present conditions, it will be necessary to initiate such action through the Marshall plan.

The European mining and metallurgical industries, including coal, potash, phosphate, bauxite, and other mineral products, need new machinery and spare parts for their plants and transportation facilities now out of repair. Replacements were not available during the war and are now difficult to obtain locally and then only at black-market prices. Both the managements and the workmen are doing all they can to maintain production with available materials, and through their governments they are begging us for dollar credits in order to pay

for their new machinery and replacements. Since last March, however, our Government has been sitting on the sidelines, discussing whether such aid to foreign industrial reconstruction by the introduction of our modern methods and machines will not build up competition on world markets or deprive our own industries of the machines and supplies they may need, cause a political reaction in the United States, or cause adverse propaganda in the Soviet Union. One may, however, be encouraged by the readiness with which the stop-gap loans to France and Italy were approved by Congress, for this may mean that action on additional aid is to be accelerated.

Two Federal agencies, the Export-Import Bank and the International Bank for Reconstruction and Development, were organized to meet emergencies abroad if presented with reports properly documented to justify the emergency and the amount desired. Congress, however, may decide to establish a new agency or corporation to handle aid to Europe.

During World War II, the Reconstruction Finance Corporation and the Defense Plant Corporation employed a staff of engineers as well as the engineers of mining companies, to report on mining projects presented to them. A similar set-up could now be organized for Europe. In each European country, where aid is to be given to the mining industries, it would be advisable to have (1) an American mining engineer empowered to approve the projects attached to the local governmental agency authorized to grant aid, and (2) an advisory board of consulting engineers, including competent local engineers and those in the local mines departments. This group would be authorized to select those mines which, because of their products and reserves, may be worthy of further development, and to request all available reports and maps from the mine owner wishing financial and technical aid. The engineers of the organization should visit the properties, sample the deposits, evaluate the risks involved, and prepare a final report for approval of the American engineer and consideration by the local governmental agency. This advisory board within the organization would get in contact with the local governmental departments to establish the necessary safeguards for the investment of American capital in the approved projects. Probably the final report on a property would recommend that, in order to make it a profitable operation, the mine might require (1) extensive underground development work, (2) a new concentrating plant, (3) a new ropeway, road, or railway to facilitate transportation, or (4) a smelter or plant to produce a commercial product from the raw material mined. Detailed plans and cost estimates for the plants and the anticipated results should be prepared and presented as a supplement to the report.

Besides making direct loans on a business basis, this agency could be authorized to make long-term contracts for delivery of equipment and services against future delivery of products, our Government reserving the right to sell the products on other markets besides the United States or to place them in our stock piles.

CONCLUSIONS

The Marshall plan can be the real incentive toward increased mineral production in western Europe if funds are made available without too much delay for mining projects which, after proper investigation, warrant investment. The National Resources Security Board has the authority to instruct any of our governmental agencies to initiate action. Advisory boards, made up of our leading mining industrialists, members of the Department of Commerce, and directors of the Bureau of Mines and Geological Survey, have also been established to help decide where and how aid should be given. But before much can be done in Europe, local advisory boards made up of the mining industrialists and heads of the mining bureaus should be established in each country to help decide which projects should have priority and how the aid should be handled. This, of course, should be done through the banks on a business basis and the preliminary work should be in progress now.

To exercise the necessary control of expenditures it is essential that competent engineers be selected, if possible by the aid of the American mining companies, and attached to the offices in Europe that are to administer the aid under the Marshall plan. It is also essential that the requests for aid come from the local mining companies and that full use be made of their technical staffs in the preparation of the reports and the carrying out of the projects. Once the initiative is taken to get the mining industries into full capacity production, American mining companies will probably then be ready to cooperate with the owners in their efforts to increase the output as well as the profits from their mines and smelters. If investments by our American companies or Government are properly safeguarded

this will be a big help in the expansion of the free enterprise system in Europe as opposed to governmental control.

As the time element is vital it is important that a small staff be appointed and sent to Europe in advance to start on the groundwork in the establishment of local advisory boards in each of the countries and to initiate the preparation of projects that will need our material, technical, and financial aid.

In conclusion may I suggest that we have less discussion by committees and more action by our Government; and not wait for Congress to pass the Marshall plan appropriations before starting the necessary groundwork to be done prior to the granting of loans to the mining industries in Europe. The products of these industries are among the few which will give us a tangible return in exchange for the tons of coal, petroleum, food, fertilizer, and machinery we are exporting to them. The channeling of financial, technical, and material aid as indicated is the most practical way to help Europe help herself.

Few American mining men are so well-qualified as Will Wright to speak with a knowledge born of experience about the mineral deposits of western Europe. A total of nearly 25 years either engaged in producing from European mines or in their examination has given Mr. Wright a clear picture of the condition and extent of western European mines and mineral reserves. Interim aid to the extent of nearly \$600,000,000 has been granted for immediate European relief pending fuller consideration of the Marshall plan. In some measure a portion of what relief we extend to Europe can be repaid by their production of minerals that we require. Mr. Wright prescribes the establishment of a Government corporation authorized to grant aid to European mining companies as a means of revitalizing their mines and directing the mineral production into proper channels.

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PROBLEMS AND PROCEDURE IN ACQUIRING FOREIGN MINING PROPERTIES

By Charles Will Wright, mineral consultant, Mines, Inc.; member, AIME

The author has been actively engaged in foreign mining investigations since July 1935 when he relinquished his post as chief of the mining division of the Bureau of Mines. For the next 3 years he was making mineral surveys in various European countries, also acting as mineral adviser to various consular offices. More recently he has been in the Foreign Service of the Department of State, making mineral surveys in Latin-American countries. He was born in Marquette, Mich., May 15, 1879, studied 4 years at Heidelberg and Freiberg in Germany, got bachelor of science and mechanical engineering degrees from the Michigan College of Mines, and spent the 6 years following 1903 with the Geological Survey. From 1909 to 1923 he was first chief engineer and later general manager of lead-zinc, fluor spar, and copper mines in Sardinia and northern Italy. Returning to the United States he went with the Bureau of Mines.

Although the United States has long led all other countries in both the production and consumption of mineral products, the trend seems definitely toward an increasing dependence upon foreign sources of supply. This is not to take the position that we are either a have or a have-not nation. For years we shall continue to secure a large proportion of our needed minerals from our own mines, but we must face the fact that this century has seen a more thorough and intense development of the mineral resources of the United States and a greater depletion of its irreplaceable mineral reserves than has occurred in most other countries. An audit of our mineral production given in the attached charts discloses the extent of our deficiencies. Because of these facts, low-cost foreign sources offer a promising field for the investment of a portion of our mining capital and an opportunity to obtain for the United States a greater supply of strategic metals and minerals. However, to reach this end, the industrialist investing in the foreign field must have the full cooperation and strong backing of the Federal Government and the involved Federal agencies.

The geographical areas of the world are more closely knit together by the time-distance factor than ever before. Former inaccessible regions have lost their remoteness and are now open to the modern prospector by the use of the jeep and the helicopter. Mineral exploitation in the foreign field takes considerable initiative and involves high risks but our mining companies should be willing to take these risks before other nations seize the opportunity to obtain foreign mineral rights and deposits, thus precluding United States industries from acquiring an interest in such sources.

Several outstanding articles have appeared in the last year or two on our mineral supplies and needs. Mining and Metallurgy, for instance, has published Principles of Foreign Mineral Policy of the United States, by C. K. Leith; Post war Demand and Supply of Minerals, by Harvey S. Mudd; and The Mineral Position of the United States and the Outlook for the Future, by Elmer Pehrson. Other excellent articles have been published in the Engineering and Mining Journal, Economic Geology, and The World Report. Some or all of these papers might well be read as background for the discussion that follows. My remarks

will be directed to the investor or industrialist who hesitates to risk his capital in the foreign field, and also to companies engaged in mining or smelting in the United States who may be thinking of expanding their operations abroad.

The accompanying charts show the large extent to which the United States has in the last 5 years been dependent on imports for 32 different minerals, ores, and metals. Granted, these were war years when our consumption was greater than normal, but our peacetime uses of mineral products are constantly expanding, and the wartime consumption of yesterday may well be the peacetime requirements of tomorrow. Therefore our need of minerals from foreign sources is unlikely to lessen, or if so, only temporarily. So it is in the world beyond our borders that we must look for a large proportion of our needs even though development at home fully lives up to our hopes.

The outside world is not the world we knew early in the century when trade did not have the hindrances it has had in the last decade or two. Political and economic barriers have been set up, which should have the early attention of the United Nations. Also, some countries are seeking to limit foreign mineral developments for their own purposes, or to make things more difficult for the United States. For instance, according to an article in the Washington Evening Star of January 7, 1947, it is well known by the Foreign Service officers of the State Department that the Moscow-sponsored Communist leaders are opposed to any open-door policy permitting the United States to develop foreign sources for its mineral requirements. Factual reports indicate that propaganda has been organized in countries possessing raw materials essential to our industrial progress, with the objective of depriving the United States of basic materials in the event of a crisis. Agents are at work, particularly in Latin-American countries, encouraging them to nationalize their mineral industries, and to increase taxes on production from United States-controlled companies. Although such attempts will eventually react against the economy and interests of these countries, they may, in the meantime, have a serious effect upon our foreign interests. For these reasons it is logical that our foreign policy should give effective support to our mining interests abroad, as does that of Great Britain, and should see that we are given an equal chance in foreign mineral development.

If, therefore, we acknowledge that development of foreign deposits by United States capital is desirable, and in the interest not only of ourselves but also of the countries in which the capital will be spent; and if we assume that the United Nations and our own State Department will assure fair treatment to all in world mineral investment and trade; then a few remarks on the procedure involved in foreign mineral investment may be in order.

Two sources of foreign mineral supply may be mentioned. The first is production from old mines. If the modern methods which we have developed in this country were fully utilized, some mines not now being worked could be made profitable, and the output of others currently producing could be much expanded. The second is potential production from new, or still undeveloped mining districts, where modern methods of exploration can be applied and where transportation is now a serious problem.

The industrialist requiring a particular mineral product should first have a summarized survey made with geologic and economic studies of the principal producing areas based on data available in the United States. These studies will decide which sources are in the best positions economically and politically to supply his needs at the lowest cost. The industrialist should also have the names of the operators of the mines or deposits within these areas and find out whether they require capital for mine developments or plants. However, rather than sink his capital in mine developments and mine plants, the industrialist may prefer to advance capital against future deliveries on a long-term contract. In any case, reliable information should be obtained through the local banks and a close check-up made by the American Foreign Service officers on the integrity and ability of the mine owner or owners to meet commitments.

GEOLOGICAL APPROACH

In many instances considerable geological information and geological maps to accompany the preliminary report on the areas of interest can be obtained in the United States. Therefore the geological possibilities of an area can be determined before sending out a field party and this information can be used to plan the field work. Knowledge of the local geology is particularly important with reference to metalliferous deposits, as some metals are found along certain mineral zones or horizons in sedimentary rocks of a specific geological age and composition. (Tables showing the association of the metals and minerals with rocks of various origin and age may be found in economic geology textbooks. The position of the

	Domestic production	Imports for consumption	Percent imported	Tariff		Value 15¢ per lb. or below, 4¢ per lb., value above 15¢ per lb.; 4¢ lb. + 25% ad. val.
	41-45 1945	1941 1945	87 89	Ore free, metal 2¢ per lb.	Mica	87 90
Antimony	41-45 1945	24,913 23,900			Monazite	100 100
Asbestos 1000 tons	41-45 1945	2,411 374	97 96	Unmanufactured free	Nickel 1000 tons	99 99
Beryllium ore	41-45 1945	2,908 1,701	92 91	Ore free	Platinum 1000 oz	93 95
Chromite 1000 tons	41-45 1945	2,118 915	93 97	Free	Quartz	99+ 99+
Cobalt	41-45 1945	2,601 2,385	86 88	Ore free	Rutile	68 60
Columbium ore	41-45 1945	1,355 2,109	99+ 99+	Ore free	Strontium ore	65 57
Corundum	41-45 1945	5,961 6,744	100 100	Ore free	Tantalum ore	99 99
Graphite	41-45 1945	23,118 18,881	83 88	Amorphous 5¢, lump 15%, flake 30%	Tin	99 100
Industrial diamonds 1000 carats	41-45 1945	21,769 10,793	100 100	Free	Tungsten	62 47
Manganese ore 1000 tons	41-45 1945	2,433 1,311	89 89	½¢ lb Mn content	Zirconium ore	99+ 99+

Table 1. Ratio of imports for consumption to domestic production. More than half of U. S. requirements are imported. (In tons of 2000 lb. except where indicated. Statistics from Bureau of Mines Minerals Yearbooks.)

deposits at or near and sometimes in intrusive rock masses is also indicative. The ore may follow certain rock strata, a vein system, shear zones, or other structural lines of weakness and fault planes may often interrupt the continuity of a deposit. A study of these and other geological features, such as mineral alterations in the surrounding rocks, may indicate the chance of finding new deposits or extensions of known deposits and whether it is worth while to extend explorations within an area. Geological studies of abandoned properties as well as of operating mines have often resulted in opening up large reserves of additional ore and thus giving new life to the enterprise. Geophysical surveys in collaboration with geological studies have also been of value in the discovery of important buried deposits.

In almost every part of the world, geological provinces are found which prospectively are ore-bearing but which have been given only cursory attention because of their remoteness. Transportation methods today allow such remote areas to be accessible either for the exploration or the development of mineral deposits. The first step in studying such an area whether it be in Siam, China, Netherland Indies, or Ethiopia, is to collect all available topographical, geological, and mineral maps, sketches, and descriptions as well as private engineers' reports. The logical sources of such information are books on ore deposits, mining journals, and magazines at the United States Geological Survey and Bureau of Mines, the Department of Commerce, the Library of Congress, the State Department, and the files of private engineers. This information also may be obtained directly from the Government bureaus of the countries which govern the area.

The next step is to find to whom the exploration concessions were given in the past and whether, within the area, exclusive concessions for a reasonable period of years may be obtained from the local governments. The Foreign Service officers of our State Department are equipped to help get this information and to supply data on the transportation systems, climate, vegetation, health conditions, and other pertinent data.

After the necessary information has been acquired, permission from the local authorities to send an exploratory party into a given area must be obtained. The next step is to select an engineer and geologist experienced in making such surveys. When topographic conditions permit, the preferable means of transport is a jeep with a trailer fitted with sampling and testing equipment. Assistants who know the country and language can usually be obtained locally to act as guides and interpreters.

INVESTIGATIONS IN OLD MINING DISTRICTS

The technique of acquiring a lease of a mine of a substantial interest in a mining company in an old mining district requires caution so as not to alert competition with established local companies, or especially between our own companies. Whether the property is an old mine in Egypt or Eritrea, or in the Gold Coast or Greece, where operations had to be suspended either because of low metal prices or wars, the first essential is to unearth maps and any data relative to the ore deposits, its geological features, including possible ore reserves and grade, past production, methods, and costs; also methods of transportation and markets. The question of ownership follows and it is important to know how to get in contact with the owners so they will not have impossible pretensions when they know that United States capital may be interested. An agreement with the owners or an option is necessary before sending an engineer to make a report, and this option should be for a period long enough to permit a careful study of the mines, including sampling of the deposits and testing of the ores by flotation or other methods. This option may be for an outright purchase, for a one-half interest, or for a long-term lease on a royalty basis. In case of a shareholding company, an option to purchase a block of the shares may be the simplest solution. An engineer sent from the United States should see the State Department officer in Washington in charge of the political desk of the country he is to visit and ask to have the respective Embassy or Legation advised of his visit. He could get his passport and visa from the consular services at the same time.

If the engineer's report is favorable and results of the ore tests are satisfactory, the next problem is to negotiate some satisfactory agreement with the owners for the future operation of the mine, if not already arranged in the preliminary terms. The terms of such an agreement may vary from an outright purchase for cash to a long-term lease on a royalty basis plus a managerial contract with no cash payment involved. The terms will also depend upon the risk involved because of the political situation, taxes, and exchange regulations of the country. Where these are unfavorable, a United States company might better arrange a sales contract for the products together with the managerial contract, and an

agreement may be made to lend the dollars through the banks to the owners for the purchase of mine plants and supplies and for operating expenses, provided the local exchange commission approves the repayment in dollars to the United States company from eventual sales of the product. In some countries special permits regarding exchange operations may be obtained. An option to purchase shares up to 50 percent may also be added to the agreement. The negotiator for the purchaser as well as the owner must remember that open dealing is the foundation of confidence and that all information relating to the property ought to be freely and confidentially shared. Terms of mutual confidence will thus gradually be established which will help to make the undertaking a profitable cooperative undertaking.



		 Domestic production	 Imports for consumption	Percent imported	Tariff
Aluminum 1000 tons	41-45	605	14	19	3¢ per lb
	1945	496	339	41	
Arsenic	41-45	30,561	13,174	30	Free
	1945	24,349	13,149	35	
Bauxite 1000 tons	41-45	3,702	1,059	22	\$1 per ton
	1945	1,099	828	43	
Copper 1000 tons	41-45	993	715	44	4¢ per lb
	1945	773	853	53	
Fluorspar 1000 tons	41-45	375	35	9	Met. grade \$ 7.50 per ton Chem. grade \$ 5.00 per ton
	1945	324	103	24	
Ilmenite 1000 tons	41-45	178	116	40	Free
	1945	309	210	41	
Lead 1000 tons	41-45	442	378	46	Ore $\frac{3}{4}$ ¢ per lb. Pb; metal $\frac{1}{16}$ ¢
	1945	391	311	44	
Mercury flasks	41-45	43,229	36,531	46	25¢ per lb
	1945	30,617	68,673	70	
Pyrites 1000 tons	41-45	824	290	26	Free
	1945	809	209	21	
Vanadium	41-45	2,102	954	31	Ore free
	1945	1,402	776	34	
Zinc 1000 tons	41-45	718	483	40	Ore $\frac{3}{4}$ ¢ per lb Zn, metal $\frac{7}{16}$ ¢
	1945	614	435	41	

TABLE 2.—Ratio of imports for consumption to domestic production. Less than half of United States requirements are imported. (In tons of 2,000 lb. except where indicated.)

OUTSTANDING POSITIONS OF UNITED STATES

During the past decade the mining companies in the United States have made great progress (1) in the field of exploration for ore deposits by the application of new geophysical and geological methods; (2) in mining by the use of diamond drills in place of rock drills; (3) by using conveyor belts and shakers to replace tramming ore in mine cars; (4) in ore-treatment methods such as sink-float to

rough out waste rock, and by improved ball mills, flotation processes, and flotation reagents which reduce mineral losses and operating costs; and (5) in the field of metallurgy through improved practice in producing metals and alloys.

Many opportunities exist in the foreign field to reestablish profitable operations by application of these modern methods to mines with important reserves of low-grade ore and tailing dumps. Foreign mine owners, because of this knowledge and the experience of our engineers, are generally anxious to have United States mining companies manage and financially assist in the development and operation of their properties.

The taxes and finance of many foreign countries are dependent upon those in power and frequently this results in insecurity to foreign investors. The United States investor wants security as to the title of ownership, and specific data on taxes and on the possibility of getting his capital investment and profits out of the country. The labor laws and labor-union restrictions must also be under constant investigation and study. The investor must have assurance that his investment will not be endangered by political changes.

About the only logical procedure to follow to obtain recent information on these subjects is through the Foreign Service officers of our State Department. Much of the information may be found in the reports by these officers under each country and may be reviewed at the State Department, in the Foreign Minerals Division of the Bureau of Mines, and at the Department of Commerce. Where additional information is desired it may frequently be obtained through the State Department from the Foreign Service officers (commercial or labor attachés) in the countries in question. The "Statesman Yearbook," published in London summarizes some of this information for most foreign countries.

The future position of the United States in foreign sources of mineral supply depends upon early action by our mining companies in acquiring a strong foothold in the countries still open to us before other nations get control of these available mineral resources. The statistical tables indicate our increasing dependence upon foreign sources of strategic mineral supply and the need for our Government to support strongly those companies that are willing to risk investment in foreign countries. The demands for majority control formerly made by United States companies investing in a foreign mining enterprise are no longer practicable because of the political tendency favoring local control in the exploitation of local mineral resources. It is therefore better to combine with local interests in such enterprises, retaining the management and sales agencies for the products in exchange for the capital required for the mine developments, operations, and for the purchase of necessary machinery. Such cooperative partnerships are now being carried out successfully by some of the large mining companies and they are thus protected against adverse political developments and excessive taxation. Mining companies with excess profits, willing to invest in exploration and development of promising mining ventures, could do so advantageously for themselves, for the foreign country, and for the United States.

Another suggestion which may benefit companies entering certain foreign fields is to combine their interests rather than to bid against each other in obtaining a property. Frequently a foreign mine owner is given an opportunity to promote competition and so obtain an exaggerated price for his property. Competition and duplication of effort could be eliminated in part if mining companies were to cooperate on a well-planned program for acquiring properties abroad. Such cooperation would include an efficient organization for the preliminary research work already outlined and a possible division of interests by metal or territory. By such united effort, United States mining companies would be in a stronger position to play a constructive part in building up foreign sources of mineral products required by our industries. They would also help to establish economic welfare in the mineral producing countries and indirectly help this confused world to combat present abnormal conditions.

RÉSUMÉ OF THE AMERICAN MINING SCENE FOR 1947 AND FUTURE PROSPECTS

(By Charles Will Wright)

FOREWORD

The following notes constitute an attempt to answer a letter from John Dorsh, editor of the Mining World, requesting that I give to its readers a brief summary of the present position of the United States and suggestions as to the future outlook of our mineral industries with attention to the political and economic sides as well

as to development and operation. I am neither a politician nor an economist but as a mining engineer I find much confusion from the political point of view in facing the facts about our mineral resources and a lack of Government policy regarding our future mineral supplies. This situation is discouraging to our large consumers as well as to the large mineral producers who are anxious to expand developments and operations of their mining interests both within the United States and in the foreign field so as to meet our industrial needs.

Our mineral supply

Our industrialists know that the future welfare of the United States depends upon an adequate supply of minerals obtained both domestically and abroad. The extent to which we are depending or will depend on foreign sources of mineral supply is a matter of considerable controversy, essentially political. The war demand for metals and minerals made us realize our deficiencies in many of the essential raw mineral products and how hard it was, regardless of cost, to obtain them from foreign sources. Under the Strategic Minerals Act of 1939, hundreds of millions of dollars of taxpayers' money were spent by our Geological Survey and Bureau of Mines in exploratory work on marginal deposits within the United States, Cuba, Mexico, and other Latin-American countries and more millions were loaned by the Defense Plant Corporation and the Reconstruction Finance Corporation for development and plant construction. The poor results and the liquidation of these plants and enterprises at a small fraction of their cost is well known. Nevertheless much data were acquired by our Government agencies and private industry relative to our rather serious position in respect to domestic sources of strategic minerals.

Although the United States has for many decades led all other countries in both production and consumption of mineral products, the trend seems to be definitely toward an increasing dependence upon foreign sources of supply. This is not taking the position that we are either a have or have-not nation. For decades we shall continue to secure a large proportion of our needed minerals from our own mines, but we must face the fact that this century has seen a more thorough and intense development and depletion of our irreplaceable mineral reserves than most other countries have suffered.

An audit of the mineral position of the United States is clearly presented by the staffs of the Bureau of Mines and the Geological Survey as an appendix to the United States Senate public document, *Investigations of National Resources*, issued in December 1947. This report includes graphs showing United States production, consumption, and imports from 1910 to 1945. These should be studied carefully, particularly by those with isolationist tendencies who still believe that our mineral resources are adequate if only greater effort were made to develop them.

The important ferrous minerals

United States iron ore production was more than doubled from 1939 (51,732,000 tons) to 1942 (105,526,000 tons) due to demands by our war industries, 80 percent of which was supplied by the iron mines in the Lake Superior district. Present known iron-ore reserves, averaging 50 percent or better in iron content, in the Lake Superior district are about 1,800,000,000 tons while in the Southwestern States there are an estimated 2,000,000,000 tons of ore averaging 35 percent iron content. There are also an estimated 60,000,000,000 tons of potential reserves represented by the taconites in the Lake Superior district. Although the United States is virtually self-sufficient in iron ore, the high-grade deposits are rapidly being depleted and the problem of beneficiating the taconites is now being intensified. Research effort is being concentrated on methods to separate the magnetic and nonmagnetic as well as the coarse and fine grained taconites which contain from 10 to 30 percent iron and in some areas as much as 40 percent. From these ores a concentrate with 50 to 60 percent iron content is made and this product is sintered for reduction in the blast furnace. The interest in these ores as a future source of iron is so great that the Oliver Iron Co. is reported to have started on a \$35,000,000 project to carry out a thorough investigation of the taconites on a large scale. The Pickands-Mather and other companies are also working on this problem.

In the foreign field some 16 years ago the Bethlehem Steel Co. started the exploitation of the El Tofo deposits in Chile, which supplied their furnaces at Sparrows Point, Md., with about 1,600,000 tons annually before the war. Shipments were suspended during the war but have now been resumed. The Iron Mines Co. of Venezuela a subsidiary of Bethlehem Steel Co. has developed the large iron-ore deposits with reserves estimated at 60,000,000 tons with 60 percent

iron content, at El Pao in Venezuela and completed a 35-mile railway also a highway from the mine to the river port of San Felix on the Orinoco. At San Felix construction of warehouses, machine shops, and loading bins are also being completed. The ore will be shipped in barges to a deep water reloading station at Cristobol Colon on the south coast of Paris Peninsular and thence to the United States. An annual output of 2,000,000 tons is anticipated. Of particular interest are the extensive deposits in the State of Mato Grosso in Brazil near the port of Urucum on the Paraguay River. The United States Geological Survey have estimated the reserves at 1,310,000,000 tons, containing 55 percent iron and 20 percent silica with selective beds containing 64 percent iron. The Bethlehem Steel Co. is now prospecting these deposits. Rather than ship the ore, plans for blast furnaces to produce pig iron locally are being studied. The ore is of high-grade Bessemer quality. Important are also the Labrador iron-ore deposits now being developed by the Hollinger Mining Co. and the M. A. Hanna Co. Past explorations along a 90-mile band of pre-cambrian schists have revealed large bodies of high-grade hematite adjacent to the Quebec-Labrador boundary north of Lake Petitsikapore. The Labrador Mining & Exploration Co. did the original work from 1936 to 1939. Known reserves are said to be over 100,000,000 tons with several times this amount of potential reserves. The remoteness of the area some 300 miles inland as well as the severe climatic conditions are handicaps to profitable operations. Nevertheless the construction of the railway is being pushed and plant construction has started. Still another important iron-ore belt is that in the northern Province of Sierra Leone in West Africa now being exploited by the Sierra Leone Development Co., Ltd. In this belt are the Marampa deposits, 52 miles by railway to the port of Papel, from which a million tons a year were being shipped before the war to England, and the Tonkolili deposits 100 miles to the northeast. The known ore reserves of these deposits are said to be well over 100,000,000 tons, of high-grade Bessemer ore.

Imports of metallurgical and chemical grade manganese ore during 1947 totaled about 1,700,000 short tons while domestic production was expected to be about 150,000 tons. No substantial change is expected in production and imports during the next few years. The principal foreign sources are India, the Gold Coast, South Africa, Russia, and Brazil. The largest known deposits in the Americas are those at Urucum in the State of Mato Grosso, Brazil, with measured reserves of 4,500,000 tons and 11,500,000 tons of indicated reserves containing 46 percent manganese and 11 percent iron. Most imports are now limited by shipping and docking facilities in the exporting countries. Within the United States are several large deposits of low-grade noncommercial manganese ore which with improved technology and higher prices could replace our imports in part.

Domestic mines supply about 40 percent of our industries tungsten requirements estimated at about 9,000 tons. The balance is imported from Bolivia, Brazil, Argentina, Mexico, Peru, southern Rhodesia, and Spain. China was formerly our main source of supply but virtually all of its present output is going to Russia. Unless new discoveries are made in the United States a decline in domestic output is anticipated.

Although domestic reserves of vanadium ores are not large new low-grade deposits are being explored and a potential supply of byproduct vanadium could be made available through technical developments now being carried on. The United States may thus be self-sufficient in this important steel-alloy metal.

The United States, the largest world consumer of chromite, has no significant commercial reserves of this ore and is almost wholly dependent on foreign sources of supply. With the growth in alloy-steel production, our domestic requirements will doubtless increase. Imports of chromite including all grades, from 1940 to 1947, averaged about 800,000 tons. Practically all of the metallurgical grade came from the Eastern Hemisphere.

Although wholly dependent on foreign sources for our nickel supply our industrial requirements can always be imported from Canada.

The United States is the world's principal producer of molybdenum. Domestic production is about 3,000 tons annually and 40 percent of this is recovered as a byproduct at the copper mines. Our annual consumption is estimated at 2,000 tons.

Some of the nonferrous metals

Our domestic production capacity of aluminum is in excess of current consumption, but in 1946 and 1947 we imported about one-half of our bauxite requirements from Dutch Guiana. The United States has very small reserves of grade I bauxite (59 percent Al_2O_3 and 6 percent SiO_2) used exclusively for the production

of aluminum and the reserves of grade II (52 percent Al_2O_3 and 10 percent SiO_2) are small relative to our long-term requirements. It is therefore important to increase imports and reserve our domestic reserves for emergency needs. During the war period, from 1939 to 1943, bauxite production from domestic mines jumped from 500,000 tons to over 6,000,000 tons and the production of aluminum from 900,000 tons to 900,000 tons, or 45 percent of world production.

Domestic reserves of antimony are exceedingly small and are chiefly a byproduct in the production of other metals. Our consumption requirements for 1947 to 1948 are estimated at from 30,000 to 40,000 tons of which 12 percent will come from domestic ores, 40 percent from import and 48 percent from secondary sources. Unless we can resume imports from China, our main prewar source, we may have to depend heavily upon Bolivia and Mexico for this metal.

Output of copper from domestic mines estimated at 900,000 tons in 1947 will all short of anticipated needs by about a million tons. The outlook is for a decrease in output during the next few years. Imports have supplied over 50 percent of our copper requirements since 1945 and we may have to import a greater percentage in the future. In view of this, our copper imports for stock piling should be increased.

The situation in our primary lead supply is more serious. During the past years we have depended upon imports, amounting to 400,000 tons a year, for about one-half of our requirements but due to the world shortage it is becoming more difficult to acquire lead from foreign sources even at present higher prices. Secondary lead is supplying an increasing tonnage of requirements. Our annual requirements during the next few years are estimated at 1,200,000 tons. Recent discoveries in the Broken Hill district, Australia, are reported to have contributed largely to the world's lead-ore reserves.

In 1938 the United States was self-sufficient in the production of zinc, the output being about a half million tons. Although production rose to an average of 900,000 tons from 1940 to '46, imports rose from zero in 1938 to an average of over 900,000 tons from 1940 to '46. For the next few years our annual consumption requirements are estimated to be about 880,000 tons and about one-third of this will have to be imported in the form of concentrates. There is at present an excess capacity for the production of zinc metal in the United States.

Among the light metals magnesium production and fabricating capacity in the United States vastly exceeds current needs. Our reserves are unlimited as seawater is the main source. The rated annual capacity of domestic sea-water plants is 54,000 short tons while current domestic requirements for this metal are estimated about 10,000 short tons a year. Production costs at these plants are reported to be the lowest in the world and the exportation of this metal is now being considered.

Tin, one of the most strategic of metals is derived entirely from foreign sources and imported both as metal and in concentrates, the latter being reduced to metal at the Government owned tin smelter in Texas. In 1946 this plant produced 3,000 tons of tin largely from Bolivian concentrates. Tin imports before the war came almost entirely from British Malaya but during the war imports were built up from Belgian Congo. As the placer mines in the Far East are rehabilitated imports from this source will be increased. Domestic annual requirements are estimated at 95,000 tons during the next few years. Due to the continued shortage of tin, war time controls have been maintained on its distribution to United States consumers.

The domestic mercury mines made production records during the war when the market price was about \$200 a flask, but with present price at \$80 a flask most of the mines have had to suspend operations. There are large stocks of mercury in both Italy and Spain estimated at over 100,000 flasks. The average grade of mercury ore mined in Italy is about 2 percent and Spain is well over 4 percent, while an ore averaging 0.3 percent is considered good in this country. Domestic consumption during the next few years is estimated between 25,000 and 30,000 flasks.

Advances in methods of mineral exploration and mining

There are vast areas within our borders still to be explored but new discoveries by the prospector's pick are becoming scarce as most surface showings have been mapped either by our Geological Survey or the mining companies within the areas of mineral occurrence. The United States therefore has a more thorough knowledge of its mineral resources and of efficient low cost methods of production than most foreign countries. However, there are many hidden sources of metals as well as oil still to be discovered which will add largely to our present mineral reserves. The Geological Survey is carrying on detailed investigations of several

of the important areas in the search for ferrous and nonferrous mineral deposits. This work of course will add valuable information in the form of geological maps and structure sections useful in the search for new ore bodies.

During 1947 outstanding progress has been made in methods of geophysical exploration, particularly in the results obtained by the air-borne magnetometer. This instrument which was developed during the war by the Navy, the Geological Survey and the Gulf Oil Co., has been largely responsible for the discovery of new ore bodies in both the Sudbury and Lake Lynn districts in Ontario, the extensive ilmenite deposits in Quebec and the Lubeck oil fields in Alberta. The Aero Service Corp. of Philadelphia has done most of this work on a contract basis and they are now completing an oil survey of the Bahamas, also of certain areas of metalliferous deposits in South and West Africa. In making such a survey the planes are flown at about 5,000 feet along lines a mile or more apart and a continuous record of the anomalies obtained. In areas which show marked attractions an additional survey is made from a height of about 500 feet. Trained geologists are employed to interpret the results. In general, there has been an expansion in the use of geophysical methods as a guide in the discovery of metalliferous deposits more particularly in the foreign field than in the United States. One of the reasons why geophysical exploration has not been used in the United States to find our hidden mineral deposits within most of the States and on our public domain are the local mining laws which limit the areas of exploration as well as the minerals that may be exploited. In Canada, however, the mining laws are more liberal and give prospecting rights to much greater areas and for all mineral products.

In the field of mining the use of diamond drills for holes up to 100 feet or more are being used to replace the air drill at a number of the larger mines in the United States and Canada where the mining method used and the ore-body permits their use. Although the actual drilling cost per foot drilled is greater than with the air drill the advantage lies in the greater safety and less fatigue to the workmen. At certain mines the change from air drills to diamond drills has resulted in a greater output per man-shift and a reduction in costs.

During 1947 the drill steel manufacturers have introduced detachable bits with insets of tungsten carbide for the cutting edges. Among these are the Intersoll Rand Co. which make the Carset jackbit and the Joy Manufacturing Co. which makes the Sulmet bits. The great advantage of these bits is greater drilling speed, longer holes without change of bits in the hardest rock, negligible gage wear thus permitting smaller diameter holes and a reduction of bit reconditioning.

Ore treatment technique

Outstanding in the field of ore treatment is the research work of the experimental stations of the Bureau of Mines, those of the mining companies, our technical institutions and the American Cyanamid Co. New flotation reagents have been discovered which by differential flotation will yield high recoveries of oxides such as cassiterite and quartz, of carbonates such as cerussite and smithsonite and silicates such as feldspar, beryl, etc. Of particular interest in ore concentration by gravity has been the expansion of the heavy media process which uses an emulsion of ferrosilicon to float out the waste from iron ores and nonferrous ores. About 15,000,000 tons a year of material above 10 mesh are treated annually by this method using cones of large capacity. A new method the DSM developed at the Dutch State Mines for the treatment of coal is now being introduced by the American Cyanamid Co. This process also uses an emulsion of ferrosilicon in a centrifugal machine and treats material from 10 mesh down to 100 mesh. This has been successful in the treatment of coals and active interest is being taken in its application to metal ores.

Another important development is the Humphrey spiral for the treatment of fines under 10 mesh to plus 200 mesh. A battery of these spirals with a daily capacity of 7,500 tons was built for the Titanium Alloy Manufacturing Co. at Jacksonville, Fla., by the Humphrey Gold Mining Co. of Denver. At this plant ancient beach sands containing from 3 to 10 percent heavy minerals are treated and a concentrate averaging 58 percent heavy minerals made up of ilmenite, zircon, monazite and rutile is obtained. These minerals are separated by magnetic and electrostatic methods. Another installation has been added to the 4,000-ton-capacity mill at the McIntyre mine at Sanford Lake in the Adirondacks where the fines containing magnetite and ilmenite are being concentrated successfully. These spirals which are stationary have a daily capacity of 50 tons per double unit and they are used to rough out waste from ores that are to be treated by flotation or other concentrating methods. Operating costs at Jacksonville

are given at 5 cents a ton treated, the major expense being for power used for pumping.

Active interest is being shown in the Dorco Fluosolids process for roasting of pyritic concentrates or the calcination of limestone. This process is described in the December issue of Chemical Engineering. The roaster consists of a vertical furnace in which a rising current of preheated air or gas is introduced through a perforated plate on the bottom of the furnace. There are no moving mechanical parts as in the Wedge roaster and other calcining furnaces. The material to be roasted is introduced through a pipe on the side and near the bottom of the furnace and the roasted product is discharged through a pipe near the middle of the furnace. The pyritic concentrates are kept in a suspended state by a strong rising current of hot air or gas but not hot enough to fuse the sulphides while roasting. The fine dust is carried off with the gasses and caught in a cyclone separator. The process is continuous and appears to have many advantages over other types of roasting furnace.

Stockpiling

Until world peace becomes a reality the United States must continue to prepare for emergencies as victory or defeat will hinge upon the amounts of critically needed strategic materials available. Our deficiencies in many of the vital raw minerals and increasing dependence upon imports has been presented in the report Mineral Position of the United States by the USGS and the Bureau of Mines, previously mentioned, the report by the Harriman Committee on European Recovery and Foreign Aid, part III, and in my article Problems and Procedure in Acquiring Foreign Mining Properties in the March 1947 issue of Mining and Metallurgy. In this latter article are graphs showing our average annual production and imports of 31 strategic minerals based on Bureau of Mines statistics from 1941 to 1945. The ratios of imports for consumption to domestic production for the 5-year period were as follows:

	Percent imported		Percent imported
More than 50 percent imported:		Less than 50 percent imported.	
Antimony.....	87	Aluminum.....	19
Asbestos.....	97	Arsenic.....	30
Beryllium ore.....	92	Bauxite.....	22
Chromite.....	93	Copper.....	44
Cobalt.....	88	Fluorspar.....	9
Columbium ore.....	99	Ilmenite.....	40
Corundum.....	100	Lead.....	46
Graphite.....	83	Mercury.....	46
Industrial diamonds.....	100	Pyrites.....	26
Manganese ore.....	89	Vanadium.....	31
Mica.....	87	Zinc.....	40
Monazite.....	100		
Nickel.....	99		
Platinum.....	93		
Quartz Crystals.....	99		
Rutile.....	68		
Strontium ore.....	65		
Tantalum ore.....	99		
Tin.....	99		
Tungsten.....	62		
Zirconium.....	99		

Many of these products such as tin, manganese ore, chromite, cobalt, mercury, graphite, industrial diamonds, mica, etc. must be transported across the oceans, requiring a few million tons of shipping space annually. During the war not only these sources of mineral supply were cut off but also shipments of bauxite from British and Dutch Guiana as well as the iron ore from Chile were almost shut off by the Nazi submarines. It is therefore vital that a greater effort be made to expand our foreign purchases now rather than be obliged to pay higher prices later and take the chance of being deprived of these foreign sources of supply. Proposals have been made to acquire minerals for stock piling from the European countries and their colonies in partial payment for loans under the European recovery program but as yet nothing has been decided. Estimates by the Harriman committee show a total annual value of \$223,200,000 in strategic and critical minerals available with comparatively small increases in production from the

Marshall plan countries. This total is compared with \$17,200,000 a year in value of mineral products now being received from the Marshall plan countries.

An appropriation of \$100,000,000 for stock piling of strategic minerals was made for the fiscal year of 1948 and recommendations to more than triple this amount for 1949 have been made. However unless substantial aid is given by way of machinery and "know how" to expand production of these minerals at the foreign mines there won't be much increase in the present output that will be available for export to the United States for stock piling.

Tariff reductions

United States tariff rates have been reduced from 15 to 50 percent on a number of the key minerals and metals that we import and in which we are deficient. The trade and tariff agreements among the United Nations was recently signed at Geneva and took effect January 1, 1948. This does not mean that there will be any great increase in either mineral imports or exports as supplies for export to the USA are not available in the foreign countries nor is there much that foreign countries can purchase from the United States due to their lack of dollars. The reductions however have created a more favorable trade situation which will be mutually beneficial as normal conditions gradually return. Examples of the tariff reductions are manganese ore from one-half to one-fourth cent a pound; tungsten in ore or concentrates from 50 to 38 cents a pound; nickel from $2\frac{1}{2}$ to $1\frac{1}{2}$ cents a pound; antimony from 2 to 1 cent a pound; copper excise tax from 4 to 2 cents a pound; cadmium from $7\frac{1}{2}$ to $3\frac{1}{2}$ cents a pound; zinc ore from 1.2 to 0.75 cents a pound and on the metal from 1.4 to 0.875 cents a pound; and bauxite from \$1 to 50 cents a ton.

The Marshall plan

There are several governmental and congressional committees studying ways and means to make the European recovery program a success and bills have been prepared for congressional action which are now under discussion. Just how far they will go in aiding the mineral industries abroad is still a question. The Marshall plan can be the real incentive to the mine operators in western Europe and the colonies to increase mineral production if funds are made available without too much delay for mining projects which after proper investigation warrant investment. The Export-Import Bank and the International Bank for Reconstruction and Development were organized to meet emergencies abroad if reports are presented to them on projects properly documented to justify the emergency and the amount of loan desired. Inasmuch as such loans must be guaranteed by the local governments they will probably be used to purchase our modern machines and technical "know how" in order to further their state-owned projects to the definite detriment of private enterprise or they may be used for projects owned by private industrialists who have the necessary political backing.

If Marshall plan funds for aid to the mining industries could be made available for projects controlled by private industry which need our technical aid and modern machines and in which private American capital could participate on a business basis this would go far toward building up the mineral production, local employment and the economy of the countries to be aided. Such loans could also be made against deliveries of mineral products and thus would eventually be repaid. If through the Marshall plan administration arrangements with the individual governments could be made to safeguard American investors against confiscation of the property or business in which they invest and be certain of getting their profits out of the country in dollars many would be willing to invest in foreign mining projects. Such investments by private enterprise rather than through loans to foreign governments will insure greater imports of strategic minerals into the United States as American firms will be seeking to build up production as rapidly as possible in order to get dollar credits through exports and thus repay their investment. Proposals to guarantee private capital investments by Americans in productive enterprises in Europe and their colonies are being considered by Congress.

The necessary control of the ways our Government funds are to be used to aid the mining industries in Europe and in the colonies could be made by competent mining engineers attached to the offices in Europe which are to administer the aid under the Marshall plan. Many mining projects will doubtless be presented to these offices which will have to be screened and estimated costs and machinery requirements carefully checked. As the time element is vital in Europe it is important to initiate the necessary groundwork with the aid of the mining bureaus and mining companies in each country in the preparation of mining projects, and in particular those on strategic minerals, that will need our financial, material, and technical aid.

THE NATIONAL FEDERATION OF BUSINESS AND
PROFESSIONAL WOMEN'S CLUBS, INC.,
1917 I Street, NW., February 9, 1948.

Hon. CHARLES A. EATON,
Chairman, House Foreign Affairs Committee,
House Office Building, Washington, D. C.

DEAR MR. EATON: Attached please find statement of the National Federation of Business and Professional Women's Clubs, Inc., in support of the European recovery program.

We should appreciate having this included in the record of the hearings.

Thank you for your courtesy in this matter.

Respectfully,

HELEN G. IRWIN,
Legislation Chairman.

STATEMENT REGARDING A EUROPEAN RECOVERY PROGRAM

The National Federation of Business and Professional Women's Clubs, Inc., is an organization of 120,000 women actively employed in business and the professions. These women, engaged in such varied fields of activity, represent a cross section of public opinion which has cut across the lines of individual interest and is crystallized into the objectives of this organization.

The national federation has long been interested in problems of international scope, recognizing that its membership's progress, stability, and security depend on the solution of world economic and social problems. Being cognizant of their responsibilities as United States citizens, they are also aware of the necessity of a world citizenry, and feel that one is contingent on the other.

Therefore, they took early initiative in urging the formation of an international organization; were represented at the San Francisco Conference; supported the United Nations Charter, and have urged the acceptance of United States membership in such organizations as have been established within the United Nations. At its biennial convention in Cleveland, July 1946, the creation of a full-time staff position was authorized so that the federation would have a representative constantly at the United Nations who would keep the organization fully informed as to developments at its sessions.

The membership has been constantly supplied with up-to-date information on the plan for European recovery and therefore can bring to this committee a considered statement of its opinion.

The legislative item under which we support a program for European recovery reads in part as follows: "Support of a foreign policy embracing international social development, economic and financial stability." First, we are interested in utilizing to a maximum degree such organs and agencies of the United Nations as are practical and expedient with a view to increasing integration. We realize the necessity of safeguarding our domestic economy, and the long view dictates that it may be necessary to do so by sacrifice. We believe that the citizens are prepared to do so if they are fully informed as to the need and confident of the administration of the plan. We have confidence in the Norse, Harriman, Krug, and Brookings Institution reports, and appreciate their objective nonpolitical viewpoint.

We agree with Senator Thomas that our relationship with these 16 European countries should be that of a banker to an honest creditor, instead of the pawnbroker to the old fellow who comes in with his overcoat. We believe that sufficient funds must be appropriated to enable a recovery job to be done, and would resist a policy of further outlay of funds that could be only temporary relief. We do not presume to state what this amount should be, but believe periodic and reevaluation of the variable factors should determine increases and decreases. We believe in businesslike safeguards for funds and material which we supply, but as believers in freedom for nations as well as individuals, we believe that the nations should be unfettered in applying the program to their own economies. We have the expectancy of a foreign policy that will be forward-looking in its general plan, but that must evolve with events of the coming years.

Our support is therefore dependent upon the utilization of wise judgment in the administration, and we are impressed with the importance of honest procurements, and the necessity of being kept informed as to progress.

Our national president, Miss Sally Butler, is serving as a member of the Stimson committee on the Marshall plan and our international relations chairman, throughout the 2,000 communities in the 48 States in which we are organized, have taken the lead in securing signatures for the petitions requesting this program.

Because of the nature of the membership of our organization, we bring to this problem a realistic viewpoint and a businesslike attitude. Having weighed the risks involved, we feel there is no alternative to a dynamic program for European recovery.

HON. CHARLES A. EATON,
*Chairman, Foreign Affairs Committee,
 House of Representatives, Washington, D. C.*

HONORABLE SIR: My name is William C. Ash. My office address is 90 West Street, New York 6, N. Y. I am appearing at this committee hearing on the emergency relief program on behalf of the National Organization of Masters, Mates and Pilots of America, which is an organization of licensed deck officers, including masters, serving aboard American vessels.

I am a national vice president of this organization and authorized to speak on behalf of its entire membership of over 15,000 men. I have been going to sea for upwards of 23 years, in all deck ratings, and I have been a master for nearly 10 years.

At the outset I would like to say emphatically that our organization favors the Marshall plan in all its humanitarian purposes and its intent to simultaneously aid in effecting economic stability even in our own country. There is, however, one specific part of the Marshall plan which we earnestly request be given your serious attention with the purpose of altering and changing it.

That section of the plan to which we are in opposition is encompassed in sections VII and VIII of the emergency relief program which relates to shipping and the proposed transfer of American vessels to foreign flag operation. The witness could present voluminous statistics which would effectively disprove claims made by our own State Department as to the tremendous savings it could effect if instituted and the tremendous financial benefits to both the recipient nations and ourselves that would be gained thereby. The witness will not attempt to do this as others have ably done so and it is not our desire to be repetitious. He will, however, speak of some general but important factors which are self-evident and should receive your sincere consideration.

When, at the request of our Honorable Secretary of State, representatives of 16 foreign nations met in Paris to draft the basis of their requests, the representative from Great Britain, Sir Percy Rogers, proposed that the United States give approximately 3,000,000 tons of American ships to these various nations as one of the means of helping to restore their economy. Such a transfer propounds a question and an important one and that is, How will these bankrupt countries benefit by having the utilization of these vessels if distributed to them under the terms of this plan? The plain truth is that even though we have already transferred to them more than 1,000 ships of all kinds and substantially assisted in the rehabilitation of their merchant marine, the results as far as tending to prove our good intents and purposes to the European nations has been almost negligible. Proof of this is self-evident in the recent disorders in the various countries that have suffered from Communist disruptions.

The statisticians which I have previously mentioned prove that everyone of these nations without exception have already achieved their prewar tonnage of deep draft vessels and many of them have exceeded it. The propounder of the plan for transferring our vessels is himself a representative of British shipping interests. They are perfectly willing for us to give our ships away, but is his country, as the second largest merchant marine fleet owner of the world, willing to do the same thing? The answer is an emphatic no. She places many restrictions on the sale or transfer of any of her ships to other European nations and where she has control of ports and port regulations, the cost of operation of foreign flag vessels shows a decided increase to the foreign nations with preferential treatment to their own flag vessels. A recent press release in the New York Times indicates that exports from Great Britain in the year of 1947 were 8 percent higher than they were in the year of 1938 which was the peak year for most European nations prior to their entrance into World War II.

Our own Maritime Commission can cite instances to you of American vessels transferred to foreign registry where, at the expense of American taxpayers, American vessels were delivered to them in ports in their own country before they took title and that the American seamen who were sent with the vessel to deliver it were repatriated to this country at the expense of the American taxpayer and then left to seek employment in a rapidly diminishing field.

If our purpose is to aid in the rehabilitation of the vast majority of the European

peoples, then the transferring of American ships to help accomplish this will be negligible in its results. You are surely aware that the powerful shipping interests of the European nations are in the hands of very few people and they are the ones, the European capitalists, who will primarily and principally benefit and not large masses of people who need work and an opportunity to produce.

It is alleged by the proponents of this plan that such transfer of shipping is for the sole purpose of increasing the purchasing power of these foreign nations.

If the wages of European ships crews are considered purchasing power, then this premise should be dismissed as negligible and uncontrollable. Since foreign ships often remain away from their home countries for periods of a year or longer, the greater portion of their earnings are of necessity spent in other countries. It is a matter of record that the crew of one American ship spends more money in a foreign port in a week than the crew of a European ship will send back home in 3 months. So, the unalterable fact remains that the real purchasing power of European countries lies not in their selling their shipping services to us but in what we buy from them and by the investments and earnings made by their nationals in this country. Before the war when there was considerably less money in circulation than now, Italians in America sent back to Italy approximately \$100,000,000 annually; Germans and Poles an equivalent amount, and the Greeks approximately \$25,000,000. All the other nationals in this country followed this same pattern. Add to these figures the extravagant spending of the American tourists abroad which amounted to about \$500,000,000 annually and ask yourself of what significance is shipping as a factor in aid, economy, and purchasing power.

So much for the foreign aspect of the shipping program. But what about the domestic angle? How will this affect our own shipping? How will it affect our own economy and what will the actual saving to the American taxpayer be? The fact remains that no American honestly believes that we will ever receive this money in return and hope only to receive it in good will, peaceful pursuits of international trade, and exchange of ideas and relations. Even if some of it should find its way back to us as repaid loans, we will be cheated out of a great deal of it by bookkeeping chicanery for charges for services under reversed lend-lease. Furthermore, the total cost to the American taxpayer of the whole shipping program would be less than 2 percent of the total expected cost of the entire Marshall plan.

A further effect of this shipping program would be the loss of jobs for nearly 25,000 American seamen, of whom a great part would be the officers that I represent. Prior to and during the war when there was a real shipping emergency, thousands of fine young Americans were attracted to the merchant marine on the promise of a future and a career in the finest merchant marine in the world. Not by any stretching of the imagination can it be said that this promise has been kept. On the contrary, impediments, restrictions, and problems have been thrown into the laps of the whole shipping industry where some American operators took refuge and transferred their vessels to foreign-flag operations resulting in the loss of many jobs and a serious unemployment situation for thousands of American seamen. The transfers of the vessels under this proposed plan would be many more nails in the coffin of the American merchant marine. Please do not let this happen.

It is also important to consider that at the present time every one of the foreign nations which we propose to aid is engaged in an ambitious and energetic shipbuilding program of their own. Not one of them has indicated that they will in any way cut down or curtail this program. Even at the present moment they have contracted for 15½ million tons of shipping to be built in their own yards with funds and materials provided principally by us. In the meantime, our own shipbuilding industry is at a point dangerously near complete extinction. We have had several bitter lessons by allowing this to happen and it looks as though we are proceeding merrily on our way to do the same thing again.

So, not only are we delinquent in a progressive shipbuilding program of our own to maintain our country as a first-rate maritime nation, but we are assisting these other countries to build vast modern fleets of vessels at our expense while we are slowly but surely starving our own American merchant marine to extinction. We should not let this happen.

One amazing fact regarding this whole program stands out very sharply and still remains completely unexplained by the proponents of the plan. Why should the American shipping industry be the only one in the whole plan which should be singled out for such drastic replacement by foreign labor? Why has not our State Department requested that foreign labor be brought here to grow their own grain or dig their own coal? They know how absurd such a premise would be.

When they destroy the jobs of so many Americans presently employed in this industry? Is it because our State Department takes the position that the demise of our shipping industry is inevitable and so why not now? It is earnestly requested that our Congress do not permit this to happen.

The witness has not mentioned the importance of our American merchant marine as an adjunct to our national defense. He feels that the relative importance of the merchant marine in the "first line of defense" was very apparent during the last war. Should we allow our merchant marine to continue to deteriorate at the expense of our national defense? The answer is certainly not and we ask the good Members of Congress to see that it doesn't happen.

It is requested that the following two important points be given your earnest consideration:

1. No funds under the Marshall plan to be used for the transfer, charter, purchase, or hire by foreign nations for foreign-flag operation of any American vessel.
2. That a minimum of 65 percent of all cargoes originating anywhere in the world under this emergency relief program be carried in American-flag vessels. You will note that we ask only 65 percent and there is a reason for this. Public Law No. 17 of the Seventy-third Congress provided that 100 percent of all cargoes purchased with funds loaned by our Government must be carried in our bottoms. However, we overlook this and state without equivocation that we, as seafaring men, were in a position to see how the merchant marine of the foreign nations who were our allies suffered depletion as a result of the war. We were, therefore, entirely in favor of the rehabilitation of the merchant marine of our foreign allies and we still feel that in addition to their own ingenuity and commercial enterprise they should continue to receive substantial amounts of American relief cargoes in order to assist in effecting this rehabilitation.

Some Members of Congress have already stated that it is their sincere hope that the large bulk of these cargoes will be carried in American bottoms, but it has been our bitter experience that hope is not enough. We ask the Congress to guarantee it by legislation before we are completely out of business. It has been our bitter experience that our own State Department have been, perhaps inadvertently, the worst enemies of an American merchant marine. A former Under Secretary of State only recently made a statement that we do not need an American merchant marine. Proof of the State Department's position on the American merchant marine is indicated by the figures showing the vast amount of savings that would be made by giving the foreign nations 500 additional ships. These have been proved factually untrue. Even the report of the Secretary of Commerce the Honorable Averell Harriman and his committee indicated this. Yet the Harriman report was completely ditched in the preparation of the emergency relief program. We, therefore, do not wish to live in hopes. We ask that the Congress guarantee by legislation that we can live and exist as Americans and not on hopes.

In conclusion, the witness wishes to state that he has the greatest respect for our plenipotentiaries, ambassadors, ministers, and consuls and the good work most of them are doing, but he still believes that the best ambassador of good will to any foreign country is an American ship, manned by American officers and crew, delivering American goods to needy peoples.

Respectfully submitted.

CAPTAIN WILLIAM C. ASH,
*Vice President, National Organization of
Masters, Mates, and Pilots of America.*

WASHINGTON, D. C., February 9, 1948.

DEPARTMENT OF STATE

FEBRUARY 9, 1948.

No. 100

Text of letter to Senator Arthur H. Vandenberg from Secretary George C. Marshall regarding German reparation program, and the Department's memorandum on the subject:

FEBRUARY 4, 1948.

DEAR SENATOR VANDENBERG: You will recall that during December you indicated the intention of going fully into the German reparation and dismantling program in connection with the consideration of the European recovery program by the Senate Foreign Relations Committee. Since that time, the Departments of State and of the Army have submitted to the Congress and to your committee

a considerable amount of information on this subject. During the course of my testimony before your committee on January 8, I made a number of statements in which I pointed out certain of the reasons in favor of continuing the dismantling program, and indicated that further information and data would be furnished in the near future. Various Army witnesses, including Secretary Royall and Under Secretary Draper, have testified at length before your committee in support of the dismantling and reparation program, and especially with reference to the more technical aspects of the program, including its effects upon the German economy.

On January 24, Mr. Lovett forwarded to you a copy of the memorandum prepared by the Departments of State and of the Army in reply to the questions contained in House Resolution 365. This resolution called for answers to 11 questions concerning the dismantling program, and the replies (together with the six attachments) went into considerable detail. I understand that the Speaker of the House of Representatives read Mr. Lovett's covering letter of January 24 before the House. It was pointed out in this letter that through both diplomatic channels and through the Office of Military Government (U. S.), the British and French Governments have been asked to supply detailed information with regard to the status of the dismantling program in their respective areas of occupation. Although representatives of these Governments have given us assurances that they will make every effort to furnish the requested information, we are still awaiting receipt of detailed replies.

I believe that there are certain very compelling reasons in favor of the reparation program which may not be fully understood by the Congress, notwithstanding the quite extensive information which has been made available to the Congress through your committee and otherwise. For this reason I am submitting to you herewith a further memorandum in which an effort is made to summarize the principal points which are involved. I believe that the information and arguments contained in this memorandum will be of use to your committee, and it occurs to me that you and other members of the Senate may deem it appropriate to employ this material in any further discussions of the program which may take place. With this thought in mind I am forwarding to you under separate cover additional copies of this memorandum.

I should also like to bring to your attention the fact that the British and French Governments are understood to be opposed to modification of the present dismantling program. We know that they feel themselves justly entitled to and are most anxious to receive delivery of their share of the plants which have been selected for dismantling and of the reciprocal deliveries of commodities which the Soviets are obligated to make to the West. If all dismantling should be halted in our zone, this would be interpreted as the abandonment of the reparation program as far as the United States is concerned. The probable result of such action would be that the United States would find itself in sole opposition to the demands of the other 17 members of the IARA group of nations, and would probably be faced with renewed demands for extensive reparation out of current production. The principles for which we have contended so vigorously would thus be placed in jeopardy. Instead of being able to dispose of the reparations problem in short time and at relatively little cost we will be thrown back into a situation similar to that which followed in the wake of World War I, with general disagreement and long drawnout wrangling among the victorious allies, and particularly those nations in western Europe among which unity of purpose and feeling is essential for European recovery.

For the foregoing reasons, as well as the unfortunate political consequences within Germany which our officials there have declared would result from a temporary halt of dismantling should it later be decided to resume dismantling, General Clay has not been instructed to discontinue dismantling. No further allocations by the Allied Control Authority have been made, however, since the current congressional inquiry was begun. At the same time an investigation is being made to ascertain whether or not certain of the plants scheduled for dismantling would be better able to contribute to the world supply of critical items if retained in Germany, particularly those plants to which attention was called in the report of the Herter committee.

As you are aware, because of Soviet breaches of the Potsdam agreement we are seeking adequate arrangements with the British regarding further reparation deliveries to the East. These discussions are continuing, and in the meanwhile all deliveries from the United States zone to the U. S. S. R. (and Poland) have been stopped except for the remnants of three plants which were largely dismantled and delivered before the last meeting of the Council of Foreign Ministers.

After consulting your office, I am taking the liberty of furnishing copies of this

letter and memorandum to the chairmen of the Appropriations Committee of the Senate and the Foreign Affairs and Appropriations Committee of the House of Representatives in view of the interest which these committees have taken in the reparation and dismantling program.

Faithfully yours,

G. C. MARSHALL.

FEBRUARY 2, 1948.

THE GERMAN REPARATION PROGRAM

In recent weeks, while the major proposals of the Euro-recovery program have been under continuous congressional and public discussion, there has been widespread criticism directed to the question of the compatibility with that program of the present German reparation settlement. It has been argued that the dismantling and transfer of German plants blocks the industrial recovery of Germany, and is the major factor preventing the great industries of the Ruhr from contributing to European reconstruction. The conclusion is drawn that the dismantling program increases the burden on the United States, and the costs which must be borne by the American taxpayer. It is asserted that the transferred plants are of small value to the recipient countries, and that, in any case, the major beneficiaries are countries which are unfriendly to the United States.

A more limited opposition is addressed to the question of certain plants on the dismantling lists which appear to be technically capable of producing items, such as sheet and strip steel, and large diameter pipe, which are in short supply throughout the world because of lack of producing capacity. It is argued that it would be to the advantage of all nations concerned to keep such plants in Germany, and to assign them top priorities in supplies of coal, manpower, and other scarce factors of production, rather than to undergo the loss of production time involved in their dismantling and transfer.

In response to these criticisms a fundamental reexamination of all the considerations involved, both economic and political, has been undertaken by the Department of State. The conclusion has been reached that the German reparation program should be continued in its present form, and that such continuance will aid, not hamper, the economic recovery of Europe. Such continuance will, furthermore, leave to the German people adequate resources to enable them to develop a decent standard of life, and to contribute through industrial exports to European recovery. The major considerations which led the Department to adopt this conclusion are summarized in the following paragraphs. The question of whether certain of the plants on the dismantling list would be better able to contribute to the world supply of critically short items if retained in Germany is now being investigated.

POLITICAL CONSIDERATIONS

The need for a final settlement of the German reparation question

The obligation of the aggressor to pay the maximum reparation compatible with economic and political realities is incontestable. The failure after the First World War to arrive at a realistic solution of this problem cost American taxpayers and private investors hundreds of millions of dollars, seriously disrupted European and world trade throughout the interwar period, and gave rise to constant frictions in international political relations.

From this unhappy experience it could be concluded that any reparation settlement, to be satisfactory, should be realistically based on capacity to pay, should be carried to final completion within a relatively short period, and yet should be accepted as equitable by all concerned. It was such a settlement that the United States Government consistently sought from the time when planning for the post-surrender treatment of Germany was begun. Without such a settlement, it was certain that the time when Germany could enter into normal economic and political relations with the rest of the European community would be seriously delayed, and it was probable that American taxpayers and investors would once again find that they had paid the German reparation bill.

The character of existing reparation agreements

The Potsdam agreement embodies the basic features of a reparation settlement satisfactory to the United States. It very specifically lays down the principle that the German reparation bill must be kept within the bounds of Germany's capacity to pay, and recognized the necessity for a definitive settlement to be

carried through within a few years. It takes into account the fears of European countries of a resurgence of German aggression, and yet lays the ground for the establishment of a unified, peaceful, and economically viable Germany capable of self-support.

Providing all parties hereto undertook its implementation in a sincere spirit of cooperation, the Potsdam agreement provided the basis for a definitive settlement of the reparation shares of the Soviet Union and Poland on the one hand, and of all other countries entitled to reparation from Germany on the other. The Paris agreement on reparation, which was negotiated in Paris during the last 6 months of 1945, represented the practical acceptance by these other countries of the Potsdam reparation settlement. These 18 countries in effect accepted the principle of Germany's capacity to pay, and agreed among themselves as to their relative shares in a total volume of German reparation assets which at that time was unknown. Such a reparation settlement is unprecedented in history; and in view of the greatly reduced volume of capital equipment being made available under the revised levels of industry, its continued acceptance is even more remarkable.

The degree to which the United States Government is committed under present reparation agreements

There can be no doubt that the signatories of the Paris reparation agreement regard the United States as being fully committed thereby to carry out the reparation provisions of Potsdam. There are no legal grounds in international law to justify the conclusion that the Paris agreement is no longer internationally binding.

It is, of course, true that in cases where circumstances have substantially changed since the date of signature of an international agreement, and where the majority of the signatories to the agreement concur in the view that the agreement requires modification in the light of such changed circumstances, renegotiation has frequently been undertaken. As pointed out elsewhere, however, the majority of the signatories to the Paris agreement on reparation feel strongly that the implementation of the agreement should be continued; and that, indeed, the action taken to date has been too dilatory and limited.

As is well known, the Soviet Union has refused to follow in practice the principles of German self-support and capacity to pay, and of economic unity, laid down in the Potsdam agreement. Unless it is willing to live up to all the terms of this agreement, it cannot properly claim that only those clauses wholly favorable to it should be carried out. As has been announced, the Department of State is now seeking adequate arrangements with the British regarding further reparation deliveries to the East. So far as the United States zone in Germany is concerned, only the remnants of three plants, dismantling and shipping of which has already progressed very far prior to the last Council of Foreign Ministers, are now in process to the delivery to the U. S. S. R.

It remains true, however, that the Potsdam agreement embodies the basic features of a reparation settlement satisfactory to the United States, and one which is probably as advantageous to Germany as is compatible with Germany's obligations. This being so, it would obviously be unwise to abandon the Potsdam reparation settlement merely by reason of Soviet malfeasance.

The present attitude of European countries

The attitude of the members of the Inter-Allied Reparation Agency toward the dismantling program has been most recently indicated by a resolution of the Assembly, transmitted in November 1947, to the Council of Foreign Ministers. The resolution protested the delays in dismantling and shipment of German plants, and requested the Council to seek measures to speed up the program. A similar resolution has been presented to the Council in October 1946.

The eagerness with which the members of the Agency have sought to secure such German plants and equipment as have been made available to them is ample evidence of the importance which they attach to these plants for purposes of their own economic reconstruction. Apart, however, from the contribution of the reparation program to their own economic reconstruction, these countries regard the program as a symbol of an attitude toward Germany's past actions and toward their own future, the abandonment of which would cause the greatest concern. To argue that the United States has already, through contributions to European relief, "more than paid for these plants," would seem to them to represent a callous disregard for the moral issues at stake, and for the superior rights of the victims

over the aggressor. This attitude also tends wrongly to identify German and American interests.

From a purely practical standpoint, it is the attitudes of Britain and France, in whose occupation zones in Germany are located the great majority of the plants remaining to be dismantled, that are of most importance. The British have very strongly expressed the view that they regard themselves as bound by the Paris reparation agreement to carry out the dismantling program. The French, although they have not been directly approached at this time, are known to hold similar views. In addition, the French have already protested against the present bizonal level of industry on the grounds that in certain fields of industry it permits the retention of so great a German capacity as to threaten their own security. The Department of State considers that it would be inconsistent with national policy to attempt to coerce the British and French into taking action which they would regard as a breach of their international commitments, and as an injury to their own material interests and to those of the entire European community.

ECONOMIC CONSIDERATIONS

The character of the bizonal level of industry

When it became clear that the U. S. S. R. had no immediate intention, except on its own terms, of putting into effect the economic arrangements envisioned under the Potsdam agreement as necessary for the creation of a viable German economy, the American and British Governments took the decision to merge their zones economically. An open invitation to other zones to join the merger was maintained. The two Governments continued to feel, however, that the general lines of the reparation settlement embodied in the Potsdam agreement were correct ones, and instructions were given to the two zone commanders to prepare a revised level of industry for the bizonal areas as a basis for the carrying out of that settlement. These instructions were given in March 1947, after the Council of Foreign Ministers met at Moscow.

By that time some 18 months' experience had given a clearer insight into the problems of German economic recovery. The general dollar crisis in western Europe had not yet become apparent in its full intensity, although serious difficulties had already appeared. In working on the revised level of industry the American and British authorities in Germany had fully in mind the necessity of providing the basis for a German economy with the resources and flexibility essential not only for its own recovery, but also for the fullest contribution within its power to general European recovery.

Negotiations proceeded over several months, and it was not until August 29, 1947, that the revised level of industry was finally announced. The general effect of the revised level of industry is to permit the retention in the bizonal area of sufficient industrial capacity to produce approximately the same volume of output as was produced in 1936.

1936 was a year of considerable prosperity in Germany and one in which the German standard of living was one of the highest in the world. Not only was the standard of living high in that year, but in addition the Nazi Government found it possible to devote large resources to the construction of the autobahns, of massive public buildings and Nazi brown houses, and to armaments production.

In 1936 the bizonal area exported, in terms of current prices, roughly 1.75 billion dollars' worth of industrial products. The revised level of industry provides the basis for a volume of exports some 15 percent larger than this.

It should be emphasized in addition, that the revised level in no way constitutes a permanent strait-jacket on the German economy. Within the resources left to them, the Germans are free to develop their economy and standard of living to the fullest extent made possible by their enterprise and hard work. Such permanent restriction as may be necessary for reasons of security will be contained in the final peace arrangements. In the meantime, the occupation of Germany will continue.

It is well to recall that, on the basis of the resources available to them in 1936, the Germans established a formidable war machine. Had these resources been devoted to peaceful purposes, the German standard of living could have been greatly raised above its already high level.

It is, of course, true that the population in the bizonal area will be considerably higher than in 1936, and that the volume of industrial output per capita will therefore be lower. Taking into account, however, the fact that resources will no longer be devoted to war purposes, it is considered that full opportunity remains for the development of a decent standard of life.

The level of industry presently contemplated in the French zone is believed to be rather lower, on a relative basis, than that for the bizonal area. Industrial capacity in that area is, however, a relatively small fraction of the total in the three western zones. Even if present French plans are carried out in their entirety, therefore, it is not believed that they will materially reduce the capacity of western Germany as a whole.

The selection of individual plants for removal

The selection of individual plants for removal was carried out with a view to retaining in Germany the most economically located plants and those best able to contribute to the export program, while at the same time minimizing the local and temporary effects of dismantling. The concentration of production in the plants remaining is expected to improve efficiency in management and in the use of labor, fuel, and raw materials. It should be noted that these lists were drawn up during the period between the end of August 1947 and the middle of October, and that the general character of European and world needs, and especially of the needs for specific critical commodities, were well known at this time.

At the time of publication of the list of plants to be dismantled, on October 16, the responsible German authorities were invited to submit suggested amendments. No amendments were submitted in the case of the American list. Some 30 or 40 amendments were suggested for the list of plants in the British zone. Many of these amendments were accepted, and others are still under consideration.

The relation of German production to the European recovery program

The present level of industrial production in the bizonal area is roughly one-third of the capacity scheduled for retention under the revised level of industry. Even this level has been achieved only after more than 2 years of grinding effort to break the complex log-jam of shortages which is blocking German production—food, coal, raw materials, housing, manpower, transport, etc. In no single branch of industry does production now equal or even approach retained capacity. In no branch of industry will the removal of capacity now scheduled for dismantling materially affect the output of that industry over the next 4 or 5 years.

In the light of the above facts it is clear that the real problem of bringing about German recovery, and therefore of enabling Germany to contribute to European recovery, is to increase German production. Even were present German production doubled, it would still be one-third lower than is technically possible on the basis of the revised level of industry.

Many suggestions have been put forward in the press and in pamphlets as to possible means of increasing German industrial output to the point where all existing capacity, including that scheduled for dismantling, could be fully utilized. It has been urged, for example, that more coal should be shipped from the United States in order to permit the retention in Germany of a greater proportion of German coal production, thereby affording the basis for a greater German industrial output. This suggestion ignores the fact that coal is now being stock-piled at German mines because of inability to transport it to manufacturing plants. It ignores the fact that skilled manpower for making immediate use of greatly increased quantities of coal is simply not available. Other panaceas offered can be shown, upon detailed analysis, to fail equally to take into account the hard facts of economic life in Germany today.

Industrial recovery in Germany is necessarily a slow process, which can only proceed in a reasonably balanced fashion, with advances in one particular branch of industry providing the essential basis for equivalent advances in other branches. To superimpose overriding priorities for production of particular items would be to invite collapse in other segments of production. To attempt to inject supplies of fuel and raw materials into the economy at a rate faster than can be effectively utilized under existing circumstances would engender waste and misuse. In view of world shortages today, such action would be untenable.

In conclusion, it is important to note that in their discussions of the possible German contribution to European recovery, the bizonal authorities did not find themselves in any way limited by the restrictions imposed under the revised level of industry. Their estimates of possible German production, and of possible German exports to countries participating in the European recovery program represented the maximum deemed feasible under existing and expected conditions in Germany, taking into account the needs both of Germany and of Europe.

Even under present programing, it is estimated that within 4 or 5 years Germany may have a substantial export surplus in its trade relations with other countries participating in the European recovery program. By 1952 total exports from the bisonal area to these countries are estimated to be in the neighborhood of \$2,000,000,000 with a surplus of exports over imports of around a quarter of a billion dollars. To divert food, coal, and raw materials from other countries to Germany with the result of increasing this surplus would be difficult to defend either on political or on economic grounds. Such diversion would be certain to lend ammunition to the Communist propaganda that the United States favors the rebuilding of a powerful Germany over the reconstruction of Germany's victims.

The economic feasibility of transferring German plants

Ample evidence of the economic feasibility of dismantling and transferring industrial equipment is to be found both in earlier American experience and in the experience of the Inter-Allied Reparation Agency. The War Assets Administration, for example, has been realizing about 50 percent of war-inflated acquisition costs on sales of second-hand general purpose machinery. 80 percent of the equipment sold by them has been dismantled and transferred to new sites. Demand for many types of equipment offered by them is far in excess of supply. European countries have been paying good prices for this machinery despite the fact that it must be transported across the Atlantic and converted to the metric system before it can be utilized.

The OFLC has promptly disposed of virtually all of the German equipment secured by the United States through the Inter-Allied Reparation Agency. Most recently, for example, a chemicals plant was sold to an American firm for \$103,000, although its 1938 replacement cost in Germany was estimated at only about \$135,000. The Permanente Metals Corp. has purchased a German aluminum foil rolling mill for \$203,000, and is now engaged in dismantling and packing it. Customs duties must be paid also and both these plants must be moved across Atlantic, reerected in this country, and adapted to the American system of measurement. Nevertheless, in the opinion of experienced American businessmen these are sound commercial transactions.

Equipment from the Hensoldt optical plant has been reerected in the Netherlands to replace equipment looted by the Germans. Machinery from the Kugelfischer ball-bearing plant will help to replace both British and French plant extensively damaged during the war. It is clear that both the Governments concerned and the business firms which purchase the equipment from their Governments, regard the dismantling program as both practicable and profitable.

In many cases Germany represents the only possible source for securing industrial equipment within a reasonable period. Furthermore, the German equipment can be procured under the reparation program without expenditure of scarce dollars, and is in most cases more readily adaptable to European plants than is American machinery. Since the plants cannot presently be used in Germany, their present economic value there is so low as to be negligible in relation to their value to recipient countries. It is too seldom remembered that at the end of the war Germany had virtually as many machine tools as the United States.

Reciprocal deliveries

Under the Potsdam Agreement, the Soviet Union was required to make the Western Powers so-called reciprocal deliveries of foodstuffs, potash, coal and other commodities in return for three-fifths of the capital equipment delivered to them from the western zones of Germany, i. e., in return for 15 of the 25 percent of total removals from the western zones to which they were entitled. Such reciprocal deliveries were to be spread over a period of 5 years, whereas the capital removal program was to be completed within 2 years.

Under present plans total capital removals from the western zones would probably amount in 1938 values to approximately 1 billion reichmarks, of which the Soviet share would be RM250,000,000. In return for this removed plant RM150,000,000 worth of reciprocal deliveries would be required from the U. S. S. R. Since roughly RM100,000,000 worth of capital equipment has already been delivered to the Soviet Union, while reciprocal deliveries are only now about to begin, the theoretical debts on both sides are now roughly equal.

In other words, the U. S. S. R. owes to the Western Powers RM 150,000,000 worth of coal, food and other commodities, and an equivalent value in deliveries of capital equipment is theoretically owed to the Soviet Union. The extremely urgent demands for commodities in western Europe and the disproportionately great increase in world prices of commodities over capital equipment since 1938, tend to make this possible exchange advantageous to the member nations of the Inter-Allied Reparation Agency.

CONCLUSIONS

Analysis of Germany's economic situation shows beyond question that the revised level of industry, and the dismantling program based on it, have no present effect on Germany's ability to produce and to export nor has the revised level been found an obstacle to planning the maximum feasible contribution by Germany to the general European recovery program. It provides for the retention in the bizonal area of sufficient industrial capacity to provide the basis for development of a reasonable standard of living, and of a volume of industrial exports greater than prevailed in 1936.

The dismantling and removal of German plants, therefore, represents a transfer of capacity which would otherwise remain idle in Germany to countries which, because of more adequate supplies of manpower, housing, transport and other scarce factors of production, and because they enjoy more stable monetary and administrative organizations, can make good use of them. Transferred German plants are already contributing to the economic recovery of other European countries, and may be expected to reduce the cost of the American contribution to European aid. To a considerable extent recipient nations have no other available source of supply for meeting their requirement for much needed industrial expansion.

The reparation settlement embodied in the Potsdam and Paris Reparation Agreements, of which the dismantling program represents the concrete implementation, is one which accords with the best interests both of the United States and, recognizing its obligations, of Germany. It is a settlement to which genuinely friendly European countries, including both Great Britain and France, regard the United States as being fully committed, and one which represents to them the symbol of an attitude toward Germany's past actions and toward their own future, the abandonment of which would cause them the greatest concern.

DEPARTMENT OF STATE,
February 9, 1948.
No. 101

Confidential release for publication at 12 noon, Eastern Standard Time, Tuesday, February 10, 1948. Not to be previously published, quoted from or used in any way.

\$522,000,000 FOREIGN AID PROGRAM TARGET SUPPLY AND SHIPPING PLAN

The Department of State today announced a target supply and shipping prospectus for the \$522,000,000 United States foreign aid program to France, Austria, and Italy (Public Law 389).

The prospectus, outlining a commodity and dollar break-down of total projected procurement and costs for each country, allots \$284,000,000 to France, \$57,000,000 to Austria, and \$181,000,000 to Italy.

Some adjustments may have to be made within the over-all target amounts as the program progresses.

A short statement on an incentive goods program is attached at the end of the release.

1106 FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

The French target program, including partial programs previously approved in amount of \$119,819,000 under dates December 23, January 9, and January 29, follows:

Product	Quantity, long tons	Estimated freight at shipside value in thousands	Estimated shipping in thousands	Estimated freight at shipside and shipping in thousands
Cereals.....	775,673	\$63,792	\$7,782	\$101,574
Fats and oils.....	63,636	1 20,000	(5)	20,000
Dairy products.....	8,013	3,400	(5)	3,400
Potatoes.....	34,600	440	525	975
Dried fruit (prunes).....	5,000	785	150	935
Dried eggs.....	200	179	8	187
Coal:				
United States.....	3,800,000	40,280	38,000	78,280
Ruhr.....	1,000,000			10,000
Fertilizer:				
United States.....	37,000	2,200	830	3,030
Canada.....	28,900	1,800	698	2,498
Chile.....	62,065			2,728
Pesticides (sulfur).....	17,000	340	160	
Petroleum products:				
United States.....	140,500	\$ 5,400	1,705	7,105
Off-shore.....	812,000	16,050	7,770	\$ 24,825
Cotton and other fibers.....	28,000	19,500	500	20,000
Medical supplies.....				1,000
Reserve.....				983
Total.....				284,000

¹ Final detailed composition of fats and oils program not yet determined, but will not exceed \$20,000,000 in total.

² Freight will be paid by the French Government on a nonreimbursable basis.

³ Subject to adjustment downward after determination of final quantities to come from United States sources.

⁴ Includes reserve of \$2,075,000 for petroleum products not yet specified.

The following is a summary of the program for France recommended above using the commodity categories specified in Public Law 389. The summary includes estimated cost of commodity and of shipping:

Item	Estimated freight at shipside and shipping value	Percent of total
Food.....	\$127,171,000	44.78
Fuel (coal only).....	94,280,000	33.20
Petroleum and petroleum products.....	32,000,000	11.27
Fibers (mostly cotton).....	20,000,000	7.04
Fertilizer.....	8,187,000	2.88
Pesticides (sulfur).....	500,000	.18
Medical supplies.....	1,000,000	.35
Reserve.....	982,000	.30
Total.....	284,000,000	100.00

In general, the recommended French program covers shipments during the period December 1947 (to the extent such shipments were delivered on and after December 17, 1947, the date of enactment of Public Law 389) through March 1948, except for the cereals allocation for April which will be shipped in that month.

Other comments on the French program are as follows:

Some measure of the contribution of the food portion of the recommended French program is indicated by the fact that after eliminating the April allocation of cereals, the program provides an average of 829 calories per day for a 3-month period to each of the estimated 29,500,000 nonfarm population of metropolitan France. The Office of Foreign Agricultural Relations, United States Department of Agriculture, estimates that indigenous production will provide approximately 1,300 calories per day for the nonfarm population.

Petroleum products to the maximum extent possible will be procured outside

the United States. No aviation gasoline is included. At the present time it may be assumed that the quantities of petroleum and petroleum products to be supplied from the United States are available.

The \$862,000 shown as a reserve is intended principally for additional quantities of dairy products and fats and oils. Some part of the reserve may also be used for incentive goods.

The Austrian target program, including partial programs previously approved in amount of \$33,399,000 on December 23, 1947, and January 9, 1948, follow:

Product	Quantity (long tons)	Estimated (freight at shipside) cost	Estimated shipping	Estimated (freight at shipside and shipping) cost
Food:				
Cereals (wheat equivalent).....	148,000	\$17,008,086	\$3,400,790	\$20,009,488
Soya flour.....	3,000	563,299	66,460	622,742
Rice.....	4,000	965,600	63,600	1,049,200
Rollod oats.....	3,000	512,534	112,890	628,424
Beans.....	16,000	8,967,934	536,160	4,404,094
Lard.....	8,000	1,948,806	111,960	2,060,760
Peanuts (United States surplus).....	7,000	2,494,296	190,050	2,684,346
Copra (Philippines).....	9,524	3,047,680	285,720	3,333,400
Sugar, raw (Cuba).....	17,000	1,538,432	291,650	1,829,982
Prunes (United States surplus).....	2,500	287,800	92,875	380,675
Raisins (United States surplus).....	2,500	287,800	92,875	380,675
Eggs, dried (United States surplus).....	1,000	904,960	41,730	946,690
Coal (off-shore):				
Ruhr.....	501,000	-----	-----	7,014,000
Poland, Czech, Sear, and other European.....	219,000	-----	-----	3,286,000
Fertilizer (off-shore).....	50,000	-----	-----	2,000,000
Seeds:				
United States.....	660	3,212,870	373,500	3,586,370
Off-shore.....	660	-----	-----	314,750
Miscellaneous:				
Pesticides.....	1,864	389,800	93,200	483,000
Medical supplies.....	-----	-----	-----	1,016,000
Fatty acids.....	300	244,000	11,130	255,130
Agricultural machinery, spare parts.....	-----	-----	-----	100,000
Reserve.....	-----	-----	-----	537,004
Total.....	-----	-----	-----	57,000,000

2. The following is a summary of the Austrian program recommended above using the commodity categories specified in Public Law 389. The summary includes estimated cost of commodity and of shipping:

Item	Estimated cost-and- freight cost	Percent of total
Food.....	\$38,418,000	67.40
Fuel (coal only).....	10,290,000	18.05
Seed.....	3,901,000	6.86
Fertilizer.....	2,000,000	3.50
Medical supplies.....	1,271,000	2.23
Pesticides.....	483,000	.85
Incentive goods.....	100,000	.26
Reserve.....	537,000	.85
Total.....	57,000,000	100.00

The Austrian program in general covers the same shipment period as the French program, from December 17, 1947, through March 1948, except for the cereals allocation for April which will be shipped in April, 1948.

Other comments on the Austrian program are as follows:

Sugar.—The Austrian Government has agreed to accept and process raw sugar in Austria. This action permits supply of an additional amount of sugar, stated by the Austrian Government and the commanding general, United States forces in Austria, as urgently needed, without increasing the amount of funds required.

Fuel.—No coal is being supplied from the United States as Austrian coal requirements can be met from European sources at a lower unit cost. The proposed program covers Ruhr, Saar, and Czechoslovakian coal for January, February,

and March, and Polish coal for February, March, and April. April Polish coal must be paid for on or before March 20, 1948.

Petroleum and petroleum products.—No petroleum and petroleum products are included in the program. Such import POL products as are required are being purchased by the Austrian Government.

Pesticides.—As a result of having secured British agreement to supply the major portion of the required pesticides, anticipated expenditures for these items have been materially reduced.

Incentive goods.—The Austrian Government is most desirous of receiving certain agricultural machinery spare parts as incentive goods. These parts can be secured from Bizonal Germany prior to March 31, 1948.

Reserve.—This reserve is set up to cover a possible increase in commodity and shipping costs and certain anticipated administrative charges which might be presented by the Department of the Army and for other contingencies.

A cable from the commanding general, United States forces in Austria, states that 199 billion calories of import food is required for each 28-day ration period to support a 1,800-caloric ration in Austria. As an indication of its importance to Austria, the proposed food program will provide 772 billion calories or approximately the total import food required for four ration periods.

The target program for Italy, including partial programs previously approved for Italy totaling \$93,403,000 under dates of December 23, 1947, January 9 and 29, 1948, is as follows:

Product	Estimated			
	Quantity (long tons)	Freight at shipside cost	Shipping cost	Cost-and- freight cost
Food:				
Cereals.....	641,000	\$76,393,000	\$10,749,000	\$87,142,000
Soya flour.....	12,000	2,213,000	282,000	2,495,000
Pulses (beans).....	17,800	4,329,000	671,000	5,000,000
Dairy products.....	6,000	1,900,000	300,000	2,190,000
Dried eggs.....	1,500	1,344,000	60,000	1,404,000
Rollod oats.....	6,000	1,085,000	165,000	1,250,000
Macaroni.....	10,000	2,432,000	568,000	3,000,000
Sugar (raw Cuba).....	28,000	2,661,000	539,000	3,200,000
Potatoes.....	28,000	364,000	840,000	1,204,000
Coal:				
United States.....	1,800,000	18,900,000	17,100,000	36,000,000
Ruhr.....	500,000			8,000,000
Petroleum and petroleum products:				
United States.....	23,102	1,650,000	471,000	2,121,000
Off-shore.....	473,683	8,038,000	4,641,000	12,679,000
Fertilizer: United States phosphate rocks.....	70,000			1,000,000
Medical supplies.....				1,800,000
Pesticides.....				300,000
Reserve.....				12,285,000
Total.....				181,000,000

The following is a summary of the Italian program recommended above using the commodity categories specified in Public Law 389. The summary includes estimated cost of commodity and of shipping:

Product	Estimated cost-and- freight cost	Percent of total
Food.....	\$106,715,000	58.96
Coal.....	44,000,000	24.31
Petroleum and petroleum products.....	15,000,000	8.29
Medical supplies.....	1,800,000	.99
Fertilizer.....	1,000,000	.55
Pesticides.....	300,000	.11
Reserve.....	12,285,000	6.79
Total.....	181,000,000	100.00

In general, the recommended Italian program covers shipments January 1, through March 1948 with the following exceptions: (a) Deliveries in Italy of Ruhr coal and petroleum, oil, and lubricants on and after December 17, 1947, these being items not covered under the United States foreign-relief program under Public Law 84; and (b) cereals and possibly coal to be shipped during April 1948.

Other comments on the Italian program are as follows:

Petroleum and petroleum products.—Supplies proposed to be shipped from the United States are confined to lubricants. The United States is practically the only source of supply for such products. No aviation gasoline is included in the program.

Fertilizer.—A considerably larger program for fertilizer was originally requested by Italy, but the reduction in available funds made it necessary to confine the request to a quantity of phosphate rocks to be shipped from the United States not to exceed \$1,000,000 cost-and-freight cost.

Medical supplies.—The recommended program of \$1,800,000 is primarily for the procurement of streptomycin, penicillin, DDT, and certain miscellaneous products such as insulin, liver extract, and dried plasma.

Reserve.—The reserve includes the \$12,000,000 being held pending final decision as to distribution of these funds among several critically needed items, including additional coal, fertilizers, sugar and dairy products, and for blister copper used in making pesticides. The balance of the reserve is held for possible use in an incentive-goods program or for other contingencies.

Some measure of the contribution of the food portion of the recommended program is indicated by the fact that after eliminating the April allocation of cereals the program provides approximately 600 to 650 calories per day for a 3-month period to each of the estimated 35,000,000 nonproducers. It is estimated that indigenous production will provide approximately 1,300 to 1,400 calories per day including wine for nonproducers.

The statement on incentive-goods programs is as follows:

The State Department is now considering incentive goods programs of a very limited nature to be carried out in Austria, France, and Italy as authorized under the interim-aid legislation. Because of the reduction of \$75,000,000 made by Congress in the administration's request for \$597,000,000 for interim aid, most of the \$522,000,000 finally appropriated must be used for essential fuel and food items to these three countries, and only a small amount can be made available to carry out incentive-goods programs. Plans for small incentive-goods programs in these three countries under the interim-aid legislation should be completed within the next 2 weeks.

Acting Chairman BOLTON. There being nothing further to come before the committee at this time, the committee will reconvene again tomorrow morning at 10 a. m.

(Thereupon, at 3:30 p. m., the committee adjourned to reconvene at 10 a. m., Wednesday, February 11, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, FEBRUARY 11, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10:15 a. m., in the Foreign Affairs committee room, United States Capitol, Hon. Bartell J. Jonkman (acting chairman) presiding.

Acting Chairman JONKMAN. Our first witness is Mr. George Weller, foreign correspondent of the Chicago Daily News.

Will you please identify yourself for the record?

STATEMENT OF GEORGE WELLER, FOREIGN CORRESPONDENT OF THE CHICAGO DAILY NEWS

Mr. WELLER. I am a foreign and war correspondent. I have served two foreign services, that of the New York Times, in the Balkans and Europe, and the Chicago Daily News in all the continents of the world except South America. I have lived overseas about 12 years, reporting political and economic affairs.

Gentlemen, these remarks are a criticism of the \$6,800,000,000 plan for 15 months' aid to Europe. These remarks are not an effort to decide whether the European nations want, need, or believe themselves entitled to American aid. They are an effort to determine whether it is in the American nation's interest that American people should be taxed to provide it for them.

ERP hopes that the rebuilding of the industry of western Europe will create a new group of buffer states able to resist the westward push of communism. The bill assumes that communism can be halted by simple restoration of national economies. The notion is plausible but wrong.

Communism today is not a mass movement, though it wishes to be. It is a movement of an elite which is placed into power, not by mass unrest or hunger but by the Soviet Army and the Communist Party. Whether or not there is a mass unrest has little to do with the act of usurping power. It is a question only of who has the guns, tanks, and airplanes in the best position, and treaties to defend them. Russia has the power, the treaties, and a working technique; therefore, communism advances.

Economies of many of the eastern and central European countries now on the Communist assembly lines were hardly scratched by the war. Czechoslovakia, which was hardly touched; Bulgaria, which is almost completely intact; Hungary, hit hard in some urban centers, but not hurt in any fundamental economy whatever; and Rumania,

never fought over, and one of the richest countries of Europe. There was neither hunger nor chaos in any of these countries. The proof of this is that the Russians have been able to extract between \$10,000,000,000 and \$15,000,000,000 from them.

At the committee's request later, if time affords, I shall be glad to explain the Communists' step-by-step procedure for taking over any country, rich or poor, Marshall plan or no Marshall plan.

Building up western Europe's resistance against communism cannot be achieved by any number of American billions. The net effect of ERP is to increase the blackmailing power of the Soviet armies. The power of these armies can be answered only by a very substantial permanent increase of the American deployment of armed power in both Europe and Asia, including permanent bases overseas. The entire structure of wartime agreements needs to be torn down and rebuilt so that it ceases to defraud the American interest, as it does today.

The United States already has been defeated in the peace treaties. Most people think we won the war; we did not. The defeat is being turned into a rout by five arms of Soviet imperialism. They are:

1. The armies of the satellite governments. They are the ones who fought the Nazis and Italians, and have kept their military organizations.

2. The former guerrilla armies, now armies of the Communist Party.

3. The Communist Party.

4. The Soviet Army.

5. The fifth arm, and this is the most neglected and least understood, the Narkomindel or foreign trade monopolies of the Soviet Union, and the monopolies of its satellites. You will observe three or four of these are present wherever communism moves in.

You will find no country being taken over in Europe where the Soviet Army has not been present itself.

How can the Marshall plan check any of these five? It cannot even delay them. It may, indeed, aid them, and I believe it will for reasons I shall later explain.

You may wonder why someone who is against communism would be against the Marshall plan. You have read that the Marshall plan is opposed by the Communist press and the Communist spokesmen throughout the world. Soviet attacks on the Marshall plan have been wholly misunderstood in the United States. These attacks were never intended to keep the plan out of western Europe. They were intended only to insure that the Marshall plan stays out of eastern Europe, Russia's sphere (in her own eyes).

The Soviet Union does not want American governmental dollars to be accepted directly and officially by the satellite governments. They resist a penetration directly from above, where their control is strong at present. For this reason the Russians forced eastern European satellites either to remain outside the Marshall plan or to renounce it after they had joined it.

I went over all this reasoning this summer in Poland and Czechoslovakia with their statesmen.

But trade in eastern Europe is a monopoly of the Communist Party. For this reason, they have already refused our money as coming from above, at a time when the Marshall plan was never represented as anti-Communist.

Both the satellites and the Soviet Union will be delighted if billions of American dollars flow into their hands through western Europe's purchase of eastern Europe's products. And Communist Europe will expect to buy more cheaply from western Europe goods temporarily subsidized by American dollars. You can see the obvious advantage to the countries of eastern Europe. Thus the Communists in eastern Europe can hardly be hurt by ERP, which sends them dollars by handfuls.

This summer I covered the trial of Nikolai Petkov, a man who was hanged, as you know, in spite of the determined but feeble opposition by ourselves. This is one of the great moral defeats of our postwar policy. I find now that Mr. Dimitrov, the Prime Minister of Bulgaria, is very much in favor of active dollar trade with France, with Britain, and with the United States. He said so. He allows himself to be so quoted. There you see the distinction, ladies and gentlemen. Of course, they are very happy to have the Marshall plan in this form in western Europe. It is a source of dollars.

It is extraordinary to find ERP openly relying on encouraging trade between western Europe and Communist Europe. Why help both if we want to help one resist the other? Having subsidized communism in eastern Europe through UNRRA must we subsidize its foreign trade?

You know, we gave an average to the great Soviet satellites of eastern Europe of about \$400,000,000 per country, usually about \$100,000,000 in industrial aid alone. Having done this through UNRRA must we also subsidize its foreign trade, once we find this foreign trade is an arm of penetration?

It would be ridiculous to do so.

The State Department does not appear to realize that foreign trade to the Soviet Union and its satellites is an arm of political conquest.

Export prices are subordinate to foreign policy in each of these countries. However many American dollars are poured into eastern Europe through western Europe, not a single dollar will be allowed to divert the astute policies of the various Communist ministers of foreign trade who are building a monolithic collective economy, a collective economy of states in Europe, in eastern Europe. If you will look back through the files of the statements of the ministers of foreign trade of each of these countries you will see how, with the full concurrence of the countries, themselves, with their Communist ministers of trade, this block is being created.

Study the economy of Czechoslovakia and you will observe, for example, a trade with the U. S. S. R. now being expanded from 4 up to 18 percent in one year, and the aim is that between 40 and 50 percent of Czechoslovakia's foreign trade shall be in eastern Europe.

The aim is to use this growing international monopoly eventually as a weapon, because the fact is, whether we like it or not, eastern Europe does not depend on western Europe. The East does not need the West. As an economic weapon, the Marshall plan is, therefore, ill-aimed, useless, and out of date.

In its hopes of peace and security the Marshall plan is dangerous. It encourages a false confidence in the American people. When this confidence is dashed, as it will be as soon as the Soviet Union rebuilds her strength, the failure of ERP will increase American isolationism

and the final overthrow of the American strategic responsibility, which was assumed in World War II.

Having stated the over-all error of ERP, I shall touch on only a few of its other shortcomings.

ERP assumes that it is mainly America's part to pay for the rehabilitation of western Europe. Why? Why, for example, should Argentina lend \$175,000,000 worth of beef and wheat to Italy at interest rates from 2.5 to 3.5 percent? Is Argentina more opposed to communism than we are? No. Argentina's cultural attachments to France and Italy are far closer than those of the United States. So why do we give and pay and why does Argentina escape giving and paying?

Furthermore, let us ask the question, Is our money going to pay Argentina's 2.5 to 3.5 percent interest rates, as well as its beef and wheat?

To go on to another weakness, ERP assumes that the markets in the Far East and South America for European industrial products are going to revive. Now, I have been in southeast Asia as a correspondent, and within the last 2 years, the first year after the war, after covering the efforts at peace in China. I know those countries, all the way from China down to Indonesia. This assumption of the lively revival of trade is largely false. Industry in general has been decentralized through the war. These countries have learned to get along without things or to make their own simple requirements of industry. Western Europe is losing its markets. The liberated and semiliberated colonial areas can now meet most of their own industrial needs. Furthermore, native labor makes their prices generally lower than western Europe's prices. The American taxpayer may be willing to pay for this transitory rebuilding of European industry, but the Asiatic consumer is not prepared to buy its products in large quantities.

ERP is attempting to overexpand European industry. Last May and June, when I was in Paris, I found that the industrial recovery in France already—then, after a winter filled with stories of mass panic and chaos in the American public's eye—was up to 93 percent of its prewar quotient, and I believe it is over 100 percent today. Yet, if we continue this policy of overexpanding with our money, no amount of American dollars can turn back the clock to the days of colonial markets or bail out industries which deserve in an economic sense, to die, as for example, Britain's auto industry, which by any practical analytical examination is completely uneconomic.

Moreover, as we all know, ERP promotes inflation, it spreads inflation on a world-wide scale, hurting thus the consumers of all countries, costing us their good will with that rise, and postponing an eventual sound recovery.

I do not wish to have my criticism appear to be a total rejection of all of the principles embodied in ERP. ERP is justified on compassionate grounds in wishing to stem actual hunger or malnutrition in western Europe. This duty is a duty of humanity, properly shared by the United States and all well-fed nations. However, as long as 62 percent of the German farmers give crooked figures on their crop quotas—this figure is from Raymond Daniell of the New York Times, who is a very reliable reporter—this duty is not exclusively America's in respect to Germany. How can we, for example, repair the loss of

German farm land to Poland by milking our own people to subsidize the German diet?

These remarks are discussions of one country. I could discuss other countries in similar terms, if there were time.

Courting the good will of Europe through ERP is emotional nonsense, ladies and gentlemen. All the help which is given to Germany is used as very effective anti-American Communist propaganda in Poland and Czechoslovakia. I have a story to illustrate that: This summer I was talking in Poland to a husband and wife who were educated people and very anti-Communist by spirit. I asked them whether the Poles did not feel some sympathy for the humanitarian role which the United States was playing in Europe in feeding the German people. They said, "That is the thing we dislike most about the American foreign policy. In proportion to the extent you wish to help Germany, we sympathize with the point of view of the Communists in this country who attack you for doing so. We see no true humanitarian obligation there."

That is an illustration, ladies and gentlemen, that is is not just Communist propaganda but it is a point of view broadly accepted by people who are actually unsympathetic to Communist propaganda.

All the help given to Germany is used as very effective anti-American Communist propaganda in Poland and Czechoslovakia. American help to Italy is Communist propaganda in Yugoslavia and Albania. Europeans naturally ask, "Why is America giving millions to these former enemies of devastated Europe?" The western European countries are not moved to gratitude—except perhaps, in some measure, Britain.

The State Department says our people must give out of self-interest. However, why should anyone be grateful for what is given out of self-interest? You know, too, that it is often represented that one of the reasons for the Marshall plan is to promote American business, to keep American industries going. I do not find many indications of that profiteering coming to the surface. In all fairness, I find there are American businessmen who are against it. But I believe there is a certain legitimate ground for this criticism, though, of course, nothing like this was the original inspiration of ERP, at least profit to Americans by tax-supported exports was not its original aim.

What is happening, ladies and gentlemen, with the prospective aid of ERP and the Marshall plan is that Europe, like China, is going into business as a professional buffer state. It is going into business in that manner, of being a buffer state between the Soviet armies and ourselves.

Furthermore, American money delays good reforms in Europe and gives governments reasons for postponing them. The three soundest steps in Europe's recovery up to now were the devaluation of the currencies of Italy, first, and France just the other day, and the customs union, Benelux, between Belgium, Holland, and Luxemburg. None of these was accomplished through American intervention; none was an American idea. So economic reform comes from below with reason, from the Europeans, and not from above, with dollars, as an American inspiration.

The helping of France and Holland by the United States is aiding two powers who are engaged in colonial campaigns in the Far East. We have already provided arms and indirect financial aid to these

campaigns to our own prejudice in the eyes of 100,000,000 Asiatics. Through this sort of aid we are losing the masses of people in southeast Asia, as we are losing them in China. Do not be deceived by any attempt to put strings on these moneys and to say that they will not be used for these purposes. They will be. They will be siphoned over and nobody can prevent it.

To continue to give this kind of aid will deepen this moral defeat we are suffering in southeast Asia. Furthermore—another example of helping the people we are trying to beat—the Soviet campaign to represent us as an imperialist power, a natural partner of the imperialist powers of Europe, will be strengthened.

Perhaps it is not part of America's business whether the borrowing countries refuse to have a Socialist government or not. This is what we call the "dilemma of conditions," in Henry Hazlitt's phrase. But socialism, as a self-liquidating economy, remains to prove itself. It is not good statemanship to wring money from Americans on compassionate grounds to support economic experiments, whether they be the bureaucratic socialism of Britain or the state collectivism of Kuomintang China.

ERP is a double invitation to future blackmail. As long as the Soviet armies hold their present advantage, European governments can exploit the Communist menace for more American dollars indefinitely. Look at Greece. Three hundred million dollars almost gone, and they want more. It is gone, without curing the strategic disadvantages and the defects of the treaties which cause it. Thus we buy spurious insurance by installments as protection against Soviet imperialism, without achieving ever a counterprogram.

While the Red Army squeezes, the various Communist parties can sabotage by striking the industrial effort of any nation where they are already powerful enough to be a menace. Our missionary dollars go wasted. For example, the last big French strike cost \$1,400,000,000 in production. Ask yourselves, ladies and gentlemen, how much of that loss was ours?

Until we find counterweapons, not against strikes but against Communist imperialism, we can be exploited by Communist unionists legally as easily as we are exploited today by bridge-blowing Communist guerrillas in Greece. They throw in \$1,500,000 to build a bridge and a small package of TNT makes us \$1,500,000 poorer.

Looking at as a whole, the ERP is the dying phase of an American postwar policy which originated in World War II, while the fighting was still going on. This policy may be called "Retreat and Pay." The retreating began with the strategic withdrawals at Tehran and Yalta—never confided to the American Congress. Paying began with the United States footing 72 percent of the cost of UNRRA, and thereby underwriting the new Communist states in eastern Europe as well as helping to rebuild western Europe. The postwar loans, the gifts and the gift-loans, have demonstrated the failure of farming out foreign policy to other governments and other economies. To continue this same policy invites further failure.

Now, I realize that ERP is supported by many honest citizens, legislators, and editors who are moved by compassion for Europe and a wish, and a genuine and meritorious wish, to stem the advance of communism. But ERP cannot accomplish permanently its objectives.

What America needs is not ERP but a new foreign program to

amend its strategic defeat in eastern Europe and the Far East. A plan of economic aid, much smaller and much sounder than ERP, has a legitimate place in such a program, providing the military and strategic essentials are attained first.

However, this program must be reasoned out as a whole and it cannot be purchased with dollars and commodities.

Acting Chairman JONKMAN. Mr. Jarman, have you any questions?

Mr. JARMAN. I would like for you to elaborate a little bit on this new foreign policy you propose in the last paragraph there.

Mr. WELLER. We will take first a plank from ERP. That is the obligation of compassion, and the obligation to stem hunger and malnutrition. This should be the first point—a relief program, American administered, not passing through foreign governments. A foreign government that did not wish to accept American aid, American administered, would not receive aid.

For the second point, a building up of American power in Germany, in Trieste, and in the Far East, so as to correct our present disadvantageous bargaining position. It is impossible to bargain unless there is equality of bargaining power on the part of the two parties. We do not have that equality because the fundamental disparity is in military power today. Therefore these forces must be built up with a provision, of course, that they will be reduced when and if the Soviet forces are withdrawn from the countries they now occupy.

However, to leave it at that would leave the campaign of Communist imperialism successful in eastern Europe and in Manchuria, where I witnessed the taking over from the Russian Army of power by the Communist Chinese Army. To do that would be to leave this pattern in existence. That is not satisfactory. America's frontiers of security now extend to China and extend to eastern Europe.

As long as we leave these satellite belts as they are, with no compensating belt on our own part, we will be in the position of weakness, even if the two armies, Soviet and American, are withdrawn.

Therefore, there must be a program of permanent American bases overseas, as permanent as these Communist governments in eastern Europe and in China. This is what is called an invidious balance-of-power policy, but to accept anything less is to accept the continuation of this unrecognized defeat from which we now suffer.

As for rebuilding Europe, I believe that this should be left to direct investment on the part of American capital. I believe that the normal conditions of investment capital should be observed. I do not believe in asking the American people, through their Government, because it is impossible to examine these things equitably, on a sound basis, to make any such investment through the legislatures.

Therefore, let me say, sir, that the fundamental overlying policy of this new program would be an aim to correct our strategic defeat in the war, and then to subsume below that an economic program of aid.

Mr. JARMAN. You spoke of an American investment. Is there much prospect of American investment in Europe now?

Mr. WELLER. As long as we give it away it will never be borrowed. Do I answer your question?

Mr. JARMAN. You answered it as far as the European countries are concerned, but what I had in mind, is the American businessman willing to invest?

Mr. WELLER. I should think so. The real test of the program is to ask an American businessman about this. What will he say? He will say, "I do not wish to invest unless this military disadvantage of communism is corrected." Naturally, he does not want to lose his investment.

If you begin by correcting that you will create the normal condition of military security which is necessary.

Mr. JARMAN. You think that these bases you recommend will correct that?

Mr. WELLER. Yes, sir. You will remember that I said as well that there should be a building up of American power in Germany and Trieste, in the Far East, to correct the present military inferiority.

Let me say, concerning the basis, perhaps the net effect would be to restore multiparty government in Europe. We do not know that these satellite governments will last forever; they have come in largely because of the retreat of American foreign policy. They may not last forever. If democratic and parliamentary government should be restored in Europe, if the present control by the Comintern through the Chinese Communist Party of Manchuria, the wealthiest part of China, should be corrected, and the Communist Party would return to a minor place among the parties, then these bases would have served their purpose, could be dismantled and withdrawn. They are the answer only to the present conditions. If they correct the condition, the bases could be dismantled.

Mr. JARMAN. What progress has communism made toward the domination of new parts of Europe since the passage of the Greek-Turkish bill?

Mr. WELLER. From the Soviet point of view, this is a period of consolidation. We are liable to see few advances now in terms of taking over new territory. What the Soviets have accomplished is, they are managing to milk us of the millions of dollars with a force not even supported by them to any very great extent, of 15,000 guerillas. I was in Thrace covering this fighting in September. Fifteen thousand guerillas in Greece are forcing us to support an army of 150,000 Greeks, a permanent distortion in the military sense of the Greek economy.

This policy, transposed as it will be eventually, to Germany, when the prepared Soviet Army moves in, will continue to cause this endless leakage on our part. At the same time, besides milking us by this very successful policy, they are carrying on a campaign of "peace," which means that they are busy consolidating their position, eliminating the opposition, in all the countries between Poland and in Bulgaria, and in consolidating their position in China.

Now, the reason for the "peace" offensive is a sort of moral disarmament of us. The moment, of course, is not at hand for taking over new territories at all. Although I have had no time to trace the process of taking over each of these eastern European countries, I pointed out to you that none of them were taken over without the Soviet Army being present. That happens in all cases.

Take Poland and Czechoslovakia, for example.

You might say that these are not occupied countries, but they are in a true sense, because they lie between two great Soviet forces. By our consent to the peace treaties there are Soviet forces in Hungary and there are Soviet forces in Rumania.

Now, the role of these Soviet forces is explained in Lenin's pamphlet on Reformism and the tactics of taking over a government. This means that the Soviet Army is there and is what Lenin calls the "army of reserve." It is the army that determines that the revolution never goes backward. It may not push it forward rapidly, but it keeps it going slowly in the same direction.

For an example of that, look at Poland today. They have knocked out one by one all the parties. They have brought now the Peasant Party into the Government, and now they are working on the Church. It is a campaign, as a soldier would say, of reduction in little.

Mr. JONKMAN. Mr. Chipfield, have you a question?

Mr. CHIPERFIELD. Mr. Weller, I regret I did not hear the first part of your statement.

I fully realize that the Marshall plan is directed mainly to the assistance and rehabilitation of western Europe. However, as you know there have been requests sent up to the Congress for additional aid to China. Now, does it make sense to you that we follow a policy in China which has permitted Russia to go into Manchuria and into Korea and strip those countries of billions of dollars worth of assets? I think the foreign correspondent for the New York Times in his book, Reconquest, estimated that the Russians had taken out of Manchuria something like six billion or seven billion dollars.

Now, does it make sense that we permit a policy like that to be followed, and then spend a few billions trying to replace what we have allowed to be taken out of those countries?

Mr. WELLER. Indeed, Mr. Chipfield, of course it does not. I was in Manchuria myself and was taken into custody by the Chinese Communists when Changchun fell and witnessed the entire procedure of taking over. It is completely misunderstood by the American public.

It would take some time to explain to you the treaty ramifications and the clever way the Soviets beat us and beat us shamefully there.

Mr. CHIPERFIELD. Mr. Weller, did not this really happen in a sense: The Big Three just put a gun to China's head and said, "Go over to Russia and accept the terms we have agreed on"?

Mr. WELLER. Yes, sir; and, if I may be allowed to add to the foreign program that the gentleman from Alabama asked me about, I would say that another plank in that program should be the submission to the American Congress of the executive agreements of Tehran and Yalta to find whether it is really the sense of the American people that these should be upheld. In the case of Yalta, ladies and gentlemen, this was one of the worst defeats we have ever received—far greater than a defeat costing us 100,000 men.

May I have time to explain that, sir?

Mr. JONKMAN. Yes.

Mr. WELLER. If you will look at the Treaty of Yalta, you will see what we actually won was the Japanese-Russian war. We won back for a power that had never fought in the Pacific all it had lost in a previous war. We fought 4 years to cross the Pacific, and then we returned to Russia all she had lost to the Japanese.

Mr. CHIPERFIELD. Mr. Weller, we returned to Russia what she lost in 1904; is that correct?

Mr. WELLER. Precisely, sir. Then we went further than that. Take the case of the Kurile Islands. Our naval air arm bombed the

islands repeatedly throughout the war. No Navy man or anyone who saw the communiqués failed to realize that the Kuriles meant something to us. We paid American lives to strike them. What did we do with the Kuriles at Yalta? We gave them to Russia. We gave to Russia an island group in population alone, ladies and gentlemen, greater than the whole of the Pacific Islands which we have taken only under mandate.

Why did we do that? It is because of the deceptive map like this (pointing to mercatorial map on wall)?

Here are the Kuriles up here. They look very remote from the United States, way up in the corner there. Down here is Saipan and here is Guam, which we are making our advance base. Does it not look as though these are more important to us than the Kuriles? But the map is deceptive, ladies and gentlemen. The base that we have bombed here in the Kuriles is actually 1,000 miles or more east of Guam.

Now, if you told the American people that they had given away at Yalta a base 1,000 miles nearer the United States than Guam, a base that is between Guam and Honolulu you can imagine the howl that would come up. Yet, that is precisely what we have done through lack of understanding of strategy. You can fly from this base we gave Russia to our coast in 4 hours less than you can to Guam, and it is not as though we did not understand what this was about, because when the Japanese fleet attacked us at Pearl Harbor they were up in these very fog-bound islands up here. That was where they hid themselves before they made this strike, down through the fogs and mists here on Pearl Harbor, and remained concealed.

We have a double demonstration, first, by Pearl Harbor, itself, and then by having continually to bomb this place of the importance of this group of islands. Yet we gave them away.

MR. CHIPERFIELD. Mr. Weller, you will recall that we were told there were no secret agreements at Yalta.

MR. WELLER. Yes, sir; but we must be perhaps a little charitable. Even the Secretary of State at that time, Mr. Byrnes, confessed that he was in ignorance of what occurred there, even though he was there personally. That is with reference to the Kurile Islands.

MR. CHIPERFIELD. You were in Manchuria and you have seen how the Russians had taken over title to the large industries in that country. You know that there is a great potential wealth so far as agriculture is concerned. You know the transportation systems that are dominated by Russia, and why? Because Russia fought 6 days in that war.

If you will tell the committee what is happening in Manchuria, so far as industry is concerned and its relation with the Russians, we will appreciate it.

MR. WELLER. I think the country is entirely stripped. We could not believe this had happened before we went in. We did not believe that an Allied country could be so stripped by the Russians, and I treated the Chinese Nationalist stories with a great deal of caution because I was afraid they might be propaganda, but they were facts.

MR. CHIPERFIELD. Was the same thing true of Korea?

MR. WELLER. I tried to go with Mr. Pauley north through the lines into northern Korea, but could not, so I am in no position to say.

However, the facts gathered by both Mr. Pauley and by our

American Army, with abundant material from refugees from northern Korea, shows it has been stripped as well.

I would like to make one more point about this Russian thing, which is not generally understood, one of the exquisite ironies of our duping in this Yalta thing: Can anyone imagine anything more beautiful than that the country which is by dogma anti-imperialist, the Soviet Union, should use a country which it represents as imperialist, the United States, to achieve its own objectives in regaining its own empire? Can a more beautiful political irony than that be imagined?

Furthermore, can it be imagined that any irony could exceed the fact that Britain herself withdrew from this area? Mr. Churchill refused to identify himself with this agreement. Only our President agreed to Soviet advantages from China. Finally, the last and most exquisite irony to me, throughout the war we were devoted to the principle of breaking down the ports in China which has been under foreign domination. We were anti-imperialist. We induced the French to give up ports, we gave up our extraterritorial rights in Shanghai, we induced the British to give up most of theirs, except for Hongkong, which they do not classify as an extraterritorial, and all this in the name of freeing China. Then, what did we create? A new system of treaty ports, given to the Soviet Union, Dairen and Port Arthur. We stripped down all imperialism and presented to the Soviet Union with legitimate title, with our signature on it, a new system of Russian treaty ports.

Does that make sense?

Mr. CHIPERFIELD. We hope, if we are lucky, to get equal rights in those ports with Russia?

Mr. WELLER. I am afraid I do not share that feeling, Mr. Chiperfield.

Mr. JAVITS. Mr. Chairman, I was not here, I am sorry to say, when the gentleman testified. I have no questions.

Acting Chairman JONKMAN. Are there any further questions?

Mr. CHIPERFIELD. I have some further questions.

Do you think dollars will save the world from communism?

Mr. WELLER. Dollars, if applied to strategic purposes, sir, may do so.

Mr. CHIPERFIELD. Suppose under this Marshall plan you were able to bring about recovery in western Europe to prewar or even a higher standard than prewar. If we allow these governments to peg prices, keep up trade barriers, and not standardize their currencies, and make it possible for international exchange so that imports and exports will flow normally, there can be no true recovery, can there?

Mr. WELLER. There cannot, sir. Europe is devoted to the principle of cartels.

Mr. CHIPERFIELD. You can build up these countries to an economic standard but unless you correct some of these ills that are preventing the flow of goods, and so on, it is just like giving blood transfusions to a patient without finding the cause of the hemorrhage; is that not correct?

Mr. WELLER. Precisely. First, the strategic uncertainty must be corrected. Second, these changes must be made as they have been made in some degree by the European nations, voluntarily on their own initiative, and not as an article of import by the United States.

Mr. CHIPERFIELD. That is all.

Acting Chairman JONKMAN. Are there any further questions?

Mr. JARMAN. The cause of this trouble in Europe is well known, is it not? Did not the war cause the present situation in Europe, largely?

Mr. WELLER. Did the war cause the present situation?

Mr. JARMAN. I was just following up the question of Mr. Chipfield regarding transfusions.

Mr. WELLER. The gentleman's question was a condition contrary to the fact. By that I mean, I said, "Suppose" this recovery were to occur. This recovery will not occur in this form and I find myself unable to discuss a recovery which I deny will take place.

Mr. JARMAN. However, I say the main trouble in Europe today results from perhaps both World Wars, but especially the last one?

Mr. WELLER. Yes, sir; they are the same war.

Mr. JARMAN. Largely that is it, is it not?

Mr. WELLER. The latter war is the more painful; yes, sir.

Mr. JARMAN. Thank you.

Acting Chairman JONKMAN. Thank you very much, Mr. Weller for coming here. We have found your views helpful, and we appreciate your coming.

Mr. WELLER. Thank you, sir, for your courtesy.

Acting Chairman JONKMAN. Our next witness is Mrs. J. L. Blair Buck, who appears as president of the General Federation of Women's Clubs.

STATEMENT OF MRS. J. L. BLAIR BUCK, PRESIDENT, GENERAL FEDERATION OF WOMEN'S CLUBS

Mrs. BUCK. I appear before your committee today as the president of the General Federation of Women's Clubs, a national organization of some 3,000,000 women who have officially expressed their approval of the Marshall plan for European recovery. I come to plead for prompt enactment of an aid to Europe program along the lines outlined by President Truman, Secretary of State Marshall, and H. R. 4840.

The General Federation of Women's Clubs has had as a first interest the building and maintenance of peace in the world. We have supported efforts to promote international cooperation in political, economic, and social fields through advocacy of the United Nations and such specialized agencies as FAO, IRO, UNESCO, and the proposed World Health and International Trade Organizations. We believe that the cause of peace will be advanced by the European recovery program which seeks to help the nations of western Europe rebuild their shattered economies. Stable economic conditions are a prerequisite to the restoration of strong, democratic governments in this important area. Such governments will bulwark peace.

We further believe that the European recovery program is vital to the welfare and security of the United States. If western Europe, the traditional bastion of free institutions across the seas, is forced through economic exigencies to accept totalitarian government the position of this country will be precarious indeed. We cannot afford not to aid the 16 nations which have entered into a cooperative venture with us to restore their economies so that they can remain free, independent, and capable of resisting any pressure which may be brought against them. The risk involved for us in undertaking a

European recovery program is small compared to the risk we run should we refuse to do so.

It would be presumptuous for me, a layman, to attempt to discuss the details of so vast and complex a program. I do, however, feel justified in emphasizing the importance of not jeopardizing its chances for success by undue delay, by curtailment, or by the imposition of conditions which would place too heavy a burden on the recipient countries, or be distasteful to them as sovereign nations.

Failure to make aid available by April 1, when it is estimated the interim-aid funds will be exhausted, will be a step backward in the hard road we are traveling. Therefore, I hope the Congress will act as quickly as possible in authorizing the long-range program.

Reduction in the amount of the aid recommended might seriously cripple the effectiveness of the program. I am willing to accept the word of Secretary Marshall, based largely on the Harriman committee report, that 6.8 billion dollars is the minimum necessary to launch a real recovery job. This figure was arrived at after months of painstaking analysis of the needs of the cooperating nations.

I note that the only really expert testimony from outside the executive branch—that of Mr. McCoy of the International Bank—supports this minimum requirement as a “tight fit.” In the long run, inadequate aid will be a disadvantage to the United States which seeks as the return on its investment the recovery of western Europe. Continuation of mere relief—all that could be expected from reduced appropriations—is a costly, endless, and uneconomic course to follow. Besides food and fuel for the immediate emergency, machinery and tools and transport are needed to bring Europe to productive self-support, and funds must be provided in advance for placement of orders for such equipment.

It also seems important to me that the terms of the aid be kept sufficiently flexible so that grants can be made to those nations whose economies will be further strained by the necessity of paying off a huge foreign debt. Ability to pay should be the basic consideration in determining the nature of the aid to be rendered. What we should seek is a self-supporting Europe, not one paralyzed by debt.

In addition to humanitarianism, a main purpose of the European recovery program is to help rebuild strong, democratic governments in western Europe. The United States should be very careful not to undermine the strength of these governments by interfering in their internal affairs. We must constantly bear in mind that the nations we seek to help have a great tradition of freedom similar to our own. They are sensitive and proud as we would be under reversed circumstances. The program will succeed only if it is based on mutual respect and cooperation.

As regards the administration of the program, the suggestions contained in the Brookings Institution report appear to fulfill the requirements of sound business administration and, at the same time, provide for the proper relationship between the President and his Secretary of State and the Administrator.

Mr. Chairman, the European recovery program outlined by Secretary Marshall fulfills the broad essentials of a constructive aid program. The importance of its speedy enactment, in view of the present world situation, outshadows all other considerations. The future peace of the world may well depend upon it.

Acting Chairman JONKMAN. Thank you.

Merely to clarify the record, are you speaking for yourself, or are you speaking for the General Federation of Women's Clubs?

Mrs. BUCK. I speak for the General Federation of Women's Clubs. I speak on the basis of resolutions adopted by the whole federation. The federation at its annual convention adopted a resolution definitely in support of the Marshall plan, or the European recovery program.

Acting Chairman JONKMAN. Thank you.

Mr. Jarman, have you any questions?

Mr. JARMAN. I have just one question, Mr. Chairman.

Mrs. Buck, yesterday we had a lady witness, in fact three lady witnesses, and their general testimony coincided very closely with yours.

The expression of the opinion of their organizations by their respective representatives was practically the same as that of your organization. When one of them finished I made the statement to her that I did not think I could possibly more thoroughly agree with her position, and the same applies to you.

I added, to Mrs. Bolton, who was one of our distinguished lady members who was present at the time, that I thought we had better bring more lady witnesses here, and I am glad you came along today.

I told her this, that if I was right in my opinion of this thing, this testimony indicated that the ladies of the United States were very far ahead of the people in general, and of the Congress in their thinking on this subject, and I am just repeating what I said yesterday.

Mrs. BUCK. We appreciate hearing that very much.

Mr. JARMAN. Thank you very much for your testimony.

Acting Chairman JONKMAN. Mr. Chipperfield.

Mr. CHIPPERFIELD. From your statement I would understand that your organization is in full agreement with the foreign policy as now carried out by President Truman?

Mrs. BUCK. We stand firmly behind the Marshall plan. That is the extent of my statement right now.

Mr. CHIPPERFIELD. You have also indicated that you are, of course, behind the United Nations and the FAO?

Mrs. BUCK. We are strongly behind the United Nations.

Mr. CHIPPERFIELD. Have you any disagreement with the policies of our President, or our former President, over the last 10 years?

Mrs. BUCK. Personally, I have.

Mr. CHIPPERFIELD. How about your organization?

Mrs. BUCK. The organization does not take a political stand under any circumstances. We have definitely been in favor, for instance, of the Voice of America Program. We have taken a stand on that. We have taken stands on certain programs of that sort, but as far as a whole general policy is concerned, no.

Mr. CHIPPERFIELD. Have you been against any administration foreign policy?

Mrs. BUCK. I think our resolutions are drawn in a positive form, always.

Mr. CHIPPERFIELD. I do not criticize you at all, but I just wondered if your organization had gone along all the way with the program as outlined for our foreign policy.

Mrs. BUCK. I would not be sure, but whenever we make a resolution it has been a positive one. We do have great arguments.

Perhaps you realize the fact that so far as the displaced persons were concerned last spring, we, in our convention, reversed our decision, so it is on thinking we are doing this, and on information.

Mr. CHIPERFIELD. I appreciate it, and I am very happy you made your statement. Thank you very much.

Acting Chairman JONKMAN. Mrs. Douglas.

Mrs. DOUGLAS. We are very happy to have you with us today, Mrs. Buck.

May I compliment the federation on the very fine statement that you made.

I take it, that you would not be in agreement, nor would the federation be in agreement, with Mr. Weller's new foreign policy.

Mrs. BUCK. I am sorry, I came in a little late and did not hear what he said. I heard him on Manchuria, and I was very much interested. I did not hear the first part of his statement, and I am sorry.

Mrs. DOUGLAS. I have no questions, but I am not surprised to find that women are on the right side. They generally are.

Acting Chairman JONKMAN. Mr. Javits?

Mr. JAVITS. It has been said in a discussion on this program, that it may, and will, perhaps, include some sacrifices on the American people. For example, we may have to pay more tax money. We may have to increase our national debt. We may have to be somewhat restricted in various types of food. Those things may not have happened yet but perhaps they will happen.

Now, what do you think about the American housewife, do you think she is willing to undertake a certain amount of sacrifice in order to see this program go through; does she really feel that keenly about it?

Mrs. BUCK. I think so. I think, of course, it is a question of education. We are trying to educate the housewife so that she will understand the needs, and if she understands there will be no question about her response. We are quite sure of that.

Mr. JAVITS. Do you think there is any limit to the response of the housewife if she believes what she is doing is contributing to world peace?

Mrs. BUCK. I think what she is doing is trying to prevent her grandson from having to go to war.

Mr. JAVITS. Do you feel the American housewife would be willing to make really great sacrifices if she felt sincerely that what she was doing was contributing to the maintenance of the peace?

Mrs. BUCK. I think she would make very real sacrifices. She did it during the war, and if she knows the purpose of these sacrifices, and if she feels they are being carried out in a way that will really build peace, she will be willing to make them.

Mr. JAVITS. I may say I am not a devotee of that school of thought that people will make sacrifices if asked. I do not think any sacrifices should be made without keen, able, and hard-headed administration.

I believe you may depend on this committee to see that no one is called upon for sacrifices not absolutely essential for the main purpose. I did feel we would be helped by your views on your subject.

Mrs. BUCK. I am very sure that the housewife, as far as she understands the needs, will be strongly behind any move for peace, even though it does require sacrifice, I am sure of it.

Acting Chairman JONKMAN. Are there any further questions?
 Mrs. Buck, we are very glad to have your statement. We appreciate your coming here. You have been very helpful.

Mrs. BUCK. Thank you very much.

Acting Chairman JONKMAN. Our next witness is Mr. Robert P. Koenig, president of the Ayrshire Collieries Corp., Indianapolis, Ind.

**STATEMENT OF ROBERT P. KOENIG, PRESIDENT, AYRSHIRE
 COLLIERIES CORP., INDIANAPOLIS**

Mr. KOENIG. Mr. Chairman and members of the Foreign Affairs Committee, my name is Robert P. Koenig. I live in Indianapolis, Ind., where I am president of Ayrshire Collieries Corp., a producer of bituminous coal.

I was a member of the President's Committee on Foreign Affairs, frequently called the Harriman committee. I am not appearing before you in that capacity as the committee concluded its work on November 7, 1947, when it submitted to the President its report, which has been made available to you. I subscribe to the findings and recommendations made by this committee. However, I prefer to consider myself here as a private citizen with a certain specialized knowledge of the coal industry both at home and abroad.

There is no need for me to take your time in summarizing the Harriman report or repeating what has already been presented to you by others who concur in its recommendations. I would like to impress upon you, if I may, the importance of minerals and mineral resources in the economy of western Europe.

A large percentage of the world consumption of minerals is concentrated in western Europe. With a few exceptions, notably coal, there is no similar concentration of production. The area is dependent to varying degree on imports of most minerals essential to a modern industrial economy. Of the major minerals only coal, iron ore, bauxite—the ore of aluminum—and mercury were produced in quantity equal or greater than demand.

The regaining of the ability to produce and transport to destination mineral commodities in former quantities—and probably in even greater than prewar quantities—is essential to the economic recovery of Europe. But, in pursuing this course we run into the dilemma, the principal obstacle to industrial rehabilitation is the break-down of the general economic system. In other words, recovery of the mineral industries must be preceded by the restoration of some measure of economic stability, and economic recovery is dependent on the ability of the mineral industries to produce. The necessity and advisability of outside assistance is evident. Despite this, the European nations have made appreciable effort toward economic rehabilitation.

In the past few months some significant progress has been made in western European coal production, notably in England and western Germany. The 5-day workweek in the British mines which was initiated in May 1947 was shelved, probably only temporarily, last fall. This in conjunction with a somewhat higher output per man shift resulted in a real increase in coal production. The mild European winter weather has helped by keeping down consumption so that now the United Kingdom is against exporting coal in quantities which

though small by prewar standards are hoped to be harbingers of greater future tonnages.

Production in the Ruhr has also increased, principally on account of certain incentives in food and consumer goods offered to the miners. These are significant and hopeful signs.

Pending such time that western Europe will again become self-sufficient in coal production, it must look to the United States as one of the principal suppliers of the deficit. I do not need to tell you that the reserves of coal in this country, the productive capacity of the mines, and the manpower, are not only sufficient to produce the coal needed by the United States and Canada but can also make available enough coal to cover the European deficit. At times transportation facilities for coal have been tight, but this situation is improving, though slowly as yet. American coal can materially assist the recovery of Europe without undue strain on either the coal-producing or consuming industries of the United States.

Acting Chairman JONKMAN. Mr. Jarman.

Mr. JARMAN. To refresh my memory on the size of the Harriman committee, how many members were there?

Mr. KOENIG. There were 19 members chosen from the public and the chairman, Mr. Harriman, himself, made a total of 20.

Mr. JARMAN. How long did that committee function?

Mr. KOENIG. That committee was organized on June 23, and was in session here in Washington about five times, each time for 2 days. It concluded its work on November 7, as I have stated.

However, many of the members of that committee were members of the subcommittees that had to do with certain phases of the problems that were being investigated, and they met frequently and did much work by correspondence, telephone, and interviewing people in industry, Government, labor, and so on.

I should say in general probably the members of that committee spent about 1 month apiece on the work, during the period of June to November. I think on that, it would be a conservative estimate.

Mr. JARMAN. And the membership of that committee, as I recall, was made up of responsible businessmen of the United States; is that right?

Mr. KOENIG. Labor was represented on the committee, educational institutions, and business. There were professional economists on the committee. It was a general representative cross-section, such as you could get with the total of 19 men.

Mr. JARMAN. I am not going to ask you a foolish question, and one that you might at the moment misunderstand. Instead, I am going to make a statement:

All of the members of that committee were patriotic American citizens. I know that is true. I am not going to ask you whether that is true; I know it is. That committee report after an average of 1 month's work by each member, which was no doubt a minimum estimate, is a good summation of the situation. As I recall their function, largely it was to report on the availability of goods in this country to supply this program without destroying our economy. Is that generally the function?

Mr. KOENIG. Our directive was to report to the President what could be safely and wisely exported by this country to aid in the recovery of Europe.

As the work of the committee progressed those terms of direction were generally broadened. We were asked to analyze and assess the requirements that were set out by the 16 European nations, the CEEC nations that met in the Paris Conference. We were also asked to comment on the possible effects of the European recovery program, matching up the availabilities with the requirements, on the economy of this country.

As we progressed, the terms of direction were considerably broadened.

Acting Chairman JONKMAN. Did the Harriman committee confine itself in that consideration to the industrial matters of production? Did it cover, for instance, food production?

Mr. KOENIG. It covered food, finance, and the whole field, as much as it could within the limited time.

Mr. JARMAN. I am very positive in my opinion that that group of 19 patriotic citizens of this country would no more sell our country down the river nor make a report that would tend to do it than would 19 Congressmen or 19 citizens of Washington, or anybody else. The reason for this line of questioning is that we had your report before we considered the interim aid program last fall, and yet the statement was repeatedly made, and irresponsibly, I think, on the floor of the House, that we had no information about supplies and availability, that we had taken no testimony. You heard the statement, "Here they come, with no indication that they have looked into this at all."

I just wanted to get these things into the record, because no doubt that same question will come up again.

Thank you very much, Mr. Koenig.

Acting Chairman JONKMAN. Mr. Chipfield.

Mr. CHIPERFIELD. What is your connection with the bituminous coal industry?

Mr. KOENIG. I am the president of the Ayrshire Collieries Corp., and a producer of coal in Indiana, and another company mining coal in Fulton County, Ill.

Mr. CHIPERFIELD. I am familiar with that, in my district, of course.

Do you feel there is any shortage of coal in this country?

Mr. KOENIG. There have been export shortages, particularly in the last 3 weeks, which is the direct result of the inability of the railroads to deliver coal on account of cold weather we have had in the East.

Mr. CHIPERFIELD. I had some complaints from coal dealers, for example, in Quincy, Ill., even early this fall, saying that because of the shipments east, and for export, that they would not be able to supply their own people, right in Illinois, in the heart of the coal field, and I wondered about the situation.

Mr. KOENIG. We, and many of my colleagues in the coal industry, have heard cries of "wolf" like that ever since last summer and early last fall. Never have we been able, to my knowledge, to find a precise case where somebody has not gotten coal. He may not have gotten the type of coal he was used to getting, from the dealer he is accustomed to buying his coal from, at the exact time he wanted it, but he was able to find coal. I think that applies to industry as well as to the domestic consumer.

Mr. CHIPERFIELD. Under this interim-aid program, which amounted to around \$597,000,000, there was \$184,000,000, if I recall correctly, for coal. I also understood that 20 percent of that was to keep people

warm, and so on, but about 80 percent of it was to be used for industry. I have never been able to get it through my head why we should give, as a grant-in-aid, coal to private industry to manufacture something.

Mr. KOENIG. Well, sir, the coal that goes to private industry also displaces and makes available coal for other uses, such as domestic heating, to keep people warm. On the other hand, much of the coal that goes to private industry, or that is used to manufacture goods, then goes into international trade and helps those countries at least partially to regain the balance of trade which they necessarily must have if they wish to live in a modern industrial society.

Mr. JARMAN. Will the gentleman yield, briefly?

Mr. CHIPERFIELD. Surely.

Mr. JARMAN. As they regain that balance of payment they are reducing their obligation on us?

Mr. KOENIG. They are reducing their requirements, yes.

Mr. CHIPERFIELD. When that is used up that requires more production some place else. Of course, I realize coal has been one of the tight things in western Europe. In the Ruhr areas I think it is the most important of any one item, but whether they are doing their part in the production of coal I do not know.

Mr. KOENIG. If one considers the Ruhr, there is a very complicated situation over there. I have been in the Ruhr several times in the last few years, and that is a very difficult and complex matter, which I do not believe can be discussed here today.

Mr. CHIPERFIELD. For example, I was in Belgium and so was Mr. Jarman. We asked them about producing the coal. The Belgians told us they do not dig coal themselves.

Mr. KOENIG. Belgium is producing about 85 percent of her pre-war tonnage right now. In 1938 they produced about 30,000,000 metric tons of coal and last year it was about 26,000,000. I do not have the figures here, but that is the general order of magnitude.

Mr. CHIPERFIELD. You have gone into availabilities of coal in this country?

Mr. KOENIG. Yes, sir.

Mr. CHIPERFIELD. Do you know how much of the \$6,800,000,000 is for coal?

Mr. KOENIG. Yes, sir.

Mr. CHIPERFIELD. Do you think we can afford to furnish that?

Mr. KOENIG. Yes, sir.

Acting Chairman JONKMAN. Mrs. Douglas?

Mrs. DOUGLAS. What are our coal reserves?

Mr. KOENIG. Mrs. Douglas, that is a very complicated question to answer. The United States Bureau of Mines made an estimate about 20 years ago that there were probably reserves sufficient for 2,000 years. Since that study we know that many of the reserves that were included by the Bureau of Mines at that time do not exist, and that many seams that do exist would be uneconomic to mine under any foreseeable economic conditions. They are either too shallow or too deep.

It is also the feeling of the people in the Bureau of Mines at the present time that the reserves are considerably less than the 2,000-year figure set out 20 years ago.

The Bureau of Mines is interested in reassessing these reserves of coal.

Mrs. DOUGLAS. Do they have any idea what the estimate will be?

Mr. KOENIG. I doubt if I am in a position to speak for the Bureau of Mines on that matter. I have discussed it with them, and with many of my friends over there, as to how to go about reassessing these reserves, what terms of reference, and what definitions should be set out, what should be included in reserves, and what should be excluded.

Mrs. DOUGLAS. You would say that the exports of coal contemplated under the proposed Marshall plan would not exhaust our reserves?

Mr. KOENIG. Mrs. Douglas, they are statistically insignificant.

Mrs. DOUGLAS. In other words, they would be in no way a strain on our coal reserves?

Mr. KOENIG. That is right.

Mrs. DOUGLAS. You said there were only spot shortages of coal around the country, and they were not caused by a shortage of coal but caused by a failure to deliver coal. Was failure to deliver coal due to poor transportation facilities?

Mr. KOENIG. Poor transportation facilities, and an inadequate number of coal cars on the railroads, and due to the impact of this long cold spell we have had on the normal delivery and turn-around of coal cars.

Mrs. DOUGLAS. Are we short of coal cars to meet the supply of coal needed in America today?

Mr. KOENIG. Yes.

Mrs. DOUGLAS. Are we short of coal cars as a result of shortages in steel?

Mr. KOENIG. That is a complicated question, but I think that is one of the facts. During the war the number of coal cars went down because more were used up, wasted and retired than were being built. It was not until October or November of last year that the production of coal cars exceeded the requirements of coal cars, and even now the level between retirement and new cars is just about even. There is no real increase in the total population of coal cars in this country going on at the present time.

It is hoped that during this year there will be a measurable and significant increase in coal cars, as more steel becomes available, and as the coal car manufacturers turn out more of this type of equipment.

Mrs. DOUGLAS. In other words, the shortage of coal cars is due to the fact that our entire productive capacity was turned over for 4 or 5 years to the production of war material?

Mr. KOENIG. That is the principal factor, in my opinion.

Mrs. DOUGLAS. In other words, a Marshall plan is needed for our own country, except, of course, our need is less acute than in those countries that have physically felt the impact of war?

Mr. KOENIG. That is right.

Mrs. DOUGLAS. The coal we contemplate exporting at this time, is it greater than that we exported before the war?

Mr. KOENIG. Excluding Canada, the amount of coal shipped from the United States prior to the war was insignificant. It did not amount to more than several millions of tons a year at the best. This export of coal that has been taking place in the last 2 years is an unnatural phenomena in the American coal industry.

Mrs. DOUGLAS. Because of conditions that now exist in Europe, resulting from the war?

Mr. KOENIG. Yes.

- Mrs. DOUGLAS. I am perfectly sure that coal is going to be one of the major points of arguments on the floor, and that we will have wild accusations to the effect that we are going to run out of coal.

Do we have to increase our production of coal greatly in order to fulfill the commitments indicated under the Marshall plan?

Mr. KOENIG. Mrs. Douglas, the rate of production of coal during the latter part of 1947 is sufficient to meet estimated internal demands of this country and Canadian needs of American coal, as well as the European deficits set out in the Harriman report and as set out by the other agencies who have made estimates of the European needs. We can meet it amply.

Acting Chairman JONKMAN. Mr. Javits.

Mr. JAVITS. Mr. Koenig, would you tell me whether you were in Great Britain, too, in the coal mines?

Mr. KOENIG. Yes, sir.

Mr. JAVITS. You have inspected them both?

Mr. KOENIG. Yes.

Mr. JAVITS. Let us take the Ruhr, first. Do you believe there is a potential for very much greater production than is presently being taken out?

Mr. KOENIG. In the Ruhr they are taking about 280,000 metric tons a day. The physical capacity of the 145 coal mines that are in operating condition now is about 400,000, and the amount of repair that has not been done at the mines during the last few years makes it possible that only 340,000 or 350,000 tons could be produced to be hauled away to destination.

Mr. JAVITS. Let us discuss the mechanical functioning of those mines, aside from the labor. Can that be brought to a head quickly?

Mr. KOENIG. I think it is a very tough job under existing conditions. Under any semblance of a normal economy it would be a relatively easy job.

Mr. JAVITS. Do you consider it a tougher job than the rebuilding of the German heavy industries that are located in the same areas?

Mr. KOENIG. It has not been physically damaged to that extent.

Mr. JAVITS. It is not as expensive?

Mr. KOENIG. No, it does not need as much steel, copper, and the like.

Mr. JAVITS. The mines are capable of much greater exploitation, are they not?

Mr. KOENIG. Yes, sir.

Mr. JAVITS. Even with the existing type of machinery and the existing methods. In other words, you do not have to go in and completely redo these mines?

Mr. KOENIG. They are modern mines by every standard.

Mr. JAVITS. In England, is that statement true, or can you give us the parallel answers in Great Britain?

Mr. KOENIG. In Great Britain the mines as they are presently constituted have a physical capacity to produce in excess of the tonnage presently coming out of those mines.

In the year 1947 the British mines produced about 200,000,000 long tons of coal. Those mines are perfectly capable with the present equipment that is available, of producing 225,000,000 or 230,000,000 tons of coal. A few odd pieces of machinery would have to be added.

In general, the shafts are there, the preparation plants, and so on and so forth. However, those mines in England, by and large, are old and antiquated, and obsolete mines. Therefore, to convert them into modern mines which could compete on a cost basis in the world coal market, is going to take a long time, and will take a lot of capital for the heavy equipment. It will be a complete conversion of the coal mines.

Mr. JAVITS. Would it be economical to do that job, contrasted with imports of coal from the United States? I am now speaking only of the British mines.

Mr. KOENIG. It is easier to fix the mines in Great Britain than to import coal.

Mr. JAVITS. Either to Great Britain or to Europe?

Mr. KOENIG. During the interim period, if the mines in Great Britain can satisfy the demands for coal in Europe.

Mr. JAVITS. It is cheaper to rehabilitate the British mines than to ship coal continually from the United States to the European markets?

Mr. KOENIG. Yes.

Mr. JAVITS. That is certainly true in Europe?

Mr. KOENIG. Yes, sir.

Mr. JAVITS. It is a less expensive job, is it not?

Mr. KOENIG. Yes, sir.

Mrs. DOUGLAS. If we do help to modernize the British mines the coal is there to mine.

Mr. KOENIG. That is right. It is not anticipated that there will be much direct assistance by the United States to modernize the British mines. They can make their own machinery over there, and are doing it now. There is no concept of shipping much American mining machinery over to Great Britain.

Mrs. DOUGLAS. If the mines are modernized by the English, then, there is coal there to mine?

Mr. KOENIG. There is about 500 years of coal at the present rate of production that is economically recoverable in Great Britain.

Acting Chairman JONKMAN. Would it be right to say that our present consumption in the United States is about 540,000,000 tons?

Mr. KOENIG. That is right for bituminous coal.

Acting Chairman JONKMAN. Our production is in the neighborhood of 600,000,000?

Mr. KOENIG. It was 619,000,000 short tons last year.

Acting Chairman JONKMAN. And there is a shortage of all kinds of fuel—gas for heating, fuel oil, and coal?

Mr. KOENIG. I would not say there is a shortage of coal in the United States. Even during the month of November visible stocks increased 3,000,000 to 4,000,000 tons, right at the beginning of the winter.

Acting Chairman JONKMAN. Are we perhaps shipping abroad in the neighborhood of 8 percent of our coal?

Mr. KOENIG. We were during the early fall and late summer of last year, but during the month of January our coal shipments went way down to a total of less than 3,000,000 tons, which would be less than 36,000,000 tons a year. It was probably at the rate of 40,000,000 tons a year. That was not through the inability to move the coal, but because of the turn-down of the European nations of coal allocated to them.

Acting Chairman JONKMAN. It is true that to ship coal from the mines to ocean ports for Europe takes about four times the utility of coals cars that is taken to get it into the interior?

Mr. KOENIG. That is a misconception. The average turn-around period for mines in the Appalachian district to tidewater is at present about 14 days, and sometimes less than that. The turn-around of the Nation as a whole of coal cars is in the same magnitude. Actually, the turn-around period to tidewater does not use more coal cars per ton of coal delivered than coal in general does.

Acting Chairman JONKMAN. Are there any further questions?

Mr. JARMAN. I noticed you said you had a plant out in the district of the gentleman from Illinois. I just want to say that despite the impaired physical capacity of the gentleman, due to a fall on the ice, and although he gets mighty cantankerous here sometimes and makes us want to sort of kick him out of the room—we never try to do it, though—your people out there have a very good Congressman, as they doubtless know.

Mrs. DOUGLAS. Mr. Chairman, may I ask one question?

Acting Chairman JONKMAN. Yes.

Mrs. DOUGLAS. Will the percentage of coal in relation to the total production figure now be greater under the Marshall plan than it has been since the end of the war, or any time since the end of the war?

Mr. KOENIG. No. Mrs. Douglas, if the coal that is statistically determinable as the deficit over there in Europe be shipped under the Marshall plan, from America, the percentage of that coal to the total coal production will not exceed the percentage of coal that was exported out of this country during the months of July, August, and September. It would be of the same order of magnitude.

Mrs. DOUGLAS. Thank you.

Acting Chairman JONKMAN. Mr. Koenig, we thank you very much for coming here. You have given us some light on a vital subject in this foreign aid policy. I am sure we are all grateful to you for having come here.

Mr. KOENIG. Thank you, sir.

Acting Chairman JONKMAN. We will adjourn until 2 o'clock this afternoon.

(Whereupon, at 12:05 p. m., the committee recessed until 2 p. m.)

AFTERNOON SESSION

Chairman EATON. The committee will come to order.

We will ask Mr. Batt to proceed with his statement.

STATEMENT OF WILLIAM L. BATT, PRESIDENT, SKF INDUSTRIES, INC.

Please identify yourself for the record.

Mr. BATT. I will say that I am a resident of the State of Pennsylvania. I am a manufacturer in Philadelphia. I was in Washington with the War Production Board and its predecessors for over 6 years. I am on the United Nations Council for Philadelphia; chairman of the Philadelphia Committee for the Marshall Plan; a director of the Chamber of Commerce for Philadelphia; and during the war I was the American member of the Combined Raw Materials Board,,

and the Production and Resources Board; in those capacities I had a great deal to do with the European countries and, incidentally, with the workings of our own Government. I have been abroad four times in the last year and a quarter and, of course, very frequently during the war.

I want to put before you and the committee, if I may, the point of view of these Philadelphia agencies, and then I add some of my own observations.

The United Nations Council of Philadelphia, the Foreign Policy Association, and the League of Women Voters has held a number of neighborhood meetings throughout Philadelphia and the Philadelphia area. In each of those, at the beginning of the meeting, they have taken a poll, where questions were asked, intended to bring out the sentiments of those present. I will admit that is a selective group of people, and a group rather well-informed on the questions at issue. Those polls are fairly unanimous in most respects. They showed what was to me an extraordinary degree of willingness on the part of the American people to finance European aid, if necessary, with no reduction in taxes. I must say I was surprised at the unanimity of that view.

They are strongly opposed to the tying of political strings to aid to Europe. They are equally strong in their opinions that the institutions in these countries aided should be democratic institutions and that aid should not go to countries not providing such a democratic area.

They are strongly of the opinion that goods furnished to these countries should be kept and used by those countries. They are strongly of the opinion that there ought to be every possible attempt to get the currency basis of these countries in as sound a position as possible.

I would like to attach the details of those proposals to my statement if I may.

(The information referred to appears on page 1147.)

Mr. BARR. The Marshall Plan Committee of Philadelphia, having something over 100 representative citizens of labor, the church—Catholic, Protestant, and Jew—and business have gone on record unequivocally as favoring the aid to Europe, and adequate aid to Europe. In such a large group, it is impossible to get a resolution that spells out great detail. However, the essential is clear that aid should be provided for Europe.

I would like to refer to the resolution of the Philadelphia Chamber of Commerce.

Chairman EATON. The resolution will be included in the record at this point.

(The resolution is as follows:)

CHAMBER OF COMMERCE OF PHILADELPHIA,
February 2, 1948.

EUROPEAN RECOVERY PROGRAM (MARSHALL PLAN)

The executive committee of the Chamber of Commerce of Philadelphia in a meeting held Monday, February 2, 1948, gave its approval to recommendations of the chamber's world Trade Council regarding this subject. The government policy committee of the council, in making its study, proceeded on the assumption that a European recovery program (ERP) would be adopted and, therefore, con-

fined itself to the consideration of practical steps designed to implement such an undertaking. The recommendations as approved are as follows:

1. A small independent Government agency, headed by a practical businessman, well versed in world trade, should be established to administer any European recovery program. An advisory committee, composed of heads of interested Government departments, representative businessmen, and public representatives should be created to advise and consult with the Administrator.

2. Extension of aid by the United States under ERP should be contingent upon the cooperation of the recipient nations in undertaking those important measures of economic unification and reform generally accepted as essential to recovery. These measures include currency stabilization, carrying with it the necessity for establishment of realistic rates of exchange in these nations; reduction of trade barriers and many others.

3. Loans and grants should take the form of a line of credit available for purchases of predetermined quantities of goods and commodities, such purchases to be made through private trade channels, to the greatest extent possible.

4. Goods sold by the recipient countries under grants-in-aid should be paid for in the local currency of each recipient country to the greatest extent possible, such payments being deposited to the account of the United States in the central banks of the respective countries. Funds so deposited should be controlled by a bi-country committee in which the United States would have a majority representation.

5. Standards of honest and efficient performance should be set by the recipient countries, which are acceptable to the United States, and all initial loans or grants should be for a period of 1 year only with reservations as to later assistance contingent upon the maintenance of the defined standards.

6. Supervision abroad: (a) A European continuing organization should be created at the core of which would be an international staff owing allegiance to no National Government and headed by a European director of recognized independence, courage and ability. The director and his staff would make initial recommendations with respect to programs and allocations based on a continuous evaluation of the performance of the participating governments in carrying out their undertakings and in making effective use of the aid furnished to them. The director could also serve to coordinate the efforts of the participating countries and to supervise the use of funds and supplies granted under the program, acting through the established control authorities within the individual countries and subject to spot audits by representatives of the United States.

(b) A new export control agency in the United States should not be created specifically for ERP. The method of foreign-government control, together with United States controlled audits already outlined, will accomplish the desired purposes without creation of an additional United States Government bureaucracy under the guise of export control.

(c) Resident United States Government control missions abroad established for detailed supervision, except as provided for in 6 (a) above, are as undesirable as additional export controls in the United States.

7. Wherever possible, procurement and distribution of goods under ERP should be made through existing private trade channels.

8. General comments: (a) No assistance of any description should be extended to countries under unfriendly domination and all aid should be terminated immediately in the instance of a recipient nation falling under unfriendly control.

(b) Every effort should be made by the United States to assure that none of the relief passes away from the recipient nations into the hands of governments which are within an unfriendly sphere of influence.

(c) Participation in an ERP by the United States should be devoid of accompanying restrictive and other devices which would burden the people at home with a form of government approaching the totalitarian forms we desire to see headed off abroad.

(d) The principle of export allocations on commodities in short domestic supply is accepted, but this should not be construed as an excuse for specific licensing of individual orders.

(e) The idea of purchases with ERP funds by recipient nations in other countries of items in short supply in the United States is heartily endorsed. Such a provision would relieve inflationary pressure on the commodities in short supply here and would foster United States exports to countries in this hemisphere.

(f) It is accepted that shipping aid constitutes a necessary part of any ERP, but no plan in this regard should be adopted which would ultimately increase the competitive position of foreign merchant fleets to such a point as would result in

damage to the economic security of the United States merchant marine and to this country's national defense potential.

(g) Unfriendly propaganda is being aimed at undermining the effectiveness of any ERP and it behooves the United States Government, therefore, to take the steps necessary to counteract such propaganda by familiarizing the peoples of the recipient nations to a greater extent of the intent of the program and keeping them informed as to its developments.

(h) Confidence is expressed in the ability of private trade channels, at home and abroad, to accomplish the purpose of ERP, but it must be recognized that a program of such magnitude as this must invariably put some pressure on the United States price structure. Should it develop that the impact of ERP, combined with other forces, is too adversely affecting our price structure and thereby demanding Government action to relieve the situation, such Government action should then be confined to the most limited number of commodities possible to accomplish the required objective.

Mr. BARR. This resolution proceeds from the assumption that an adequate program of aid will be provided by the Congress and merely discusses the types of administration. They prefer a small independent Government agency. I suppose it is natural they suggest that should be headed by a practical businessman, well versed in world trade. They recommend that funds which are received by this Government, the local currencies, should be deposited in the country of receipt and controlled by a bicountry committee in which the United States would have a majority representation. That seemed to me to be a point of some importance.

They say that in their judgment resident United States Government control missions abroad, established for a detailed supervision, are as undesirable as additional and unnecessary export controls in the United States.

I feel safe in saying to this committee that the people of Philadelphia, as far as we can learn, are strongly convinced of the essential need for adequate aid to Europe.

I want to talk a moment about kind of aid that is going to Europe that is of very considerable interest to me, as well as Mr. Charles Taft and Chester Davis. The three of us comprise a committee set up by the President and the State Department called the Committee on Voluntary Foreign Aid. The agencies in the United States who are dealing with this problem may, if they wish, register with us, and various tangible results accrue to them. If they do so register, goods in short supply will be certified by the Department or the Department of Commerce when approved by our committee, and the \$5,000,000 which you authorized as part of the interim-aid bill for transportation for voluntary goods will only be made available upon certification from our committee.

I am interested in what is happening in this country with regard to this "People's" Marshall plan. I want to thank the House for what it has done. There are, as far as we can learn, packages amounting to about 30,000,000 pounds a month going abroad. It looks as if the American people are sending abroad materials and private funds at the rate of \$500,000,000 a year today. It seems that every means possible should be taken by this Congress to encourage that foreign voluntary aid, because such help, which is different from mass Government aid, carries a sort of personal message from Americans to people abroad that is so inspirational as to be completely above the value in dollars.

I want, Mr. Chairman, for our committee to take this opportunity to thank the subcommittee of the House, Members Fulton, Javits,

and Pfeifer, for a very excellent study they made on this voluntary foreign aid. I would like to thank them for recognizing that while this aid is not so sufficient in terms of calories per dollar as mass Government aid, it has a heartening value to the people who receive it that cannot be put in terms of money.

There is another significant thing about this voluntary foreign aid that is not to be overlooked, and that is the place to which it is going. The countries either behind the iron curtain or close to it are receiving larger shares of our foreign aid than any other. Western Germany, Poland, Czechoslovakia, and Italy in order of importance, are the recipients of this aid.

As to the European recovery program, itself, there are, it seems to me, certain broad issues which have to be squarely faced. The first is that no plan can be successful until and unless the people of Europe make every effort to help themselves. The second, and equal of significance, I think, is that Europe must have the confidence and the inspiration which comes from the knowledge that the American people are squarely behind them to the extent that it is practicable for them to be; that they may know and that the calculations may take into account, that the American people are determined to see them back on their economic feet as quickly as possible, and on the assumption that they have done everything they can do to help themselves.

The third, is that no one can judge today what the cost of this relief may be. One cannot be too sure of the items which may be needed, which might later on have serious effect on our own economy. Those conditions have to be carefully watched.

On this other matter of helping Europe to help herself, I want to comment on this line: That is that American skills and technology can do so much to help Europe. We have, gentlemen, a production know-how and a purpose that cannot be found any place else in this world. This skill and knowledge of the American people has a value far and away above any other asset that we have. By and large, Europe does not have this for a variety of reasons. To the extent we know how to take that know-how over there we accomplish the purpose more quickly and diminish the need for help from here.

I recall that 1 ton of fertilizer properly used means 15 tons of food. We know more about the production of fertilizers and the use of it and the production and use of agricultural machinery than anybody else in the world. It would be to our advantage as well as to the advantage of those we assist, to give that consideration.

I am sure the French, for example, are extremely inefficient producers of fertilizer and agricultural machinery. I have every reason to believe, that they would welcome the participation and the assistance of American firms in those fields.

Now, American capital is timid. It is sometimes timid at home, and it certainly is timid about going abroad. I believe it to be in this country's interest, and a big contribution to this plan, that we encourage American capital to go abroad by taking the maximum risk out of that enterprise.

In 1940, when we came down here, in June, we saw an enormous need for developing the defense facilities of the country. There were no public funds available. We came to this Congress and got an act on October 8, 1940, which greatly benefited the producer of goods certified by the Defense Commission to be of a kind to make a contri-

bution to defense. Such producer could arrange amortization so it would be written off in 5 years, or at the end of the war, whichever was earlier, and the country got the benefit of an enormous expansion. There was some cost to the taxpayer, but the facilities were promptly produced and they belonged to private capital.

I maintain that today, as in 1940, the world is confronted with an emergency. I propose three steps that could be taken: One, in the event of loss of capital value through nationalization or socialization, that this Government should reimburse the investor or participant in this foreign enterprise if there should be such losses. I will qualify the kinds of things that should be protected in just a minute.

Secondly, where dividends are properly earned and paid in the foreign currencies, that this Government provide dollars at some proper fixed rate of exchange.

Thirdly—this goes further, but not too far, I think—that for a reasonable period of development time, say, 5 or 10 years, those dividends should be tax-free here. After all, if they are not earned abroad they will not bring revenue to the United States.

If we encourage a tractor manufacturer to go over to France and go into partnership with the French tractor manufacturer and France should nationalize, or in some other way take over this property, the American suffers a capital loss. In the first contingency, this Government would reimburse him for that. Secondly, if he earned a dividend that is paid in francs, this country assures him there will be availability of dollars. He would have that tax free for a reasonable period of time. Only those industries which would be certified by the Administrator of the program as contributing to the recovery of the country in question would be involved.

I think that would make an enormous contribution to help these people to help themselves.

Through my many years of experience with European production I am satisfied that much more can be done to raise Europe's output by helping them with our know-how than by merely giving them dollars with which to buy equipment, which much of the time they will not be able to use most effectively.

I want to make the point, which is not particularly relevant to anything I have said here, that the encouragement which will come to these people in Europe by the knowledge that the American people are trying to help them to something better than they ever had before is a worth-while encouragement. I believe most of the people in Europe—and many of those countries I know pretty well—will welcome the feeling that the American people are trying to help them help themselves to get something better than they ever had before.

There will not be a chance to get that confidence if the help that comes from the United States is grudging; if only on a year-to-year basis with too many restrictions hanging around it. These are a proud people. After all, these countries are not standing on the corner with a tin cup. They are not down and out. They are having trouble, but they are a good risk.

I want to touch very briefly on this question of appropriation. I do not suppose there is any danger of Congress being too over-liberal but I think there is a great danger of Congress not appropriating enough. After all, most of the men in Congress are businessmen, or they have had to do with business. If you send a man out to do a

job for you, you do not get the best out of him if he goes with strings tied to him. You pick a good man, you put your confidence in him and tell him to go out and to do the job. I think you can look at western Europe as one does a reorganization. You decide you want to go in. You must have some idea of the over-all cost. You have to know whether you can afford it, but having made up your mind as to about what the over-all cost would be, and that you can afford it, then you go into the reorganization and you see it through. If you go in only halfway then the whole thing fails and you lose everything you put in.

There is another danger. If the amounts made available to this Administrator are too small, what you do is squeeze down the amount that will be available for reconstruction of Europe and make relatively larger the amount which will go into feeding Europe. If this Administrator got only half of what he ought to have, that half is going in to feeding starving people, I think, and then there is nothing left to provide for reconstruction.

I suppose those of our countrymen who are not too familiar with the European situation may think of this amount of money which we are talking about, \$5,000,000,000 or \$6,000,000,000, as being too much. I always ask them to stop and think about what wars cost us, what wars in the past have cost and what wars in the future would cost, and that the amounts we are talking about are very small if they accomplish the purpose.

I have to repeat, therefore, that with the assurance to Europe that the American people are in this fight for the reconstruction of Europe with the same determination that they were in the fight to win the war, then we have the best promise of quicker results.

And on the question of the amount, I can do nothing more than but refer to the opinions of the experts who studied the question. I know all of the men on the Harriman committee. They had access to all available information. They came up with some figures. They concluded that the amounts which they approved—not all of the amounts requested—were within the capacity of the country without too much risk.

I read Mr. McCloy's testimony before the Senate, and his staff has made a detailed study concluding that the figures are certainly not too large. I think he used the expression "a rather tight fit." I take those estimates as being a basis from which to start.

The question of administration is, to me, an all-important question. As I said a moment ago about the reorganization, you put good men to do a job and you expect them to do it for you as cheaply as possible.

I would like to refer to a proposal made by the National Planning Association, merely to give more substantial weight to the Brookings Institution's publication. I mention the National Planning Association because I know the House thinks well of the National Planning Association. It is a group of people made up of labor, agriculture, and business, and has worked with the Congress at considerable length on the strengthening of Congress. Because of this three-cornered approach of labor, management, and agriculture, the heat is out of most of the things when they get up here and that makes for readier acceptance.

The National Planning Association came out with their report in December, and it is similar in many respects to the Brookings Institu-

tion Report which came out later. The President is made the last word on matters of policy; the setting up of a separate organization; reporting to the President, just as the Secretary of State would. Those are the same in both places. NPA had no comments on the European set-up as far as the administrative problem is concerned. There was one proposal in the NPA that was not in the Brookings: They proposed a policy-making committee, with the President as the chairman and the Secretary of State as vice chairman, and the Administrator as a member. It may have some value.

However, they both propose to use an advisory committee made up of a cross-section of the public. I would like to comment, therefore, that the plans so far as the domestic side are concerned are similar. They are arrived at by groups thoroughly qualified to know how governmental institutions can function, and I give more weight to the Brookings plan because the NPA group has come up with pretty much the same type of recommendation.

My own experience with the combined boards and the State Department throughout the war, gives me some conviction on this point of overlapping authority. We derived our authority directly from the President. We never had any conflict of any consequence with the State Department, and certainly none that required my going to the President for reconciliation. We had our authority, the State Department knew it and we worked together very harmoniously. We were effecting economies of other countries, I think, quite as much as this reconstruction program can, and we were dealing with very much more money.

Therefore, I say you can have under this form of Government of ours an independent authority dealing with matters of international policy, working cooperatively with the State Department, and without any conflict.

I must take exception to a recommendation attributed to the Senate Foreign Relations Committee and having to do with foreign administration. All I know of that is what I have read in the newspapers, where I gather that the Senate suggestion is that abroad there shall be entirely separate ministries having to do with the administration of this program. Over them is a so-called roving ambassador. He will report to the Administrator. That I think is unworkable.

I did not see Mr. Marshall's testimony in detail, but I think he would have been justified in saying that in foreign countries you cannot have two groups of people running around representing the United States. I am convinced that the group abroad dealing with this reconstruction problem ought not to be Foreign Service personnel, but I am convinced they should work under the general over-all knowledge and direction of the Chief of the mission, and I think there should be no difficulty arising out of that. They have plenty of places to go to complain, and to the highest possible levels, if they have difficulty with the Chief of the mission.

If you have two groups of people running around in a foreign country you confuse the people of that country. We can deal with it in the United States because we are familiar with it, but I think that proposal ought to be very carefully scrutinized since I think it is a mistake.

On this question of administration I must touch on the matter of recruitment. The maximum latitude ought to be given the Administrator, Mr. Chairman, if I may suggest it, with respect to the kind of

people he gets. It was hard enough to get good people down here for high positions in wartime. It is a much more difficult task now. All one has to do is to talk to the agencies who are trying to staff themselves for some of these jobs that must be met today, and they are up against a stone wall today getting top-flight people.

I suggest some provision ought to be made for first class people on loan out of industry, or other parts of the economy.

I am not a bit afraid of the so-called dollar-a-year man. I was one myself all through the war, and if you do your job right and keep your skirts clean and work for the Government you have no trouble. You cannot ask these people to come down here, give you their services and give up their jobs and commitments, which are ordinarily heavy, and work for an ordinary salary under the Civil Service Commission.

I hope, therefore, you will give very serious consideration to the attitude the Administrator may assume, and the latitude he is given.

Senator Vandenberg asked how long it would take to get the thing going. I told him I did not think much could be done in less than 4 to 6 months. This Administrator is going to be a very cautious fellow. You have loaded him with every possible responsibility, and he is not going to let various people put a lot of blank checks on his desk to sign. He is going to want an organization of competent people who will screen these needs upside down and backward, before he approves them.

I do not think he can be expected to do very much work in the detail part of this picture within 4 to 6 months.

Now, I do want to talk about a possibility of payment, which is quite important, I believe. That is in the field of critical and strategic materials. We have always prided ourselves, Mr. Chairman, that we were the wealthiest people in the world, we had unlimited resources, and we did not need anybody else. That was reasonably true before the First World War. We had taken such a terrible toll of our national resources in these two wars, and it is not idly frightening the American people to say that we have passed to a position of shortage in many essential materials. We always had copper to export before the last war. We will never have it again. We shall have to import it in the future. That is also true with regard to scores of things, upon which our peacetime programs depend.

Therefore, I say every one of these agreements should have in it a clause requiring the maximum cooperation in these recipient Governments in the development of larger supplies of strategic and critical materials which the United States needs. It is a good way to help pay this debt.

I said a moment ago that these countries were making a rather remarkable come-back. I was over there in the spring of 1945. I was there VJ-day, and I have been over there several times since. The conditions today are enormously better.

I have some figures out of the New York Herald-Tribune, which I thought were interesting. They say that industrial production in France in 1947 is about 95 percent across the board of what it was in 1938, and it has gone up from 79 percent in 1946 to 95 percent in 1947.

We speak about coal production. It is a little higher than 1938.

Power production is up about 35 percent compared with 1938. All of these production figures represent substantial increases.

You might ask then, why they need help. Well, of course, you are familiar with the extraordinary winter of 1946-47, the bad crops of 1947, and the enormous housing damage that was done during the war. The reconstruction of homes constitutes a problem which, along with food, is very substantial.

I want to leave with you this thought: That the man in the United States who takes the responsibility of nullifying this program by clipping at its edges, chiseling the amount to a mere relief level, is taking a shocking risk. His protection, and that of the country, is amply provided by the quality of the administrative system which we set up, to assure that the job should be done, promptly and as cheaply as possible.

As we offer to the people of Europe this kind of program, Mr. Chairman, I think we will have done the least we can do, and what we should do.

Thank you very much for your attention.

Chairman EATON. Thank you, Mr. Batt. Your prepared statement which was submitted to the committee will be included in the record at this time.

(The statement is as follows:)

STATEMENT OF WILLIAM L. BATT, PRESIDENT, SKF INDUSTRIES, INC., PHILADELPHIA, PA., ON THE EUROPEAN RECOVERY PROGRAM

My name is William L. Batt, my residence, Philadelphia, and my business that of manufacturer of ball and roller bearings. I am, however, giving a very considerable part of my time in the field of foreign aid, more particularly, that of voluntary foreign aid. Chester Davis, Charles P. Taft and I serve as the Government's committee dealing with all voluntary foreign aid in the United States. I am chairman of the Philadelphia Committee for the Marshall Plan to Aid European Recovery, and active in the United Nations Council of Philadelphia. Before and during the war, I served under Mr. Stettinius, Mr. Knudsen, and Mr. Nelson in various phases of the war effort and was the American representative for the Combined Raw Materials Board and the Combined Production and Resources Board. In addition, I was chairman of the Allocations Committee for both the voluntary clothing and emergency food collection drives and am today chairman of the Budget and Allocations Committee for American Overseas Aid—United Nations Appeal for Children. Since the end of the war I have made four trips to Europe. So much for my background of familiarity with the European problem.

I deeply appreciate the opportunity to appear before this committee to testify in support of the European recovery program and I do so on behalf of the 5,000 members of the two Philadelphia organizations to which I have referred.

The United States faces the greatest challenge in history. That challenge is whether, as the most powerful Nation in the world today, we shall accept the responsibilities that go with this power and provide the leadership which is rightfully ours and which peace-loving peoples everywhere look to us to assume. Or whether we shall once again follow the old and, I hope, antiquated American policy that we can take the world or leave it alone.

More and more of our people are becoming increasingly aware that we are a fully committed member of the community of nations, whether we like it or not, and that we cannot possibly withdraw from this community except with the most fateful consequences to ourselves and to the rest of the world.

Nowhere is this more evident than in the acceptance by an overwhelming majority of our citizens of the proposed European recovery program. They have come to realize that we can no longer live alone and like it. They know that we cannot hope to have lasting political peace without economic peace. They know that economic peace, bringing with it happiness and prosperity, is utterly impossible without our leadership and assistance.

Public opinion polls clearly indicate that the majority of the American people **not** only favor a planned program of aid to Europe, but that they are willing to **back up** this support with sufficient funds so that this aid can be aimed directly at bringing about a peace without which civilization cannot long survive. And this support is made with the full knowledge that the price of peace is never cheap, but that the price of war is higher. They are willing to dig into their pockets, to the tune of millions of dollars in taxes, so that our way of life can be kept intact and its benefits extended to others. They know that what is good for us is good for the rest of the world.

How well the public has grasped the significance of the European recovery program, and what men and women in all walks of life think of the issues surrounding it, is evidenced in the results of area polls sponsored jointly in Philadelphia by the United Nations Council, the Foreign Policy Association, and the League of Women Voters of that city.

There was no significant difference of opinion on the question of whether aid should be in the form of loans or outright grants but it is interesting to note that 90 percent of those who expressed their views are willing to have income taxes kept at present levels in order to pay the cost of this great undertaking. While a large majority favor free elections as a condition to aid, there was also an equal majority against any requirement that the governments receiving assistance should cease further socialization of their industries. About the same majorities are unwilling that these same countries re-export material or equipment which they have received directly from us. As to administration of the plan, a majority would have this accomplished through the United Nations, yet there is a distinct minority who would have the United States administer this aid alone.

I mention the results of these polls because they clearly show that the people around Philadelphia are thinking and thinking seriously about one of the greatest issues that has ever confronted any nation. They are, I repeat, well aware of all that this program implies, and they have, in most instances, decided opinions as to how they want it carried out. On this point, I offer for the record a resolution of the Chamber of Commerce of Philadelphia of which I am a director. This resolution proceeds from the assumption that a recovery program, which obviously it considers desirable, will be adopted by Congress, and confines itself to some of the practical problems of administration.

Not only do the American people favor aid with their minds but they favor aid with their hearts as well. While the Marshall plan has been developing and moving toward the present debate, millions of our people have been carrying out a kind of Marshall plan of their own. We might even call it a people's Marshall plan.

By voluntarily sending packages to private citizens in Europe at the rate of 30,000,000 pounds per month, and contributing many millions of dollars in cash to recognized relief agencies for work abroad, American citizens are enabling hundreds of thousands of persons to stretch their meager rations. How much in additional funds has been sent through the mails by Americans to relations and friends abroad is impossible to determine. But on the value of package shipments and known charitable donations alone, it is safe to estimate that American citizens in 1947 sent abroad, of their own volition, foodstuffs, clothing and money to a value approximating the more than \$500,000,000 which Congress has appropriated for interim relief. There is every indication that this huge private relief program to Europe will continue. Every means possible should be taken to encourage voluntary foreign aid since this sort of help carries with it a personal message from Americans to individuals abroad in a way that impersonal government aid can never do. Let me take this opportunity to warmly thank this House for its thorough and painstaking study of this whole question by the special subcommittee of Congressmen Fulton, Javits, and Pfeiffer.

There is another significant fact about these donations by private citizens that should not be overlooked. It is that people in Germany, Italy, Poland, and Czechoslovakia are the heaviest recipients. Private help from the United States is going behind the iron curtain, and this, in my opinion, augurs well for the European recovery program. The 16 cooperating nations took account in their calculations of the partial resumption, at least, of trade between eastern and western Europe, and I do not believe that any set of people can prevent that from happening.

As for the European recovery program itself, there are certain broad issues which have to be squarely faced. The first is that no plan can be successful until, and unless, the people of Europe have made a determined effort to help themselves. The second is that Europe shall have the confidence and the inspira-

tion which can come only from an assurance of the sympathy and support of the people of the United States. The third is that no one today can judge what the amount of Europe's self-help can be or what items we can supply without serious damage to our own economy.

On the first point, American skills and technology can make the greatest possible contribution. We are possessed with a production know-how and purpose which cannot be found anywhere else. Our skill and knowledge is universally recognized. American producers, encouraged to work in partnership with similar producers abroad, can give assurance that there will be full utilization of the goods, especially producer goods, that are made available from here.

I need only to cite the fact, one well known to agricultural experts and farmers, that 1 ton of fertilizer, properly used, will produce 15 tons of food. We in this country probably know more than anyone else about the production and use of fertilizer and it would be to our advantage, as well as to those we assist, to give of our knowledge in both fields. This is true also of tractors. I believe it to be a correct statement that the French have been inefficient in both tractor and fertilizer production, and I have every reason to believe that they would welcome the partnership of American firms skilled in these and similar fields. But American capital is understandably timid about going abroad because there is no assurance that it will eventually return. While the administration has touched on this point briefly, I consider it of such importance as to warrant expansion.

If private funds are to be made available for investment abroad there must be adequate incentives. We need not look far for precedent. In 1940, the National Defense Advisory Commission, without available funds, faced the problem of finding ways and means of expanding the production of goods essential to the national defense. To meet this emergency, the principle of accelerated amortization was proposed, and on October 8, 1940, the Congress approved the Second Revenue Act of 1940 which permitted a producer of goods, certified to be in the interest of national defense, to amortize this investment within a 5-year period or with the ending of the emergency, whichever was less. Because of the high tax rates generally prevailing, the practical result was that the Government bore the large part of the cost of such expansions, but in view of the national emergency this device undoubtedly was preferable to the outlay of the same moneys in directly owned Government plants.

Today, as in 1940, we are confronted with an emergency no less serious. The use of similar stimulating devices is as justifiable now as then. I have, therefore, proposed the following incentives designed to insure a steady flow of American capital and management abroad: (1) That our Government, in the event of loss of capital value through nationalization or other similar acquisition by any of the foreign governments aided, make good such loss to the American investor; (2) that our Government, in cases where dividends are properly earned and paid in foreign currencies, take over such currencies and make dollars available to the American investor at some guaranteed rate of conversion; (3) that such foreign-earned dividends be made tax-free for a reasonable length of time.

We should not be expected to underwrite every form of foreign capital investment. Such investments obviously would require the approval of the recovery program's administrative agency. This being the case, only those that would hasten the return of economic stability to Europe would be given consideration. But the important point is that, with such incentive, everything possible would be done to enable American skills and technology to be made available to western Europe not only without undue risk but with some positive encouragement.

Through my many years of experience with foreign production, I am satisfied that much more can be done to raise Europe's output and that this can be accomplished faster, and more effectively, through our first-hand participation than merely through our dollars.

As to the second point, I would conclude that there are great numbers of people in Europe who are concerned with something more than mere subsistence. They are looking not for a Europe similar to what they had before the war, but for a better Europe. I cannot believe that the widespread support given to the Communist Party by large numbers of people who love democracy as we do, stems from any deep-seated desire for totalitarian principles, but rather from an intuitive hope for something definitely better than they have had before. I submit, therefore, that grudging and uncertain assistance from the United States in old and familiar patterns is not enough and might well fail in its entirety. American dollars alone will not save Europe, but certain essential qualities peculiar to us as Americans can help to bring that salvation about. These must be clearly and surely held before the people of Europe. The funds, food, fuel, and fibers

so necessary to recovery efforts will be practically valueless if we do not back these up with faith.

On the third point—the inability to know today what the total cost of the European recovery program will be—I am in agreement with proposals which would limit specific appropriations to the first year's operation of the plan. I doubt if there is much danger in Congress erring on the side of a too-liberal appropriation of funds, but there is grave danger from too little. The danger is reducing the amount of funds available to the Administrator is obvious. Because we will be unwilling to see people hungry, the money will go first into relief and what remains will not be enough to do the reconstruction job which alone can ultimately provide self-sufficiency. The danger inherent in the reduced appropriation is that the need for it will not cease. Isn't this exactly what we have seen in Germany in the last 2 years? From what I can judge, this is the weakness of Mr. Hoover's suggestion. And this also was probably the outstanding fault of the British loan. Too little was employed for those things that would later produce self-sufficiency. Too few dollars would obviously be sheer waste. We must not lose sight of the fact that we are reaping the aftermath of the most tragic war in all history and that the money we propose to spend to achieve peace is small indeed compared with the staggering cost of that global conflict. Assurance that the American people are in this fight for the reconstruction of Europe with the same determination that was theirs in the mutual effort to win the war should do something which money alone cannot do. This affirmative position is vital.

It was the opinion of the well-balanced committee of civilian experts under Mr. Harriman that our economy can sustain the burden which a reasonable development of this program will impose. If intelligently planned, and effectively administered, I am convinced that this program, certainly the most ambitious peacetime rehabilitation effort ever attempted, will inflict no real hardship on this country. All of us may have to change some of our consuming habits, and some segments of our industry may find it necessary to plan more flexibly. But the situation is sufficiently critical to warrant sacrifice if it were called for.

Granted that we shall undertake this tremendous task of aiding European recovery, there is still the question of how this program shall be administered so that there is every reasonable prospect of success. The way in which we do this can make or break our efforts.

Of all the recommendations that have been made with respect to the administrative machinery of the European recovery program that of the National Planning Association comes closest, I think, to being workable than any other. No long-range operation so vast as this program can hope to succeed if it does not have the complete support and confidence of both the Government and the people. Nor can it hope to succeed if the Administrator is not vested with full authority for vigorous action or if there is no single place he can go to get binding decisions. The recommendations of the National Planning Association, which is well known for its impartiality in working for good government, see to it that the program's administrative mechanism is not hamstrung.

Although the NPA proposal was advanced 6 weeks ago there are striking similarities between it and the plan recently put forward by the Brookings Institution. Both call for the creation of an independent agency with a single administrator and both would make the administrator directly responsible to the President. Each plan also provides for an advisory board of citizens.

The one feature that distinguishes the NPA plan from all others is the provision for coordinating machinery at the top policy level to assist the President in reaching policy decisions for the guidance of the administrator. This machinery would consist of an interdepartmental committee with the President as chairman, the Secretary of State as vice chairman, and with membership representing all interested departments and agencies.

My wartime experience with the Combined Boards and the State Department gives me no concern whatsoever about mixed authority or overlapping responsibility. The American representative on the Boards drew his authority directly from the President, but I can recall no single case of serious conflict with the State Department—certainly nothing that had to go to the President for reconciliation. The State Department representatives were our most helpful supporters generally and we were, I think, spending a good deal more money and affecting the economies of our allies with force at least equal to that of this program. No, so long as this Administrator derives his independent authority from the Congress and reports directly to the President, he should find no difficulty in working harmoniously and efficiently with our State Department.

My intimate association for more than 6 years with governmental administrative procedure leads me to believe that something like this is the most efficient way to operate. The plan is businesslike and calculated to coordinate action here at home and abroad. It enables the Administrator to work with efficiency and dispatch. I earnestly hope that the suggestion for an advisory committee made up of men and women representing business, labor, agriculture, and the public will be found acceptable. Their assistance will be of inestimable value. Because they would be part-time people they cannot provide anything but the most over-all advice and consultation, but if the Administrator wants to use them for public reaction he can do so most usefully. The Division of Civilian Supply of the War Production Board had such a group and gained much from it.

While on this question of administration I cannot fail to touch on the vital matter of staff recruitment. I do not think the Administrator dares be limited to civil-service supply for many of his top people. He must be free to use men on leave from private life and to pay them a reasonable per diem or living allowance in addition to salaries or other incomes which should continue to be paid by the regular employer. From my experience with the dollar-a-year problem during the war, I am inclined to feel that such men should take formal, if only temporary, leave of absence from their companies, but they should be fully protected in pension and other retirement provisions. These top men simply will not be available unless they have such protection against loss and they will be difficult to persuade—the very good ones—to leave their positions. It was not easy in wartime—it will be much harder now.

Another important element of the European recovery program that should not be overlooked is the question of repayment. Much of our aid will unquestionably be in the form of grants with little expectation of a return in dollars. There is, however, a form of repayment on which we can insist from the very beginning of the program. That is in the field of strategic and critical materials. Most Americans have always thought of this great country of ours as a land of unlimited resources—a land that has always provided everything our economy needed. It has been built and grown powerful because of these resources. But it has not occurred to many of us that there could be an end to them and it may come as a shock to some that we are approaching the zero point in many of these materials and that we have already reached that stage in others. As long as peace is not a reality we must be prepared for the awful business of war. If it should come within the next few years we would find ourselves at a desperate disadvantage in many raw materials. No opportunity should be overlooked to repair that weakness in the shortest possible time and in amounts as large as practicable. Agreements with the countries being aided should insist upon this form of repayment to the maximum.

The peoples of the 16 cooperating nations are not seeking charitable hand-outs. They are much the same kind of people that we are. They are down but they are not out. They are doing everything possible to get back on their feet. They have assets of incalculable value—material resources and technical skills unsurpassed except in our own country. They have the will to work, and to work hard, if given the right tools in the right amounts. The fact that the peoples of western Europe have done what they have since the end of the war is remarkable. In France alone, the annual review of French economy, prepared by the European edition of the New York Herald Tribune, shows that industrial production in 1947 was 95 percent of the 1938 level as compared with 79 percent in 1946. There is little doubt that prewar levels would have been exceeded had it not been for the strikes that beset France in the last 2 months of the year. There were encouraging signs in other fields. Coal production was 104 percent of 1938; electric power, 135 percent; heavy industry, 92 percent; textiles, 92 percent; building materials, 94 percent; and chemicals, 98 percent. All these figures represent substantial increases over the previous year.

By the middle of last year industrial production in the United Kingdom, Belgium, Denmark, Norway, and Sweden was higher in 1947 than in 1937; prewar totals, as we have seen, were being approached and in some cases exceeded in France; and only in Austria, Italy, and the western zones of Germany was production at a low ebb.

One of the strongest arguments that can be advanced for a program of aid to Europe is Europe's own inherent strength. These nations are a good risk but only if our help is adequate, if it is prompt, and if it is wisely administered.

We will reap the harvest—and it will be a terrible one—if we fail to carry out this program effectively. The alternative is the spread of communism and continued economic stagnation throughout western Europe which will inevitably

mean a rebuilding of our armed forces and a lowering of our own standards of living.

We may be sure that Russia will do everything possible to nullify our efforts. Nothing has so annoyed the Kremlin as the European recovery program. They are using every means at their command to undermine it. For this reason we must avoid tying political strings to our aid. Philadelphia opinion is strong on that point. To do so would only provide the Communists with an additional supply of ammunition, but, further, it would be an intolerable affront to the governments of these countries themselves.

As we prepare to offer to the people of Europe a program for waging peace, and not war, let us do so with the determination that it must succeed and that we shall do everything reasonable within our power to guarantee that success. The rest will be up to them.

APPENDIX

The Philadelphia chapters of the United Nations Council, the Foreign Policy Association and the League of Women Voters jointly conducted during the week of November 13-20, 1947, a series of neighborhood discussion groups in the Philadelphia area on the subject of the Marshall plan. Audiences were polled as to their opinion on the attached questionnaire. The results of these polls follow:

1. Should we expect any repayment of money provided to Europe?

	Percent		Percent
Yes.....	47.9	No opinion.....	3.8
No.....	46.9	No answer.....	1.4

2. If we do not support this program there is a good chance that our income taxes will be reduced. Are you willing to have your income taxes remain at their present level in order to pay for this program?

	Percent		Percent
Yes.....	89.7	No opinion.....	2.5
No.....	7.0	No answer.....	.8

3. A great deal of discussion will revolve around political conditions which might be attached to the aid. Do you believe that we should require free elections as a condition to the aid?

	Percent		Percent
Yes.....	61.7	No opinion.....	8.9
No.....	27.3	No answer.....	2.1

4. Should we require that the governments to whom we give aid undertake no socialization of their industries?

	Percent		Percent
Yes.....	25.8	No opinion.....	9.5
No.....	62.2	No answer.....	2.5

5. It is agreed that the European dollar shortage may result in the desire on the part of the aided countries to reexport material and equipment which they received from us in order to obtain dollars. Would you permit the countries receiving aid to reexport materials and equipment which they received from us?

	Percent		Percent
Yes.....	24.3	No opinion.....	8.7
No.....	65.2	No answer.....	1.8

6. Should we at the present time administer this plan alone or attempt to pay for it through the United Nations?

	Percent		Percent
Alone.....	40.7	No opinion.....	2.9
Through United Nations.....	54.6	No answer.....	1.8

THE PHILADELPHIA COMMITTEE FOR THE MARSHALL PLAN
TO AID EUROPEAN RECOVERY

Recognizes in the world situation today that a special responsibility is imposed on all Americans because (1) democratic peoples on every hand now look to us for help in their preservation, and (2) the economic collapse which confronts the world will, if it occurs, have a serious and far-reaching effect on us; and

Recommends, therefore, that the Congress support a program based upon (1)

acceptance by Europe of responsibility to initiate self-help in a sustained and cooperative manner, including resolute efforts to seek difficult but attainable goals, both in industrial and agricultural production as well as sound currencies—goals which, if attained, will constitute true recovery; (2) continued comprehensive and realistic analyses of European needs and American resources; (3) prompt and adequate provision of enough goods and credits to make up as far as possible the remaining European deficit; and

Further recommends to the American people the wholehearted acceptance of the program which Congress deems appropriate so that Europe may be inspired to face its difficult task in the confident expectation of a sympathetic and understanding America.

Chairman EATON. Mr. Vorys, would you begin?

Mr. VORYS. Your statement is very interesting, Mr. Batt. You ended with a plea for something that would be beyond relief, and that would provide for recovery. I notice in the questionnaire that a slight majority of the organizations you mention say that we should accept repayment.

Do you think it would be possible to provide for the segregation of relief funds and supplies, and provide for the furnishing of those supplies on a grant basis?

Mr. BATT. Yes; generally speaking, Mr. Vorys, I think the consumable items, such as food, ought to be paid for in local currencies; that capital goods items can very well be financed with the expectation of repayment.

There, of course, I bring in strategic materials as one of the means of repayment.

Mr. VORYS. The administration bill provides that the countries should agree to make available to us strategic materials which we could later purchase. We had long discussions as to whether or not it might not be possible for these countries to agree over perhaps a long period of years to pay us back in strategic materials as they were developed, we will say, for our advances.

Have you any opinion as to the extent to which the law or the bill should provide for repayment in strategic materials, or otherwise?

Mr. BATT. I do not know, Mr. Vorys, how practical it is to spell it out because each case is a separate one unto itself. Most of them will take a long time. Take France, for example. They have in north Africa very considerable amounts of undeveloped natural resources—zinc and lead being examples of the things we need. I am not a metals authority, but I feel reasonably safe in concluding that you cannot develop two mines in short of 2 or 3 or 4 years. Therefore, if it means development of new properties it is going to take some years before those become producing. That has to be a long-time program.

Where I am not entirely clear in my mind is where you should draw the line on repayment in the currencies of the country or payment by us in dollars.

Let me make my position a little bit clearer: Let us take Great Britain now and look at our purchases of copper from Rhodesia. That is one of Britain's present sources of dollars. If we were to say, "No, you will have to pay us back on the loan in dollars," that would deprive them of the dollar revenue which they have had. There is a distinction between materials used for strategic stock-piling purposes and materials used in normal domestic consumption, and I think that I would be willing to draw a line that would allow those materials which we are normally consuming in our peacetime economy. We

would go ahead and buy those in dollars just as we are today. I would have those excess amounts, which represent stock-piling amounts, as payment to us against the debt. I think that is the kind of a line I would like to draw.

Mr. VORYS. In your suggestion about facilitating the flow of American private capital, you made three points; the first is, as I understand it, a guaranty of the loss of capital value through nationalization.

Mr. BATT. That is correct.

Mr. VORYS. The next thing is the agreements with the countries should prohibit any nationalization which would cause loss to American citizens.

Mr. BATT. I am flatly against that, Mr. Vorys, because I think it plays right into the hands of the Communists. The Communist leader in France has been saying, "The Americans are trying to come over here and run the country." If nationalization is what they want, and they go about it through democratic processes, as the British have nationalized, that is their own business, as far as I can see. I would therefore put no such strings on these loans. If they do do it, and there is a loss of capital as a result, I simply propose that the American enterprise that went abroad is compensated.

Perhaps we could get that out of the government in question. As far as I know, no stockholder has lost anything by nationalization of the British properties.

I merely want to say that the enterprise should be protected.

Mr. VORYS. In the case of Mexico, did we not negotiate so that our nationals did not lose through their nationalization?

Mr. BATT. My impression is that it took us about 15 years to bring that about, but I am in an area where I am not very well informed.

Mr. VORYS. I understood there was some provision made for repayment.

Mr. BATT. Regardless of what you hear, the Mexican experience is thrown in your fact right and left. Most of us in private business think that the oil interests whose firms were located there lost heavily in the Mexican venture, and that is just as important on the point of going abroad as though it actually did happen.

Mr. VORYS. Now, the type of agreement that I had in mind, and I think is suggested, is not one that would forbid nationalization necessarily, but one that would forbid any nationalization or other action which would result in substantial confiscation of American properties. Do you think it would be objectionable?

Mr. BATT. I think that would satisfy me.

Mr. VORYS. That is, no nationalization without compensation?

Mr. BATT. Yes.

Mr. VORYS. If the compensation were not in a form of exchange that could not readily be made available in dollars, it might be that our Government would guarantee the exchange.

Mr. BATT. That is what my second proposal is.

Mr. VORYS. That proposal has been made to us before. Your first one had not.

Mr. BATT. You see, I am trying to dangle a bag of oats in front of this animal's nose.

Mr. VORYS. I do not think it was made just in that form. I think the form taken was in accord with the proposal which was made here in the Second Revenue Act of 1940 which would be a little more

acceptable, perhaps—that the investments abroad be amortized at a more rapid rate.

Mr. BATT. What made that so attractive, Mr. Vorys, was that the tax rate was so high.

It would not be so attractive with the present tax rates. At any rate, I hope you accept the outline of the principle as being worth consideration.

Mr. VORYS. The principle of making private foreign investment attractive seems to me very important. I wanted to get clear what you meant by your first proposal. It seems to me that we would be in an intolerable position if our Government would guarantee for some citizens against a loss that we would not require another country to prevent.

Mr. BATT. I want the protection of my Government. Anything my Government wants to do to bail itself out is all right. I do not want to look to assurances from a government abroad; I want them from my Government.

I do not have any objection to the form of the proposal as you set it up as long as it leaves the country in question perfectly free to do it if it wants to, but does make sure that our nationals shall not suffer losses in the process.

Mr. VORYS. One reason I stress it is we had here before the committee a Mexican claims bill, wherein it was proposed that our Government should pay the claims of our nationals against Mexico, back through the years, and that bill, after consideration, was not approved, and our Government then negotiated a settlement with Mexico and arranged to pay our nationals out of the proceeds of the settlement rather than the other way around.

Mr. BATT. I think that is the proper way to go. You know, I have no objection to being very realistic with these foreign governments. I do not worry about tying reasonable economic strings. I do not think they will be critical of us for protecting ourselves. I do not, therefore, object to our protecting ourselves. I think you need the maximum encouragement to American capital to go ahead.

Mr. VORYS. Thank you.

Chairman EATON. Mr. Maloney.

Mr. MALONEY. Mr. Chairman, I want to state that I am very proud of my city, Philadelphia, and I am more proud today because we have up there, as Mr. Batt has said, a committee on the Marshall plan. I want to say that Philadelphia is on its toes studying this thing.

I am also proud that we have a citizen like Mr. Batt in Philadelphia.

Mr. Batt, you state here on page 8, and you underline it, that the American people should know they are in a fight at the present time. How would you go about giving that information to the American people? I think that is very vital.

Mr. BATT. Well, Mr. Maloney, I think they are learning pretty fast. All I can do in my small way is to make speeches all over the country, wherever people are anxious to have me. I find them keenly interested. I am going to Birmingham, New Orleans, Dallas, and Detroit in the next 3 weeks because they say they want to hear from somebody who has some views as to what this is all about.

There was some degree of confusion in the minds of the average man as to what it was all about, where it began, and where it went.

I think I can understand. When I go to these people I try to tell them how it all built up and what it adds up to, today. I think, Mr. Maloney, they are being told. These hearings are getting excellent publicity.

Mr. MALONEY. We do have to do everything we can to assure that knowledge getting to the people.

Mr. BATT. I want to pay a well-deserved compliment now to the work which Drew Pearson did in Europe, in popularizing these voluntary contributions from America.

The best investment of the taxpayers' money that I know, both here and particularly abroad, was the visit this summer of the representatives from the Congress, and particularly from this committee, to Europe. We must not lose large amounts by the false economy of small amounts, in publicizing what we are doing abroad.

Mr. MALONEY. Now, Mr. Batt, following the questioning by Mr. Vorys on the stock-piling of critical materials, in other words, we get some critical materials as payment for some of the relief. We have had testimony before the committee here that that would greatly hurt the economy of these countries.

Mr. BATT. I believe that is for the reason that I touched on when I tried to draw a line between the materials which are currently used by us for consumption purposes, which probably ought to be paid for in the normal channels of dollar exchange, and the extra amounts which ought to be stock-piled, and which I think ought to come out of these reconstruction advances.

Mr. MALONEY. You do not think that could hurt their economy?

Mr. BATT. I am sure it would not hurt their economy.

Mr. MALONEY. I am glad to hear that because we have had testimony to the contrary.

Mr. BATT. I do not hold the view that these accumulations of the local currencies should not be spent for practical purposes. I am perfectly willing to have them spent for this sort of thing. I do not feel badly about taking some of this franc accumulation and developing a long-time project in north Africa for enlarging the supplies of critical materials, of which there are not enough. It suits me all right, and I think it would suit the French, too.

I have tried the proposal out in certain quarters, and they think it is all right.

Mr. MALONEY. Thank you very much.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. I regret that circumstances beyond my control delayed my arrival. I know your testimony must have been most interesting from the questions the other members have been asking.

The consumption of stock-pile materials is a subject that no witness has brought before us previously. It is interesting and intriguing. Heretofore I have asked a good many questions along this line, but I have made no distinction between stock-piling and other materials. I have thought of this, that if we require in this legislation repayment on strategic materials, even 20 years from now, or 10 years from now, we would again begin extracting dollars from them instead of materials.

If some country repays amounts with stock-pile materials, at that time it would take dollars from them which they would otherwise get. In other words, we might create a situation where when we led them

out of the Slough of Despond in which they now unfortunately find themselves they would necessarily fall right back in.

Mr. BATT. There is almost no limit of the amount that could be represented by these strategic materials, except their ability to be produced. When one looks at copper, zinc, and lead, particularly, that this country has thrown away or sent abroad in the last 35 years, the figures are really stupendous. I think we owe it to our descendants to try as we can to replace those amounts. That is all over and above the normal consumption now, trying to make the country, if we can, as good as when we got it.

It is that excess that I think properly may be expected to come out of this aid program.

Mr. JARMAN. I am not sure that I disagree with you, although so far I have always taken the other position. However, I do see the difference between normal consumption and the excess for stock pile.

I am very much pleased to hear that you are going down to my State, to Birmingham, because I agree with the gentleman from Pennsylvania that we do need to familiarize the people, the people of Alabama and the whole country, with this program, and I am particularly pleased that you are going down to my State.

Mr. BATT. I will always welcome the opportunity to talk to anyone who cares to listen on the results of the aid sent abroad in the last 5 years. I am completely out of sympathy with those people who say we have spent X billions of dollars across in the last years, and it has all been water down the drain. I do not believe that.

Mr. JARMAN. I thoroughly agree with that position.

Mr. BATT. I will take on an argument with anybody at any time if they say the British loan was a complete flop. I do not think it was.

Mr. JARMAN. We have some Members of Congress who find it easy to speak of UNRRA, lend-lease, and the British loan, and everything as just water down the drain. However, I agree with you in not believing that is true at all. Naturally, there were some mistakes made, undoubtedly. Naturally, there will be in any such large undertaking. However, I feel that all of those programs, by and large, were good investments.

Mr. BATT. I think some of them were messily done, but let us take the question of medical supplies abroad. There was the making of a world-wide epidemic after this war, and it could have been catastrophic. Have you had any disease in Europe of any consequence? We know about tuberculosis and rickets and undernourished children, but that is another matter. There was no epidemic problem of any consequence. It could have been terrific.

UNRRA put in a large part of its efforts in the medical aid field. We put into UNRRA \$2,700,000,000. Again, in terms of the rate at which we were spending money from 1940 to 1945, I do not think \$2,700,000,000 is too serious. We throw money away here on things not nearly as constructive as UNRRA. I do not defend everything UNRRA did, of course.

Mr. JARMAN. Of course, by no means. Had we not had UNRRA one of two things would have probably had to occur; either this program would have had to come on much earlier or it would have cost more than UNRRA cost.

Mr. BATT. That might be.

Mr. JARMAN. Thank you very much.

Chairman EATON. Mrs. Douglas.

Mrs. DOUGLAS. Thank you for your statement, Mr. Batt. We are happy to have you with us.

You say in your second point:

That our Government, in cases where dividends are properly earned and paid in foreign currencies, take over such currencies and make dollars available to the American investor at some guaranteed rate of conversion.

Would they do that at the end of each year?

Mr. BATT. I would say it was something that is paid as earned. If I had a dividend payable to me in francs I would come up to the Administrator with the proper certification. He would have to know the conditions under which the whole transaction was taking place, and that it was a contribution to the recovery program. I would say, "Mr. Administrator, I have 1,000,000 francs and I want dollars."

Now, the rate is a problem. That must be recognized.

But we want to do something and if you want to do it you go ahead and work out the details.

Mrs. DOUGLAS. To get to the strategic materials, is it your idea that we use currency which has been exchanged for moneys invested by business in Europe to buy those strategic materials, or would that be the currency that we had gotten from France, say, for sending home machinery?

Mr. BATT. The point I tried to make, or am trying to make, Mrs. Douglas, in clarifying my own thinking, is that I would let the normal consumption amounts be paid for in dollars, and keep that completely out of this operation. I would take the excess amounts which could be produced by the development of new mining facilities, or better mining facilities. I would take those excess amounts and stock pile them and pay for them out of these currency accumulations, or any other such method of payment that I could work out with the government involved. You come from a mining State. You know how it is in this problem of developing new mining facilities. It is a long-time job, and generally cannot be done short of years. There may be no inclination on the part of the government in question, to do such expansion unless it is under pressure to. That is principally because, that is an additional amount; and, they are not going to get dollars for it. So you have to tie it into your aid program at the beginning and say that is the way you want it.

Now, in the long run it does benefit them because while they have paid for the material, the machinery will have to come from us in all likelihood and the technical know-how have to come from us. They will then have a property which has a very definite value. It is not a loss on their part.

I want to make it quite clear that there is not much incentive on the part of these governments to develop these extra facilities for helping the United States to stock pile. People are constitutionally against stock piling for so many reasons. The material overhangs the market, they say. That is an understandable criticism. Governments have their fingers in the materials field, and that may be objectionable. This whole problem of stock piling strategic materials which I consider to be so vital is one in which governments have to be involved. They should certainly pledge themselves that those stock-piled materials will not be touched except in the case of emer-

gency. They must not be allowed to overhang the market in the sense they can be dumped on the market.

I think, therefore, it is entirely consistent that the additional facilities for stock piling strategic materials can and should come as a result of some governmental action. I do not think it is likely to come any other way.

Mr. JARMAN. I believe I misunderstood you a while ago. You spoke in reply to Mrs. Douglas' question about paying for this stock piling of materials out of the currency which had been put in this special fund.

Mr. BATT. I say that was one way.

Mr. JARMAN. I thought you had in mind the debt of the countries to the United States in dollars.

Mr. BATT. No. I did not have that in mind.

Mr. JARMAN. That is what I have been arguing against.

Mr. BATT. I did not have that in mind.

Mrs. DOUGLAS. You said you were against cutting down the amount asked for by the State Department in this program. Would you be against cutting the length of time for which we were providing money?

Mr. BATT. Do I think you ought to provide 4 years now?

Mrs. DOUGLAS. No; the length of time that we are asked to appropriate money for now is 15 months. Would you see any objection to cutting that time schedule down to 12 months?

Mr. BATT. Yes. I think if you can find a means to do it, I think you ought to cover for 2 years right now. I do not think that proposal has been made by anybody, but I want to make it, and I make it for the reason I indicated a little while ago. I do not think this thing will start as fast as people think it will. I think the program will come into its fullest fruition toward the end of the next year, and running into the second year. I want to be sure that those 2 years are cared for as far as practicable.

Mrs. DOUGLAS. Is that not the argument that some people are giving, namely, that they would not be able to begin with a program for 2 or 3 or 4 months because it would take that long to set up the organization? Therefore, we need to appropriate less money because the money we appropriate will extend further into the future.

Mr. BATT. I would be perfectly willing for you to do that if you made it clear to Europe you were going to do the job. That thought runs through all of this testimony I have given. If you say you are committed to this job, and you are going to see it through, and you mean it, I do not care how you put it.

Mr. JARMAN. It would not make much difference as to how many years are concerned.

Mr. BATT. I do not care so much how you put up the money. The way in which we extend aid to Europe is far more important than the amount you set up today.

I will put it another way: It is a little difficult for me to see how the Administrator can wisely spend this \$5,600,000,000 in 12 months or \$6,800,000,000 for 15 months. It is a little difficult for me to see that, but I may be wrong. I merely tell you I think it will take time to get that organization going. He would be able to spend at a much more rapid rate after he gets going.

Mrs. DOUGLAS. Aside from the psychological impact of appropriating the amount that the State Department asked for, if you cut down

the time schedule and said you were only appropriating for 12 months, can you lay your program for 12 months with the same effectiveness that you could for 15 months' program, or would that in itself impede the progress of rehabilitation?

Mr. BATT. I think that again depends on how you worded your resolution, as to general purpose. If it is clear that this Congress is going to do this job, within all reasonable requirements, then I do not worry much about the rest of it. But that has to be clear. If I could write the ticket as to what you would say then I would not care so much as to how you set up your appropriations. If I were the Administrator, and I knew I had the people of this country behind me, as I would think I did have, and I knew I had the Congress behind me, I would not care so much about appropriation at any given time, because we never cared during the war. We came up here and put our problem before you and fared very well. Why? Because we had a job to do. They knew it. They gave us what we had to have. If the Administrator could go into this job that way, knowing that he has to justify everything he does, but that if he does justify it the Congress will back him up, I do not care how you appropriate the money.

Mrs. DOUGLAS. Of course it is easier to see the enemy in time of war.

Mr. BATT. Yes, you have much more of a frightened population than, too.

Mrs. DOUGLAS. And, of course, no matter how superbly this Congress acts it cannot guarantee anything the next Congress will do.

Mr. BATT. So I have been told.

Mrs. DOUGLAS. Thank you.

Mr. BATT. But I would like to take the chance that the next Congress would follow a good job on the part of this one.

Mrs. DOUGLAS. I would imagine that on the basis of your poll, that that would be true.

Mr. BATT. I am quite convinced that it is true.

Mr. JARMAN. I am sure.

Mr. VORYS. I might ask another question, Mr. Chairman.

Chairman EATON. Mr. Vorys.

Mr. VORYS. There is a good deal of talk about the form of administering this program. I wondered what your judgment would be on this question, as to whether the Administrator or the administrative organization in charge of this program would also have the domestic export controls, or whether the Administrator would be a claimant against some other agency, or agencies?

Now, you must have been up against it. I would very much like your judgment on it.

Mr. BATT. Well, it is a nice point, and it is a difficult one. Frankly, I would not take the administration of the export controls away from an existing agency. But I would certainly give this administrator large authority over their use. I am not ready to give him a blank check on the American economy. I do not think the Congress can put a restriction around him that does not leave too much latitude, or would not leave too much latitude in his hands. By that I mean to say that if he got the notion that he wanted a thousand-dollar coal-cutting machine, and if he had the power to go and take it regardless, that is a little more than I am ready to give him. I am ready to let him come up before the existing agencies and make his

case because if the Congress has indicated its intent, and the President is his only boss, and if the Secretary of Commerce, administering these export controls blocked him, he could stop it. He is going to have a Cabinet status. I think he could take care of his requirements but the problem of relative need at home and abroad will be difficult at times.

But one thing I know I am not ready to do, I would not give him the physical administration of all of these controls.

Mr. VORYS. I wondered if you would tell us just exactly how the thing functioned under WPB and the Combined Raw Materials Board. As I understood it, you always had to have a claimant agency and a giving agency. That is, somebody finally should say, "Yes, you can have it." That was the main one. You could trace around where these different ones made their claims, but why they got to one that said, "Yes," or "No," that was the important one. I understood the real one was the Combined Raw Materials Board. Is that right or wrong?

Mr. BATT. I would like to say this off the record.

(Discussion off the record.)

Mr. VORYS. You made an interesting comment.

Mr. BATT. Theoretically, the American representative of the Combined Raw Materials Board for the United States could take materials away from anybody. Practically, he would not have lasted down here a week, if he had gone about that ruthlessly. I learned pretty soon you can move just about as fast as they will support you, and no faster. There were times when I had a difficult time to get the Civilian Supply people in the War Production Board to go along with me. It might take a couple of weeks to do it. Sometimes the State Department would be sticky. You have to get the majority, the ones that count, to go along with you.

Mr. VORYS. But you have compared UNRRA expenditures to the other war expenditures. We kind of hope those days are over a while where we will throw around money, and also that those days are over when we were in war. It seems to me that the Congress, before they get through, are going to have to make a decision as to whether the European recovery program man is going to be a claimant against the American economy or whether the American economy is going to be a claimant against the European recovery program man. As you say, it is perplexing. One way to do is to say, "Well, it is all going to come out all right."

Mr. BATT. That sounds like a Pollyanna approach to you, does it not?

Mr. VORYS. Yes; I think that, of course, it is going to take good will, and common sense, and all that sort of thing. We are going to try to find this superman as an administrator, but we are no longer, I hope, talking about emergency programs. We are talking about something that is not a 4-year but a 40-year program, I hope. We are starting to get squared away for the long pull if we keep out of war, are we not?

Mr. BATT. Yes. I think so.

Mr. VORYS. When we do that we have to commence setting a pattern in government. One of the questions is right over in the Senate committee right now, and it will be before us. It is, Does the European recovery plan man, or men, or organizations—

Mr. BATT. Just say "man," Congressman, and I think you are on sound ground.

Mr. VORYS. Does that man have to ask somebody else for stuff from the United States? Is he a claimant?

Mr. BATT. That is the expression.

Mr. VORYS. Is he the claimant or the granting organization? I know so little compared to your past experience that it seems to me he ought to be a claimant, and that he ought to be a claimant against an agency, not a group of agencies. The President ought not to be the head of an agency where he makes his claims. He, of course, would go to the President if he thought he was getting too bad treatment. If he does not do that then you have the economy of the United States as a claimant at the door of the Recovery Administrator.

Mr. BATT. I think I agree with you. I said a little while ago I would not be ready to give that man carte blanche to take anything out of the American economy he wanted. I do not think that is necessary. But you could write a sentence or two into this bill that will give him some help or cut his head off before he starts, whichever way you want to go. I will give you one example of what I mean.

When the Treasury changed the ruling on depreciation, I think it was called 1066, until that time the burden of proof of inadequate depreciation, was on the Government. They just changed that and put the burden on the taxpayer. It made an enormous difference. Here, if you give him a pat on the back, and clearly indicate that you want him to have everything that does not seriously hurt the American economy, then you put the burden on the other fellow that he should not have this or that.

Take right now, for instance, the question of steel. The freight car people are in here, begging for steel for more than "X" thousand cars a month. You understand why. The automobile people are here begging for sheet allowances. The oil people are here in great force. Now, if the administrator comes up for some steel for Europe, and with his hat in his hand and at the tail end of that procession, you would not be able to recognize him when they get done with him. He has to have some help, I think, in the form of favorable language which indicates the purpose the Congress has in helping Europe. But beyond that, Mr. Vorys, I think I would not be ready to go.

Mr. VORYS. You see the danger is this, that Congress will do the way they did on this surplus property thing. They had 11 different groups and interests saying, "We ought to be preferred." So Congress wrote a bill saying, "The administrator shall give first preference to each of these."

Mr. BATT. I am very familiar with that. The result was that everybody died before anything got done.

Chairman EATON. Mr. Javits has some questions.

Mr. JAVITS. I would like to say something to the committee about the witness' competence to testify on the matters he is testifying to. He will blush with proper modesty at this.

Chairman EATON. He is a good character witness.

Mr. JAVITS. He earns it.

My first job in the Army was to get magnesium for the Army.

That was before I got to the tactical side. We had little available magnesium in this country in November of 1941, even before the war began. We were in very bad straits because we could not sustain any incendiary bombing attack with our own aircraft unless we had magnesium, and we had only a dole from the meager depleted British stocks. It was through one of the most magnificent jobs I have ever seen done by any one man, without directives or orders, or anything else except his own skill, that Mr. Batt started a flood of magnesium for the Army such as the Army never saw, just by his own ability to get men together and make them do the job that was so urgently required.

Mr. BATT. I am grateful, Mr. Chairman, even though it is an overstatement.

Mr. JAVITS. It was a magnificent job, and I would like to testify to it as a point bearing upon this witness' knowledge of this great subject. It is something I lived and suffered with, and I know what he did with it.

I have just two questions: First, I would like to ask you if you would submit the NPA plan of administration for the European recovery program for the record?

Mr. BATT. I will be glad to do that, if I may, Mr. Javits.

(The material referred to is as follows:)

THE GENERAL PRINCIPLES AND ADMINISTRATION OF THE MARSHALL PLAN

A joint statement unanimously adopted by National Planning Association members from agriculture, business, labor, and the professions, present at a joint meeting December 8-9, 1947, in Washington, D. C.

Like men and women everywhere, we of the NPA agriculture, business, labor, and international committees are profoundly disturbed that the nations of the world have not yet found peace. The wide-scale destruction brought on by the war has forced millions of people throughout the world to live in misery and need, devoid of the most elementary necessities to maintain existence. Millions of people are living in the shadow of an armed truce. In some places, men are fighting. In others, war's twin harbingers, hunger and despair, are undermining the principles for which we fought.

More and more Americans are recognizing the importance of Henry Stimson's statement: "The troubles of Europe and Asia are not 'other people's troubles'; they are ours * * * foreign affairs are now our most intimate domestic concern. All men, good or bad, are now our neighbors."

We believe that this country is irrevocably a part of the world community. America will never again be an island unto itself.

We recognize that the continued maintenance of our domestic prosperity is dependent on the rehabilitation of wartorn countries overseas. Clearly, the primary responsibility for this task rests in their hands. However, an all-out effort for recovery cannot be successful without economic assistance from the United States. It is thus that we can help to raise the standard of living throughout the world, and establish a sound basis for the proper economic relations between nations. It is only thus that democracy and peace can flourish. It is only thus that the spread of totalitarianism, whether from the right or the left, can be arrested.

If we strike out boldly on the course charted by Secretary Marshall, we may yet succeed in laying the foundation for a world order based on peace, justice, and the rule of law. This is our supreme objective. Our unique position in world affairs imposes upon us clear obligations. Our task is to protect our own peace and security and, working with other freedom-loving peoples, to help establish the ideals of democracy and freedom as realities everywhere.

The greatest immediate need to implement our policy effectively arises from the economic plight of Europe. There, a substantial decline in production and consumption could lead to the end of democracy and personal freedom and a complete disintegration of society.

The general policies advocated by Secretary Marshall require that we—the American and European peoples—organize our creative powers for our common welfare. We believe that the American people should support these policies without stint—morally, financially, and physically. As Senator Vandenberg so well expressed it: "I know of no advantage in throwing a 15-foot rope to a man who is drowning 20 feet from shore."

Careful studies by the Krug, Harriman, and Herter committees and the Council of Economic Advisers indicate that the required aid is well within the capacity of the United States to supply. Moreover, we are satisfied that once the economy of Europe is restored through our help, the necessity for continuing aid from this country will disappear. On the other hand, if not immediately helped, the European countries will lose much of the recovery made to date. If they disintegrate, democracy and freedom are unlikely to survive in Europe or in the world.

The necessity of early action to provide adequate aid giving effect to Secretary Marshall's policies should hardly present a controversial issue today. We do not here attempt to deal with the precise conditions under which aid should be extended.

The question with which we concern ourselves in this joint statement is not whether we should undertake the great task of aiding European recovery, but how.

In approaching this problem we have borne in mind the fundamental division of powers in our Government provided for by the Constitution. It is the function of the legislative branch of the Government to enact laws and lay down broad policies. It is the duty of the Executive to administer such laws and policies. Accordingly, the responsibility for administering this program should be placed directly on the Chief Executive.

RECOMMENDATIONS FOR ADMINISTRATION

1. Congress should define the policy, appropriate the required funds, and give precise powers to the President, as Chief Executive, for its execution. Final approval of any major program, under the policy, should be vested in him. This is in accord with our tradition, our experience and our Constitution.

2. Congress should establish a mechanism which assures active participation of all departments and agencies in all recommendations for action and which assures carrying out the President's decisions. This mechanism should be a committee headed by the President with the Secretary of State as vice chairman. Full representation of all departments and agencies having a major interest in the execution of the policies and programs should be established by legislation. This committee will serve to assist the President in coordinating United States foreign policy, and, in turn coordinating it with our domestic economic policy and its program.

The most important functions of this committee will be first, to assure that all aspects and implications of specific programs under the policy will be presented to the President. Second, to assure that all branches of the Federal Government affected by the policy shall have an opportunity to present their views. Finally, it should insure that the programs determined by the President will be executed by the appropriate departments and agencies. There should be a secretary to the new Presidential committee provided for in the legislation and appointed by the President as a member of the Presidential staff.

3. A new administrative agency should be established to prepare and administer the detailed programs implementing the policy. This is essential for the vigorous administration and prosecution of approved plans and programs. A corporate form of organization is neither desirable nor necessary.

The new administrative agency should be headed by an Administrator, responsible to the President and appointed by him with the advice and consent of the Senate. His rank and pay should be equivalent to a Cabinet member and he should have full power to select the personnel necessary for carrying out the work of the agency, as expeditiously and effectively as possible. With appropriate safeguards, exemptions from civil service regulations should be incorporated in the legislation. It is especially important that provisions of the enabling legislation permit the assignment of any civil servants of permanent status to the new agency without their forfeiting rights and privileges. An excellent pattern for such protection is available in the Foreign Service Act of 1946.

The new administrative agency would be responsible for developing and recommending to the President programs responsive to the policies laid down by Congress. Programs approved by the President, after receiving the advice of the

Presidential committee referred to in (2) above, would naturally include provisions for their effective execution either by the domestic or overseas staff of the agency or by Government or private agencies, subject to the direction of the Administrator.

4. An advisory board to the Administrator should be provided for by legislation. This board should be nonpartisan in character and have broad geographical and economic representation (agriculture, business, labor, consumers, etc.). In general, it would function along the lines of the President's Committee on Foreign Aid, popularly known as the Harriman committee and, like it, would be appointed by the President. The Board members, in addition to their general duties, would be available as heads of subcommittees dealing with specific problems on which the Administrator will require the maximum of specialized experience and talent.

5. The new agency should have adequate funds at its disposal to permit prompt and adequate shipments of food, fuel, and similar necessities of life to the areas requiring them, without reference to their current financial status. The expenditure of these funds would be subject to the final approval of the President and they should be administered with maximum flexibility.

The ability to pay for food, fuel, or for raw material inventories useful in manufacture and for capital equipment is different in each country. Experience already indicates that appropriate credit arrangements can be worked out which are of great assistance in raising current industrial production as well as stimulating long-term modernization and reconstruction. The President, acting on the advice of his committee and the Administrator, should determine in which cases credit arrangements are appropriate. When the President has determined that certain operations should be financed by credits, these credits shall be made available by the Export-Import Bank upon the direction of the President. In order to assure carrying out the directives of the President, it will be necessary to increase the capital available to the Export-Import Bank and to amend the Export-Import Bank legislation so that the new funds allocated for this purpose will be used only for the purposes established by Congress, for specific programs approved by the President.

6. The President should be required to submit quarterly reports to the Congress in order that the American public be kept currently informed as to the progress of all phases of the program.

* * * * *

NPA members from agriculture, business, labor, and the professions, present at working sessions during the NPA annual joint meeting, include:

Altschul, Frank (vice chairman, board; chairman, international committee)

General American Investors Co., New York City.

App, Frank (agriculture committee) Northeastern Vegetable and Potato Council, Bridgeton, N. J.

Barkin, Solomon (labor committee; international committee) Textile Workers Union of America, New York City.

Batt, William L. (board) SKF Industries, Philadelphia, Pa.

Bell, Laird (international committee) Bell, Boyd & Marshall, Chicago, Ill.

Benjamin, Earl W. (agriculture committee) Washington Cooperative Farmers Association, New York City.

Black, John D. (agriculture committee) Harvard University, Cambridge, Mass.

Burgess, Eugene W. (business committee) General Mills, Inc., Minneapolis, Minn.

Caldwell, Harry A. (agriculture committee) North Carolina State Grange, Greensboro, N. C.

Clark, Harry (agriculture committee) Mountain States Beet Growers' Marketing Association, Eaton, Colo.

Clark, Wallace (international committee) Wallace Clark & Co., New York City.

Colby, Charles C. (international committee) University of Chicago, Chicago, Ill.

Cooke, Morris L. (board) management consultant, Washington, D. C.

Cruikshank, Nelson H. (labor committee) American Federation of Labor, Washington, D. C.

Culbreth, H. W. (agriculture committee) Ohio Farm Bureau Federation, Columbus, Ohio.

Currie, Lauchlin (international committee) Lauchlin Currie & Co., New York City.

Ellickson, Katherine Pollak (labor committee) Congress of Industrial Organizations, Washington, D. C.

Emerson, Guy (board; business committee) John Price Jones Corp., New York City.

- Fichter, Joseph W. (board; vice chairman, agriculture committee) Ohio State Grange, Columbus, Ohio.
- Fraser, H. W. (secretary of the board; labor committee) Order of Railway Conductors of America, Cedar Rapids, Iowa.
- Funderburk, C. B. (for D. W. Brooks, agriculture committee) The Cotton Producers Association, Atlanta, Ga.
- Gulick, Luther H. (board; international committee) Institute of Public Administration, New York City.
- Hedges, Marion H. (vice chairman, board; vice chairman, labor committee) Washington, D. C.
- Helene, Oscar (agriculture committee) Farmers Grain Dealers Association of Iowa, Marcus, Iowa.
- Heller, Robert (board; business committee) Robert Heller and Associates, Cleveland, Ohio.
- Jones, Thomas Roy (board; business committee) ATF, Inc., Elizabeth, N. J.
- Lubin, Isador (international committee) United States Representative, Economic and Employment Commission, Economic and Social Council of the United Nations, and Confidential Reports, Inc., New York City.
- Lyon, A. E. (labor committee) Railway Labor Executives' Association, Washington, D. C.
- McChesney, Robert W. (business committee) Harry Alexander, Inc., Washington, D. C.
- Martin, Roscoe C. (committee of the South) University of Alabama, Tuscaloosa, Ala.
- Meers, Walter (agriculture committee) Bloomington, Ill.
- Nelson, Lowry (agriculture committee) University of Minnesota, Minneapolis, Minn.
- Ogburn, Charlton (NPA counsel; international committee) New York City.
- Osborne, Lithgow (international committee) The American-Scandinavian Foundation, New York City.
- Payne, Herbert W. (technical advisory committee of the causes of industrial peace project) Textile Workers Union of America, New York City.
- Peterson, Eric (labor committee) International Association of Machinists, Washington, D. C.
- Pickett, Clarence E. (board; international committee) American Friends Service Committee, Philadelphia, Pa.
- Reynolds, Quentin (agriculture committee) National Council of Farmer Cooperatives and Eastern States Farmers' Exchange, Inc., West Springfield, Mass.
- Rudick, Harry J. (counsel for the business committee) Lord, Day, & Lord, New York City.
- Sayre, Mrs. Raymond (agriculture committee) Iowa Farm Bureau Federation, Ackworth, Iowa.
- Schultz, Theodore W. (board; agriculture committee; international committee) University of Chicago, Chicago, Ill.
- Seabrook, Charles F. (international committee) Seabrook Farms, Bridgeton, N. J.
- Silvey, Ted F. (labor committee) Congress of Industrial Organizations, Washington, D. C.
- Snow, Thad (agriculture committee, committee of the South) Charleston, Mo.
- Sonne, H. Christian (chairman, board; business committee) Amsinck, Sonne & Co., New York City.
- Stull, P. B. (vice chairman, business committee) Hercules Powder Co, Wilmington, Del.
- Symington, Charles J. (board; business committee) Symington-Gould Corp., New York City.
- Taylor, Wayne Chatfield (board; international committee) Washington, D. C.
- Teper, Lazare (labor committee) International Ladies' Garment Workers Union, New York City.
- Thomas, Raymond D. (committee of the South) Oklahoma A & M. College, Stillwater, Okla.
- Thorne, Florence C. (labor committee) American Federation of Labor, Washington, D. C.
- Voorhies, Marcel J. (agriculture committee; committee of the South) American Sugar Cane League, New Orleans, La.
- Walker, Charles R. (codirector of causes of industrial peace project) Yale University, New Haven, Conn.
- Welch, Frank J. (agriculture committee; committee of the South) Mississippi State College.

Winton, David (board; international committee) Winton Lumber Co., Minneapolis, Minn.

Wolf, R. B. (technical advisory committee of the causes of industrial peace project) New Canaan, Conn.

Zander, Arnold S. (labor committee) American Federation of State, County, and Municipal Employees, Madison, Wis.

Mr. JAVITS. Mr. Philip Reed, chairman of the board of the General Electric, testified before us, and he said this matter of encouraging United States capital to go abroad in aid of the European-recovery program was such a technical one that was entitled to such weight, and was in and of itself so important, that he thought we should delete it from this bill and treat it in a separate piece of legislation. He had one reservation, which he mentioned in a letter written to me subsequently, and that was maybe if we left it in on rather a small scale it might be useful as a pilot plant.

I wonder if you have given any thought to the idea of leaving it in this bill? You see we have in this bill a provision that 5 percent of the appropriation—\$340,000,000—shall be used as a guaranty, substantially along your lines. Would you take that out and treat it as a separate matter in a separate manner?

Mr. BATT. If you leave it in as a pilot plan I would be satisfied. I do not think you would get very far the first year. I would be willing to come up and take my chances, either as a deficiency appropriation or a regular operation on the Hill, if you leave something to indicate your interest in the principle.

Mr. JAVITS. You would rather have it in the bill?

Mr. BATT. I would think so. I would never know whether you would get around to a separate operation.

Mr. JAVITS. I am inclined to go along with you, but Mr. Reed made quite a point of it.

Mr. BATT. I realize the difficulty of working it out.

Mr. JAVITS. You had an enormous amount of experience in getting top technical brains to work for the country in the War Production Board. Will you tell us what form of administration you believe would most likely get the United States top technical brains to work on this job?

Mr. BATT. Insofar as the American side is concerned, there is not any fundamental difference between Brookings and NPA. I took exception to the remedy which I understand from the newspapers is being suggested on the Senate side as to the complete separation of authority in the foreign field. I do not think that will work. Now, if your question is what kind of men can you get, under what conditions can you get good men down here to do this job, then my answer is as in this piece of paper, that you would not get them down under the civil-service system and you would not get them down if they have to separate themselves from private enterprise completely and come on to the Government salary alone. Now, I have long believed that there was plenty of room in these emergency jobs for men who will take a leave from their companies, come down here, take a salary out of the Government, but let their companies pay the difference, if you please, or carry the existing salary. I know there were differences of opinion on that matter. One agency I have in mind insisted on their men taking a salary, and the company making up the difference. That is what the British did in wartime. That is all right. I think it is just as well that the man should take a formal leave from his

company during the period that he is down here, although he ought to be protected against the loss of seniority, pension, and other rights when he does that.

Does that answer your question?

Mr. JAVITS. It does, and I would like to ask one more question: Did you find any great difficulty in diversity of loyalties between working for the Government and the interests of any company a man came from?

Mr. BATT. No.

Mr. JAVITS. In those cases?

Mr. BATT. Generally speaking, these men leaned over backward to avoid any possible entanglement of their own private business. I know my own associates said, "We are much worse off with you down in Washington than if you were up here because you would not give us a break at all."

Mr. JAVITS. Thank you.

Mr. BATT. Thank you.

Chairman EATON. Thank you for being with us.

Mr. BATT. Thank you very much, gentlemen.

Chairman EATON. The next witness is Mr. Frazer A. Bailey, president, National Federation of American Shipping, Inc. I am asking Mr. Maloney if he will take the chair.

Acting Chairman MALONEY. Mr. Bailey, we are glad to have you with us.

STATEMENT OF FRAZER A. BAILEY, PRESIDENT, NATIONAL FEDERATION OF AMERICAN SHIPPING, INC.

Mr. BAILEY. My name is Frazer Bailey. I am president of the National Federation of American Shipping, a federation of four steamship associations representing the owners of approximately 70 percent of privately owned American-flag dry-cargo oceangoing steamships.

I am appearing in connection with the provisions of bill H. R. 4840, as they relate to shipping, and more particularly to sections 7 and 8 thereof, which we understand to be an implementation of the European recovery program prepared by the executive branch and forwarded to the Congress with the President's message of December 19, 1947.

We understand the provisions of this bill would, among other things, authorize the transfer to the participating Marshall plan nations, by sale or charter, some 500 merchant dry-cargo vessels from our war-built fleet. We are opposed to this proposal to sacrifice American shipping and the American merchant marine as unnecessary to accomplish the objectives of the bill, and for the reasons which will follow:

The American shipping industry, represented by this federation, is in favor of a European recovery program. We favor the giving of such aid to the 16 Marshall plan nations as will enable them to recover their economic footing without, however, doing substantial damage to our American economy or to any particular American industry.

We are shipping people. We do not pose as experts on foreign relations. We believe, however, that we are qualified to speak on shipping, both foreign and domestic, and upon international subjects which are embraced within the shipping business. We shall, there-

fore, confine our remarks to the shipping aspects of the Marshall plan, and subjects which are directly related.

The shipping proposals involved in this plan originated with a committee comprised of the 16 nations which met in Paris for the purpose of estimating their requirements and formulating their proposals to the United States. This resulted in a report, of Marine Transport of the Committee of European Economic Cooperation, dated Paris, September 1947. There were numerous discussions concerning the proposals contained in the Paris report but they were always carried on at the Government level, and the United States shipping industry, or a representative appointed by them, was not brought into these discussions or consultations.

You will recall that the President thereafter appointed a Committee on Foreign Aid, under the chairmanship of the Secretary of Commerce, comprised of 19 distinguished citizens, only 1 member of which had extensive shipping experience. Its purpose was stated to be:

* * * to advise you (the President) on the limits within which the United States might safely and wisely plan to extend economic assistance to foreign countries, and on the relation which should exist between such assistance and our domestic economy (Secretary Harriman's letter of transmittal of report):

We shall refer to this committee as the "Harriman committee." Its report was submitted during November 1947. Bearing in mind the purpose for which the President appointed this committee, I would like to give two short quotations from its report:

The United States needs an active merchant marine for national defense and we must not create conditions in which that merchant marine cannot survive (p. H-6).

and again, as to the proposal to sell additional ships:

The limited financial savings are not sufficient to justify the drain on United States resources for national defense which such transfers would involve (p. H-8)

Subsequently, on or about December 19, the President sent to the Congress his proposals of the European economic program. Later these were supplemented by additional data entitled "Commodity Report, Chapter J."

It is well to understand just what is involved in the proposal to which we object. Five hundred war-built vessels of the size and type suggested represent 5,000,000 dead-weight tons of shipping, an amount equal to one-half of our merchant marine before the war and approximately one-half of our present privately owned shipping fleet. It is also equal to 25 percent of our reserve fleet available when Government-owned ships chartered for the carriage of bulk cargoes primarily to Europe are returned. At that time our active merchant marine will in all probability have been reduced to the postwar size now envisioned by the United States Maritime Commission but not in excess of 11,400,000 dead-weight tons.

Economy is the sole reason suggested in the ERP proposals for turning over these ships to foreign control. There have been loose statements made (schedule J, p. 21) that a saving of some \$300,000,000 would result from the sale of the ships proposed, and that the program cost would be further reduced by "many millions" if additional vessels were chartered as therein proposed.

We call your attention to the fact that in all of the data submitted

to the Congress concerning the shipping aspects of the ERP, involving about 50 pages, only a lump-sum total of such alleged saving has been given, and there is not a single factor of computation shown as to how these amounts are arrived at, or by which an interested party might verify these estimates. And we further point out that there is nothing in these reports to show that practical steamship men, competent to determine such savings, have computed these estimates.

On the other hand, the Harriman committee report states that "even on the assumption that such transfers were to be outright grants in aid," a maximum of only about \$300,000,000 of the gross dollar freights would be saved. And the Harriman report goes on to show that under certain probable conditions there would be further reductions in this amount. We suggest that the reduction from \$585,000,000 in the original proposals, to less than \$300,000,000, as shown by the Harriman report, justifies doubt as to the reliability of the shipping cost estimates contained in the program.

We have made a very careful estimate of these costs, based upon the individual factors of which they will be composed, and we find the saving to be slightly less than \$200,000,000. We submit that so modest a saving in a program of these proportions, equaling as it does slightly more than 1 percent of the aggregate amount, falls far short of justifying the damaging results which are certain to follow in both the fields of American shipping and of national defense.

While favoring reasonable economic aid to the participating nations as contemplated in this program, all good Americans are anxious that this be done with the minimum burden upon the American taxpayer. In the turning over of ships to the participating nations, this should be carefully analyzed to ascertain whether it is a real economy or merely an illusion. It would be a grievous error to save a sum which, while substantial, is relatively small compared with the aggregate of the Marshall plan, but at the same time to incur long-range costs or damages of far greater amount or importance.

We must remember that for many years we have expended considerable sums of money in our efforts to build an adequate merchant marine to carry all of our domestic and a reasonable proportion of our foreign commerce, and to provide suitable auxiliary ships for national defense. In two world wars we have spent an aggregate of some \$17,000,000,000 in a necessarily desperate and extravagant effort to provide the merchant ships needed for defense purposes. We have not yet obtained that position upon the seas which is commensurate with our position as a leading nation in world affairs. Is all of this to be brushed aside in consideration of a small reduction in the cost of the European recovery program? We should be careful to avoid being penny-wise and pound-foolish. Such action would not constitute economy in the true or long-range sense. It would, in fact, be the reverse of this policy.

The volume of relief cargo is admitted to be now approximately at its peak. A gradual decline in the need of United States ships to transport bulk cargoes, to a vanishing point in 1951, is clearly stated in the proposals. There are ample ships in service to take care of the present volume, as evidenced by a return to the Maritime Commission of approximately two ships per day by United States charterers.

All that is contemplated is the transfer of these same ships from United States flag, United States manning, and United States manage-

ment to foreign flag, foreign manning, and foreign management. It is unthinkable that 500 additional ships would be withdrawn from our present reserve fleet and placed in operation by these participating nations only to force, as they inevitably would, 500 other American ships out of business and into lay-up status.

Both United States and foreign vessels transporting recovery cargoes compete for the business at world market rates and charge the same level of freight rates for their services. As the ERP program provides that we shall supply dollar credits to cover transportation as well as the commodities, the gross cost will be the same whether transported upon a United States ship or a foreign vessel. The only possible saving is in the lower operating cost of the foreign ship due to the employment of cheap foreign crews, food and repairs, and in the use of foreign currency. The total aggregate of all of these items for the amount of ship service required, using the estimates of tonnage and time set forth in the proposals, has been carefully estimated by us to be slightly less than \$200,000,000.

We hear of no suggestion to similarly economize in other phases of the Marshall plan through the use of cheap foreign labor. There is to be no effort to reduce the cost of wheat, coal, or other commodities, or of their transportation to seaboard, by the use of cheap foreign labor. We are strongly opposed to the application of this principle, but if it must be availed of, it should have universal application.

We are opposed to the transfer of 500 vessels to the participating nations upon other grounds: First, using the figures which have been forwarded to the Congress as a part of the program, we find that the fleets of the participating nations, considering their shipbuilding programs, have been restored to a level in excess of their 1938 capacities. We suggest that there is no justification for endangering our merchant marine by lifting the competitive position of the 16 nations above that occupied in 1938. At that time, we were transporting less than 30 percent of our own imports and exports.

Chapter J (appendix B), which has been submitted to you in support of the program, shows the total merchant fleets of the participating nations in 1938 amounting to some 46,000,000 dead-weight tons; that at the end of 1947 their fleets aggregated 43,000,000 dead-weight tons with 4.5 million tons actually under construction—a total of 47.5, or 1.5 million tons in excess of their prewar level. But this is not all. They have stated to you that these nations have a building program of 15.7 million tons and that when this is completed they expect to have an aggregate of merchant fleets in 1951 of 53.6 million, approximately 7.5 million tons in excess of the capacity of their combined 1938 fleets. This is after making allowance for the retirement of over-age vessels in the amount of almost 4,000,000 tons during that period which we consider excessive and which they say is "heavy." When cargoes are offered freely, it is not the habit of shipowners to engage in such heavy retirements. This usually occurs when competitive conditions are severe and older tonnage must make way for more modern and efficient ships. The average fleet age of the vessels of the participating nations is the same in 1947 as it was in 1938. We believe that a substantial majority of these vessels will be found in operation when 1951 comes around.

Under these circumstances, we suggest that the transfer of additional ships, which must cause a further deterioration in our maritime

position and in our ability to serve our military as an arm of national defense, cannot be justified.

Schedule J lays emphasis upon the war losses of these 16 countries and the fact that their share of the world fleet has been greatly reduced thereby. The complete answer is that, using their own figures, in 1951 these 16 nations will possess 8 percent more of the world tonnage than was the case in 1938.

Schedule J also states that the tonnage of passenger ships estimated for the participating nations in 1951 is 300,000 tons below the pre-war figure. Accepting their figures, the reduction is less than 14 percent. Meanwhile, the United States has suffered a reduction of 69 percent in the number of passenger vessels and 64 percent in the gross tonnage of passenger vessels. These European countries are building a large number of fine passenger ships. There is no such construction for private account in the United States, and only one vessel by the Maritime Commission begun before the end of the war.

Suggestions are made in the proposals before you that turning over additional war-built vessels to the participating nations should be in consideration of the curtailment of their shipbuilding programs. However, the latest proposal contained in schedule J says:

It is not suggested that shipbuilding now under way should be stopped, but it is thought that a portion of the projected building could be deferred until the emergency is over.

Please bear in mind that schedule J-11 shows 4.5 million tons actually under construction and contracts signed for an additional 5,000,000 tons.

We have reliable information that a proposal to defer such foreign shipbuilding has been advanced by the United States and definitely rejected.

This is supported by the figures submitted to you in the Paris Report Table 3 that at mid-1947 the fleets of the participating nations contained 1.4 million dead-weight tons more ships of 5,000 gross tons and over than in 1938, while at the same date their fleets were 8.4 million dead-weight tons short of ships below this size. The significance is that we have no small or special-type vessels to replace their losses of ships of less than 5,000 gross tons. A dispatch from The Hague, Netherlands, dated January 25, 1948, gives confirmation. It contains this statement:

The Netherlands yards are turning out a large number of coastal and river craft for European service that cannot otherwise be replaced, in addition to special types of seagoing vessels bearing no resemblance to Liberty ships offered by the United States as a substitute.

And the report continues that the Netherlands yards have contracted for 454,000 gross tons, of which approximately 40 percent are stated to be for foreign buyers.

Let us see what happens. The dispatch continues:

The Netherlands is bartering ships for Polish coal, French phosphates, Argentine grain, Yugoslav corn, and Finnish timber.

There can, of course, be no objection to the Netherlands operating its economy as best suits a need which is unquestionably pressing. We suggest, however, your committee may wish to consider whether we should put a substantial number of American ships in the hands of European governments even though they are presently participating

nations in the Marshall plan, which may replace other vessels bartered to willing or unwilling satellites of a different economy and philosophy. From the standpoint of national security, we question the wisdom of even turning over ships to Marshall-plan nations with governments of questionable stability.

We are aware that the program suggests what is termed "chartering," and that under it there would normally be the expectation that the vessels will be returned. We find no one in the shipping industry who believes this would eventuate. We cannot escape the memory of what has happened to 95 ships delivered to Russia under lend-lease when she was our ally, and we would have great concern, not only about the return to the United States of the vessels transferred under charter, but also the possible use of these ships, or other ships for which they may substitute, in the hands of an unfriendly nation.

We are also aware that Russia is at long last negotiating to purchase these vessels with the exception of seven tankers and one ex-Italian steamship. Whether such an arrangement can be consummated and upon equitable terms is uncertain, as are all negotiations and dealings with our former ally.

The question of transferring one-quarter of our reserve fleet under this program appears to raise serious questions of national defense importance. The shipping industry does not pose as an expert on military affairs. In two World Wars, however, it has been called upon to render important auxiliary and logistical support to our military forces.

Experience has taught us the need of merchant ships for this purpose. In an emergency and at its first impact a fleet of such ships already manned and in active service has always been required. According to the Report of the President's Advisory Committee on the Merchant Marine—Keller Report—the Navy has [stated its minimum requirement as a fleet of 11,400,000 dead weight tons. The present privately owned American merchant marine is somewhat short of that capacity.

From the initial stages and until our shipyards begin deliveries in volume, there will be required a reserve fleet from which may be withdrawn ships to replace casualties, transport essential civilian requirements, war and strategic materials, and build up the supporting force of our military. This period has been variously estimated at from 12 to 18 months.

While not of the most modern type, nor of the fastest speed, the remaining vessels of our war-built fleet can perform an extremely valuable service in supplying ocean transportation and logistical support for our military forces. We suggest there should not only be a determination as to the proper size of such a reserve fleet, but the Maritime Commission should be supplied annually with funds and mandated to carefully preserve them. It would be a grave circumstance indeed were we to find that there was imperative need of such a reserve for national defense but that a quarter of these ships had been turned over to foreign countries to effect a small economy in the European recovery program.

Now let us examine the urgency of need for these vessels by the Marshall-plan nations. As I have said, the program has been suggested to you primarily, if not exclusively, upon the grounds of a relatively small saving in the over-all Marshall plan.

Schedule J, submitted to you by the executive branch, contains this statement:

It can be indicated what each country has in the way of shipping resources but there is no way of determining where and to what extent these resources will be applied.

The inference is that whatever tonnage is available, or is made available, may be used in world trading. There is no suggestion that they must be confined to the transportation of relief cargoes to the unfortunate countries, or, if they are, they will not release other tonnage of these same nations to engage in more lucrative trades.

This is borne out by a statement in Schedule J, which says:

The objectives of the recovery plan, therefore, will best be served if ships are left free to trade wherever cargo offers.

The records of the Maritime Commission show that on certain routes, extraneous to their national commerce, ships of these nations furnish a substantial part of the service, and that on at least four important trade routes from United States ports, to ports of other parts of the world, they are currently supplying more than one-half of the sailings and more than one-half of the ship tonnage.

In view of such employment of their own ships, the urgency of their need for additional United States ships to transport ERP cargo is subject to review.

The great majority of cargo tonnage to be moved to Europe under the recovery plan is made up of coal and grain which will move in bulk-cargo vessels. Our war-built Liberty ships are admirably adapted to this type of transportation. The latest figures released by the State Department show that the United States-flag bulk-cargo fleet in this trade is expected to decrease from 6.3 million dead-weight tons in 1948, to 3.2 million dead-weight tons in 1949, 1.7 million tons in 1950, and zero in 1951. The number of seamen employed on these ships will likewise decline from something more than 25,000 in 1948 to none in 1951. We suggest that this is not a very generous proposal to be put forward in behalf of the nations who are receiving aid from the United States. And we suggest that it is not a fair and equitable manner in which to deal with American shipping, which has carried the burden in both wartime operations and in the recovery program up to this date.

When the bill on interim European relief was before the Senate on November 24, 1947, debate occurred which clearly indicated the intention that fair and equitable treatment be given to American shipping in the transportation of relief cargoes.

Senator Vandenberg said:

I have no objection to stating categorically my hope and expectation that American bottoms will be used in the transportation of relief commodities to the maximum practicable degree.

and again:

The whole purpose and impulse will be to use American bottoms to the utmost practicable degree. But we are dealing with emergencies and we shall not be able to tie ourselves down to specifications in connection with them.

The point at issue at that time was whether an amendment should be included in the interim European relief bill to provide for a specific participation by American ships in the relief cargo to move under that program. In response to urging by Senator Magnuson that American

ships be protected as to participation in this business, Senator Vandenberg replied:

I think the point raised by the able Senator from Washington is highly pertinent in connection with the long-range program.

On November 25, Senator White, in discussing this same legislation, said:

We still stand for and still favor the largest practicable use of private shipping enterprises in the meeting of this problem.

In debating bill H. R. 4604 covering interim European aid in the House of Representatives on December 4, Representative Willis Bradley, of California, made the following statement:

I can appreciate that in this stopgap aid program it is hardly practicable to delay shipments so as to set forth any specific percentages or quotas which must be carried in American ships, but I believe that that recognition should not in any way dim the fact that the record of this debate should show the belief by at least some Members of the House that American ships should receive their just share of cargoes sent by this Government.

Bill H. R. 4840 before this committee covers the long-range program. Without going into further quotations from debate, we submit that the record is clear that at least certain Members of Congress in both the House and Senate intended that American shipping should be protected in a fair and just participation in these relief cargoes, and we respectfully suggest that there should be incorporated in the bill an amendment which will insure that the Government agencies administering the act carry out this intent. We will be very happy to submit, if it is the wish of your committee, an amendment designed to have this effect.

While we are giving aid to our unfortunate European friends at considerable risk to our own economy, let not our benevolence exceed reasonable bounds. Sacrifices will undoubtedly have to be made by all segments of American industry and labor. It should, however, be the generous act of the whole American people.

We favor a Marshall plan to aid these European nations to recover their economic footing. We submit that conditions do not justify or require the transfer of 25 percent of our reserve fleet in order to accomplish this purpose. We do not believe that the economic burden of the program should fall heavily upon any individual industry. We very respectfully urge the committee not to agree to that portion of the Marshall plan which would cripple our merchant marine and impede our national defense.

Acting Chairman MALONEY. Mr. Bailey, you have submitted a very persuasive argument in your statement.

Mr. Vorys, do you have any questions?

Mr. VORYS. Yes. You say you represent 70 percent of the privately owned shipping of the United States?

Mr. BAILEY. Dry-cargo shipping; yes.

Mr. VORYS. Would wet cargo be tankers?

Mr. BAILEY. Tankers, yes. We represent a number of tankers in addition, but it does not amount to 70 percent of the tankers.

Mr. VORYS. What percent of the chartered ships do you represent?

Mr. BAILEY. We do not take the chartered ships into account. They are Government-owned. We are shipowners. We represent 70 percent of the owners of ships.

Mr. VORYS. What percentage of the ships now carrying freight are American ships; what percentage are Government-owned and what percentage are chartered?

Mr. BAILEY. The Government-owned ships are chartered. I assume the question is, What percentage are privately owned ships and what are Government ships that are chartered?

Mr. VORYS. Yes.

Acting Chairman MALONEY. Is that dry cargo?

Mr. VORYS. That will be some figure that I could understand.

Mr. BAILEY. The tankers are not subject to charter, so we can eliminate tankers. The entire privately owned fleet today is about 11,000,000 tons, and that includes tankers. I cannot separate the tankers out of that for you at the moment. There are just about 11,000,000 tons of Government-owned ships under charter to American operators.

Mr. VORYS. Is it about 50-50?

Mr. BAILEY. If you include the tankers with the privately owned fleet. There are no tankers in the chartered government fleet.

Mr. VORYS. What is the cost in appropriations or subsidies, and so forth, for that shipping?

Mr. BAILEY. Of course, the chartered ships are operated by paying the charter hire to the Government. Under a charter party under which the Government recaptures a part of the earnings, that is. The subsidies are practically suspended now, and have been since the war. For the period since 1938, when the Act began, the net amount of subsidies paid for operations was about \$3,500,000 a year, after recapture.

Mr. VORYS. What does "recapture" mean?

Mr. BAILEY. The subsidy contracts provided that there will be paid as an operating differential as well as it may be measured the difference between the operating cost of the American ship and the operating cost of an equal foreign ship. After the American operator has made 10 percent on capital employed in the business, half of the remaining earnings, if any, will be recaptured by the Government and credited against the subsidy payments. After those recaptures have been credited back the net amount of payment for subsidy purposes for American ships in these trades has amounted to about \$3,500,000 a year.

Mr. VORYS. Do you mean to say that except for \$3,500,000 a year there is no payment by the American Government directly or indirectly to American merchant shipping to make up the differential between the cost of American and other ships?

Mr. BAILEY. For operation. There is a constructive differential, as you recall. You were talking about operation?

Mr. VORYS. I do not want to bore the other members of the committee, but I am green on this. I understand we make very substantial appropriations for our merchant marine, and I do not know whether it goes into the construction or operation, or what. But I want to know what the total is.

Acting Chairman MALONEY. I understand that there is a substantial subsidy, and as Mr. Bailey has pointed out it is going to cost the Government at least \$3,500,000 per year if we hold the ships in our private enterprise here. Now, where is that \$3,500,000 made up? I think that would probably answer your question, would it not?

Mr. VORYS. Well, I thought we were talking about two different things. He said what he estimated as \$200,000,000 would be made up due to the employment of cheap foreign crews, food, repairs, the use of foreign currency, lower operating cost of the foreign ships, and that the difference would be \$200,000,000. But if it is only the subsidy, as to the question I asked him, he says if it only amounts to \$3,500,000 per year since 1936 and nothing during the war, then the difference would be nothing.

Acting Chairman MALONEY. Why would there be that \$200,000,000?

Mr. BAILEY. The \$200,000,000 we are speaking of here is entirely separate from any subsidy operation. This \$200,000,000 is where these particular ships which would not come under subsidy contracts are operated by Americans with American crews. But, of course, we would have to supply \$200,000,000 more credit for the payment of ocean transportation under the Marshall plan than we would if we turned those ships over to the participating nations. They took them and put them under foreign management with foreign crews, repaired them in foreign shipyards, and furnished the meals on them that the foreign crews are accustomed to. The difference would be \$200,000,000 more credits to the Marshall plan, dollar credits, we would have to supply. Now, the subsidy operation is something entirely different, and these ships would not be involved in the subsidy contracts at all. I would be very happy to supply for the record, the complete subsidy payments. There are three phases: Tax saving, constructive differential, and an operating differential. Those are the three phases.

Mr. VORYS. Could you just say offhand what those are per year, or some way or other?

Mr. BAILEY. Since the 1936 act, \$226,000,000 has been paid to offset the difference in building ships in American shipyards for these subsidy operations, as against building them in foreign shipyards. That we contend is a shipbuilding subsidy.

The tax saving I cannot give you, but it is probably somewhere in the neighborhood of \$50,000,000. That is over the entire period. The net amount of the operating differential, after recapture, is some \$20,000,000 since 1936.

Mr. VORYS. Where is the \$17,000,000,000 that you mentioned we have spent? Who has those ships now?

Mr. BAILEY. These are the ships. It cost the Government to build the wartime fleet almost \$15,000,000,000 this time. We spent about \$3,000,000,000 in the first war and about \$14,000,000,000, something, in this war, in building these emergency fleets. These are the ships. We still have something over 4,000 of them in Government possession. We have sold 1,750, so 1,089 to foreign buyers, and 661 to American buyers makes the difference. Out of that fleet we still have about 2,000 or 2,400 of them left. That was the wartime construction vessels for national defense purposes.

Mr. VORYS. It is out of that 4,000 that the 500 ships are to be withdrawn; is that right?

Mr. BAILEY. The 4,000 has been reduced to a little over 2,000 ships that are suitable for transocean and overseas service. You take 500 out of that and it would leave 1,500, or you are taking away 25 percent of the 2,000 ships which the President's Advisory Committee found would be available at the end of the recovery program.

Mr. VORYS. But if we are supposed to have a merchant marine reserve of around 11,000,000 tons, I believe you said—

Mr. BAILEY. It is a complicated subject, Mr. Vorys: 11,400,000 tons is estimated by the Maritime Commission to be our active fleet, the fleet which would be in active operation at the end of the recovery program. Now, that has to be separated completely from the reserve fleet, which the Keller report says will be about 20,000,000 tons as a reserve fleet.

Mr. VORYS. I thought you mentioned at one place that the recommended reserve—on page 11, you say:

In the Keller report the Navy has stated its minimum requirement as a fleet of 11,400,000 dead-weight tons.

Mr. BAILEY. That is right.

Mr. VORYS. "The present privately owned merchant marine is somewhat short of that capacity." But you have stated to me earlier that we have about that same amount, around 11,000,000 tons of Government-owned ships which are now under charter.

Mr. BAILEY. Those will go back to the reserve fleet at the end of the recovery program if we do not charter or sell them abroad. If I may just very briefly say, the national defense aspects of this take on this picture: At the impact of an emergency you require an active fleet in operation, fully manned, to meet the impact. You then require over a period of 12 or 18 months a large reserve fleet to make up your deficiency for casualties, to carry the war materials, supplies, transportation, and take care of your necessary domestic economy until your shipyards begin to deliver ships in volume from new production. That is what the 2,000 ships would be for. Assuming them to all be 10,000-ton ships, you would need 1,140 of those immediately in use at the impact of an emergency. Then you have 2,000 other ships. That is, if we keep them all. You need them to tide you over from the impact, to make up your war losses, transport necessary for domestic cargoes, war materials, to bring in strategic materials until such time as the shipyards begin to deliver ships in volume. Now, that would be a period of 12 or 18 months.

You recall that when the war ended the Maritime Commission had under its control some 4,500 ships in addition to about a thousand they had turned over to the Army and Navy for operation. So that a war requires a very large number. The impact of the fleet will only a stop-gap operation.

Mr. VORYS. Now, you say that economy is the sole reason. That would be a very good reason for doing or not doing anything in connection with the Marshall plan. If we can get these countries to haul this material we are giving them, that would be a measure of economy. I thought that our shipping required a Government subsidy of a substantial amount in order for us to make the world market rates for shipping costs. Now, am I wrong about that?

Mr. BAILEY. Those vessels are meeting the world market rate now without any subsidy. Over your established essential trade routes where you are on a regular schedule year-round, in and out of season, good and light season, you have to have a subsidized operation over a long period in order to meet the cost of maintaining service. Today those ships are running alongside foreign ships without any Government aid whatsoever. In fact, the Maritime has recaptured from their earnings a large number of millions of dollars over the last 12

months. Those ships have no subsidies whatever. The bulk-cargo carriers that are transporting grain and coal to Europe are meeting the world market price today. Now, they will be retired, and they are being retired from that service, as fast as the foreign fleets are increased, and as fast as the tonnage diminishes because they cannot meet on a strictly cash basis the operation of the foreign ships. They are taking up the slack. They are the marginal operation. But they can continue in that operation for a period of some years while the foreign government fleets are expanding, and as the cargo is diminishing.

Mr. VORYS. Are our Liberty ships efficient ships for use in this operation?

Mr. BAILEY. For the carriage of this kind of cargo they are very acceptable ships. They are not liner service vessels. They are bulk-carrying vessels. They were built for war purposes. They carry coal and grain. They are very fine ships for that purpose.

Mr. VORYS. But these ships that are to be chartered or turned over to the other governments are now in reserve. They are not in use at all?

Mr. BAILEY. No, they are in operation now. That is what I said. We have ships in the reserve fleet, but, of course, no one is going to pull ships out of the reserve fleet and man them with foreign crews and put them under a foreign flag to take the business which the American ships are now carrying, because the sole result would be to force those ships back into lay up in replacement. So what will happen is, we can only turn over to foreign operations the ships we presently have under the American flag.

Mr. VORYS. Now, the whole essence of the Marshall plan is that we help these countries to help themselves.

Mr. BAILEY. That is quite right. We favor that.

Mr. VORYS. You favor that except as it hurts your business.

Mr. BAILEY. We favor that up to the point where they were returned to their 1938 position. When that happens we do not think it necessary to increase our competitors' position or capacities.

Mr. VORYS. But a number of these countries have exceeded their 1938 exports, for instance, but, take Britain, she has increased above her 1938 exports and because of her present condition has to increase them still greater. Where they want to sell their material and their commodities is here. That means that in many instances they will be competing with our businesses. But we are told that the Marshall plan contemplates that we help those countries to get back on their feet and manufacture articles, and for that purpose we are going to send them industrial supplies. They will have equipment for factories. We could make the material here and send it to them. That would create business for American industry. But we are deliberately going to create possible competition for American industry over there. We are to ship them fertilizer and farm machinery to raise food over there even though that takes business away from American farmers.

When it comes to shipping, the proposal is that we fix up an arrangement here to let them haul some of their own material, even though that takes away business from American shipping. It has seemed to me, knowing as little about it as I do, that if we can spare the ships that is a good thing, that it is a whole lot better for us to say, "Here is

the stuff on our side of the ocean. You take it away," than for us to haul it over and give it to them.

Mr. BAILEY. No; I think the position we take is different from that. I think that as far as we are concerned, and I think it is a sound position, that if we get these countries to the position they occupied before the war that is as far as we are supposed to go, and that these gentlemen may then go on from that position to any heights of prosperity or good business which their own energy and ingenuity carry them. I do not think we are obligated to elevate them further than the position they occupied before. We are helping them up, and we should help them back and say, "There, go ahead."

I do not feel that the United States should ever occupy the position on the seas that it has occupied for the past half century. We do not think that a country of our size should be carrying less than 30 percent of our own commerce. Now that we have ships, we should try to work ourselves back into a position that is somewhat commensurate with our importance. There never has been a nation in the world who has not lost its strong position on the seas when it lost its merchant fleet.

If we maintain our position in the United Nations, we should carry at least half our commerce and maintain the position of the military. I do not want to create the impression we are opposed to the Marshall plan. We do not think the small saving of \$200,000,000 in this program, which is just a little over 1 percent of the total amount, is sufficient to justify the long-range damage that will be done to our own merchant marine.

Mr. VORYS. We have received a memorandum that suggests that that saving would be \$600,000,000.

Mr. BAILEY. Yes, I have seen those. We have worked the figures out very carefully. We contend we know how to work them out. The saving will be only \$200,000,000.

They have also said they need 500 ships for 4 years, and then they show you, and it is stated in the memorandum that they need 630 for the first year, and then 320 for the next year, and then 170 for the next year, and then nothing for the final year. You add all those up and you do not get 500 ships for 4 years. Now, they started off with \$585,000,000, and when the Harriman committee finished analyzing the figures they admitted it was only \$300,000,000. I think the figures we have submitted to you are more realistic, as I tried to say in the memorandum, there is nothing in the way of the data to show how they computed their figures. There is not a single item in there except the final figure. We are prepared to submit detailed figures.

Acting Chairman MALONEY. Can you do that?

Mr. BAILEY. We would be happy to do that.

Acting Chairman MALONEY. I think we should have them, do you not, Mr. Vorys?

Mr. VORYS. I regret we do not have a larger attendance here because while Mr. Maloney knows a lot about shipping, yet I know there are other members of the committee that are as ignorant as I am. What is needed is to have the various sets of experts getting together.

It seems to me, knowing as little as I do about it, that what we want to do is to give them all something, charter them, furnish them, all of these old ships that they can use on this traffic, or any other. But at the same time forbid their building with American steel, directly or

indirectly, any ships whatsoever. They have to learn to walk before they run. They cannot expect us to cut down on steel needed for freight cars in this country, and so forth, so as to furnish them steel indirectly to build ships, but that we will furnish these ships which will do the job they need done right now. That would be my own feeling as to the way that we ought to go about it.

Mr. BAILEY. I am afraid I have done a very poor job in trying to set these out because as the document shows that you have before you, they already have 1.4 millions more tonnage of the oceangoing size than they had before the war. But they are short over 8,000,000 tons of small ships and special class ships that we do not have to offer. So we cannot expect them not to build the ships for their special services and trades over there. They must go ahead and build them as fast as they can. It would not help any to give them the large oceangoing ships when they already have a surplus, unless we want them to go out in the trades where the American ships cannot compete on an economic basis and deprive us of the small participation we already have in the oceangoing service.

Mr. VORYS. I understand they are also building oceangoing ships?

Mr. BAILEY. They are, but they are already ahead of the oceangoing ships that they had in 1938 by a million and four hundred thousand tons. So giving them ships is not going to help that situation any.

Mr. VORYS. As I understand, the Committee on the CEEC reported that in 1938 they were paying for a quarter of their imports from shipping and from overseas' investments which are gone. So that in order to get back to the economy they had in 1938 they have got to export more material than they did in 1938. They will export and sell and produce dollars in world currencies in excess of what they did in 1938.

Mr. BAILEY. I would just as soon see them pay for 550 percent of their imports with other services if they can do it, but not at our expense. It does not have to be under a condition that reduces America's participation in ocean carrying to less than 30 percent of its own commerce. As far as foreign investments go, our position is that we do not feel responsible for that. A good deal of the loss of foreign investments took place in southeast Asia. We cannot expect in this war to make good all of their losses in foreign investments. That is a problem those gentlemen have. But as a shipping venture, if we put them back on the level they occupied in 1938 I think that our obligation to them has been taken care of, and from that point on we wish them the very best of luck in the world, and we will compete with them on an equal basis under existing laws. We do not feel we should put in their hands economic competitive equipment that is going to depress our opportunities to continue to carry even 30 percent of our own commerce, and we will not have the national defense fleet we need in an emergency situation if we do that.

Acting Chairman MALONEY. Mr. Bailey, it has been testified here at another meeting that these 16 countries have to increase their exports by either two-thirds, or even double the 1938 exports. Now, that is going to require almost double the shipping.

Mr. BAILEY. These ships are not needed for the carriage of their exports. These ships are used entirely on their requirements for shipping these cargoes.

Acting Chairman MALONEY. How is the interim aid being shipped now?

Mr. BAILEY. By American ships and foreign ships in combination. The last figures I saw we were carrying about 48 or 49 percent of the business, and about two ships a day are being returned to the Maritime Commission as fast as the foreign fleets are expanded, and that will continue. We are carrying on on an equal-market basis. We cannot compete with them on a rate basis. As the rates go down they could offer a rate we cannot meet, and they will offer it. The American ships will be gradually returned. We see no reason now to give them 500 more ships to immediately force 500 American ships out of business. That is exactly what will happen, even if we have to give them \$200,000,000 in exchange in order to pay for the cost of transportation.

Acting Chairman MALONEY. That is a problem.

Mr. BAILEY. I would be glad to submit any additional data you might request.

Acting Chairman MALONEY. Is there any data you want, Mr. Vorys? I do not know whether we would be able to interpret the figures if they were given to us.

Mr. VORYS. I think possibly the best thing would be for us to study over the data you have already given and compare it, and then if we wish further data perhaps you would be kind enough to furnish it.

Mr. BAILEY. Your distinguished colleague from southern California, Captain Bradley, is an expert on the subject, and I am sure the captain could make it clearer to you than I could.

Acting Chairman MALONEY. Mr. Vorys, I have a statement of Charles Will Wright, and if there is no objection it will become a part of the record.

Mr. VORYS. That will be done.

Acting Chairman MALONEY. Thank you very much, Mr. Bailey.

Mr. BAILEY. Thank you very much, Mr. Chairman.

(The statement of Mr. Charles Will Wright is as follows:)

STATEMENT OF CHARLES WILL WRIGHT, WASHINGTON, D. C.

The consensus brought out in the hearings of the Senate Committee on Foreign Aid under the chairmanship of Senator Vandenberg, the reports of the House Select Committee on Foreign Aid of which Congressman Eaton is chairman, and in published articles by Winthrop Aldrich, president of the Chase National Bank, by William E. Knox, president of Westinghouse Electric International Co., by Congressman Everett Dirksen in the February Atlantic Monthly, and by many others is that the safest and most efficient way to build up industrial production in Europe and the rest of the world is through private enterprise rather than through local government agencies. The trend in most foreign countries is toward the nationalization of industry as opposed to the more efficient operation by private ownership and much of the aid given to foreign governments for industrial expansion will probably be used for political ends.

According to these articles, private American capital would be available for investment in European industrial enterprises provided guaranties are given that their profits can be exported in dollars and that full compensation in dollars will be paid in case their interests in an industry are taken over by the foreign government. But the question arises as to which Government agency should give the guaranties. Our State Department cannot undertake this and it would be unwise for the Marshall plan administration to do so partly because of the unjust propaganda being broadcast about our imperialistic intentions through the Marshall plan. If, however, the International Bank for Reconstruction and Development, the so-called World Bank, were to assume the guaranty, that

would help to eliminate such false criticism and our Government would be only indirectly involved.

The need for early action is evident and I would suggest to foreign as well as to American industrialists interested in building up industrial output in foreign countries, through United States financial and technical aid, that they first have the foreign government approve the project and agree—

- (1) That the American investors' share of the profits is to be paid in dollars.
- (2) That full compensation for the amount of their interests is to be paid in dollars in case the property or industry is confiscated.
- (3) That the project will not be made inoperative by the imposition of discriminatory export tariffs, taxes, or labor regulations.

The thus approved project agreement should then be presented to the World Bank for consideration and eventual indorsement.

Since the purposes of the World Bank are set out in the articles of agreement at page 51 as follows:

(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities in less developed countries.

(2) To promote private foreign investment by means of guaranties or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources,

it seems logical to assume that this bank is empowered to endorse such agreements made with foreign government to supply the dollar exchange or that of the other member nations for the purposes indicated.

The risk to be assumed by the Bank would be relatively slight as it only involves the conversion of local currencies into dollars in case the foreign government refuses to do so and if a nation once refused to meet its obligations, the Bank has ways to bring financial pressure upon them.

It appears most probable that the individual governments will be willing to make such agreements for approved projects requiring our dollars and technical aid and that American capital will be ready to enter the foreign field if the World Bank endorses these agreements.

In view of the tendency in most foreign countries to nationalize industry and their attitude against foreign control of their natural resources, the best safeguard to American investors is to take a minority interest in a foreign industry leaving the control in the hands of the local industrialists who have the political contacts and can best prevent undue imposition of taxes, tariffs, and labor regulations which would effect the welfare of the industry. Thus an American firm holding, let us say, a one-third interest in a foreign industry and having an active part in the management would probably fare better than though he held the controlling interest. Control by American interests of the mines and oil wells in many foreign countries has given the local socialistic-minded politician a propaganda weapon which he has used effectively against American imperialism on his ride to political power.

Another matter of utmost importance to our national economy is that of encouraging a greater output of strategic raw materials from foreign sources, particularly the ferro-alloy minerals and others in short supply. Thus far little has been done to add to our stock piles and unless substantial aid is given by way of machinery and technical know-how to expand production of these minerals at the foreign mines there will not be much increase in the present output that will be available for export to the United States for stock piling. An expansion in the development and production of these minerals could be encouraged were our Government to make long-term purchase contracts directly with the mine owners through the Metals Reserve Company, or some special agency. If this could be arranged, American firms could then be induced to send their engineers and technicians to aid the mines which need our modern machines and technical aid.

American aid to industries in foreign countries could be carried on independently of the Marshall plan through the cooperation between the American and foreign industrialist on a business basis provided that the American interests are properly protected. If the World Bank were authorized to endorse industrial projects in which American capital desires to participate, this bank could supply the suggested safeguards, and if necessary part of the capital requirements.

The carrying out of such a plan for greater industrialization in foreign countries and in particular those industries that will give us strategic mineral products would place the responsibility in the hands of private enterprise and thus be independent of political influence. The administration of the projects would be by men with the best technical and managerial experience within the country as well as from

It is important that industrial projects in the European countries be carried out in close cooperation and complementary to aid given to these countries under the Marshall plan and that the private industrial projects in which American interests participate have the approval of the Marshall plan administration and of the State Department.

The initial step in carrying out this plan is for our Government or the World Bank to inform our industrialists definitely that it will safeguard their foreign investments as proposed. When given this guaranty, our industrialists, whether they be producers of metals, fertilizers, building materials, power plants, transportation or farm machinery, will begin the preliminary project studies through contacts they already have in the foreign field. The local industrialists, through our Foreign Service officers, will be asked to present projects to be forwarded to the American industrial firms for consideration.

In connection with these initial studies there should be a mutual agreement that the foreign industrialist will pay the expense of the American technicians in local currencies while he is in their country and the American industrialist will do likewise in case the foreign technicians come to America.

Efficient industrial output cannot be made through government agencies and the sooner our Government realizes the necessity to build up production abroad through private enterprise the sooner will Europe and the rest of the world overcome their need for American relief.

Acting Chairman MALONEY. We will now adjourn.
(Whereupon, at 4:35 p. m., the committee adjourned.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, FEBRUARY 12, 1948

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, D. C.

(The committee met at 10 a. m., Hon. Chester E. Merrow presiding.)
Acting Chairman MERROW. The committee will be in order. First
of all I want to read a communication from Mr. Charles P. Taft.
(The communication is as follows:)

[Telegram]

CINCINNATI, OHIO, *February 11, 1948.*

HON. CHARLES A. EATON,
House Office Building:

After all your courtesy regret to report that legal engagement tomorrow in Washington has been canceled and I therefore cannot appear before committee. Federal council has sent copies of official statement for committee members and I am sending copies of personal statement made before Senate committee to your committee members.

Best regards.

CHARLES P. TAFT.

Acting Chairman MERROW. The telegram was sent to the chairman of the committee and there has been placed at each member's seat a copy of the pamphlet, *The Churches and the European Recovery Program*, which will be inserted in the record at this point.

(The matter referred to is as follows:)

THE CHURCHES AND THE EUROPEAN RECOVERY PROGRAM—A STATEMENT SUBMITTED BY THE DEPARTMENT OF INTERNATIONAL JUSTICE AND GOOD WILL AND ADOPTED BY THE EXECUTIVE COMMITTEE OF THE FEDERAL COUNCIL OF THE CHURCHES OF CHRIST IN AMERICA, JANUARY 13, 1948

As Christians, we support the European recovery program in the conviction that it can be one of history's most momentous affirmations of faith in the curative power of freedom and in the creative capacity of free men.

The ways and means of that program will, of necessity, be largely economic and political. The motives and objectives behind it should be essentially moral and spiritual. They should be above political partisanship. They should transcend considerations of narrow self-interest.

The European recovery program must be a material investment, though not primarily for material reasons. It must also be an investment in the world's moral and spiritual resources and in the means for their speedy release. If it is to contribute thus to the healing of the nations and to the fruitful employment of the creative will and spirit of the peoples, the material investment must be an expression of these Christian convictions:

First, that man, who is endowed by his Creator with inalienable rights, is also endowed by Him with inherent aspirations for a life of freedom and fellowship.

Second, that these God-given aspirations can now, with our help, be given conditions more favorable for fulfillment.

Third, that to provide all men with a better opportunity to fulfill them is the only basis for the hope that the world can make a peace which will be durable because it is just.

The nations of Europe have been struggling courageously with their problems. Some of these nations, however, are fearful of the possibility that the United States may seek to make Europe over in its political and economic image, just as they are fearful in the knowledge that Soviet Russia is seeking to make Europe over in its image.

The European recovery program must be the means by which Europe and the world are released from such fears and freed from the shackles they impose. This it can be if, in its framing and administration, it clearly expresses our conviction that Europe possesses abundant assets of mind and spirit. To these we can add our moral and material aid, for the remaking of Europe and the consequent enrichment of our civilization.

This program, therefore, cannot be a prescription of what we expect the nations of Europe to do. It must be an expression of confidence in the peoples of Europe, who have been making earnest efforts at self-help; a vote of confidence in what, with our aid, they will choose to do for themselves.

But our aid is indispensable. In the wake of the devastations of the war, these nations have been visited by unanticipated dislocations and disruptions through two postwar years. We are called upon to help them to overthrow these accumulated obstacles to recovery. But that help will fail of its most important purpose if, in extending it, we attempt to fashion or shape their future. It will succeed if we affirm and undergird the rights, the desires, and the capacities of these peoples to work out, for our common good, their own destiny.

An undertaking so conceived and directed merits our material sacrifices because it is a cause which enlists our Christian conscience and conforms to our Christian commitments.

If it is to fulfill its potential promise, the European recovery program must be guided by a positive and dynamic conception of the reconstruction task. To this end we urge that consideration be given to the following principles.

1. Basic reconstruction is an enterprise for the releasing of the creative energies of men. It is for this that we are providing them with tools. The material obstacles to recovery in Europe lie partly in the shortage of capital equipment, partly in the instability and unexchangeability of currencies, and partly in artificial financial and trade restrictions. But deeper obstacles lie in the fear of another war and despair for the future. It is of the utmost importance that the curative and creative possibilities of the European recovery program shall be so emphasized and so kept to the forefront as to appeal to the consciences, arouse the wills, and enlist the best efforts of men of good will on both sides of the Atlantic. There is, we believe, no other way by which the full potentialities of this program can be realized.

2. American aid for such a recovery program cannot be devoid of risk. Vast uncertainties are involved. We should be aware, however, that the risks of failure are much smaller and much less certain than the risks of inaction. American aid must therefore be an act of faith, a faith which has a sure foundation in our Christian conception of what man is and may become.

3. Financially, the prudent and conservative course is for us to plan now and boldly. Less than an adequate initial program will delay the day when Europe can take over for itself the task of restoration. Less than that may reduce the entire program to the level of costly relief.

4. The United States must be zealously on guard against imposing, or appearing to impose, conditions in the granting of foreign aid which would seem to threaten the political independence of the nations of Europe, or their right to choose their own way of life. We must not hamper efforts to establish European cooperation. As the European recovery program is carried forward, our nation must seriously honor the basic purpose of the program, not to infringe but to protect and strengthen and enlarge European freedoms and the development toward a community of free societies.

5. We have a right to expect that the nations participating in this program carry out their own expressed intention to work cooperatively, to maintain monetary stability, and to reduce trade barriers, in order to make the program effective. Such a procedure is the best insurance that out of this struggle for recovery there will emerge a more healthful European economy and a more united European community. The United States must make sure that its own policy toward Germany not only fits into this cooperative pattern but provides a demonstration of it.

6. The European recovery program should give encouragement to the United Nations Economic Commission for Europe and other United Nations agencies to undertake, as the area of cooperation is extended, an increasingly important role

in the recovery effort. We are bound both by our commitments to the United Nations and by the purpose of the European recovery program to see to it that United Nations machinery serve to develop broader trade relations within Europe and eventually as a means for the fuller coordination of the economic relations among the nations.

7. From the start it is essential that the European recovery program encourage the development of trade between the participating states and the countries of eastern Europe. The resources of these countries are required for the recovery and development of western Europe just as they, in turn, need the manufacturers of western states. It is encouraging that the present opposition of the Soviet Government to the European recovery program still does not prevent mutually beneficial trade arrangements with eastern Europe. It is also important for the United States to persuade and assist nations outside of Europe to provide goods for European recovery, thus broadening the area of cooperation and speeding reconstruction. The recovery program, together with the contributions of other nations, should meet the net import needs of the cooperating European countries that are essential to their recovery.

8. If the United States is to fulfill its long-term responsibility in the world economy it must help enable other countries to manufacture and sell their own goods and services in order to buy what they need. Therefore, the European recovery program should be linked with long-range planning to increase American imports so that European economic life as well as our own may be maintained at a high level.

9. The American people will be called upon to accept certain specific limitations on their own economic desires during this critical period in order that the larger good of world recovery may be served. In view of the great human objectives, Christians should accept such limitations willingly. In emergencies such as this our customary waste of food and other scarce commodities is scandalous and un-Christian. If, in addition to voluntary controls, certain government controls should be required to assure a fair allocation of needed goods for foreign aid and domestic consumption, we believe that such controls should be adopted. From the point of view of morality and even of self-interest the stakes are too high to permit either selfishness or short-sightedness to prevail.

These principles, we believe, can make the European recovery program a co-operative effort to deal with the basic causes of tyranny and war. Such an effort is in keeping with the constructive peace strategy for which our churches stand.

Acting Chairman MERROW. I have here a communication from the Catholic War Veterans by Ruth E. Manning, chairman, national foreign relations committee, Catholic War Veterans, which will be put in the record at this point.

(The communication is as follows:)

CATHOLIC WAR VETERANS
OF THE UNITED STATES OF AMERICA,
NATIONAL HEADQUARTERS,
Washington 5, D. C.

To the Foreign Relations Committee,

United States Senate and House of Representatives.

MR. CHAIRMAN AND GENTLEMEN: The Catholic War Veterans of the United States wish to urge the Congress of the United States through the medium of this committee, to enact without delay the full appropriation of 6.8 billion dollars to immediately inaugurate the proposed European recovery program for the period up to June 1949.

It is our belief that the Marshall plan offers a sound program designed to alleviate the economic and political chaos in western Europe caused by the recent war. The restoration of normal industrial production, agriculture, and trade in Europe is necessary to insure our own high standard of living and national security. The long-range economic stability of the entire world requires the full utilization of the industrial and agricultural potential of these nations. The sooner these nations become self-sustaining and resume their places in the world economy, the sooner we may hope to achieve the international cooperation so vital to world security. The reconstruction of Europe is a condition precedent to the success of the United Nations. We cannot hope to achieve a lasting peace while half of the European Continent lies in economic ruin. Poverty and hunger are not conducive to cordial relations, neither among nations, nor among men.

We of the Catholic War Veterans feel that the Marshall plan should not be considered as a political issue in the sense that its success or failure will reflect credit or criticism upon certain persons or political parties. Rather the program should be considered as an instrument of world peace and, as such, it should be judged and appraised without distortion by domestic political implications. We cannot postpone the establishment of the European recovery program merely to await a more politically opportune time. To do so is to endanger our national security and the peace of the world.

The Catholic War Veterans further believe that the administration of the European recovery program should be left with the State Department. This Department is in a position to inaugurate the operation of the program with the least possible delay. Inasmuch as time will be a vital factor in the success of the undertaking, the delay necessary to establish a separate administrative body, should be avoided. Furthermore, the entire operation, as an integral part of our established foreign policy, will have such close relationship with other functions of the State Department that a separate agency may well result in delays, conflicts, or other difficulties which will militate against the ultimate success of the program. For these reasons we recommend that the program be administered by the State Department.

In conclusion may I say that we of the Catholic War Veterans believe that the main purpose of the European recovery program is the reestablishment of the dignity of human beings and respectable governments in Europe. This vital purpose should transcend any particular problems relative to the mechanics of the program. Indecision with regard to detail should be avoided. All problems, whether administrative, financial or others, should be compromised quickly rather than risk the success of the entire program. It is far better that billions be spent (perhaps some of it even wasted) in rehabilitating the peoples and governments of Europe than that the continent suffer the inevitable consequence of Communistic enslavement. We are convinced that the alternative to the European recovery program is ultimately another war and further American bloodshed. As an organization of veterans, we of the Catholic War Veterans cannot forget that our Nation has spent 300 billions of dollars and the lives of 330,000 of our comrades in fighting World War II to prevent totalitarianism from engulfing the earth. The Marshall plan will safeguard what we and they fought for; without it our wartime investment of blood and dollars is likely to be lost. To keep faith with our honored dead we must take every measure to achieve a just and lasting peace. To this end the Catholic War Veterans of the United States fully endorse the proposed European recovery program and urge its immediate enactment.

Respectfully submitted.

RUTH E. MANNING,
*Chairman, National Foreign Relations Committee,
Catholic War Veterans.*

Acting Chairman MERROW. We have also a communication from a colleague, Mr. Willis W. Bradley, of the Eighteenth District of California, enclosing a copy of the findings and recommendations regarding foreign aid, the budget and taxes, of the Long Beach Chamber of Commerce, adopted by the board of directors of the Long Beach Chamber of Commerce, January 26, 1948.

The letter and the statement inclosed will be put in the record at this point.

(The matter referred to is as follows:)

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES,
Washington, D. C., February 11, 1948.

HON. CHARLES A. EATON, *Chairman,
Committee on Foreign Affairs,
House of Representatives, Washington, D. C.*

MY DEAR COLLEAGUE: I forward herewith a copy of "Findings and Recommendations Regarding Foreign Aid, the Budget and Taxes," as prepared by the Long Beach Chamber of Commerce of Long Beach, Calif., and approved by the board of directors of that chamber of commerce on January 26, 1948.

I invite your particular attention to the recommendations of the chamber of commerce which may be safely accepted as the general view of business in the Long Beach area.

Best wishes.
Sincerely,

WILLIS W. BRADLEY.

LONG BEACH CHAMBER OF COMMERCE,
Long Beach, Calif.

FINDINGS AND RECOMMENDATIONS REGARDING FOREIGN AID, THE BUDGET, AND TAXES

The need of some relief to Europe in its present emergency is recognized, not only from a humanitarian and economic viewpoint, but largely for purposes of our national safety to combat Soviet Russia's avowed plans for subjugation of western Europe and the entire world.

However, the continued economic well-being of our country demands that any aid furnished be subject to the following conditions:

1. Preservation of all our natural resources inasmuch as they are essential to our continued ability to defend our Nation against future attack.

2. Other countries of the Western Hemisphere have just as great a stake in western Europe's economic recovery as has the United States; therefore instead of the United States buying relief items from other countries of the Western Hemisphere, those countries should be induced to export the needed items direct through establishment of necessary credit arrangements of their own with European nations. This would make possible a reduction in the amount of relief appropriations by about 3¼ billion dollars, and permit a corresponding reduction in taxes.

3. The granting of relief to the nations of western Europe should be conditioned upon the recipient country's agreement to encourage and foster the growth of free enterprise.

4. Any relief program adopted should be limited to not more than 15 months' duration and any subsequent aid should be contingent upon the result of a survey showing the then actual need, plus proof that the recipient nation has fostered and will continue to foster free enterprise.

5. The relief program should be administered in a businesslike manner by a bipartisan commission of private citizens and Federal officials as opposed to administration by one man or one department of our Government. Should relief for countries other than those of western Europe be decided upon it could logically be most economically administered by the same commission.

6. The total amount of aid furnished should be held to the absolute minimum in order that our own national solvency may not be endangered. A reduction in the amount of the national debt is of paramount importance; therefore, we favor adoption of a systematic plan by Congress to reduce such debt each year by a minimum retirement of a substantial agreed upon sum of 2¼ billion dollars or more.

7. For every dollar of foreign relief voted by Congress, a dollar to be deducted from our domestic Federal expenditures. This result could be accomplished by prorata reduction in the budgets of all Government departments excepting those essential to military defense of our Nation.

8. It is recommended that Congress repeal existing agricultural price-support legislation or at least drastically amend its application because the buying of commodities in large quantities requires vast expenditures and unduly raises commodity prices through purchases by Government agencies in competition with private enterprise. This contributes to the inflationary spiral and increases our taxes unduly.

Adopted by the board of directors, Long Beach Chamber of Commerce, January 26, 1948.

D. W. CAMPBELL, *General Manager.*

Acting Chairman MERROW. Also a communication and a statement, sent to the chairman, from Mr. J. A. Smith of the Northwest Horticultural Council which, without objection, will be inserted in the record at this point.

(The communication and statement are as follows:)

NORTHWEST HORTICULTURAL COUNCIL,
Wenatchee, Wash., February 10, 1948.

The Honorable CHARLES A. EATON,
Chairman, House Foreign Affairs Committee,
United States House of Representatives,
Washington, D. C.

DEAR CONGRESSMAN EATON: When I appeared before your committee on February 4, 1948, several members of the committee requested that I submit a provision which might appropriately be included in the European Recovery program legislation which provision would encourage the use in the program of surplus agricultural commodities needed by the European countries and normally exported to them from the United States in substantial quantities.

In my discussion before the committee my remarks related principally to fresh apples and pears, but it is recognized there are other surplus agricultural commodities which should also be included. Furthermore, although I spoke primarily of the situation in the Northwest, the matter is national in scope because apple and pear growers all over the country compete to a great extent in the same markets. Apples are grown commercially in 38 States, and growers in California, and in Michigan, Illinois, Ohio, and other Midwestern States, and in the Appalachian area, and in New York and New England are all equally interested in the reestablishment of export markets as a means of stabilizing the domestic market.

I have prepared, and I am pleased to forward to you with this letter a provision which, in substance at least, I believe should be included in the ERP legislation. The provision has not been drafted as a specific amendment to any pending bill, but I believe it is generally adaptable to whatever ERP legislation is decided upon. I should say, further, that while the provision is drafted in terms including all agricultural commodities, it might well be limited to horticultural commodities which, in general, are the agricultural commodities which can best be handled through private trade.

The committee has also requested some information on price and costs in the apple industry, and I intend to submit that information within the next couple of days.

I should like to take this opportunity to thank you and your committee again for giving me the opportunity to present to you the current problem of my industry and to suggest to you a means of alleviating the problem, while at the same time furthering the purposes of the European recovery program.

Respectfully,

J. A. SMITH.

SUGGESTED PROVISION

In furnishing to any participating country under this act any agricultural commodity produced within the continental United States, normal channels of private trade shall be used where possible. Where the use of such channels of trade is not possible, such commodities shall be furnished by means of procurement by existing agencies of the Federal Government. In determining the kinds and quantities of such commodities to be furnished under this act, consideration shall be given to (a) the needs of the participating countries as expressed in the initial published report of the Committee of European Economic Cooperation; (b) the availability of such commodities in the United States; (c) the historic reliance by the participating countries upon imports of such commodities and the dependency of the producers of such commodities upon the markets of participating countries. In making determinations with respect to the kinds and quantities of such commodities to be furnished under this act and with respect to the methods for furnishing such commodities, the administrator shall follow the recommendations of the Secretary of Agriculture, which recommendations shall be with respect to specific products, not general classes of products.

Notwithstanding any other provision of law, any commodity heretofore or hereafter acquired by any agency of the Government under any price-support program shall, to the extent that such commodity is determined to be appropriate for such purpose and in excess of domestic requirements, be utilized in providing aid under this act or any other act providing for assistance and relief to foreign countries and shall be disposed of by such agency for such purpose at such price as may be determined to be reasonable, taking into consideration the value of such commodity as incentive goods and as a contribution to the health of people in participating countries and the value of such commodity in the light of the scarcity of other comparable commodities and, in the case of a food product, the cost of

comparable foodstuffs. Any such agency shall report to the Congress, in each calendar quarter, the amount of its costs resulting from the disposition of commodities hereunder, and the Secretary of the Treasury is authorized and directed to cancel notes of such agency held by him in an amount equal to the amount of such costs.

NORTHWEST HORTICULTURAL COUNCIL,
Wenatchee, Wash., February 11, 1948.

The Honorable CHARLES A. EATON,
Chairman, House Foreign Affairs Committee,
United States House of Representatives, Washington, D. C.

DEAR CONGRESSMAN EATON: I wrote you yesterday to submit a suggested provision for the European recovery program legislation in response to the request of several committee members on February 4, 1948, when I appeared before the committee. I am including in this letter some information concerning growers' prices and production costs, which information was also requested by the committee.

The price information given in this letter has been compiled from statistics of the Associated Marketers of Wenatchee, from actual sales reports covering more than 65 percent of the total volume of sales organizations in the Wenatchee-Okanogan district. The information which covers the three main varieties of apples produced and shipped in the Wenatchee-Okanogan district, namely, Winesaps, Delicious, and Rome Beauties, is representative and clearly indicates the decrease in f. o. b. prices from the end of October 1947 through the first week of February 1948.

The information is as follows:

	Per box	
	Season through October aver- ages	Sales week end- ing Feb. 6, 1948
Winesaps:		
Combination, Extra Fancy, and Fancy.....	\$2.85	\$2.10
"C" grade.....	2.10	1.80
Delicious:		
Combination, Extra Fancy, and Fancy.....	2.00	1.95
"C" grade.....	1.74	1.50
Rome beauties:		
Combination, Extra Fancy, and Fancy.....	2.64	1.60
"C" grade.....	1.53	1.45

A comparison of prices for the first week in February with total costs, exclusive of distribution costs, \$2.56 per box, as shown in the Washington State College cost figures attached hereto, clearly indicates the severe losses at which apple producers are operating under present market conditions.

Regarding the information which your committee requested on the wide differences between prices returned to the producer per box and the prices for which these apples are being sold through retail outlets, we have attempted to find an explanation for this wide variance but do not have sufficient data to answer your question as we would like to answer it. There is one factor, however, that unquestionably contributes toward what seemingly is an excessive profit somewhere along the line as between producers' sales prices and the price at which apples are being sold at retail. Many wholesalers and distributors of our western apples purchased heavily early in the season at prices well above current f. o. b. prices, as you will see from the average prices for the season through October on the three varieties covered. Many of these apples were either shipped to point of distribution and held in cold storage or were held in cold storage at shipping point or the buyer's account and are still being distributed through retail outlets. Wholesalers and receivers are, insofar as possible, apparently trying to recoup all or as large a part as possible of their original cost plus accrued storage charges. Consequently, there is a lag in recognition of decreases in grower's prices and higher-priced apples are being placed on the retail market at price levels which are in no way comparable to present f. o. b. prices.

One other factor which has increased the spread between prices received by producers at shipping point and the retail price is advances in rail freight rates which have occurred since the start of the present shipping season amounting to a total additional freight charge of 20 cents per hundredweight or approximately 11 cents per box on fruit shipped from the Pacific Northwest to the eastern seaboard United States markets.

Respectfully,

J. A. SMITH.

State college costs of producing and packing apples—Changes in costs of growing, harvesting, packing, and storing Washington apples, Yakima and Wenatchee districts, central Washington, 1940-48 and 1947

Item	1940	1941	1942	1943	1944	1945	1946	1947 ¹
Boxes, box making, packing ²	\$0.375	\$0.475	\$0.56	\$0.626	\$0.747	\$0.836	\$0.87	\$0.91
Storing.....	\$0.115	\$0.135	\$0.16	\$0.166	\$0.191	\$0.159	\$0.20	\$0.23
Growing and harvesting.....	\$0.556	\$0.712	\$0.92	\$1.435	\$1.41	\$1.78	\$1.42	\$1.45
Total costs exclusive of distribution.....	\$1.05	\$1.32	\$1.64	\$2.23	\$2.35	\$2.78	\$2.49	\$2.59
Actual yields per acre..... boxes.....	409	370	413	374	500	465	559	585
Total costs exclusive of distribution (400-boxes-per-acre yield)	\$1.06	\$1.28	\$1.66	\$2.15	\$2.62	\$3.04	-----	-----

¹ Preliminary; based on only a few reports.

² With the exception of the years 1943 and 1945, packing and boxes and box making were reported as a charge.

³ Estimate.

NOTES.—1940-45 figures can be obtained in Washington State College Bulletin No. 474.

1945-46 figures in process of publication by the State college.

1947 estimates were made by preliminary survey by Washington State College men. They are based on 11 records and should be considered confidential data. The same 11 growers had a cost of growing and harvesting averaging \$1.44 in 1946.

Acting Chairman MERROW. We have with us this morning Mrs. Katharine Lee Marshall, legislative secretary of the Women's International League for Peace and Freedom, United States section, whom we will hear at this time.

STATEMENT OF MRS. KATHARINE LEE MARSHALL, LEGISLATIVE SECRETARY, WOMEN'S INTERNATIONAL LEAGUE FOR PEACE AND FREEDOM, UNITED STATES SECTION

Mrs. MARSHALL. Thank you, Mr. Chairman.

The organization for which I speak is one national section of an international organization, having branches in most European and several American countries. There are league members, if not fully organized sections, in 11 of the 16 nations now participating in the Committee for European Economic Cooperation.

The members of the United States Section have, therefore, a three-fold interest in the European recovery program: (1) They are United States citizens; (2) they belong to an organization whose inclusive purpose—to promote freedom and peace at home and abroad—is proclaimed in its name; and (3) their fellow members in this work live in the majority of the 16 participating nations as well as in many other countries.

This Section announced its support of the European recovery program in a resolution passed by its National Board of Directors in October 1947. We did so in the conviction that aid by the United States to a program for European economic recovery cooperatively initiated and carried out by 16 European nations is a necessary under-

taking in the interests of freedom, peace and our own Nation. Having examined the draft legislation presented by the President and the State Department, we find it fulfills most of the general hopes for United States participation which we expressed in our resolution endorsing Secretary Marshall's suggestion.

The League does not consider itself qualified to comment in detail upon all features of the proposed legislation, but we would like to record our thinking about some of the major outlines of the project.

Clearly, the program becomes another relief measure, not a recovery program, if we do not obligate ourselves to see through the proposed 4-year period, and if we do not grant an initial appropriation sufficient to get it off to a good start.

The United States has urged that Europe abandon nationalistic economics so that the people of all participating nations may realize the maximum benefit from our aid. While this approach is clearly a sound one, we in America cannot really expect the people of Europe to comply with the suggestion unless we assure them that the promises which we have held out will be fulfilled. Otherwise the temptation for many governments to continue to use every available device including bilateral trade and barter agreements, in a frantic attempt to support the standard of living of their peoples will be too great to resist. America's determination to see the program through for at least 4 years should clearly be written into the legislation.

Should the \$6.8 billion asked for by the State Department prove an incorrect estimate of the amount needed to launch the program—and it well may—the error will be on the low, not on the high side.

Although the draft legislation allows for a 7.5-percent rise in United States prices, and a 5-percent rise in other Western Hemisphere prices since July 1, 1947, except for the last few days, our prices have continued to rise steadily. In fact, they had already passed the 7.5-percent rise provided for in the State Department's figures when the current price drop began. Whether or not the European nations will in fact be able to meet the high production goals on which the program is based will depend on many unpredictables of nature and world politics. The League suggests, therefore, that you consider \$6.8 billion as a minimal figure, and that if it is altered by Congress it be altered upward.

Many suggestions from individuals more expert on the subject than ourselves have been given you as to the administration of the plan. On this topic the League confines itself to a few general considerations.

We urge that the Congress recognize the importance of the program as part of United States foreign policy and allow for adequate integration with the Government agency chiefly responsible for formulating and carrying out our foreign policy. The administrative program which the newspapers report as now acceptable to both Senator Vandenberg's Committee and the State Department sounds effective and adequate.

We wish especially to emphasize our conviction that in the formulation of policy the administrator should have the assistance of a committee of the best qualified citizens of this country. Certainly business and industrial leadership should be represented on this committee. But it should not dominate it.

We feel, too, that the trade-union movement should be given full recognition on both the top advisory committee and on such delega-

tions as may be set up in Europe to assist there in the implementation of the program. No group within our Nation has been as instrumental in securing the support of the common people of Europe for cooperation with the United States as has the trade-union movement. The Congress of Industrial Organizations working in the World Federation of Trade Unions, and the American Federation of Labor with its direct representation in Europe, have demonstrated their competence in coping with international problems affecting working people.

The report of the Paris Conference states that throughout the life of the Marshall plan, European labor will have to subsist on a standard of living lower than that of prewar years. Passage of the European recovery program by the United States Congress cannot, therefore, be expected suddenly to make the common people of Europe immune from the propaganda of those who oppose cooperation with the United States. A knowledge that American trade unionists are playing an important role in the administration of the Marshall plan would, however, go a long way toward concrete proof that our desire to help in the finding of progressive and democratic solutions to their problems is a sincere one.

Before taking a definitive position on the Marshall plan, the League wrote to its European Sections asking what their reactions to it were, and what seemed to them to be the feeling of the people of their countries.

In addition to expressions of hope that the United States would back up the great hope that Secretary Marshall held out to Europe in his Harvard speech, they sent us reflections of their fears that the American proposal would result in further division of Europe, that the United States might take advantage of its economic strength to impose its own economic theories upon European countries, and that the power and prestige of the United Nations would be greatly damaged if the program were carried out apart from it.

We made this survey during the summer. Since then the importance of some of our friends' advice seems to us to have increased.

Clearly the economic position of Europe has worsened, and American assistance is more than ever necessary if the basis of civilization is to be maintained in those centers which have been its staunchest defenders. Democratic practices have been attacked more vigorously from both the extreme right and the extreme left this fall and winter than at any time since the collapse of Hitler.

Meantime, the democratic forces have proved their continued hold upon the vast majority of the peoples of Europe and their ability to face realistically the problems of planning that must be solved if a continent reduced to extreme scarcity is to recover. But they have not forgotten that the division of Europe into great spheres of influence has always been the background of war. While willing to plan for half of Europe, they are not willing to plan the permanent exclusion of the other half.

Our own State Department, which has not the reputation for excessive tolerance of the present regimes of eastern Europe, has repeatedly said that one economic assumption of its European recovery plan is the assumption that East-West European trade will grow. Firmly anti-Communist European regimes have recently welcomed the opportunity to exchange their goods for Polish coal and Russian raw materials. Secretary Marshall himself regards the United King-

dom-Union of Soviet Socialist Republics trade agreement as a healthy economic development.

Although no one can expect the sudden emergence of truly harmonious economic and political relations between eastern and western Europe, it is not in our interest, or in the interest of western Europe to take any action to deprive those nations of the raw materials which they can obtain from the East.

Legislative limitations on Russian-American commerce would do just that. The very deterioration of political relations between Russia and the West makes more, not less, important the maintenance of those economic contacts which the needs of both create.

And the interests of Europe, the recovery program, ourselves, and world peace demand that the greater public emphasis be placed on the constructive rather than the objectives of this program. Looking beyond the tensions of the moment, and remembering that the European recovery plan is designed to secure the peace, not to create an alliance for war, the United States should make it unmistakably clear that any European nation which should subsequently so choose is free to enter into the program.

We have no doubt that Congress will turn down the pleas of a few doctrinaire politicians and industrialists that the United States attach to its aid the condition that Europe abandon price controls, and nationalization programs. The Administration and most legislators, we feel sure, recognize that the economic program of democracy in Europe is somewhat to the left of what it is here. But there is a real danger that in subtler ways the United States may, without bad intent, endeavor to set Europe recovery in patterns which would not be in the best interests of the peoples of Europe. This, of course, means that in the long run we would be acting against our own interests.

The recipient nations have a right to decide themselves how they will accomplish the objectives they have publicly set. So long as they bid fair to meet those objectives, maintain living political democracy, deal fairly, honestly, and efficiently with us, we will be wise if we allow them the maximum freedom of operation. To impose upon them, for example, the necessity of accepting aid chiefly in the form of private American loans is a suggestion which we do not welcome, and which will, we suspect, be unwelcome to many of our European friends. The political and economic consequences of such a basic alteration of approach need at least very serious consideration before writing that suggestion into law.

It is regrettably true that we cannot today turn the administration of the bulk of the European program over to the United Nations. We welcome the State Department's careful and full provision in its draft specialized legislation for integration of the program with the United Nations, and we hope that Congress agrees with us that such treatment must be accorded the United Nations in any European recovery bill enacted.

Finally, may we remind you that passage of the European recovery program, vitally important though it is, does not wind up the agenda of bold measures that America must take if peace and freedom are to be assured.

The temptation to join an armaments race with Soviet Russia is constantly before us. We know that in the atomic age there is no

such thing as military security, yet we act as though the stock piling of arms can protect us.

Let America accompany the inauguration of the Marshall plan with a proposal that the nations of the world meet together to plan the abolition of all armaments, under sensible international controls. There is no point in assisting in the recovery of Europe if it is to become again a battlefield. Let us once and for all give the lie to those who say the European recovery program is a step towards a third world war.

Acting Chairman MERROW. Mr. Smith—

Mr. SMITH. When you say that this is a relief program and not recovery, what do you mean?

Mrs. MARSHALL. I said that if it were put in short terms or in too small terms it would only stave off the very thing which it wants entirely to do away with, and therefore it could be considered only as a relief program, not as a recovery program.

Mr. SMITH. So you believe that the program should cover the 4- or 5-year program that has been suggested?

Mrs. MARSHALL. Yes, I do. It seems to me it would be the better part of wisdom to give to Europe the tremendous psychological boost of assistance by fulfilling the suggestion originally made by saying now that we are willing to carry this thing for 4 years. Should the production schedules and the very optimistic hopes expressed in the whole program later be realized, then it would hurt neither side for aid to be diminished or even eliminated. But at this point, when the crisis is here, not to hold out a hope that we will care for 4 years would I think mean a tremendous set-back. It will mean, I think, that Europe cannot nearly so calmly and reasonably deal now with its current problems.

Mr. SMITH. You think the crisis has arrived, or do you anticipate that it will occur?

Mrs. MARSHALL. I think it is here and can deepen.

Mr. SMITH. According to the report of the Paris Committee, post-war recovery up until the end of 1946 has been fairly well achieved; are you familiar with that?

Mrs. MARSHALL. Yes, I am.

Mr. SMITH. Are you familiar with the causes that have created the different situation since then?

Mrs. MARSHALL. I think so; if you are referring to last winter's freeze, this summer's drought, the rise in United States prices.

Mr. SMITH. If they were able to achieve that degree of recovery from 1946, do you think that it is absolutely essential that we now, at this time, embark upon a 4-year program?

Mrs. MARSHALL. For many reasons I do, Mr. Smith. It is not only the freeze, the drought and the prices. Many people, including leading spokesmen for our State Department—Mr. Acheson, Mr. Marshall, Mr. Douglas—have said that it took a long time for the people most concerned on the other side and on this side of the Atlantic to realize just how torn the fabric of European economy had been by the war.

Mr. SMITH. Now, let us assume that we go into this program; we get half way through it; we find that we have not achieved the objectives. Recovery, as I understand, is geared to the idea that we must have recovery in order to prevent the further encroachment of Russia upon the economies of those 16 nations.

Mrs. MARSHALL. We must have recovery for a good many reasons. That is one of them.

Mr. SMITH. Let us assume that this program is not working out, and it looks as though the Russians might take over.

Mrs. MARSHALL. It is a gamble.

Mr. SMITH. It is a gamble?

Mrs. MARSHALL. Surely.

Mr. SMITH. Now my question is, Would your organization support increased appropriations for military purposes so that we can protect the investment we have made?

Mrs. MARSHALL. That is something that I could not answer with absolute certainty. The probable answer is negative, but it would have to depend upon the circumstances.

May I say just this? We do regard this program as a gamble, and I think anyone who does not is making a great mistake. But there are certain ways to attempt to insure risks, and certainly to do less than seems now required, or to be hesitant about saying at this point that you will do it as long as it is necessary, is to increase the risk immeasurably.

Mr. SMITH. Mr. Bevin hinted last week in a speech to Parliament that it might be necessary, and that an effort was being made, for some form of standardization of arms between the United States and the cooperating nations. That would seem to me to be at least an indication that it may be necessary to protect the European recovery program for some time by force of arms.

Mrs. MARSHALL. Can we not face that when we come to it?

Mr. SMITH. We faced it in the Greek-Turkish situation.

Mrs. MARSHALL. That is just it. That is quite a different situation from this one; if we do what is required now, we have more than a good chance of maintaining that important difference.

Mr. SMITH. We are protecting the Greek investment by sending armed forces into that area; are we not?

Mrs. MARSHALL. I had not heard that.

Mr. SMITH. You know, as a matter of fact, that we have Marines over there and we are opening up an air base in northern Africa. Do you think that is for fun? In addition, it seems to me that we have got to support universal military training, and I know your organization is not for that.

Mrs. MARSHALL. You are correct.

Mr. SMITH. I am at a loss to understand how we can do this job if, somewhere along the line, we are not going to implement it with at least an adequate defense system and an adequate air force and adequate reserves.

Mrs. MARSHALL. Mr. Smith, it is our belief, our conviction, that there may be other ways by which our people can be made more secure.

Mr. SMITH. I am for that, but what are they? What do you suggest?

Mr. MALONEY. Will the gentleman yield? That is just the question I was going to ask.

Mrs. MARSHALL. What do we suggest?

Mr. MALONEY. Yes; to accomplish your ends. We would be very glad to know what they are, if they are workable. I think nobody in this room would object to that.

Mrs. MARSHALL. I mentioned two of them here. One is full implementation of a program such as this one. Another is certainly a more serious attempt on the part of the United States by calling for a convention of all nations of the world on the question of disarmament.

Mr. MALONEY. Do you think that that would do it? Theoretically, that is beautiful. But as a practical proposition, do you think that even if Russia agreed, she would carry out that agreement?

Mrs. MARSHALL. I think that that also can only be examined when the situation arises; because although the two approaches of the United States and Russia toward the question of disarmament controls appear to be almost diametrically opposed, we have not so far agreed to discuss limitation or reduction in the whole field of armaments at once, as the Russians have requested. Until we make an effort to do that sort of thing, there is not much reason, and it is rather futile to say, that the Russians would not be willing to carry out an agreement.

Mr. MALONEY. Would you be willing for the United States to reduce our armaments if Russia merely said at such a conference that she would reduce her armaments?

Mrs. MARSHALL. No.

Mr. MALONEY. Would you be willing for us to do that?

Mrs. MARSHALL. No.

Mr. MALONEY. If Russia said that?

Mrs. MARSHALL. No, I would not.

Mr. MALONEY. Then how would you implement your suggestion? What would you do?

Mrs. MARSHALL. I would, before writing off the question of disarmament as a possibility for the next 10 or 15 years, go into the entire problem.

Mr. MALONEY. Even if you got down to figures and Russia said that she would agree, would you then favor the United States reducing her armaments?

Mrs. MARSHALL. Not without adequate controls.

Mr. MALONEY. How would you control it?

Mrs. MARSHALL. It would have to be discussed and agreed upon at the same time. The Russians have recently resisted some controls in connection with atomic energy; in the past they have suggested more controls than we would agree to.

Mr. MALONEY. I understand, but that is just by word of mouth.

Mrs. MARSHALL. Let us look at it from the other side. It is perfectly true that with the piling up of tension on both sides, it would be very difficult for either side now to believe that the other meant almost anything. That is quite true. But an adequate system of controls means an adequate system of controls. It means both sides will have to agree to the setting up of at least inspection committees.

Mr. MALONEY. Do you believe that Russia would agree to that?

Mrs. MARSHALL. I think we have not really tried to find out, because we have not talked about the whole story.

Mr. MALONEY. Do you know that a Russian diplomat has said that the truth does not mean anything; only that which is good for the party is right, whether it be truthful or not. Have you ever heard that statement?

Mrs. MARSHALL. No. Who was that?

Mr. MALONEY. That was a Russian diplomat. That statement was actually made.

Mrs. MARSHALL. Well—

Mr. MALONEY. What attitude can you take toward a nation that makes that statement, whose philosophy is built on that theory?

Mrs. MARSHALL. I think that in general what we must do—and I am not an expert on foreign affairs—is to do in each situation what we know to be the right, the constructive thing. If that means at times opposing encroachment with stalwart pressure, we must do that. But we should not use what appears to be the case on one issue to influence our actions on every other; that is, we must never give up exploring possibilities that have not been fully explored and which might somehow change the situation. That is why I think disarmament needs pushing, because it has not really been fully explored. In other words, there are still untried doors and disarmament is one of them.

Mr. MALONEY. I can heartily agree with you.

Mrs. MARSHALL. I know that it so, because the United States has maintained that if the Russians will not agree to adequate international controls of atomic energy, which is the weapon we have that they most fear, then, of course, they are not going to agree to international controls for disarmament of any or all weapons.

Mr. MALONEY. I would not trust their word no matter what they said.

Mrs. MARSHALL. I do not think anyone in his right mind today is going to put any stock in paper treaties. But Russian position as far as the setting up of international controls is concerned might change if we indicated that we were actually willing to discuss reduction of all armaments. The Russian position throughout Soviet history has been that the reason capitalist nations insist upon international controls of disarmament is that they really do not want to disarm. We know that is not true, especially at this point in time. But we have not gone far enough in discussion—involving no danger whatever—even to test whether or not that is a genuine Russian fear.

Mr. MALONEY. That is all. Mr. Smith, I am sorry I took so much of your time.

Mr. SMITH. That is all I have at this time.

Acting Chairman MERROW. Mr. Kee.

Mr. KEE. Mrs. Marshall, you made a very interesting and a very complete statement.

Mrs. MARSHALL. Thank you.

Mr. KEE. I personally agree with every word you said. Also, you are in very good company because just before you came into the room, a statement was submitted for the record by the Federal Council of Churches of Christ in America. That also agrees with your statement. So there is no argument between you and me with reference to the necessity of this action and the necessity of it now. I heartily agree with your view that we must meet each situation as it arises. We have a condition now and not a theory of communism in Europe and there is action that we must take.

We are taking a gamble, we are taking a risk, but the risk of not taking action, to me, is a great deal greater than the risk we would take in taking the action proposed. Therefore, I agree with your

statement and there is no argument, so far as I am concerned. I thank you.

Acting Chairman MERROW. Mr. Maloney.

Mr. MALONEY. Mrs. Marshall, I am rather interested in your league. How many people are members of the league? Can you give us the number of members in round figures?

Mrs. MARSHALL. I really do not know the over-all international membership. Do you refer to the section which I represent?

Mr. MALONEY. Yes.

Mrs. MARSHALL. It is a small group as far as membership is concerned—about 5,000 in this country. The history of the organization is quite interesting. It was started by Jane Addams in 1915 at The Hague. It started internationally. The national sections grew up. As a matter of fact, its first international president, Jane Addams, and its present honorary international president, Emily Greene Balch, are two of the three women who have won the Nobel peace prize. It holds international congresses every 3 years. In 1946, the first one in 10 years was held. It has, as I said, members if not fully reorganized (after the war) sections, in 11 of the 16 European nations.

Mr. MALONEY. What countries are omitted of the 16 nations; do you know?

Mrs. MARSHALL. I think I can tell you in which ones we have members. France, Germany—

Mr. MALONEY. Of course, Germany is not one of the 16 countries.

Mrs. MARSHALL. Well, you would consider western Germany?

Mr. MALONEY. It will probably be brought in.

Mrs. MARSHALL. I did not include Germany in my count, as a matter of fact. We have members in all the Scandinavian countries; Belgium, Holland, Great Britain.

Mr. MALONEY. Do you have any countries behind the iron curtain?

Mrs. MARSHALL. We have members in Czechoslovakia, if you call that behind the iron curtain.

Mr. MALONEY. Well, that is on the borderland, I would say. Now, you have an interchange of ideas, I imagine?

Mrs. MARSHALL. Yes; we have.

Mr. KEE. Will the gentleman yield?

Mr. MALONEY. Yes.

Mr. KEE. I meant to ask Mrs. Marshall, what is your official position in the organization?

Mrs. MARSHALL. I am the legislative secretary of the United States section.

Mr. KEE. Thank you.

Mr. MALONEY. What do these women in these 11 countries say about the possibility of this plan interfering with the sovereignty of those countries?

Mrs. MARSHALL. Would you like to have me read you some comment we have received?

Mr. MALONEY. I should be glad to hear them. I think that is rather important.

Mrs. MARSHALL. We do, too. I have a letter here from France which as a matter of fact, expresses almost all of the views which came to us from other countries.

Mr. MALONEY. If you will just touch the salient points, I think we would be interested.

Mrs. MARSHALL. Our correspondent says, for instance, touching on this question:

* * * If we are making reservations which tend to keep intact the independence of France, we have always been grateful to the Americans who have made great sacrifices of time, energy, and money to send us food packages and to help us in every way in our distress. Today again, we are touched by the fact that the people of the United States are consenting to limit themselves, and perhaps to deprive themselves to prevent famine on the Old Continent.

Also:

Please believe that we are grieved and humiliated to be thus reduced to beggary, while we are only partially responsible for it.

She discusses how far French recovery has already progressed. Then she discusses long-term aid, saying:

In addition to the problem of emergency aid, in order to prevent a famine and an immediate paralysis of industry, the conference of the 16 nations concluded that in spite of the mutual aid of the European countries, which they were commissioned to initiate, enormous needs remain, amounting to nearly \$20,000,000,000 which Europe cannot meet without American aid.

For emergency aid, as well as for long-term aid, we shall be deeply grateful to the generous people of the United States. But we ask our friends * * * to obtain from political milieux that they can influence: That no political condition shall be placed on the French Government in exchange for the aid that is offered, and that if certain economic conditions are requested as a guaranty for the loan, they shall not mortgage the future of our economy or subjugate us in any way to the powerful enterprises which the trusts are, or to the economic interests of a state as powerful as yours. Finally we ask that no new organization be created for the application of the Marshall plan, but that it be entrusted to the competent services of the United Nations Organization, in order not to diminish the role and prestige of that international institution.

Mr. MALONEY. I take it you do not disagree with all of her thoughts?

Mrs. MARSHALL. No; I do not.

Mr. MALONEY. What is your conclusion as to any interference with these nations' sovereignty? Let me bring it out in this way. We want those countries to have, and we feel it is necessary for those countries to have, a strong currency.

Mrs. MARSHALL. Yes.

Mr. MALONEY. And in a bilateral agreement we may insist upon their revamping their currency to such an extent that it will become a strong currency. That might be interpreted as interfering with their sovereignty. What would be your opinion on a proposition of that kind?

Mrs. MARSHALL. Mr. Maloney, I find this an extremely difficult question.

Mr. MALONEY. I do not believe in interfering with controls, or anything like that; but just to get the currency on a firm basis.

Mrs. MARSHALL. I will venture to say that I do not think that would be interfering with their sovereignty provided we do not impose conditions as to exactly how it be done, since currency stabilization would be certainly a very important way in which we could insure that they will be dealing honestly, fairly, and efficiently with us.

There are one or two other things which cause me a little concern. One is the suggestion that domestic currencies in the amount of grants-in-aid which we give, be tied up and used solely on our say-so.

Mr. MALONEY. No; the plan I think provides that it be placed in a separate account subject to the spending of both countries.

Mrs. MARSHALL. Yes, but I heard in this committee a good deal of discussion one day as to whether it would not be a good idea for the United States to insist that this money be used for such a program as publicizing within that country the "truth about the program and the truth about the United States." Now, I know perfectly well, we all know, that more information should be got out to the people of Europe. This letter from which I read indicates that they need more information.

Mr. MALONEY. Yes.

Mrs. MARSHALL. But, formally to impose as a condition of aid the preparation and circulation of what we could call propaganda favoring us would mean invasion of sovereignty and would not do us any good. I think we would have to do that independently.

Mr. MALONEY. I think I see your point on that.

Mrs. MARSHALL. Also, in connection with the making of private loans—

Mr. MALONEY. I was going to come to that. I was going to ask you about that. We have had considerable data here suggesting that as soon as possible we should encourage private capital to go into these countries and invest in these countries. In fact, the bill itself provides for that.

Mrs. MARSHALL. Yes; I am familiar with that section.

Mr. MALONEY. Why should not that be done, because that has been the normal way of doing it, before the War. Why should we not try to encourage that? Your attitude seems to be different.

Mrs. MARSHALL. I said that aid should not be provided in that way primarily because there has been a great deal of discussion about extending the guaranty of convertibility. There is now some discussion of making a larger section of the aid in the form of private loans per se. I think you would have to rewrite the entire program if you were going to do that, because as far as I can understand the State Department's figures, they have been carefully arrived at and balanced. So that if they say that 5 percent of the appropriation could be expended as a guaranty of convertibility into dollars of up to the same amount of new investment in Europe, that 5 percent has been just as carefully balanced along with the expected proportions to be made in pure loans and pure grants as has the proportion of either of the latter elements in relation to the other two.

Mr. MALONEY. Are you satisfied that we do provide 5 percent or up to 5 percent to guarantee private loans?

Mrs. MARSHALL. Yes, though I have not done the statistical work to be able to say that it would work. But I do believe that first, to cut down the over-all appropriation and increase the private loaning part of it, would be bad; that would be very bad. Second, to leave the appropriation at \$6.8 billion and increase the private-loan section would not be too good, because I think it would throw the whole program out of balance. This was the idea that I have had.

This point is somewhat comparable to another question this committee has discussed. Once Mr. Bloom was talking to Ambassador Douglas about the question of reexports by participating nations of goods made out of goods which we sent there in the form of grants. Mr. Bloom wanted to know why we would not be justified in requiring part payment, a cut, in other words, out of whatever they earned

through reexport, because we had supplied free the ingredients of those exports.

Ambassador Douglas explained that would change the original transaction from a grant into a loan, and it seemed to me that was clearly demonstrable.

Mr. MALONEY. Were you here the other day when Mr. Batt testified before the committee?

Mrs. MARSHALL. No; I was not.

Mr. MALONEY. He made a suggestion that we continue to import from these countries our regular needs, but in addition to that strategic materials could be stock-piled by us that we would not ordinarily bring in as a regular importation proposition.

He suggested that these countries could pay something back to us through the strategic materials that could be stock-piled. He said that that would not impede their recovery. He did not believe that would impede recovery because it would not interfere with our regular course of exporting and importing.

What do you think about that?

Mrs. MARSHALL. I would like to ask you have you yet discussed or considered the impact of taking those materials in payment—not buying them on the part of the United States—but taking them in payment.

Mr. MALONEY. Understand, we would not in any way get the full amount that we are paying out. We would not get material to correspond to that full amount. The materials would represent but a small percentage of it. However, at the same time, we do not want to lose sight of the fact that we are taking the taxpayers' money.

Mrs. MARSHALL. We should not lose sight of that.

Mr. MALONEY. And while we want to develop the economy over there and do not want to do anything to interfere with that economy, yet it is believed by some members of the committee that those materials could be taken without hurting the economy of those countries.

Mrs. MARSHALL. I would just like to say that I do not know whether it can be done, and I think that it should be carefully examined.

If the program developed by the State Department asking for \$6,800,000,000 has taken into consideration what Europe can do for itself and therefore has set our assistance figure assuming United States purchase of these materials—

Mr. MALONEY. May I interrupt? Perhaps I did not make myself clear. For instance, a lot of these countries and their possessions have minerals in the ground that they are not developing; that they probably would not develop, but this plan would encourage the development of them.

Mrs. MARSHALL. As I say, if it was not contemplated in the program to develop them; if they are not already counting on developing these as well as other resources, and thereby making up what we have estimated they can earn in foreign exchange; if they have not done that, there is a loophole. If the development and use of these resources is already counted upon by the program, all we can ask of them in return is they facilitate the selling of them to us instead of somebody else; to ask more would cut down the foreign exchange which they themselves could earn. Do you see what I mean? That is what I mean as to private investments, too.

There is a possibility that even though the original sum is invested

in the country, that because of the claim on the earnings of that unit held by foreign nationals, in time the earnings would come out of that country and be transferred into dollars and spent in the United States instead of being spent for the further building up of the industries of that country.

Mr. MALONEY. You stated rather strenuously that you would oppose any reduction of the 6.8 billion, and if anything, you would have that increased. Why do you say that? Is it just because the State Department put those figures in?

Mrs. MARSHALL. Certainly not. Do you not think that the State Department pared down to the bone what they were going to ask this Congress for?

Mr. MALONEY. I do not know. Frankly, I do not know. The proposition could exist that the State Department put that figure in with the idea of bargaining.

Mrs. MARSHALL. Do you have any evidence of it?

Mr. MALONEY. I have no evidence of it, no; but I say that proposition could still hold as well as your proposition.

Mrs. MARSHALL. It was Mr. Clayton over in Paris who was the chief encouragement to the Europeans to cut down their original estimate of what they were going to need from the Western Hemisphere from 29 billion to 22 billion.

Everyone said at that time, including the Europeans themselves, first, the production schedule which they announced was extremely optimistic; second, no allowance was given for weather conditions such as existed last winter, this summer; third, it was based on the summer of 1947 prices; and fourth, it was based on the assumption that trade between eastern and western Europe would grow. All of those factors are and will continue to be important and variable factors.

Mr. MALONEY. All right. Do you see any reason why a large sum of money should be given to Iceland or to Ireland?

Mrs. MARSHALL. I have not studied this, and I would not want to say anything before I did. I think that Iceland gets \$38,000,000.

Mr. MALONEY. How much does Ireland get?

Mrs. MARSHALL. \$497,000,000.

Mr. MALONEY. Ireland, you understand, was not even in the war. It was not involved in the war at all, but there is \$497,000,000 over a period of time. Would you feel that is justified?

Mrs. MARSHALL. I do not know whether or not that particular sum is justified. In general, I would bear this in mind, that before I cut down any appropriation for any particular country I would make a very careful examination of just what was going to come out of that country for the whole—

Mr. MALONEY. We are trying to do that.

Mrs. MARSHALL. For the whole circle of countries.

Mr. MALONEY. We are trying to do that. I am not saying that your stating that 6.8 billion is absolutely necessary is a good statement myself, if you do not mind my criticism.

Mrs. MARSHALL. Not at all.

Mr. MALONEY. We are trying to find out those things.

Mrs. MARSHALL. I have said, as you remember, I felt from every side the assumptions were optimistic ones.

Mr. SMITH. I believe Mrs. Marshall said she was in favor of having the figures go upward rather than downward.

Mrs. MARSHALL. I think that would be safer, from the point of view of trying to cut down the risk.

Mr. MALONEY. You do feel that if this committee should find the figures out of line we would be justified in reducing them?

Mrs. MARSHALL. Surely.

Mr. MALONEY. Now, there is another point that interests me very much in your original statement, and that was that you felt that you rather disapproved of cutting off trade between Russia and America. Do you feel that we should not cut off trade with Russia at this point?

Mrs. MARSHALL. Well, there is this economic situation that has to be faced: The Russians need almost anything. They are like any other European country. Everybody says that the devastation of Russian industry and cities was as great or greater than in the other European nations. They are not getting a cent of assistance from us now. They are buying from us.

Mr. MALONEY. They were invited into this conference.

Mrs. MARSHALL. They were invited to the conference.

Mr. MALONEY. And the satellite nations.

Mrs. MARSHALL. Quite true. I have felt the impact of that, but leaving that aside for the moment, they are buying from us and are paying cash. Dollars are short to them, too.

Mr. MALONEY. They are buying very little now, Mrs. Marshall. In fact, we have had industrialists here that have stated that they are clearing up old contracts, but not making any new contracts whatsoever with Russia.

Mrs. MARSHALL. Well, that is matched if not exceeded by hesitation, I think, on the part of industrialists—and I can well understand it—about fulfilling orders to the Russians because of the tremendous pressure which has been brought to bear by public opinion in this country.

Mr. MALONEY. You do not approve of that, then?

Mrs. MARSHALL. As I say, I can very well understand it. I think it is very hard to know which thing to do, because every country in the world today faces the pressure of its nationals to do everything possible in their power, no matter whether it is wise or foolish, to increase the consumer goods for disposal to its people.

The Russians have for years been denied adequate consumer goods. Now they are having to go without them more. Nobody can estimate how great a pressure upon the government that is.

It seems to me that the Russian Government is in the position of fearing inside and fearing outside its national borders.

Now, I am not saying this would accomplish the whole objective, but here is another possible door—if somehow the Russians could get for their people adequate consumer goods at this point, a great deal of the pressure—the reasons for fearing their own people—would be reduced and the whole picture might change.

Mr. MALONEY. Do you not realize that by our shipping our goods into Russia we are helping them to build up their war potential, and do you not agree with the premise that Russia is really, we might say, a potential enemy of this country?

Mrs. MARSHALL. Surely.

Mr. MALONEY. And do you not think it would be dangerous to ship goods over to Russia from this country, just as dangerous as it was to have shipped scrap into Japan?

Mrs. MARSHALL. I think it would be dangerous if on every other front both sides go at each others' throats. Statisticians say the Russians would be unable to fight a war for a certain period of time; now she does not want to fight a war any more than we do, and therefore this might be one way, in the meantime, that we could ease the situation.

To get back to eastern Europe, perhaps one of the chief reasons the Russians have clung so tenaciously to the politics and the economies of the ring of countries around her is of her own devastation and her desire, because of necessity, to suck from those countries what goods she can.

Mr. MALONEY. To build up her war industry.

Mrs. MARSHALL. Not necessarily her war potential. It is not provable.

Mr. MALONEY. I did have some figures—I do not have them now—showing the percent of Russian industry building up for war. I do not have the figures now, but it is a substantial figure.

Mrs. MARSHALL. It seems to me that you are on the horns of a dilemma. If we do not sell goods to the Russians, the Russians will do everything in their power to take more and more out of eastern Europe and try as hard as possible to keep eastern Europe from exporting to western Europe.

On the other hand, we are about to undertake the European recovery program, which is based in part on the growth of trade between eastern and western Europe.

Mr. MALONEY. I understand your thoughts, but I cannot subscribe to all of them, I assure you.

I thank you very kindly.

Mr. JARMAN. Mrs. Marshall; it is certainly refreshing to me to have you and so many other witnesses come to this committee and express an attitude toward the State Department, and the officials of our Government, which is so contrary to the line of least resistance. It is very easy for one not versed in the functioning of the State Department and the functioning of international affairs to say that they do not know what they are doing. I am delighted that so many businessmen and you ladies who come before the committee do not take that attitude.

I believe that the officials of the State Department are just as patriotic as I am and love this country just as much as I do, and represent this country and not some other country first, just as I try to do. Therefore, I share your opinion that they did cut this amount to the bone. Certainly they cut it tremendously from what the Paris Conference suggested.

Mrs. MARSHALL. And it covers a 15-month period rather than a 12-month period. The Harriman report also covered only 12 months.

Mr. JARMAN. Yes.

Mrs. MARSHALL. I would just like to say I do believe that this program with its figures represents exceedingly careful and comprehensive work.

Mr. MALONEY. Understand, I am not finding fault with that, and I think you answered the last question I put with regard to that 6.8

billion very well. In other words, I feel if, through a careful exploration of these figures this committee finds that it is overbalanced, we should change it, and I think you said that you agreed with that.

Mrs. MARSHALL. I agree with you.

Mr. MALONEY. I further agree with Mr. Jarman here that the State Department does follow honestly these figures. I am not questioning their honesty or their patriotism, understand that. However, I do feel that what makes this country a real country is a difference of opinion.

Mr. JARMAN. Surely, but we had a report from this Harriman committee which is not connected with the State Department at all, and they agreed with the State Department. There were two or three other committees I do not remember their designations which reached the same conclusions. I agree with you that we are representing the taxpayers of this country, but I am not sure that we are adequately representing them and properly representing them if we constantly try to pare down something that other patriotic officials of the Government have estimated is necessary, officials who have more information than we have and who have worked on it longer, so if we cut it two-thirds and get only one-tenth maximum good out of it we are not adequately representing the taxpayers.

Regarding your reference to the strategic-materials problem. You probably heard me ask a good many questions along that line. You apparently have been here a good deal, Mrs. Marshall, and I thoroughly agree with you and your fear.

First, I may say that I do not know whether the gentleman from Pennsylvania remembers it or not, but Mr. Batt, in answer to my question the other day, said that he thought that those normal strategic materials would be paid for out of local currency, not dollars. I do not know whether you remember that or not. I asked him that question, which is quite a different thing.

Mr. MALONEY. My understanding was that he stated he was not clear on that point. Remember, he said for a minute he was not clear on that point as to how it would be paid for, but he did say local currency.

Mr. JARMAN. The local currency put into a special fund. I understood him to answer my question that he had in mind that it would be paid for out of that rather than dollars.

Mrs. MARSHALL. We would pay for it out of that?

Mr. JARMAN. That does create a different situation. I thoroughly agree with you. If the 6.8 billion dollars estimate is right—and I am perfectly willing to assume it is, myself, because of the great effort that has been put into it by the people who ought to be qualified—if that is the amount of money that is needed for these countries during these 15 months and we reduce it by half a billion by making them pay us for strategic materials or anything else, we will just have to add a half billion to the 6.8 billion, and we will just be robbing Peter to pay Paul.

Mrs. MARSHALL. Or risk more than we are risking now.

Mr. JARMAN. Or run the danger of making it a pure relief program rather than a recovery program, toward which we are working.

Mrs. MARSHALL. May I interrupt to say something about the checking of the figures? What I feel you would have to do in order to cut any of this out would be to go through the whole process that the

State Department and the other committees went through—reconstruct the entire program, and not just say that because Ireland has not contributed anything and was not even in the war, the tentative allocation of dollars to her can be lopped off the over-all appropriation, but examine the whole framework to see in the light of newer information whether or not it would actually be wise to cut.

Mr. MALONEY. I am possibly from Irish descent, so when I criticise Ireland there I am not criticising the country itself; I am criticising the appropriation.

Mrs. MARSHALL. Yes.

Mr. JARMAN. I agree that picking out Ireland or Iceland is just like taking a sentence out of context. I agree that before waving one of those countries aside we should go into all the details, and I do not believe it is the function of this committee to do so.

I do not believe it is the function of this committee to do over again all the details that the Harriman committee did, and others. I agree that if we had the time it might be desirable.

Mrs. MARSHALL. So do I.

Mr. JARMAN. But if we do that and take that time and let communism spread all over the world, we will do no good. We had better make it one million too much, any amount too much, rather than run the other risk.

Acting Chairman MERROW. I think this has been touched on before, but for the sake of clarity, I would like to refer to it again.

Will you give us the feeling of your league in reference to the question of adequate preparedness on the part of the United States; particularly in the air? Have you taken any action along this line?

Mrs. MARSHALL. No, we have not. We have not yet studied the question. I do not feel it is entirely relevant to this particular question.

Acting Chairman MERROW. Do you view with any alarm the armament of the Soviet Union?

Mrs. MARSHALL. I know little about the armament or the rearmament of the Soviet Union.

Acting Chairman MERROW. I would like to establish, if I can, what I think is the relevance of that question to this proposition, in this way: The Secretary of Air said the other day that we were no longer the No. 1 air power in the world. One president of a great aircraft company in this country said that we were lagging behind both the Soviet Union and Great Britain in research and development and that we were not the No. 1 air power in the world.

From the best information we can get the Soviet Union has planes equivalent to, or superior to, the B-29 in large quantities.

Now, the relevance of that situation to this one seems to me to be this—and I would like to get your reaction to it if we go on and spend billions of dollars in Western Europe to bolster these economies—after we spend that money they will not be in a position to resist were aggression made upon them. In other words, in 2 or 3 years they would be richer prizes for an aggressor than they are at the moment, and if the United States, which is the only other great power in the world besides Russia, did not have the air power to protect its investment, the whole investment would be lost.

Mrs. MARSHALL. I think that you would find with greater integration of the economies of these 16, and any other European nations

which come into this program, handled right, that in one sense they would be a great deal stronger as far as resistance is concerned.

Acting Chairman MERROW. How could they resist if they did not have the planes and guns to resist with?

Mrs. MARSHALL. Well, I think that this plan, to a great extent, would prevent their having to resist.

Acting Chairman MERROW. How could it, with the Soviet Union possessing the greatest land army in the world, and the first air power, if we do nothing about it? How could the Greeks, the Turks or the French—and you could go right on down the line—ever offer any resistance in favor of the United States as a distant ally unprepared if the Kremlin decided to march?

Mrs. MARSHALL. Of course they would not be able to resist outright military aggression. We are now discussing a very hypothetical question. It seems to me that your argument here rests as heavily on faith as mine, for neither of us can know certainly whether or not the Kremlin would decide to march.

Mr. MALONEY. Is not the answer to that that that is a part of the gamble?

Mrs. MARSHALL. That is part of the gamble. I think this is probably a better way to prevent such a situation from arising than to concentrate all our efforts on a program which appears—whether it ought to or not—terribly hostile to the other power.

Mr. MALONEY. What the chairman says is really a possibility, but that is a part of the gamble.

Acting Chairman MERROW. May I interject this: Are you not making a far greater gamble when you pour out millions of the taxpayers' money to bolster economies and yet do not create a striking force to protect the investment that you are making?

Mr. MALONEY. Secretary Royall explained that by saying he believed in this plan, but not merely the plan alone; he believed in strengthening the United Nations and also strengthening our military forces, and I think that he answered that very completely.

Acting Chairman MERROW. I just want to make this point, and I will yield, that at the end of the war the air forces decided that the minimum protection for the United States would be a 70-group program consisting of over 6,000 first-line planes and 8,100 reserves. At the moment we have only 55 groups. We would have a difficult time resisting, or showing strength anywhere. At the present time the President's budget calls for a little over \$3,000,000,000 for the Air Force, which means that we cannot even keep the 55-group program going, so my position is, as I have stated it, this: If we spend 6.9 billion on the Marshall program in the next 15 months, and do not increase the appropriation for the Air Force we are just throwing the money away under the Marshall plan.

Mrs. MARSHALL. You think that both should be done as real double insurance?

Acting Chairman MERROW. Exactly. I would support the Marshall plan if we could have that done, but if we do not do that we are acting foolishly, in my opinion.

Mrs. MARSHALL. I would like to ask you something, Mr. Merrow, since you know a great deal more about this than I do.

Acting Chairman MERROW. I would not say that.

Mrs. MARSHALL. About Russian armament programs, and so forth.

Are you familiar with the negotiations of the Military Staff Committee of the United Nations, which was reported in a State Department bulletin last spring?

Acting Chairman MERROW. No.

Mrs. MARSHALL. The United States, France, Britain, and China, if I remember correctly, were all anxious to have forces put at the disposal of the United Nations handled in this way: Each country would put at the disposal of the United Nations the forces it was best able to, and in the amount that it was best able to, and the over-all picture would be a force, we will say, of heavy air power concentration from the United States, heavy military personnel from the Russians, and a navy perhaps from the United States also. The Russians objected to that. They wanted equal contributions from each country of each force. They said that it would be dangerous to have large forces at the disposal of the United Nations. They thought that it would be threatening. Why would they object if they were so strong in air power to this contribution of unequal forces at the disposal of the United Nations?

Acting Chairman MERROW. Their record has been one of objection to everything.

Mrs. MARSHALL. What is behind it? I felt at the time that the thing behind it was that they did not want the striking force, which is the air force, to be contributed by the United States because that would dominate all other forms of military power which might be contributed.

Acting Chairman MERROW. We do not have the striking force now to dominate any country.

Mrs. MARSHALL. Perhaps everybody has misconceptions. Perhaps the Russians think that we are stronger than we are. Maybe that is a good thing—it is hard to say.

Mr. SMITH. I would like to say for the sake of the record that I share the apprehension that you have in this matter, Mr. Chairman. Unless we take all the gamble out of it, or as much as possible, we are going to be in a bad way. I believe we can, to a certain extent, write some insurance into this gamble by providing that kind of force.

Now, we buy insurance to protect our homes against fire loss, but we do not discharge the fire department; they are still on the job.

Mrs. MARSHALL. May I say, then, that I simply feel, not being competent to answer in this other field, that certainly as far as the European recovery program is concerned, the best insurance for it is to do it adequately and soon.

Mr. SMITH. But you cannot divide them; they are not separate and distinct. They are part of a whole.

Mrs. MARSHALL. One-half of your attempts to insure would certainly then be to do it adequately and soon and with the promise that you will stick with it, or at least have the intention of sticking with it.

Mr. MALONEY. And would you agree to the statement—with as much protection of it by what military force is necessary?

Mrs. MARSHALL. I would leave that to you gentlemen.

Mr. MALONEY. Would you agree to that statement?

Mrs. MARSHALL. To "as much as necessary," yes.

Acting Chairman MERROW. I would like to ask this. The President's Air Policy Commission has placed "A-day at January 1, 1953, and they have divided the future into two phases; the time before that is phase No. 1 and the time after that is phase No. 2. After that date we should have an air force capable of resisting an enemy if we were to be subjected to an atomic bomb attack. They make recommendations that we should implement or that we should get the 70-group program as soon as possible, which will require a \$6,000,000,000 appropriation by the Congress beginning immediately.

Now, as far as I am concerned, if I had to take my choice between the European recovery program and air supremacy on the part of the United States, I would take air supremacy because that is about the only language some people understand. I am very much afraid if we continue to invest, or pour out the money for the stopping of communism by the building of economies and do not have an adequate air force, we will lose the investment, and that will be acting very unwisely.

Mrs. MARSHALL. That is why we really feel that a further and comprehensive examination of the dearmament issue be understood first, if only to clear the air—for the air, should we say?

Mr. MALONEY. You would go into that convention with your fingers crossed.

Mrs. MARSHALL. I would certainly take up the whole discussion of the question. Every time that it has been brought up in the United Nations so far it has not been the United States that initiated it. That is the thing I am getting at. Whatever our motives in not initiating it are, you just simply have to recognize that you do not have any ground for insisting on our motives until you have made it perfectly obvious to the other side.

Acting Chairman MERROW. May I just add this: I think at the close of World War II we had established a world's record for stripping ourselves of armed strength. It is one of the greatest tragedies, in my opinion, that has ever happened to a great power.

Mr. KEE. Speaking to the matter brought up by Mr. Smith a moment ago, regarding the gamble in this legislation, is it not your view that if we attempt to write into this legislation clauses sufficient to take the gamble out of this program, we will have a strange and wonderful piece of legislation by the time we get through with it?

Mrs. MARSHALL. I think here again faith is necessary. I think that you should make this legislation adequate but flexible and put your faith in the kind of people to whom you hand its administration.

Mr. KEE. Is it not the consensus of opinion that we are taking a risk in a way, whether we pass this legislation or not, and the greater risk is not doing it?

Mrs. MARSHALL. I feel that very strongly.

Acting Chairman MERROW. Thank you, Mrs. Marshall.

Mrs. MARSHALL. Thank you, Mr. Merrow and members of the committee.

Acting Chairman MERROW. I have on the list here the Order Sons of Italy in America. Is their representative here?

**STATEMENT OF LEONARD H. PASQUALICCHIO, NATIONAL
DEPUTY AND WASHINGTON REPRESENTATIVE, ORDER SONS
OF ITALY IN AMERICA**

Mr. PASQUALICCHIO. Mr. Chairman and gentlemen, I am Leonard H. Pasqualicchio, national deputy, Washington representative, Order Sons of Italy in America, and due to the fact of the inability of our national president, Mr. George J. Spatuzza, of Chicago, to be here, I have been requested to appear for him.

I am not going to take up too much of the Committee's time. I expect to file a statement as prepared.

The order has gone into considerable study in reference to the Marshall plan, and we were very careful in trying to not come in here and file a statement just for the sake of filing a statement.

We were fortunate enough to engage a well-known economist connected with the United States Department of Commerce, who has incorporated very important and informative information regarding the economic and political conditions of the 16 nations included in the Marshall plan.

I am not going to read the statement. The order wishes to go on record as being in favor of the Federal administration's long-range foreign-aid program of assisting the European nations to achieve economic recovery as embodied in the report of President Truman's Committee on Foreign Aid submitted by the Secretary of Commerce, Hon. Averell Harriman, on September 7.

His report and other subsequent reports in analyzing the American resources show that on the whole our national resources, if handled intelligently, are sufficient to support a substantial foreign-aid program without endangering the national security or the American standard of living.

The order is officially opposed to any program of foreign aid which would overtax the resources of the United States or which would constitute a threat to the stable functioning of the national economy irrespective of the foreign countries to which such aid may be directed.

I believe we have some very interesting information which should assist the committee in working out a plan for the aid to these European countries.

We believe that the amount of 6.8 billion required, or asked for, by the administration, is sufficient for the 15 months, and while the organization as a whole is going on record in favoring the 4-year plan, personally I feel—and this is not the opinion of the organization; it is my personal opinion—after the first 15 months I think future aid and assistance to these countries included in the plan should depend on how willing and how interested they are in helping themselves and how well they have cooperated with the United States during the 15 months' operation.

I do not care to take up any more of the committee's time, but wish to file a statement as a whole here.

(The statement referred to is as follows:)

**STATEMENT MADE BEFORE THE HOUSE COMMITTEE ON FOREIGN AFFAIRS, BY
MR. GEORGE J. SPATUZZA, NATIONAL SUPREME VENERABLE OF THE ORDER
SONS OF ITALY IN AMERICA, FAVORING THE ADMINISTRATION'S LONG-RANGE
FOREIGN AID PROGRAM, KNOWN AS THE MARSHALL PLAN**

(NOTE.—Acknowledgment is made to Nicholas M. Petruzzelli, Ph. D., Washington economist, for his services rendered in contributing the valuable technical analysis contained in this statement. The national officers and members of the Order Sons of Italy in America are deeply indebted and grateful to Dr. Petruzzelli for this authoritative information.)

HON. CHARLES A. EATON,
Chairman, House Foreign Affairs Committee.

MR. CHAIRMAN AND COMMITTEE MEMBERS: I am George J. Spatuzza, national supreme venerable of the Order Sons of Italy in America. I was elected to this office at the supreme convention held in San Francisco, Calif., last August. I am a lawyer by profession, residing in Chicago, Ill. I deem it an honor and a privilege to present the following statement in the name of our association, favoring the administration's long-range foreign-aid program, sometimes called the Marshall plan, for the consideration of this honorable committee. In presenting this statement, I am conveying to you gentlemen not only my personal views and sentiments and those of the national officers and members of our organization but also the sincere views and opinions of over 7,000,000 Americans of Italian origin residing in the United States today.

I wish to explain to the distinguished members of this committee that the Order Sons of Italy in America, organized over 40 years ago, is 100 percent American in spirit and purpose. We inculcate our members with the democratic ideals enunciated in the Declaration of Independence and the Constitution of the United States. Our members are taught the ideals of liberty, fraternity, equality under law, and above all our cherished American way of life. Our membership is composed of men and women residing in America of Italian origin, both of the first and second generations, but all of whom are United States citizens, voters, property owners and taxpayers. We have State, subordinate, and affiliated lodges in 34 States of the Union, with offices in Washington, New York, and Chicago.

The Order Sons of Italy in America is officially in opposition to any program of foreign aid which would overtax the resources of the United States, or which would constitute a threat to the stable functioning of the national economy irrespective of the foreign country to which such aid may be directed. The official position of the Order Sons of Italy in America traditionally has been to support and favor the interests of the United States before those of any other country. A secondary and natural stand of this association has always been to support any program of endeavor conducive to the improvement of cultural, economic, and other relations between the United States and Italy so long as they might advance the best interests of the United States. In this latter regard, the order wishes to go on record as being in favor of the Federal administration's long-range foreign-aid program of assisting European countries to achieve economic recovery as embodied in the Report of President Truman's Committee on Foreign Aid, submitted by the Secretary of Commerce, the Hon. W. Averell Harriman, on November 7, 1947.

In addition to offering specific recommendations and outlining in clear language the democratic philosophy underlying the international economic and political policy of the United States, the Harriman report summarizes the data contained in two earlier reports to the Chief Executive made, respectively, by Secretary of the Interior Krug on October 18, and by Dr. Edwin G. Nourse, Chairman of the Council of Economic Advisers, on October 28. The first of these two reports, in analyzing American resources, shows that on the whole, our national resources, if handled intelligently, are sufficient to support a substantial foreign-aid program without endangering the national security or the American standard of living. The second of these reports presents an analysis of the effect that a substantial foreign-aid program would have in the United States economy. It concludes that the Nation's economy can sustain the impact of such a program, if the problems raised by the short supply of key commodities, such as wheat, steel, coal, fertilizer, and certain other items, are dealt with promptly and effectively.

The findings of these two reports are analyzed and correlated in the light of the Paris Conference's presentation of European needs, by a committee of 19 distinguished citizens headed by the Secretary of Commerce, Hon. W. Averell Harriman, and their findings are detailed in the report previously mentioned.

The Order Sons of Italy of America has made an independent study of the present economic problems of Italy, which is one of the Marshall plan nations, with a view to determining the extent to which that country can, by its own efforts and in cooperation with the other 15 nations represented on the Committee of European Economic Cooperation, bring about the achievement of a self-sustaining and prosperous economy. As a result of this study the Order Sons of Italy in America has been forced to come to only one conclusion; namely, that the long-range foreign-aid program to aid European nations in achieving economic recovery as outlined in the reports mentioned above is completely realistic insofar as it relates to Italy.

Given Italy's traditionally poor international economic position, the physical destruction to her economic plant, and the dislocation of export markets wrought by the recent war, she cannot be rehabilitated economically merely by the efforts and hard work of her people. Italians cannot make the Italian economy function merely by wishing it to do so. For example, the generous aid already extended by the United States to Italy from the time of the latter's liberation in September 1943 to the present, and the aid being given by the United States currently, provided the necessary spark to fire the Italian economic engine and fuel to keep it going. Without this aid, Italy's economy today would have been substantially retarded below its present stage of partial recovery.

But the Italians, an inherently proud and industrious as well as self-reliant people, do not wish to keep their economy going by means of a perpetual flow of charitable grants from others. This is proven conclusively by the recent success which attended the determined efforts of the Italian people and their new Italian Government to achieve economic recovery. The most spectacular of these were the recent (October-December 1947) favorable decline in food and clothing prices in Italy, and the strengthening of the external value of the lira, both of which were largely resultant of the deliberate policy of the de Gasperi government in increasing taxes, restricting credit expansion, and curtailing the flow of new money into circulation.

Though the trend toward recovery is encouraging, the incontrovertible fact remains that the task of complete restoration of Italy's economy to a basis of self-sustainment is to be long and difficult, running several years into the future.

Why this is so may be seen from a brief analysis of Italy's place in the world economy from the time of its birth as a unified nation up to World War II and a consideration of the damage and dislocation which this war inflicted upon the productive capacity of the Italian economy.

Without going into too much detail, a brief examination of Italy's balance of international payments from the time of national unification in 1860 up to now clearly indicates that it has always closed with a deficit which was most often met by recourse to borrowing of foreign capital. The reasons for this symptom of Italy's relative poverty are more apparent than real.

Italy is basically an agricultural-industrial nation. Industrialization took place rapidly in Italy. The country barely produced sufficient food for its population's requirements. In fact, in recent prewar years she had to import approximately 6 percent of her total food requirements from other countries. When the industrialization process began to make substantial headway from about 1890 onward, the country's dependence on imports increased progressively. This was the inevitable result of the combined intensification of industrialization and the country's relative lack of raw materials such as coal, iron, petroleum, cotton, and wool needed by her growing industries. These factors placed Italy in a particularly unfavorable position as compared with countries more richly endowed.

The Italian economy was heavily dependent upon foreign trade even in the recent prewar period when the foolhardy autarchic program was instituted by the Fascists in an effort to reduce dependence upon other countries. In those years the total value of annual exports and imports combined averaged about 20 percent of the estimated national production, as compared with a similar relationship of about 7 percent in the case of the United States.

Italy's dependence on imports alone was relatively greater (10.5 percent as against 3 percent for the United States in relation to the value of gross national product).

Geographically, Italy's trade developed increasingly and naturally with its immediate neighbors, namely, Germany and the Balkan countries. During the period in question, Italy's merchandise exports paid for 70 to 90 percent of its imports, an average over a period of years of 80 percent, and payments deficits were covered in large part by remittances from abroad, tourist expenditures, freight receipts, and miscellaneous services.

When Italy was liberated in 1943, her foreign trade was practically at a standstill. Since then, such foreign trade as Italy has carried on has been quite abnormal in that her imports have been running at over twice the level of her exports. However, this should not be surprising considering the loss of the large German export market and the effects of the war.

Add to Italy's unfavorable international accounts, the destruction and loss suffered by her agricultural and industrial enterprises, as a result of the recent war, and we find the Italian economy more seriously incapacitated than is apparent from a mere perusal of statistics or a tour of the country.

Italy suffered heaviest losses during the recent war in damage and destruction to highways, roads, bridges, railways including rolling stock, and shipping.

Italy has always depended on foreign countries for coal to supplement her own meager supplies. However, the new Italian frontiers set by the Treaty of Peace deprived Italy of the Istrian mines. Thus, she now can count only on supplies from the Sardinian mines and the lignite deposits in the central peninsular regions making the dependence on imports much greater.

Also of great importance to Italy's economic life was her electric power. As a result of war damage 23.5 percent of the hydroelectric plants and 53 percent of the steam power stations of the country were rendered inoperative.

In agriculture, too, the war brought ruin and loss as a result of destruction of farm houses, stables, silos, pumping stations, plantations, and by the laying of mines, and carrying off of machinery and livestock. The heaviest loss sustained by agriculture, however, has resulted from the impoverishment of the soil due to overcropping in the war years and the marked scarcity of fertilizers.

Among the severest hardships to the Italian people, caused by the recent war, have arisen from the destruction and damage to dwelling houses. The total of all destroyed and damaged houses, in terms of rooms, amounts to 5,885,290 or about 12 percent of the total number existing at the beginning of the war.

The foregoing figures, however, can only give a superficial indication of the degree of suffering inflicted by the war upon the Italian people and, what is more important, the handicap to Italian productive capacity caused by war damage and dislocation. For example, Italy today is not capable of yielding income sufficient to satisfy even a minimum of subsistence for its population. Some idea of this may be obtained by comparing estimates of Italy's national production in the year 1946 with her production in the year 1938, both measured in terms of the lira at its 1938 value, as shown in the following table:

Italy: National production in 1938 and 1946

[Values in billions at 1938 lire]

Branch of economic life	1938	1946
Agriculture.....	40.7	32.5
Industry.....	37.6	17.0
Commerce.....	9.8	6.5
Rents.....	6.4	6.0
Professional.....	17.3	14.0
Total.....	111.8	76.0

From the above figures it is easy to perceive that in 1946, in spite of their efforts, the Italian people could produce only about 68 percent of what they were able to produce in the prewar year of 1938, even though the population was 6 percent greater in the more recent year. According to such preliminary estimates as have been made for the year 1947, the productive capacity of Italy has improved but slightly in the past 12 months. This has intensified her chronic balance-of-payments deficit; for 1947 the deficit which Italy owes to other countries on this account runs over \$800,000,000 in terms of United States currency, according to estimates of the UNRRA Italian mission.

In addition to her already serious economic condition, it should also be considered that, as a result of the Treaty of Peace, Italy lost certain valuable assets held abroad and that she must pay the huge amount of \$360,000,000 in reparations. Because of her present condition, therefore, Italy's balance-of-international-payments deficit does not promise to grow much smaller than it totaled in 1947 for at least 3 or 4 more years, and then only if substantial aid is forthcoming from outside her own borders.

By way of summary several important conclusions are in order on the basis of our findings as outlined briefly in the foregoing:

1. The United States can extend aid, without jeopardizing her own economic life, in the order of magnitude required to repair and make self-sustaining the war damaged economies of the 16 Marshall plan nations which include Italy.

2. Italy is heavily dependent upon imports from abroad both in history, and the more so at the present time when her crippled economy is incapable of a production sufficient to insure even a decent minimum of subsistence for her people.

3. In view of her past and present economic condition, Italy may never recover her proper place as a self-sustaining nation in the world economy unless she receives in addition to stopgap aid a substantial and sustained flow of economic assistance from abroad for at least several years to come.

Of course the present study took into account the fact that in addition to Italy there are 15 other European nations which suffer from economic stagnation directly or indirectly caused by the recent war. That it would redound to the benefit of the United States and indeed even to the entire world economically, politically, socially, and morally to bring about a rapid and sound economic revival of the 16 Marshall plan nations is the consensus of opinion of all leading spokesmen of industry and Government in the United States today.

That the United States will not have to continue pumping economic life into the western European nations indefinitely has been proven in part in the case of Belgium. Partly due to aid from the United States, Belgium had recovered by early 1947 to a point where she was nearly self-sustaining.

Self-help, reform of currencies, greater effort on the part of their people, and aid from abroad are all of the components required to achieve the healthy type of economic recovery needed in Italy and the other Marshall plan countries.

The alternatives to positive action on the part of the United States in extending enough economic assistance to the Marshall plan countries to enable them in regaining self-sustainment may easily spell political enslavement under totalitarian rule of the peoples of their countries. A sample of what may happen has already been indicated in the recent turn of events in France and Italy. In Italy, for example, despite the encouraging upturn in economic activity there which has been going up since the middle of the year, a small but brutal Communist element has succeeded in creating disturbances in an effort to discredit the Italian Government. The Communists seek, in this manner, to take over the reins of authority themselves.

Illegal and immoral methods are no stumbling block to the Communists in Italy. Their code of behavior is not based on the moral law as we Americans, and other God-fearing people understand it; it is predicated instead on a blind worship of the slave-state ideal. Let us hope that the unscrupulous followers of the Communist line will never succeed in imposing the bonds of Communist slavery on the good people of Italy, France, and the other Marshall plan nations. I am sure that this is the wish of the great majority of the people of the United States, regardless of their national origin. I am certain that the dynamic philosophy of American democracy and consciousness of the responsibilities of the United States in supporting the democratic aspirations of peoples of other lands who now look to us, as enunciated in the report by the President's distinguished Committee on Foreign Aid, are shared by all true citizens of the United States of America.

DOCUMENTARY AND OTHER SOURCES USED IN THE PREPARATION OF THE ABOVE STATEMENT

European Recovery and American Aid—A report by the President's Committee on Foreign Aid, parts 1, 2, and 3, Secretary of Commerce, W. A. Harriman, Chairman, Washington, November 7, 1947.

National Resources and Foreign Aid—Report of J. A. Krug, Secretary of the Interior, October 9, 1947.

The Impact of Foreign Aid Upon the Domestic Economy—A report to the President by the Council of Economic Advisers, Dr. Edwin G. Nourse, Chairman, Washington, October 28, 1947.

Committee on European Economic Cooperation—Volume I, General Report, Paris, September 21, 1947.

Foreign Commerce Weekly—United States Department of Commerce (various issues).

Congiuntura Economica—Bulletin of the Institute for Economic Studies, Rome, Milan (various issues).

Economic Notes—UNRRA Italian mission (various).

Public Addresses of Note

Address of David Bruce, Assistant Secretary of Commerce, before the thirty-fourth national foreign trade convention, St. Louis, Mo., October 20, 1947, entitled "General Outlook for World Trade: Economic Stability Imperative."

Address by Joseph M. Dodge, president, American Bankers Association before the Economic Club of Detroit, Detroit, Mich., October 27, 1947, entitled "Problems of European Aid and Reconstruction."

Mr. PASQUALICCHIO. I also wish to file the statement of the Grand Lodge of the State of Massachusetts of the Order of Sons of Italy in America, whose president was also unable to be here today. (The statement referred to is as follows:)

ORDER SONS OF ITALY IN AMERICA,
OFFICES OF THE NATIONAL DEPUTY,
Washington, D. C., February 2, 1948.

Hon. CHARLES A. EATON,
Chairman, House Committee on Foreign Affairs.

MR. CHAIRMAN AND COMMITTEE MEMBERS: Mr. Anthony Julian, grand venerable of the Grand Lodge of the State of Massachusetts, has instructed me to file the following statement:

"The Grand Lodge of Massachusetts, of the Order Sons of Italy in America, is definitely in favor of the Marshall plan long-range aid to Europe, as proposed by President Truman; confident that the immediate approval of this European-aid program will ultimately defeat Soviet aggression and the spreading of communistic domination throughout the world.

"This grand lodge also confirms and is in full accord with the official statement presented before this honorable committee by Mr. George J. Spatuzza, supreme venerable of the Order Sons of Italy in America.

"In approving the Marshall plan, this organization has the utmost confidence in the assurance given by the Secretary of State and the Secretary of Commerce that such a program will not endanger our own national economy."

Most respectfully submitted.

L. H. PASQUALICCHIO,
National Deputy.

Mr. PASQUALICCHIO. I thank you, gentlemen.

Mr. MALONEY. Could you tell us what your belief is as to the possibility of keeping 16 European nations in line, or in unison for a period of 4½ years? Do you think that that is a possibility, or a probability, or do you think it is likely?

Mr. PASQUALICCHIO. In my opinion, it would be a possibility if proper personnel could be organized and sent there to operate such a plan. We made quite a few mistakes during the war in not sending over the proper people.

Mr. MALONEY. I mean it this way: You know how the most nefarious system of policies carries on in the European countries; in other words, there can be a minority man in the cabinet and I can see the possibility in the future of a minority member of the cabinet refusing to go along on certain agreements made with the United States in the bilateral agreements after, say, 2 or 3 years, and then we would cut off the supplies and the country then would be very unfriendly toward us.

Possibly, if it were a large country, they may be able to get one or two of the countries to form a bloc and this whole thing would react just the opposite way than we now propose it should. Do you find there is any good reasoning in that thought of mine?

Mr. PASQUALICCHIO. No, I do not.

Mr. MALONEY. You think that that would be unlikely?

Mr. PASQUALICCHIO. I believe it is because, after all, they need

assistance and they are going to try to keep in line and work with the plan as outlined and presented to them.

Mr. MALONEY. Have 16 European nations in the past ever worked harmoniously together for a period of 4 years?

Mr. PASQUALLICCHIO. Everything is possible today. We see it in Italy. There are five or six political parties and they have not been able to get together, but I think the time will come when they will be educated. We will send over more Americans with American ideas and the time will come when they will think as we do.

Mr. MALONEY. I hope that you are right.

Mr. PASQUALLICCHIO. I think that they are susceptible. Necessity opens up the mind to susceptibility.

Mr. KEE. Are they not in the situation that the signers of our Declaration of Independence found themselves—they either had to hang together or hang separately?

Mr. PASQUALLICCHIO. That is right.

Mr. JARMAN. I can well understand the fear of the gentleman from Pennsylvania, and of course we all thoroughly share his hopes.

Do you know whether or not it is a fact that 16 European nations ever met together as they did in Paris in a cooperative endeavor to help themselves?

Mr. PASQUALLICCHIO. I do not believe there has ever been an occasion like that, and that is why I feel a program of this kind is very, very helpful.

Mr. JARMAN. That is my hope. I think that is true.

Mr. PASQUALLICCHIO. It is something new, and I believe later on these divisions of lines of small nations will be eliminated, because we will teach these people the philosophy of cooperation in international affairs.

Mr. JARMAN. And the greater the success of this endeavor the better the chance for permanent recovery.

Mr. PASQUALLICCHIO. There is no question about that.

I believe, gentlemen, the success of the Marshall plan if properly put into operation will ultimately produce a united European country over there.

Mr. JARMAN. A united states of Europe; something like that?

Mr. PASQUALLICCHIO. There is something in operation now that they call the Union of European Nations, which operates on the exchange in commerce and other ideas between those different small countries. I believe divisional lines will gradually disappear when they can see the advantage of cooperating and working together.

Mr. JARMAN. I share your hope, just as I still believe that the United Nations is going to succeed. I realize that we have had a good many discouragements. I just believe that the leadership of this world in the realization that civilization cannot survive the next war is finally going to do whatever is necessary to avoid one.

As I say, I am not arguing against the chairman's preparedness program.

Mr. PASQUALLICCHIO. I believe, gentlemen, this is the opportune time to work on the possibility of the united nations of Europe, and I think the only way it can be done is through this Marshall-plan assistance to show them just what it is all about, and what the advantages will be by their cooperation and interchange of commerce.

Mr. JARMAN. I agree with you.

Mr. PASQUALLICCHIO. I wish to add that all those needy European countries know what America is doing for them. It is not true that America is not getting proper credit for the humanitarian work which she is going. Being more familiar with the Italian situation, I can truthfully say that the Italians fully appreciate what we are doing for them. That is one reason why communism has not made much headway in that country. I speak with people who go and come from Italy; I receive letters practically daily from the poorer people of Italy. And they certainly know that America's generosity is bound to save humanity and eventually will win peace for the world.

Acting Chairman MERROW. We will stand adjourned until 2 p. m.

AFTERNOON SESSION

Acting Chairman MALONEY. The committee will come to order.

It is with great pleasure that I introduce the witness this afternoon, in view of the fact that he was at one time the Governor of the State of Pennsylvania, the State from which I come. Governor Earle, will you take the stand here please?

Mr. EARLE. Thank you.

Acting Chairman MALONEY. Governor, we are very glad to have you with us today. I understand you have a considerable background of foreign experience, and also that you have been very active in the anti-Communist and anti-Fascist movement. I wonder if you could give us some facts about your background in that respect?

Mr. EARLE. I would be very glad to. I will also mention my Government service, since I am going to speak of military matters also here today, if I may, as connected with the Marshall plan.

I was an enlisted man and a commissioned officer on the Mexican border in 1916. I was an enlisted man and a commissioned officer in the Navy in the First World War, in command of a submarine chaser.

I was appointed American Minister to Austria by President Roosevelt in August of 1933. I went to Austria and there incurred the enmity of the Nazis by my anti-Nazi statements, such as Austria could do as she pleased, but if she wanted American sympathy on the part of the people who were descendent of people who were either refugees from a racial, religious persecution or were descended from them to a large extent, if they wanted American sympathy she would have to refrain from that. That brought down on me the threats from the Nazis.

At the time of the Socialist and Communist rebellion in Austria, I made reports favorable to Chancellor Dollfuss and was criticized by Ambassador Dodd for so doing. The Socialist and Communist Parties in America both attacked and opposed me when I ran for governor in 1934 because my reports favored Dollfuss.

I became Governor of Pennsylvania and there made several statements which brought down very strong criticism of the so-called liberal press because I strongly protested against Americans going to fight in the Loyalist Army in Spain, because it was not a clear-cut issue between republicanism and fascism because so many of the so-called Republicans themselves were Anarchists and Communists and Syndicalists. I said that Americans should not go over to Spain to fight.

In 1940 I was appointed Minister to Bulgaria. That was in March

of 1940. In June of 1940 I saw the Germans had complete control over the Bulgarian Government and would soon move in there. I sent my resignation to the President as Minister to Bulgaria so that I could join the British Navy.

Those facts can be confirmed by the British Foreign Office and by the State Department.

The British Navy promised me the command of a subchaser or a small destroyer in the North Sea, to fight the Nazis. President Roosevelt refused to accept my resignation. I continued in Bulgaria. I was doing the best I could in my small way to fight terror, whether red or white.

I came back to this country and went into the Naval Reserve, went to gunnery schools and became chief gunnery officer on a Naval transport and was at Casa Blanca. While on this assignment General Patton gave me a report of the North African operations and asked me to take it to President Roosevelt. I did. I reported to President Roosevelt General Patton's report.

When I warned the President at that time, in December of 1942, after returning from Casa Blanca, of the great Russian menace, greater than the German menace, he said, "George, don't worry. Russia is so big it will break up when this war is over." I told him I did not think so. Then I went over to Turkey and was under-cover agent to report on the Balkan affairs to President Roosevelt, and try to get Bulgaria out of the war. For a while I was entirely against the Nazis. Then when I received evidence of how Russia, while we were saving them, was issuing propaganda to the underground against us, preparatory to destroying our influence in Europe, things changed.

Acting Chairman MALONEY. How early was that?

Mr. EARLE. As early as the first part of 1944. In May 1944 the President recalled me for consultation. I will not forget how an old friend of mine, Joe Levy, of the New York Times, went to the station and said, "George, you don't know what you are going to over there." He said, "Harry Hopkins has complete domination over the President and the whole atmosphere over there is 'pink'." He said, "If you go over and report against Russia, you, who would be the best authority for the administration in the Balkans, will be finished."

I said, "Well, Joe, I appreciate that very much." Joe did not do it as a matter of policy to his paper, or anything else. He was a friend of mine, and I said, "Joe, after all my country and children and grandchildren come before what will happen to me. So I went over and reported on it. To my horror, when I got here I found the President really believed that the massacre of those 10,000 Polish officers by the Russians, of which I had all the proofs and pictures, was done by the Germans, which was of course absolutely incorrect. The Polish Ambassador in both Moscow and Ankara had been asking where the officers were, and the Russians were saying they were scattered through Russia. The Germans were not within hundreds of miles of where the Polish officers, 10,000 of them, were murdered.

I felt pretty hopeless then. Then again when I began to report to the President about how the Russians were in their underground saying the worst kind of things about us and trying to hurt us in every way possible, he said again what he said in 1942, "Don't worry George, as soon as the war is over they are so big, 160 nations speaking 125 languages, they will break up."

Well, in August of 1944, I sent to the President what I consider the most important document I ever sent to him. It was a report on Russia of a neutral Ambassador to Russia. That report, gentlemen, I am turning over to you in full. I ask that you not make his name public because this man is now living in a country that may go Communist any moment. It would mean his life if his name were published. It is perfectly all right to publish the substance, but please do not publish his name.

Acting Chairman MALONEY. All right.

(The information is as follows:)

COMMUNICATION SUBMITTED TO THE COMMITTEE ON FOREIGN AFFAIRS BY HON.
GEORGE H. EARLE, FEBRUARY 12, 1948

ISTANBUL, August 22, 1944.

The PRESIDENT,

The White House.

MY DEAR MR. PRESIDENT: The enclosure with this letter I consider the most important communication I have ever sent to you. I beg of you to read it very carefully.

It was written by * * *. He considers you, in his words, "the greatest humanitarian of modern times." He has written it for you alone, * * * as an individual who admires your courage, resourcefulness and sincerity.

About Russia, I fear he is right.

May I make two observations? An American banker said to me a few weeks ago, "We should have been warned of Japan's intentions by the simple fact that every Japanese tourist in America was pictured with a camera, and American tourists were not permitted cameras in Japan." In the same way I say by the fact Russia will not permit our soldiers to fight with them nor our correspondents to go to the front should warn us of Russia's intentions.

Also, and far more important is the fact the moment fighting is over, there will be irresistible pressure from the people of the democracies to demobilize and return home our soldiers. There will be no such pressure to demobilize the Russian soldiers since the lot of a Russian is far more comfortable in the army than at home.

My most fervent hope is that a year from today you can say "George Earle was a fool and an alarmist."

Cordially and respectfully yours,

GEORGE H. EARLE.

FROM THE MARSHAL PETAIN TO THE RUSSIAN PROBLEM

The marshal was in 1939 against the war, because he knew how unprepared we were—and because at the last moment the U. S. S. R. changed sides.

But when the war had been declared he was of course in favor of doing everything possible to win it. When therefore the French Army was destroyed in 1940, he looked around to see what help could be reasonably hoped for. The British had reembarked in Dunkerque, loosing all their land war material and were only hoping to avoid invasion by using their naval and air forces, up to then carefully economized. The United States of America had replied negatively to the last appeal sent to America by Paul Reynaud in agreement with Petain. The U. S. S. R. was on the German side.

Such are the reasons for which the marshal accepted the armistice, provided honor was safe (i. e., our remaining forces—and especially the fleet—would not be used against our British ally and the French Government would remain in French hands.) His attitude was best described in the message of September 1940: "We seek reconciliation not because of our defeat but in spite of it. If Germany dominates her victory, we will dominate our defeat. If not, we will know how to endure and wait * * *."

Since then, the whole international situation was inverted. The British, who had left us practically without help in 1939, displayed the greatest heroism and finally won the air battle of 1940 in the British sky.

The Americans who had refused Reynaud's last call were driven into the war by Germany's initiative, and weighed with all their potential, then industrial,

finally military power. The U. S. S. R. which undoubtedly wanted to remain at least for the moment outside the war (see the Tass communique of June 13, 1941) was attacked by Germany and threw in a weight which was incredibly underrated by every member of every foreign mission in Moscow without any exception. (The extreme duration of Russian resistance was estimated to something between 3 weeks and 3 months.)

The result was, in 2 years, the complete unforeseen and unforeseeable inversion of the military situation (1942-43).

Why didn't the Marshal Petain invert consequentially his own position and escape to north Africa:

For three main reasons:

(a) He wanted to keep his word to everybody, even to his enemies.

(b) He wanted to remain among his people in order to share their sufferances and to help them—he was the flag and the guardian.

(c) He feared that the result of present coalitions would be the substitution to a German control over Europe of a Russian dictatorship.

The two first reasons have a moral force and a political significance which cannot be denied. The Anglo-American troops will witness that very quickly on French soil.

The third reason needs much more thought and raises a problem of world magnitude.

The Russian problem is usually treated with a combined lack of knowledge and serious thought.

One class of people considers everything under the angle of a blind Soviet phobia—the motives of which do not go much further than the fear of losing their personal properties and the hatred of anything that threatens to change their habits of life and thought.

Other classes of people exhibit a prosovietic feeling, the motives of which are often not much more commendable.

Some are just conscious or unconscious agents of the sovietic organization, paid in cash or conceit (the latter often being the case with intellectuals accustomed to discreet applause in small slumbering circles—suddenly born in triumph by masses of enthusiastic proletarians). Others are just snobs who "go for" Stalinism in the same way as they buy pictures by surrealist painters.

A third class of people have decided to display an extraordinary agnosticism and do not want to hear anything about a Russian problem, because it presently disturbs the comfortable line of thought they have been driven into by the radio and the press, viz, that there is a big black wolf called Germany, after the destruction of which the world will be happy and free forever. These people, when placed before certain uncomfortable facts, just answer "it's all German propaganda."

At least those who have a responsibility in allied countries must try to think of the Russian problem as seriously as the Russian leaders think of the European problems.

The permanent aim of what can well be called the sovietic civilization is not a mystery. It was printed in black on white on all the cards of Communist Parties throughout the world—the class dictatorship, the socialization of means of production and exchange and the spreading of the system on an international basis. Only the following addition was not printed: " * * * under the authority and the control of Soviet Russia."

Lots of people nowadays go on pretending that those permanent aims have been recently modified, and they quote as proofs the inequality of salaries, the strong discipline enforced, the renewal of Russian patriotism. One respectable British paper was even childish enough to add new proofs: The beautiful uniform of Red Army officers and the fact that they are encouraged to learn * * * American dances.

In fact, this belief in a fundamental change is nothing more than wishful thinking added to a complete ignorance of Lenino-Stalinian tactics.

Lenin taught his disciples that every means is justified to achieve the aim. Throughout the world one has thus seen the Communist Parties follow the line of U. S. S. R. interest without any regard as to their constant contradictions. In France, for example, the Communists were antimilitarists under the Rappallo-Germano-Russian treaty; they became militarists after the ascension of Hitler and the Laval-Stalin agreement (1933); they returned to antimilitarism and called

the war "imperialistic" after the Germano-Russian agreement of 1939; they returned to militarism after the attack of Germany on Russia (1942) and will remain in that line unless, by chance, there is a new Germano-Russian understanding. According to that line, they cannot be surpassed in their superpatriotism in every country. It may safely be predicted that the nations will never have sung their national anthem and exhibited their national flag more than on the day they will celebrate their absorption by the Soviet Union.

The great patriotic enthusiasm does not therefore imply in any way a departure from the original scheme. It simply means that such a passion is considered as useful in time of war.

It may be added that discipline and outward signs of discipline or inequality of salaries are in no way contradictory with the sovietic doctrine. Those who think otherwise display their ignorance of the said doctrine, probably confusing it with anarchism, which is exactly the contrary and the deadliest enemy of sovietism.

To sum up, it can be said that there is no evidence whatsoever of a fundamental alteration in the sovietic doctrine, in the sovietic final aim.

This does not imply any criticism on the leaders of the U. S. S. R. Very much to the contrary. It is admirable that a man like Stalin still maintains at a summit of power and success the principles he adhered to in the distant days of poverty and persecution.

Furthermore, why would not Stalin try to spread over Europe and the whole world the political system which he believes to be the best and which led Russia to an unprecedented triumph? Why should the Bolsheviks give up the hope of bolshevizing the world, when the Nazis tried to nazify it, and while the democrats express their formal will to make it democratic?

The only justified criticism bears on the methods employed to enforce bolshevism inside and spread it outside. But these methods are themselves an integral part of bolshevism, and asking bolshevism to renounce them is asking bolshevism to renounce itself. Besides, violence and deceit are in no way a monopoly of Soviet system which simply carries them further and which had the courage to inscribe them in their theoretical tactics (because, according to its ethics, what serves the proletariat is "moral" by definition).

* * * * *

There being thus no evidence and no probability of a change in the permanent meaning and final aim of the Russian regime, one can put the next question: How is the U. S. S. R. going to try and achieve its aim?

The answer solely depends on what Stalin will choose as the most practical method. He may choose (a) to accept for the moment a division of Europe in two zones, one being the "vital space" of U. S. S. R., the other being under Anglo-Saxon influence, and then proceed by propaganda to annexate sooner or later the second zone, or (b) to proceed at once to the conquest of the whole Continent by a combined military and political offensive.

The result, in both cases, would be approximately the same.

Some observers, however, contend that there is a third prospect, viz, that Russia will remain satisfied for a long period of time with the division of Europe in two zones. They ground, mainly, their opinion on:

1. The supposed exhaustion of Russia and its need for help by American capitalism after the end of the war.

It does not seem that such an opinion or hope * * * corresponds to facts. However great may be the help given to U. S. S. R. by the United States during the war, it is obvious that the main supplies of an army of 20,000,000 men were produced in U. S. S. R. itself. The method which made such an extraordinary achievement possible in prewar and wartime (after the complete destruction of all industrial wealth during the early years of the revolution) will certainly be applied with success to the work of reconstruction, with or without the help of American industry and capital.

2. The fact that the preceding attempts to dominate or organize Europe by a single nation have failed, and the conviction that any new attempt would inevitably meet with the same failure.

It is true that Napoleon and Hitler equally failed in their attempts. But Stalin possesses assets which the other two lacked, totally or partially, i. e.—(a) The disposal of 180,000,000 men and, in a very limited number of years, of 250,000,000 men, not taking into account the Slavs at present outside the U. S. S. R. frontier, who could well be added to the ruling or controlling country.

This question of population is essential to establish and maintain control on a continent containing—U. S. S. R. not included—over 300,000,000 inhabitants.

For such an achievement, France of 1815 and Germany of 1944 proved to be too small.

A century or half century ago, such big countries as Russia counted only for a percentage of their population, because of the difficulty of governing such huge surfaces and because of the low grade of civilization of the masses.

But modern methods have made it possible to govern very efficiently from Leningrad to Vladivostok and also to utilize to the full in supertaylorized (or Stakanovized) factories the half-civilized Asiatic masses.

The result is that Russia of 1914, with 120,000,000 inhabitants, counted as 30 or 40 millions. But the U. S. S. R. of 1944, with 180,000,000, counts as 180,000,000.

(b) The disposal of unlimited raw materials (which failed to Germany) and therefore unlimited industrial potential.

(c) The strength of likable or not likable, but perfectly consistent ideology.

(d) The innumerable complicities which U. S. S. R. finds in foreign countries. Napoleon had certain complicities in Italy and in Poland because of the French revolutionary principles, but nothing to be compared with present U. S. S. R. Hitler could only count in each European country on a very small amount of individuals, most of whom were a highly paid but very restricted fifth column. Today U. S. S. R. can find a gratuitous "fifth column" of hundreds of thousands and even of millions of people in every country in Europe because of—

1. The Communist ideology grouping a disciplined minority in practically every country.

2. The racial affinity of all Slavs (cf., the recent manifestation of the Slav Congress in Moscow, where the Bulgarians, Serbs, Poles, and Slovaks addressed "dear Joseph Vassirionovic" and hailed the Red Army of their "great Russian brother").

3. The orthodox religion (extending to Rumania and Greece), the head of which has been reconstructed in Moscow.

* * * * *

If finally we leave general ideas to consider the recent facts, we find no positive indication as to which of the two methods will be adopted by Russia, but we find clear indications that one of these two methods will certainly be chosen.

The Moscow-made Polish Government is the most significant precedent.

The conditions of peace in Finland may be more or less hard on financial or territorial items, but they will certainly remain in the line of the preceding offers—the occupation of Finland by the Russian soldiers and propagandists—that is to say, practically, the immediate or mediate absorption of Finland in the Union.

In Greece, it is certainly not on its own initiative that the Communist Party threw back the national union with Papandreou, accepted in Beyrouth 2 months ago by its delegates.

In Bulgaria, it is generally admitted that the coming day of the departure of the occupying forces will be the eve of a more or less avowed surrender to the "great brother."

In Serbia, nobody has the slightest doubt as to the real allegiance of Marshal Tito.

In Turkey we have witnessed the unrestrained bad humour of the Russian radio after the breaking off of the diplomatic relations with Germany. The Russian Ambassador explained himself clearly in that respect to the Bulgarian Minister: "We don't want our neighbors to keep connections with Germany. But we don't want them either to cling to an Anglo-Saxon help of which they have no need * * *."

It is useless to demonstrate the sovietic influence in Syria, Palestine, nor in freed Italy, nor in French North Africa.

One can safely say that the USSR has already put her protecting or organizing hand not only on its immediate neighbors, but even on more distant territories, beyond the limits of a stable division of Europe in two "zones of influence" (supposing that such a division could be considered as durable under any circumstances).

* * * * *

Such are the facts which have to be faced with courage.

The usual attempts to avoid these facts are lamentable:

(a) The already above-mentioned reply "This is German propaganda" is the most usual, but the question is not whether it is anyone's propaganda. It is whether it is true or not.

(b) "Russia has changed" has already been dealt with.

(c) "Let us beat Germany first, and then we will think about all that" is another escape. But what if the fact of defeating Germany to the extent that there would remain nothing but a void between the Rhine and the Russian frontier allowed the Slavs to fill that void and therefore created the danger about which one wants to "think late"? What would one say of a man who, boring a hole in his cabin wall and warned that the water will sink the ship, would answer, "I will think of that later"?

(d) Last but not less frequent is the hint "Stalin promised Roosevelt to be a good boy." It is to be hoped that there is no need to answer such an infantile escape which would considerably amuse Mr. Stalin himself.

Leaving aside those poor escapes, it appears that two and only two courses remain opened:

1. One can say that a Russian "organization" of Europe is desirable or unavoidable.

2. One can decide that a stop can and must be put to the said Russian "organization" if and when the Russian intentions are considered as beyond doubt.

But in both cases, one has to accept the consequences of the choice.

* * * * *

The first attitude is not envisaged here solely as an academic argument. If the means of an effective veto cannot be found in time, Russian control over Europe might be unavoidable and it would then be advisable to "make the best of it." Furthermore, it is the perfect right of any Stalinian Communist to consider those events as desirable. As for the non-Communists and for those who attach a price to national freedom, it would be hard to say that the process will be attractive. But it has been said by someone that "Stalinism is the worst method to attain excellent and necessary transformations." If that is true, one may have to welcome that unpleasant Russian method, if the rest of the world and its ruling classes prove themselves unable to provide less unpleasant ones. Moreover, it has been thought that finally, all the three main regimes that have appeared in this war—the planned American economy, the Nazi state and the Stalinian one—would, in spite of spectacular initial oppositions, lead the world after a century to exactly the same socialism inscribed in autonomous but federated nations (the only difference being therefore in the more or less "expensive" methods, and in the choice of the provisionally controlling nation). If that is correct, one may have to ask the survivors of the unpleasant first decades to forget their sufferances and think only of the final result.

All this has been said and can be contended.

But the logical consequences should be simultaneously adopted; the first of which would be to give up the usual thesis about the "four freedoms," the idea of "making the world safe for democracy" and the additional talk about ruling according to the gospel of St. Paul. The sooner would be the better, as it would seem really unnecessary to add mockery to the sufferances of the European nations.

* * * * *

The second solution is that of the "veto" to excessive Russian ambitions. This supposes the willingness and capacity to assemble the material and moral resources necessary to enforce the said "veto."

The difficulties are certainly not less than for the first solution:

(a) It is hardly worth emphasizing that no such veto will be effective unless backed by sufficient military forces. The Anglo-Saxon powers have not got for the moment in Europe, or in the vicinity of Europe, anything like the number of divisions required, even taking into account the overwhelming air and naval supremacy. Their population does not exclude the material possibility of the necessary divisions being trained and brought over. But it is a question whether there is a psychological possibility of such an effort. And a further question whether such an effort can be completed in due time. If the responsible Anglo-Saxon leaders cannot answer those questions by the affirmative, then arises the difficult problem of making a sort of peace (other than unconditional surrender) with some sort of German Government in order to utilize remaining German military possibilities, or at least to prevent Germany from becoming a supplementary source of soldiers and technicians for Russia. It must be clear that this is envisaged here quite apart from its intrinsic merits or dangers, solely as an unavoidable consequence, if the Anglo-Saxon powers decide to enforce a veto without being able or willing to enforce it by their own strength.

(b) But these military conditions are not the only ones. Unless deep changes are brought in the schemes of peace, it is hardly believable that an armed veto would have any chance of being supported by either Anglo-Saxon opinion, or con-

tinental opinion, in spite of the fact that organized Communists are, for the present, a minority. If the now published schemes (more or less disguised return to prewar political and economic systems—adoption of neo-Versailles solutions to Franco-German problems) are opposed to the sovietic solutions, it is to be predicted that sooner or later, exhausted by political, economic, and international crises, the majority of Europeans will welcome the Russian system as at least something that has not already been tried and has not already failed. Explaining in full the European complex in these matters would involve a separate and lengthy memorandum. It will be perhaps sufficient to point out that there are many points in the sovietic system which correspond, partially at least, to the historic stage we have reached. In short, authority must be combined with freedom, the ruling of concentrations of capital over the state must come to an end, and the moment has come for a federation of European powers, either under the unpleasant control of a dominant country, or by the free association of all countries.

Nothing short of such deep reform can constitute the moral background of an attempt to oppose sovietic ambitions on the Continent.

* * * * *

It is quite clear that both solutions raise the most intricate problems and imply painful sacrifices for a number of people.

But the worst would certainly be to try to escape those problems and sacrifices.

A day could rapidly come where everyone would feel uncomfortable as some innocent person remembers that the immediate cause of the war was the refusal to recognize partial mutilation of Poland.

And more uncomfortable still when somebody would want to know exactly why the blood of young men was shed between 1939 and 1945.

Mr. EARLE. I then came back in 1945. My work was done over there.

Mr. VORYS. Would you mind an interruption? I wondered how this document would go in the record, Mr. Chairman.

Acting Chairman MALONEY. We will not put the document in the record, but we will have copies made and give them to members of the committee, if that is satisfactory to the committee.

Mr. VORYS. With the name deleted?

Mr. EARLE. The name is all right for you gentlemen.

Mr. JARMAN. I think we had better delete the name, Governor.

Acting Chairman MALONEY. Would you be satisfied?

Mr. VORYS. Yes. I wondered how we would handle it.

Mr. EARLE. I came back to this country in 1945 and the President thanked me for my services and said that my work was finished. He wrote me a very nice letter. Then, thinking I was out of the Navy, I sat down and wrote to him to the effect that unless I heard from him to the contrary, that within a week I would publish my fear that Russia was a far greater menace than Germany ever was.

Acting Chairman MALONEY. That was what date Governor?

Mr. EARLE. I have his letter here. I can give it to you exactly. It was on March 24, 1945. I did not say I was going to publish it. I said, "unless I hear from you to the contrary." I heard from him to the contrary within 6 hours after he received the letter. The whole Naval Intelligence was out looking for me. He absolutely forbade me to say a word against Russia. He revoked his appointment to me as an emissary, and any understanding we had of being an emissary, and he also revoked the opinion that my work was through and said that he was turning me over to the Navy to use as they saw fit. They saw fit to send me to Samoa, which was as far from Moscow as he could get me. There I stayed in complete censorship until the war was over. Then I came back.

Now, Mr. Chairman, the object of these hearings is more or less on the subject of this European recovery program, is that correct?

Acting Chairman MALONEY. That is correct. I think you have qualified as a witness now.

Mr. EARLE. Thank you very much. I just want to add that with 8 years over there on the borders of Russia, I feel I got a great deal more than going to Russia proper. When you go to Russia, you hear what they want you to hear and see what they want you to see. I talked to hundreds of refugees who no longer feared being removed by the N. K. V. D. They would talk to me. I would get information from them. They were Christians, Jews, all kinds of people who came out of Russia as refugees. I got nearly all my information from them. There were literally hundreds in Turkey, Bulgaria, and Austria when I was there.

Now gentlemen, I feel very strongly that this is not a partisan meeting in any sense of the word. We are all Americans here, trying to find solution for this problem of the menace from Russia. I will not speak in a partisan vein. I wish to assure that what I say is sincere. From the bottom of my heart it is.

I also say that when I frankly believe that there is not better than an even chance that any of us will be here 5 years from today, it cannot be called a political statement. If I am right, there will be no one here to say I am right, and I will not be here to hear it. If I am wrong, I am discredited. I cannot gain. It is much better politics for a man to get up and wave the American flag and say "Nothing is going to happen to America," and "Everything will be all right." If he is right, fine. If he is wrong, nobody will be here to say he is wrong.

Now in regard to this Marshall plan, the so-called Marshall plan dollar-aid to Europe, I differ entirely with General Marshall. I think this is a military situation and not an economic situation. Now may I say this, gentlemen: The other day I received some information from different friends, different people I have known in Europe, who have come to me with facts. The other day I talked with a man who has held the most varied and distinguished offices of any American alive today. I will give you his name. I have not been authorized to use it as yet. He has been in the hospital. He said, "I hear from the old former Ministers of the First World War who are still alive and they all tell me of the complete pessimism and defeatism in Europe. They tell me that, for example, the Belgians are doing everything in their power, the ones who have the money, to find a healthy place in the Belgian Congo to live; that the French are doing everything they can do to go down to the north of Africa, and the English are doing everything they can to go to Canada, Africa, and Australia.

With that situation over there, the fear that Russia at any time might move in, and the Communists in their own countries, not so great in numbers, but in their fanaticism and their organization tremendously strong, I feel that this is a military situation more than an economic situation. I feel that if we send dollars over there to Europe, without any military guaranty that these Communists, who foment strikes, and chaos, that our money will go to feed the people that are thrown out of work by these Communists in the strikes they bring about and that our money will be just tossed away.

I also feel that if by any chance the Marshall plan did succeed, that it would be very much like the situation of Japan, when England and America and France tried to cut off Japan from her raw materials.

At that time King Boris, of Bulgaria said to me, "What do you think about relations between Japan and the United States?" I said, "War is certain. The Japanese cannot live with us cutting off their raw materials."

If by any chance the Marshall plan did start to succeed, I personally believe that Russia would simply occupy Europe.

Now, gentlemen, may I say this: Living over there for 8 years, I have some idea of the Russian mentality. Here is a typical statement on the "Bolsheviki." I prefer to use that word rather than "Russian" because the Russian people have nothing to say and know nothing about what is going on. They have government-supplied information and they picture black as white for the most part.

I like to refer to the Soviet leaders as the "Bolsheviki" leaders. Now gentlemen, let us suppose that the Russian Government issues a statement like this: "To the Government and the people of the United States: We have perfected an atomic bomb and we now have it in full production. We feel it is our duty to humanity, to civilization." These are the terms they would use—"to free the masses of Europe, oppressed by their bourgeois overlords for generations and centuries. For that reason we are going to occupy Europe, to end this slavery the masses of Europe have been undergoing. We want to say this: We want to be friends with the United States. We will respect the Monroe Doctrine. We will not come near the Americas, but, however, we want to warn the United States that 70 percent of Americans live in American cities, and 40 percent of the Russians live in cities. Therefore, you are much more vulnerable to bacteriological or atomic attack."

What would we do if Russia does that? I said that to a very prominent editor the other day and he said, "George, I don't think they will have the nerve to do it."

Well, gentlemen, that is a poor defense, a poor, weak reed to lean on, "They won't have the nerve to do it."

There is one other thing. As a matter of fact there are two other things I want to say to you. I read in the paper the other day, if I am not mistaken, that General Omar Bradley said if the Russians had the atomic bomb they would use it now. Churchill was so right about Germany when all the other statesmen were wrong. He said they would have it within 1 year. What does that add up to?

There is one other thing. I want to say to you gentlemen that Americans are great wishful thinkers. That is the thing I have had to fight since I was on this subject, on this crusade, trying to awaken our people to their great danger. They think that because of our magnificent American science perfecting a terrific atomic bomb the Soviet would not attack us because of fear of reprisal. Now let us suppose, gentlemen, they do this: In a load of sugar, or any cargo coming into New York Harbor, they put an atom bomb. Admiral Zacharias said our bombs are now fifty times as powerful as those that bombed Hiroshima and Nagasaki. The Russians will have them some day without doubt. They are in possession of the German laboratory men, technicians, and mechanics and the finest raw materials in the world. Let us suppose they send a bomb into New York Harbor hidden in a cargo. That explodes, and a territory for 50 miles is wiped out. We will lose probably 15 or 20 million people. The Soviet Government sends condolences to us saying, "This is terrible.

We had nothing to do with it." There is no evidence of any planes coming over, no evidence of submarines coming up near the coast and firing bombs. They say, "Maybe it was a shipment of TNT. Maybe it was one of your own experimental atomic bombs exploding."

What are we going to do? Fifteen million people and our greatest center of commerce, business, and industry is wiped out. Suppose they send one into Baltimore. Our President, Senate, House of Representatives, Army, Air Force generals are dead, the Admirals are dead. Where are we? Somebody said, "Why the Governors could take over." I was a Governor once of the second largest State in the country, a State we are very proud of, Mr. Chairman. I think I had 11,000 National Guard men and five planes. I had five when I started. I cracked up two, but we did have three planes left.

Those Governors are not going to stop the Russians. Now let us say they come in here and wipe out Washington. We are like a great snake with our head cut off, thrashing around impotently. I say to you, that I think it would be a very dangerous place to live at the foot of Mount Vesuvius. I think it would be a dangerous place to live on the borders of Pakistan India, in Northern China, Java, or northern Greece, but I think the two most dangerous places in the world to live today are New York, N. Y., and Washington, D. C.

About this Marshall plan, I think the European people are very pessimistic and very defeated and very low. I think if you had some kind of a military guaranty where Russia is concerned, to say to Russia if she takes one more foot of soil, it means war with the U. S., that might mean the stimulus they need. But I do not think sending dollars over there with this fanatical, well organized Communist organization, fomenting strikes and using up our money to feed the people who cannot work, I really do not think that dollars alone will be enough. The Marshall plan will be a complete failure. That is what I think.

Acting Chairman MALONEY. Well now, Governor, I think there is no one on this committee that does not realize that the Marshall plan is a gamble and the thought has been "Can we afford not to take that gamble?" Now what is your thought in that respect, providing the Marshall plan is implemented by a strong military guaranty?

Mr. EARLE. Implemented by a strong military guaranty, absolutely, I am for it, 100 percent. But just dollars alone, with nothing to assure those people over there that we are going to back them up if Russia moves in, no.

Let me give you this as an example, gentlemen. I feel this very strongly. Let us suppose that the Russians occupied Canada with all their forces, and we had no Army, Air Force, or Navy. Would you be interested in working hard to build up a business?

Acting Chairman MALONEY. Naturally I would not be.

Mr. EARLE. There is the situation of every European country outside the iron curtain.

Acting Chairman MALONEY. Mr. Vorys, do you have any questions?

Mr. VORYS. You have got us nearly scared to death, Governor. I want to say that I had the privilege of hearing you in an off-the-record talk at least 4 or 5 years ago, and your statements about the Russians were just the same in substance as to their intentions as you have stated today.

You have a very alarming record as a prophet of doom. Now of

course, what we are thinking about is what we will do. The Marshall plan has been presented to us as strengthening the economies of these countries which have the 104 divisions, which might resist the 99 Russian divisions, and the 100 satellite divisions, aimed toward the west.

In this race as to who uses the atom bomb first, if Russia is unwilling or unready, and western Europe can be strengthened, what would be your judgment as to the amount of resistance western Europe might put up to Russian aggression, or invasion?

Mr. EARLE. Well, as I say, Mr. Vorys, what I am afraid of is if the Marshall plan is really succeeding, which I do not think it will, because of their organization tactics against it, I think they would move in before it really assumed any strength of the military organization in the west. That is what I am afraid of. They would move in. You asked me what we would do. Well, now, gentlemen, I do not believe in tearing things down unless I have something to suggest in their place that I think is better. An awful lot of people attack marriage, but I have never seen anything better take its place, so I believe in it. Marriage has its draw-backs, but after all, there is nothing better.

These are my suggestions: In the first place, the strongest thing to do and the thing that probably would save our country—this is just my personal opinion and I appreciate very much your position—if the American Delegate to the United Nations made a motion in the United Nations that any nation that did not permit United Nations inspectors to go into that nation and have perfectly free access to every part of that nation for inspection for atomic, bacteriological, and other frightful new weapons, that the U. N. would drop bombs on her, supplied by us, until she did submit to the United Nations. Russia would promptly veto that. Then the United States would withdraw from the United Nations and would set up another United Nations, and with a little different name, calling upon all liberty-loving countries to join. Probably every country outside the iron curtain would join. Again the United Nations would deliver that ultimatum. Any country which does not submit to the United Nations inspection will be bombed until they do. Now, gentlemen, I say to you absolutely that is the only solution I can see. It is not a matter of acting alone. It would be the whole world outside of Russia and her satellites. That is the only solution I see.

Now in a minor way, if the American people, with their wishful thinking, and their charity to everybody, would not do that, the minor thing, which would at least give us back our self-respect about these fellows taking everything and giving nothing in return, would be to make everything reciprocal in our treatment of other countries. If they keep our newspapermen and our diplomats and everybody else practically imprisoned over there, keep theirs in prison over here. Treat every nation exactly as they treat us—complete reciprocity. I think that would restore the respect of the American people and while it would not save us from the atom bomb, which may or may not come, and I hope I am a false prophet, nevertheless that would restore the respect of the American people. Why should we give them everything they want and they treat us the way they do as does Russia and her satellites? It is so insulting to the great, kind, generous American people who saved Russia and her satellites.

Mr. VORYS. Thank you.

Acting Chairman MALONEY. Mr. Jarman.

Mr. JARMAN. Governor, I enjoyed being your guest out at Samoa very much. I am glad to see you again. I thoroughly enjoyed your testimony, although, like the gentleman from Ohio, it kind of scared me to death. But certainly if there is anybody competent to express an opinion on that subject, you certainly are the gentleman who is competent. We appreciate your coming down here and giving us your opinions. I am personally mighty glad to see you again, sir.

Mr. EARLE. Thank you very much.

Acting Chairman MALONEY. Mr. Jonkman.

Mr. JONKMAN. Well, I do not know as I am prepared to ask questions, Governor. You shock me too. How do you connect up the so-called Marshall plan with any development in Europe? What do you think is our purpose there in the Marshall plan? It certainly is not just to save starving people. It certainly is not to stop Russia, because there are too many things the other way, as preliminary steps along the lines of military lines.

Mr. EARLE. I am awfully sorry. I am far removed from any intimate knowledge of what the White House or our Chief Executive feels about these things, so you are in a much better position to answer that than I. I think the motives are that communism breeds misery and hunger and I thought the object of the Marshall plan was to try to alleviate that and help and cure that, so that communism would have less fertile ground to breed in. That is what I thought the Marshall plan was, and if it were implemented to buck those people up with a military guaranty, I think it might succeed. But the object of it is something else. You gentlemen know much more than I do. I just get mine from the papers.

Mr. JONKMAN. What I mean by that is, is there not an apparent attempt to establish a United States of Europe in substance, if not in form and fact? Does it not have all the earmarks of that?

Mr. EARLE. Well, I would say that that was certainly a possible outcome of it. I really do not know what the exact object is, except I have always understood it was a combination of something to, as I say, destroy this fertile ground for communism, misery, and hunger, and as a matter of humanitarianism for starving people. If you send it over there as a matter of aid to starving people, I have not the slightest objection to it. But if you send it there with the idea these hopeless people will reconstruct themselves against these highly organized Communists, fanatical Communists, I think the reconstruction part of it is going to fail. Now the charitable part I am for, to the extent the American people want to go. But I do not think you will get the people reconstructed. Let me say this, gentlemen: Let us suppose, for example, that there are Communist strikes all over Italy or France and certain people go after it and certain people fight it. They fight it very bitterly. Those people know that if the Russians come in they are the first ones who will perish. Now unless you have some guaranty to those people that they are not going to be purged if the Russians come in, they are not going to have their heart and soul in pushing this plan over.

I know a magazine the other day made a survey of the public opinion in, I think, Sweden or Norway, about Russia. Well, now you do not really think if you lived in Sweden and Norway and had wife and children and the Russians might take it over, any minute,

that you would really express what you really felt about the Russians. That is what is so hard for people to really understand.

Mr. JONKMAN. That is true, but you are getting down to the point I am driving at: Speaking of Norway and Sweden, and for instance, Denmark, now we know what Bevin has done, to call a meeting to see if they could not form some kind of a military alliance. We know that Sweden and I think Norway and Denmark have already expressed themselves. They are willing to go into an economic alliance, but not anything that smacks of a military alliance. Have you read that?

Mr. EARLE. I read it in the paper.

Mr. JONKMAN. For instance, we are giving, to mention only a few, \$151,000,000 to Ireland. I do not think that is to keep people from starving. We are giving \$168,000,000 to Denmark, \$32,000,000 to Norway, \$34,000,000 to Sweden. Is not the objective there to draw these nations into some kind of an alliance with perhaps a military alliance to follow?

Mr. EARLE. Well, that would seem to be fairly logical. I admit that. However, what I feel very strongly is this, that Russia, with those six or seven or eight million men under arms, is never going to permit this military upsurge of western Europe to go to any point of real strength. I think they will move in before they will permit that. I also think they will move in if they find the Marshall plan working. What are we going to do? You heard my statement. If they should suddenly announce they were going to free Europe and move into Europe, where is the Marshall plan and where are we? I do not ask our Chief Executive over in the White House to say what he is going to do about it, but I think it would be a great thing for American people to hear him say "we are prepared if it happens."

But there is the situation. What are we going to do if they move in?

Mr. JONKMAN. That is all.

Acting Chairman MALONEY. Do you care to ask any questions?

Mr. KEE. No, thank you.

Acting Chairman MALONEY. Governor, we appreciate your being here, and while you certainly have startled the committee here, it probably is good for us to be startled once in a while. We certainly appreciate your coming down here.

Mr. EARLE. In conclusion, I want to say this. I will make one added statement. There is one thing I agree with Henry Wallace on and one thing only, and that is that the half-way measures of our administration will certainly lead us into war with Russia, when Russia is ready and we are not. That is the only thing I agree with him on. I agree with the Bolshevik leaders in one thing only, and that is that in a very short time this whole world will be either in a democratic or totalitarian sphere. Of those two things I am certain.

Acting Chairman MALONEY. Well, all we can say is that we hope you are wrong.

Mr. EARLE. I hope so, too. Nobody hopes it as much as I do.

Acting Chairman MALONEY. Members of the committee, this is Mr. Edgar Ansel Mowrer, from the Society for the Prevention of World War III, Inc. It does look as if some of the people in the country do have some thought that there might be a World War III.

Go ahead, Mr. Mowrer.

STATEMENT OF EDGAR ANSEL MOWRER, ON BEHALF OF THE SOCIETY FOR THE PREVENTION OF WORLD WAR III

Mr. MOWRER. Mr. Chairman, my friends and I wish to testify in favor of the rapid and full implementation of the ERP.

We do this because we believe that failure to do this would result in bringing the Soviet Union in power and influence to the Atlantic Ocean. We believe, furthermore, that, short of a war, control of Europe automatically confers control of Africa. And that, if we fail to do anything of this sort and the Soviet did advance as far as the Atlantic Ocean, it would constitute the most gigantic opponent and, unhappily, the most unfriendly, that the United States has ever had to face.

Are the 16 European countries ready to do their part, Mr. Chairman? I was for 27 years a foreign correspondent of the Chicago Daily News in Europe. During that period I got a pretty good acquaintance with that continent.

Incidentally, I spent 10 years in Germany, between 1923 and 1933. Since the war I have been back to Europe three times, twice in 1946 and once in 1947.

The difference between the European atmosphere in 1947, when the statesmen of western Europe had come to believe that they were going to get real American support, and their attitude in 1946 was one of the most startling that I have ever seen.

In 1946 not only the statesmen but the ordinary people were listless. They were apparently not working too hard, indifferent, despondent. In 1947 I was over for the four-power conference in London—in November and December of last year—and visited England, France, and the Netherlands.

The atmosphere had changed completely. They had recovered their faith. They talked about nothing with me—an American newspaperman—but the Marshall plan and the benefits that could come from it. They had again regained a decent living and had recovered a certain independence. Few things, therefore, have contributed already, and could contribute, so much toward the bringing about that basic change in the mental atmosphere of Europe and in the attitude of the European peoples as the certainty that the United States, with all its power and influence will stand squarely behind them.

They are therefore, for the first time, as urged by Foreign Secretary Ernest Bevin, taking common steps for common defense, something which would do more to secure the security of the United States than almost any other thing we can imagine, for immediately, as soon as you had a united western Europe that was no longer a push-over for aggression from anybody, the United States would be far more secure, than we could be by spending some of the billions that we spend for defense here at home.

Therefore, it seems to me that our failure to implement this plan would be one of the greatest political errors we could possibly commit.

There is, however, one black spot in this picture. We went all-out to break aggression by Germany and Japan. We went in late but, thank God, we did a good job. When we achieved victory, however, we found ourselves facing a new adversary, and we had a right to ask how this could come about.

Mr. Chairman, I submit that this came about because, in our exclusive concentration on breaking the unholy Axis, we failed to take those political precautions which perhaps could and should have been taken during the war.

In the same way, it would be tragic if today, in our concentration on taking proper steps to stop further expansion of the Soviet Union, we should again neglect to take reasonable precautions against a resurgence of a strong and aggressive Germany.

Let us not make any mistake, the German people are unconverted. At least as late as the end of 1947 it was the opinion of certain really dependable Germans that if all the armies were to move out, the Nazis could take over, if they dared, within 24 or 48 hours.

If we restore the European nations to health and strength they are strong enough, without any military support from the Germans, to protect themselves against any aggression.

I was in Germany, as I said, permanently from 1923 to 1933 and I saw how the Pan-Germans and the Nazis of those days worked together to sabotage coal deliveries—reparations, so-called—and then they got together with the German politicians, the German big businessmen and the German militarists, first to dupe the outside world and prevent it from knowing what they were doing, and then to seduce the outside world by commercial offers and persuade them to invest their money in Germany.

They did so, in good faith. They thought they were dealing with a pacific people. But once the Weimar Republic had served its purpose it was precipitantly kicked out and Hitler emerged as the dictator of a ruthless and predatory nation.

This had been foreseen but we failed to take steps to prevent it.

May I offer a piece of evidence which is from no less an economic authority than Herbert Hoover? In 1918—mind you, at the end of World War I—Mr. Hoover wrote:

Not content with dominion by force of arms, we find Germany plotting for commercial supremacy with that insolent disregard of the rights of others and that resort to deception that has characterized all her policies from Frederick the Great's age. Like all of Germany's plans affecting other nations entire deception depends upon conceit and superselfishness.

For 40 years the Germans have been plotting to realize their dream of pan-Germanism. They have made Germany an inherently dishonest nation.

Now—

said Mr. Hoover—

another conception comes out of the heart of Germany that threatens the commercial interests of unsuspecting nations, carefully thought out with characteristic German thoroughness, openly advocating the breaking down of ethics relying on trickery to gain their end.

Let the manufacturing and banking interests and the laboring and professional masses of all nations be warned in time to devise antidotes and counterattacks to the Machiavellian devices of a class gone mad with lust of conquest and deliberately plotting to fatten itself upon the lifeblood of other peoples even after the war.

Let us consider, in making peace, what protection we can give to the commercial existence of the free nations.

This, Mr. Chairman, was the view of Mr. Herbert Hoover at the end of World War I. I submit that he could not have better foreseen what happened, for we did not pay attention, we did not consider these elements in making peace with the Germans.

We built up the Weimar Republic and we built up Nazi Germany.

As a result, many of our boys who would be here at this time are not here now.

This situation was so clear at the end of World War II that Mr. Hoover's view was practically echoed in June 1945 by Mr. Bernard Baruch, whose testimony before the Senate Military Affairs Committee runs somewhat as follows:

Economically, this settlement—
the coming peace settlement—

should break once and for all Germany's dominance of Europe. Her war-making potential must be dismantled, many of her plants and factories shifted east and west to friendly countries and all other heavy industry destroyed, the states broken up, her exports and imports strictly controlled and German assets and business organization all over the world rooted out. To accept the view that German industrial dominance in Europe is inevitable is to resign ourselves to the return to a new cave age. We might as well begin to put our factories and plants under ground.

It seems to me that in setting up a European recovery plan to prevent the further spread of Russian power and ambitions over European peoples that want none of them, we should take this lesson to heart and we should realize that we do not have to build up a potential greater menace in the form of Germany merely because we intend to stop Russia.

In Europe once last year and twice in 1946 renewing contacts with old friends, I found that nothing had so strengthened the growth of communism in Europe as the feeling that the United States is, for some reason that Europeans cannot fathom, pro-German, and favorable to the rebuilding of Germany in Europe.

I am convinced that but for this feeling, particularly in eastern Europe, among the Slavic peoples, the Soviet Union would have had much more difficulty in inducing some of these people to accept their position behind the iron curtain. And the communists in western Europe are using our alleged pro-Germanism as their principal argument. They say to the peoples of Europe: "You do not have a choice. You either have to go along with the United States, which is plotting to rebuild imperial Germany as it was, dominating Europe completely politically and economically, or with the Soviet Union. Which do you think is worse?"

We know that this is not true. We know that we, our government and ourselves, are not pro-German. We abhor the idea of a resurgence of German power. We know that we are merely trying to take the financial load off our taxpayers and contribute to the European recovery in the real sense.

I submit, Mr. Chairman, that perhaps in so doing we should take into consideration the views of those friendly European peoples that fought on our side more than we have to date.

I submit that it is possible that the European peoples are better judges of exactly how much German industry and commerce they need to reconstruct Europe than outsiders are.

But, in any case, I know that millions of people in Europe think that we, for some mysterious reason, having bombed the daylights out of the Germans, have suddenly taken them to our bosom and wish to use them as a partner in a war against the Soviets.

Many people in Europe agree with the American member of the International Reparations Agency in Brussels, Belgium, Mr. Albert C. Carr. Mr. Carr was quoted on December 7, 1947, as saying: "Ger-

man industrial economy is still, by all odds, potentially the mightiest in Europe."

I ask you to take that into consideration when you consider what should be done in rebuilding German industry. That helps you understand why these Europeans just cannot grasp why the arsenal of Germany—the terrific concentration of industry that is in the Ruhr Valley, including those invaluable coal mines—is to be used and is being used, primarily for German recovery rather than for contributing, in the first place, to the entire European economy.

Mr. Chairman, I submit that one way to wreck the European-recovery plan, which is essential to the health of the world and of the United States, would be by stuffing the idea of a revived and economically dominant Germany down the throats of the other European countries.

And, therefore, to make the rehabilitation of Europe a real success, it seems to me that your committee might well insist that the program follow the following principles:

1. Our first consideration should be the rehabilitation of Germany's victims.

2. American policy regarding Europe's recovery should under no circumstances permit Germany again to become the economic master of Europe. (My economist friends tell me this is not necessary, and until I see a refutation of their argument I shall continue to believe it is not necessary.)

3. German heavy industry should be limited to peacetime needs as recommended in the final report of the United States Foreign Economic Administration.

4. Democratic forces in western Europe must be helped in their quest for security from future German economic and military dominance because they are the only sure friends we have in Europe, and the United States should encourage and help these countries to develop to the fullest capacity their industrial potential. Where there is a choice, in other words, the non-German countries of western Europe should be given the benefit of it.

5. Germany's coal production, which is the bloodstream of European economy, should be maximized and sufficient coal should be delivered to Germany's neighbors to enable them to meet the industrial level set at the Paris conference, the prelude to the Marshall plan.

6. Prompt reparations deliveries to the western European countries in the form of surplus capital goods; specifically, the 9,000,000 tons of surplus steel capacity which exists in the western zones of Germany and is not required for the peacetime needs of Germany should be transferred.

7. The United States should reconsider that large sum of \$1,005,000,000 for Germany now planned as part of the \$6,800,000,000 which Secretary Marshall asked be allocated for the first 15 months under the Marshall plan. This would still leave adequate funds for Germany—namely, about a one and a quarter billion appropriation for the next 15 months—in exclusive charge of the military government to help solve Germany's food and industrial problems.

8. In order to provide Europe with a means for maintaining a stable and prosperous economy, to benefit us and relieve the burden of our taxpayers, the resources of the Ruhr should be placed under the joint

ownership and control of the victorious democracies. I mean, by that, taken away from Germany and kept away from Germany until, at some future time, perhaps, Germany will be recertified for full membership in the family of nations.

9. And finally, in the case of a western European federation, which seems to me "a consummation devoutly to be wished," Germany should be admitted not as a united and overbearing state but as a group of independent states. Otherwise the European continental countries will hesitate to take the risk of entering such a federation and they will thereby again fall under German domination.

That is about what I have to say.

Acting Chairman MALONEY. May I make one observation?

Germany, after the First World War was not physically damaged badly. Now, after the Second World War, Germany has had much damage and it is wrecked. Would that have any effect on the thinking of the people there as to a future world war?

Mr. MOWRER. In my judgment, it has brought about one effect upon them. It has intensified their desire to overturn their position of inferiority, if necessary, by force.

Mr. Chairman, I went back to a Germany where I spent 10 years. I hunted up old friends and talked to everybody I could in the street. My German is good enough for that. I went around hoping to find the signs of a different spirit. Everywhere I met a people that was repentant of one thing: of having lost the war; and who was saying, in 1946, that it was better under Hitler and refusing to admit that not the United States bombers but Adolf Hitler was responsible for the ruin that lay all around.

I remember returning home one night to headquarters in Berlin with a German jeep driver—a former banker who had been reduced by the war to his state and was pretty sore about it. In coming through a particularly ruinous part, he said: "That is what you did to us." I said: "No, we didn't do it." He said: "Who did?" I said: "Adolf Hitler started it and we carried it out." But he said: "What do you mean?" "Well," I said, "did you never hear of Coventry and Rotterdam? Do you know who started this bombing?" "Yes," he said, "but those were not German cities."

That is a factual story that happened. That is typical of the attitude of this once great people that has been so besotted by Nazi propaganda and nationalism and ambition to rule that they just cannot snap out of it.

Acting Chairman MALONEY. Yes.

Gentlemen, shall we limit the questions to 5 minutes? There are a good many more members here. Without objection, we will do that.

Mr. CHIPERFIELD. I regret I did not hear the statement, so if you will excuse me—

Acting Chairman MALONEY. Mr. Vorys.

Mr. VORYS. That was a very interesting statement, Mr. Mowrer, and your long residence in Germany qualifies you to talk with authority about Germany just as your long study in Europe qualifies you to talk about Europe.

Here is the problem we face, and, it seems to me, Europe faces: You mentioned that German industrial economy is still the mightiest in Europe.

Mr. MOWRER. I quoted an American expert on that.

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I would ask the chairman if he would
Pajus, who is the economic adviser of
World War III, to answer the Congressman

WALONEY. There is no objection.

JEAN PAJUS, ECONOMIC ADVISER, SOCIETY TO PREVENT WORLD WAR III

Mr. Chairman, I would like to answer the question
before—namely, about the impression people have when
Germany. It was exactly my impression, when I entered
Germany with General Eisenhower's troops a few miles from
because you could see the offices and houses destroyed.
as a man who has been working on economic warfare for
Washington before I joined the Army with the FEA, I was
to see to what extent Germany is in a position to wage war

I believe I have the answer for you, Mr. Chairman, if you do not
mind my quoting some statistics here. According to the United
States Strategic Banking Survey, who entered Germany immediately
after the downfall, the experts have arrived at the conclusion that
Germany today—or, that is, as it was in 1945, immediately after we
entered—had a basic economy which was absolutely not destroyed
during the bombing. And in order to prove it, they made calcula-
tions regarding the technical plants. Namely, they arrived at the
conclusion that Germany had at least 19 million tons of steel capacity.
We consider, Mr. Chairman, that France's capacity is
about 14 million tons, Britain's capacity is about 15 million tons.

mediately arrive at the conclusion that Germany's capacity, speaking, equal to the combined capacities of the United States and, and, after all, you make war with steel. The experts tell us that Germany has the capacity still standing—that means immedi-

ately with machine tools. Germany has machine tools, roughly speaking, 10

percent of the synthetic industry in Europe,

and the coal-tar industry. That

Germany has a ball-bearing capacity, and that the Russians control the entire ball-bearing industry in connection, since I was the United States ball-bearing industry in the investigation we conducted to knock out Schweinfurt, I was anxious to get into the industry after we lost 190 Flying Fortress American boys.

Now are your figures affected by the reparations for dismantling of plants, and so forth?

In the slightest. To begin with, when you speak of both Sir Brian Robertson and General Clay said that the reparations earmarked, as of today, 682 plants, constitute 10 percent of Germany's total.

Germany's number of plants is 50,000. Therefore, sir, if you eliminate the 682 plants, and even though you admit that we have given the Russians part of our ball-bearing plants, Germany will have something like two-thirds of the prewar ball-bearing industry and the tremendous war potential.

In this connection, sir, may I tell you something which is rather quite close to my heart. You will recall that the French did not have the planes and the aluminum, and so forth, in 1939. Well, now, during my investigations of the ball-bearing industry, the cartel which controls the entire ball-bearing industry in Europe—the Swedish-German cartel—I discovered that as early as 1929, when the Germans got hold of the entire ball-bearing industry in Europe, they decided that for every ball bearing which the French were making the Germans would make four.

Now, sir, I am not an engineer myself, but as an economist I can tell you, since everything that moves must move on ball bearings, and since the Germans, as of 1929, before Hitler came to power, had already decreed the death of France by controlling the output of the ball bearings, it is immediately clear why, if we leave the ball-bearing plants to Germany to be used again, and especially if we do not eliminate the cartels—and I can prove this contention very quickly—you are going to leave exactly the same war potential and the same people in power—the same people who did all the harm to us.

Mr. VOYTS. I am very much interested in the statement on the economic end of it. But I do hope that in the course of further questions or answers to them we will get around to the answer to this one: Why, if it is wise to have western European control of the Ruhr, if that is a sound principle—and there is certainly much to make a

Mr. VORYS. I presume you would be inclined to agree with him.

Mr. MOWRER. My friends say it is 75 percent of what it was at its peak. I am not personally prepared to judge.

Mr. VORYS. Now, one of the points you made was that Germany must not be permitted to become the economic master of Europe. From our standpoint—I mean the standpoint of the United States—we want the mightiest industrial part of Europe to function full blast for the benefit of Europe. If, as we understand, it is in Germany, then it ought to function for the benefit of Europe and of the United States and mankind.

A lot of us do not think, if that is the way Europe is set up, that there is time or the means on this planet to go in and reorganize Europe so as to have the mightiest economy some place else, but, that the important thing is to have such controls existing in western Europe that Germany never again will become a military threat or that the Germans will not become the masters of Europe through cartels or other controls.

Now, is there not some way or other to have Germany rebuilt as a going concern for the benefit of western Europe, not just for the benefit of Germany?

Mr. MOWRER. Mr. Vorys, as one who watched the increasingly fruitless attempts of the Allied Control Commission to prevent this after the last war, I might answer by saying that people's interest in controlling a former enemy grow cold as the years pass and the memories fade.

As for the economic side, I would ask the chairman if he would permit my colleague, Dr. Jean Pajus, who is the economic adviser of the Society to Prevent World War III, to answer the Congressman sitting beside me.

Acting Chairman MALONEY. There is no objection.

STATEMENT OF JEAN PAJUS, ECONOMIC ADVISER, SOCIETY TO PREVENT WORLD WAR III

Mr. PAJUS. Mr. Chairman, I would like to answer the question you raised before—namely, about the impression people have when they enter Germany. It was exactly my impression, when I entered Hoechst, Germany with General Eisenhower's troops a few miles from Frankfurt, because you could see the offices and houses destroyed.

Naturally, as a man who has been working on economic warfare for 4 years in Washington before I joined the Army with the FEA, I was anxious to see to what extent Germany is in a position to wage war again.

I believe I have the answer for you, Mr. Chairman, if you do not mind my quoting some statistics here. According to the United States Strategic Banking Survey, who entered Germany immediately after the downfall, the experts have arrived at the conclusion that Germany today—or, that is, as it was in 1945, immediately after we entered—had a basic economy which was absolutely not destroyed during the bombing. And in order to prove it, they made calculations regarding the technical plants. Namely, they arrived at the conclusion that, Germany had at least 19 million tons of steel capacity.

Well, when you consider, Mr. Chairman, that France's capacity is about 7 or 8 million tons, Britain's capacity is about 15 million tons,

at most, you will immediately arrive at the conclusion that Germany's capacity today is, roughly speaking, equal to the combined capacities of both France and England, and, after all, you make war with steel.

The next thing. These experts tell us that Germany has the second largest nitrogen capacity still standing—that means immediately behind the United States.

Third. After all, you make war with machine tools. Germany today has over 4 million tons of machine tools, roughly speaking, 10 times as much as Germany had in 1936.

Germany has the most powerful synthetic industry in Europe, largely left undamaged.

Germany has a completely undamaged coal-tar industry. That means the chemical industry.

Germany still has two-thirds of her ball-bearing capacity, and that means the Germans plus the Swedes control the entire ball-bearing industry of Europe. And in this connection, since I was the United States adviser on the ball-bearing industry in the investigation we had in 1944, when we tried to knock out Schweinfurt, I was anxious to see what had happened to the industry after we lost 190 Flying Fortresses and about 2,000 American boys.

Mr. CHIPERFIELD. How are your figures affected by the reparations and the dismantling or dismantling of plants, and so forth?

Mr. PAJUS. Not in the slightest. To begin with, when you speak of reparations, both Sir Brian Robertson and General Clay said that the total reparations earmarked, as of today, 682 plants, constitute less than 1 percent of Germany's total.

Western Germany's number of plants is 50,000. Therefore, sir, if you eliminate the 682 plants, and even though you admit that we have given the Russians part of our ball-bearing plants, Germany still will have something like two-thirds of the prewar ball-bearing industry and the tremendous war potential.

In this connection, sir, may I tell you something which is rather quite close to my heart. You will recall that the French did not have the planes and the aluminum, and so forth, in 1939. Well, now, during my investigations of the ball-bearing industry, the cartel which controls the entire ball-bearing industry in Europe—the Swedish-German cartel—I discovered that as early as 1929, when the Germans got hold of the entire ball-bearing industry in Europe, they decided that for every ball bearing which the French were making the Germans would make four.

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Mr. VOYTS. I am very much interested in the statement on the economic end of it. But I do hope that in the course of further questions or answers to them we will get around to the answer to this one: Why, if it is wise to have western European control of the Ruhr, if that is a sound principle—and there is certainly much to make a

strong principle of it—is that not an argument for a western European union of which I would think Germany could be a part? If it is good to have the Ruhr run by western European collaboration for the benefit of all western Europe, then why is it not a good thing to have the rest of the economy of western Europe controlled by western Europe rather than by the United States, Russia or Germany?

Mr. PAJUS. May I answer your question by pointing out that at the present moment the man who is running the steel industry in Germany is the man who paid millions of marks to the Nazi party chiefs? His name is Heinrich Dinkelbach. He is the financial brain of the Vereinigte Stahlwerke. He is a notorious Nazi. He was the man who helped to enslave Europe. When the British entered Germany his combine was immediately approached by the British authorities, and his son, who was a major in the SS and was in a concentration camp in Britain, was later on ordered released. And over a year ago this man, the man who was the spokesman for the Nazi heavy industry, Mr. Chairman, and helped to make the German Nazi machine what it was, was appointed to head the entire iron and steel industry for the Ruhr.

Dinkelbach and his friends control the greatest steel works in Europe, the second largest after the United States. These are the people who still control the 19,000,000 tons of steel capacity Germany has. Dinkelbach's combine also controls the coal of Germany.

Now, Mr. Vorys, here is the problem in a nutshell. When you quite correctly suggest that we internationalize or institute a control over the Ruhr, obviously I assume you mean the coal and the steel, and the chemical industries, because after all, what western Europe needs is coal. Surely the American taxpayer cannot benefit by a scheme whereby the Europeans have to pay \$23 a ton for coal to be imported from the United States. Witness the plight of the French. After all, we, as taxpayers pay the money. When the French pay \$23 for a ton of coal, as far as I can calculate it, we pay the \$23.

After all, you Congressmen voted recently to give interim aid to France. So long as Mr. Dinkelbach, a prominent Nazi, controls the steel and the coal that means he will do exactly what he did after the First World War. If you want me to be specific about it, in the 1930's, when Germany wanted to chloroform her neighbors—such as France, Belgium, Holland-Luxemburg, and so forth—she withheld the coal. When the French did not get the coal they had to ship the iron ore to the Germans.

Dinkelbach was not denazified. The cartels were not eliminated.

Take the case of the man who was appointed recently to run the British administration of the coal, the North German Control Commission. His name is Heinrich Kost. He is a Nazi. His membership dates back to 1933 or '34—that is, at a time when the German industrialists were not forced to be members of the Nazi party. Later on everybody had to do so more or less. Kost joined voluntarily. He represents the famous Haniel combine, which controls coal and steel, locomotives and rolling stock, and so forth.

This is the man who was appointed to run the coal industry.

Now, Mr. Vorys, I submit that it is impossible to expect any fairness from Mr. Kost. I would like to submit that it is not fair that such a man should be in control of the coal. Specifically, having studied the requirements and the program and plans of the 16 nations after they

had submitted their findings to you gentlemen, I find that they call for the full development of their own industries so they would be taken off our necks, as it were. Yet, I noticed that our military authorities, when they presented the coal findings—which were prepared by the Germans—have stated that Germany in 1951, having received 40 percent of the moneys which will be spent on rebuilding the mining industries in Europe—Germany gets 40 percent of it—Germany, after receiving 40 percent, will supply Europe with 5,500,000 tons of coke only. The plan submitted by the 16 nations calls for a production of steel which will require much more than 5,800,000 tons of coke. The French program alone calls for over 12,000,000 tons of steel. Belgium-Luxemburg call for 7,800,000 tons of steel.

It is impossible for them to meet their stated quotas, because the coal will not be given to them. If they do not have the coke and coal, Mr. Chairman, they will not produce their steel products. Then they will come to us for aid and in the meantime we will have again built up a tremendous war machine, such as the German war machine was in the 30's. We have not eliminated the Nazis or the cartels. We have left the 16 nations entirely at the mercy of these people. Consequently, it would seem to me that the internationalization of the Ruhr that you suggested is the only way out, specifically because these nations will be free from the German economic domination, dictating to them how many tons of coal they can get, as they did in the past.

Then, too, letting this coal to be used by the 16 nations plus Germany, that would mean that they, the 16 nations, would be able to control Germany's war potential, also they would be able to meet their quotas and thus make it easier on the American taxpayers.

Acting Chairman MALONEY. Mr. Kee.

Mr. KEE. Pursuing that subject a little further, you seem to reduce the matter to the question of control over there by personalities rather than governments. Who, or what organization or government is responsible for placing all this power in the hands of these men?

Mr. PARUS. I am glad you asked me that question. To begin with, we were told that the cartels were abolished. I have a record of that in the New York Times as of January 9. Well, the cartels, of course, were not abolished. I have the evidence right here. This was clearly stated in the World Report magazine, December 9, 1947, and there is plenty of other evidence. The reason the cartels were not eliminated and the reason such bad people were appointed was a simple one. The British apparently did not think that it was necessary to depazify Germany, and they felt that they would be in a better position to go ahead with their plans, if they had some of their old friends, meaning the German industrialists, running the show.

For instance, sir, I am glad you asked this question for another reason: As an economist and an American, I was shocked in 1939 when the famous Dusseldorf agreement was announced. I am sure, sir, you will recall that said episode in our life. At that time the agreement was made, the same "gentleman," Mr. Dinklebach, was among those who represented the German heavy industry, and the man who later represented Britain in Germany, Sir Percy Mills. He was one of the representatives of the Federation of British Industries.

In 1939 the Dusseldorf meeting decided what should be done about

the economy of Europe. Incidentally, it was exactly St. Patrick's Day, 1939, when Mr. Hitler occupied Prague.

When Sir Percy Mills entered Germany in 1945, he felt the best people to run Germany's postwar economy were exactly the "gentlemen" or "gentleman" I mentioned. They were never de-Nazified.

That Düsseldorf agreement of 1939, entered into by the Federation of British Industries and the Federation of the Heavy Industries of Germany, was aimed at the United States interests, because the purpose of the Düsseldorf agreement was to kick the United States out of Europe completely.

Now, sir, I submit that they had no right to do so. Obviously when Germany was defeated the man who should have been tried as a war criminal, Dinkelbach, should have been immediately placed in jail instead of being nominated as the head of the industry.

When we protested against such inequities, we were told we had no jurisdiction in the matter and as a matter of fact, sir, Sir Brian Robertson later on flatly stated that the British had no intention of proceeding with the decartelization of the German industry.

That means that the British Government specifically wanted to continue Germany's participation in international cartels.

I have but one answer to give you as an economist on that. The very same interests in Britain who are fighting against the decent international control of the Ruhr were those who, during the war, in Washington, said they must have the control of the Ruhr for themselves.

I was in the Government at that time, sir. When we pressed the British for an answer to the question why we should not have Germany controlled internationally—the answer was, "We know much more and much better about the Germans because they are our neighbors; we have always lived with them; we have always traded with them and we can get along with them much better than you Americans can. Why? Because you will get tired, most likely, and get out, but we will remain as their neighbors."

The reason the British remain is because way back they invested plenty of money in the Ruhr. So did the Bank of International Settlements of Basel, Switzerland. The Bank, although an international bank, was and still is tied up with the heavy industry in Germany.

They would like to, I suppose, salvage their money if they can. That is why they insisted on managing the Ruhr, and as Mr. Vorys intimated, they probably did not do such a good job of managing the Ruhr.

Be that as it may, we have a terrible legacy. The cartels are intact practically. The cartel people who have chloroformed the nations before, are still there. They are the same men who planned to split up among themselves the French industry, the Belgian industry, and the industry of Luxembourg. They did that exactly and divided the steel industry of northern Europe among them. The very same men will again run the German heavy industry if we don't watch it. Nothing good can come out of it.

I further submit that if they are left in the control of Germany the Marshall plan must fail because what will happen will be this: You will build up a German Titan again. This German Titan has

always been ruthless against us. We will repeat the mistakes of the twenties and thirties.

What will happen to our exports, later? After all, we will have to live, too. The price of steel will not always be as high as it is now. It is inevitable that we will encounter tremendous competition from the German heavy industry.

Mr. KEY. If you are correct in your description, it looks like we need a housecleaning over there.

Mr. PAJUS. Yes, sir; I have all the evidence to prove every contention I make.

Mr. JONKMAN. Are those cartels in any way responsible for the failure to produce coal in the Ruhr?

Mr. PAJUS. Yes, sir.

While in Germany we went to talk to a man who was the Minister President in 1946 of the North Rhine Province, which happens to produce most of the coal. His name was Mr. or Dr. Lehr. We asked him, "Why is it you do not produce more coal?" We told him that the Poles had suffered just as badly as the Germans and were producing much more coal than before and they have the same food conditions, housing conditions, and what not. The answer was, "So long as we are not allowed to go ahead full blast with our heavy industries, why should we produce coal for export? We are anxious to rebuild our own heavy industry." That man was not removed from the government for making the statements.

Mr. MOWRER. I watched German workmen in 1923 refuse to produce coal as reparations, with a misplaced patriotic sense. They will not work for foreigners unless they are compelled to.

Mr. JONKMAN. That does not connect up with cartels, though.

Mr. MOWRER. That connects up with the general picture. If the people above and below are not interested in increasing coal production, it cannot come up.

Mr. JONKMAN. How can the owners of these coal mines obstruct the production of coal, as against the Allied Council and things like that?

Mr. PAJUS. Here is the answer, sir, as reported in a World Report, as of December 9 or December 16, rather, of 1947:

German administrators are running to the allied advisers on all matters, even on so minor a question as whether to permit German editors to make an inspection visit. Allied officials take the position that they will not interfere in administrative reparations and will give advice only when asked.

The sum and substance of this article, here, speaking about Mr. Kost and the cartels and what they are doing is, that the Germans have the entire management and run the coal industry. We do not interfere with them.

As a matter of fact, I will give you the exact description and the names of the cartels functioning in all the three zones, the United States, British, and French.

Specifically, when you speak about coal, the British told us they have already eliminated the north German coal control. Actually, the entire coal cartel, the most vicious German coal cartel, the Rheinisch Westphalische Kohlen Syndikat, was reestablished under the name of Ruhrkohlen Zentrale. They dole out every pound of coal, and nobody interferes with their activities.

I can give you the name of the one running the American side and also the French side.

Consequently, it is obvious that the cartels are doing exactly what they did for over 50 years, controlling the German output and distribution of coal.

Mr. JONKMAN. That is all, Mr. Chairman.

Acting Chairman MALONEY. Mr. Jarman.

Mr. JARMAN. I have no questions.

Acting Chairman MALONEY. Mr. Smith.

Mr. SMITH. I have no questions.

Acting Chairman MALONEY. I want to thank you gentlemen very much for coming in here. I think you have told us something we have not had raised in the committee before.

Mr. VORYS. I would like to ask the last witness if he has any supporting data which should be filed, which was not given in full, here, that might be placed in the record.

Acting Chairman MALONEY. Without objection, we will permit them to submit for the record any information that they have within the next 5 days.

Mr. VORYS. Yes. Many of these matters brought up require investigation by our committee, in following up, and therefore I would hope that we could have even a more full statement in the record of the cartels and the individuals supporting them, along with some concrete evidence that we could study more intelligently than we have time to do today.

Acting Chairman MALONEY. Will you submit that?

Mr. PAJUS. Yes, sir.

I have prepared a resolution on the internationalization of the Ruhr. Shall I submit it now?

Acting Chairman MALONEY. We will be glad to put that in the record as your resolution.

Mr. PAJUS. May I send it along with the whole statement?

Acting Chairman MALONEY. I think we better have this right here, if there is no objection.

Mr. PAJUS. This is a resolution on internationalization of the Ruhr:

Whereas the official public-opinion polls conducted in western Germany revealed that the German people have not experienced a moral conversion, and that a majority is completely indifferent to the democratic ideas and ideals and is ready to follow a fuehrer; and

Whereas most of the prewar industrial and financial leaders who were behind Hitler's war drive have resumed their former positions of power within the German banks and industry; and

Whereas the leaders of the German heavy industries have utilized their tremendous power to dominate the European economy of the thirties in an effort to pave the way for Hitler's ultimate military drive for the conquest of Europe; and

Whereas the industrial leaders profited enormously from Germany's unscrupulous trading methods such as the use of export subsidies, barter agreements, bilateral trade agreements, the multiple standard of the German currency, and other unethical devices; and

Whereas for over 50 years the German economy has been dominated by monopolies and cartels which were closely linked with the German General Staff and the nationalistic German Government; and

Whereas the German industries have utilized their participation in international cartels to weaken the economies of their neighbors and to make their resistance to ultimate German aggression ineffective; and

Whereas the Ruhr constitutes the principal element of German war potential which is largely based on the iron, coal, and chemical industries; and

Whereas the Germans designated by the allied military government to assume responsibility for the production of the Ruhr coal and steel—Heinrich Kost and

Heinrich Dinkelbach—have both been prominently identified with the Nazi Party since the advent of the Hitler regime and both having been very active in the German, as well as in international, cartels; and

Whereas in the past the German coal and steel cartels have utilized the control over these commodities to prevent their neighbors from developing their own steel industries by withholding the supply of coal or by making its delivery price prohibitive to them; and

Whereas the success of the Marshall plan depends upon an adequate supply of coal to the 16 member nations so that they can meet their stated goals in their efforts to reestablish their capital industries and to produce the items essential to their recovery; and

Whereas it is imperative to alleviate the load of the American taxpayer by making it possible for the 16 nations to develop the capital industries to their fullest capacity; and

Whereas the 16 member nations of the Marshall plan have unanimously expressed their strongest apprehension lest the German economy be allowed again to develop to the detriment of other European countries; and

Whereas the resources of the Ruhr are essential to rehabilitation of Europe, including Germany herself, and must never again be used in such a way as to constitute a threat to European security: Now be it

Resolved, that—

(a) The ownership of the coal, steel, and chemical industries of the Ruhr and Rhineland be vested in an international consortium consisting of Germany's victims, members of the Marshall plan.

(b) That this consortium take over all of Germany's coal, steel, and chemical resources in the Ruhr and Rhineland from private or public ownership and fix the amount of compensation, if any, to those private and/or public owners.

(c) That the consortium set up a commission to administer the resources of the Ruhr, all decisions to be made by a majority vote.

(d) That the management of these coal, steel, and chemical resources consist of reliable personnel not formerly connected with German or international cartels and appointed by the governments of the members of the international consortium.

(e) That the commission allocate all coal and steel products in the Ruhr and Rhineland on a percentage basis to the various nations, including Germany herself, requiring this coal and steel to meet their stated goals stipulated by the Paris Conference of the 16 nations in 1947.

Mr. VORYS. That is a resolution that you recommend be adopted? Is it not a draft resolution?

Mr. PAJUS. That is right.

Acting Chairman MALONEY. Without objection, any further information, facts, and evidence these witnesses care to submit for the record will be included in the record at this point.

(The information requested is as follows:)

ANALYSIS OF STATEMENT SUBMITTED TO THE HOUSE FOREIGN RELATIONS COMMITTEE BY THE SOCIETY FOR THE PREVENTION OF WORLD WAR III, INC., FEBRUARY 12, 1948

In common with the rest of the American people, we firmly believe that Europe must be helped to get on its feet again. We are in complete agreement with Secretary of State Marshall that it is in our self-interest to aid in the recovery of Europe, especially the countries that have suffered for 5 years from German occupation.

Secretary Marshall, speaking about the recovery of Europe from Chicago, on November 18, 1947, stressed the necessity of the restoration of the German economy. "The restoration of Europe," he said, "involves the restoration of Germany. Without the revival of German production, there can be no revival of European economy."

Conscious of the danger involved in the revival of German economy, the Secretary of State cautioned the Nation by urging that "we must be very careful to see that a revived Germany can never again threaten the European community." Not only did the Secretary of State remind us that there are great difficulties involved in the implementation of this policy, but he also recommended that "there is an imperative necessity of safeguards to insure that the economic power

of Germany shall not be used by the future German Government as a weapon for the furtherance of exclusively Germany policy." The nature of the safeguards has not been told the American people.

Having studied for years the German problem and having made a study of the Marshall plan and especially Germany's share in it, we are sincerely convinced that these safeguards must be spelled out before we embark upon the revival of the German economy.

On June 25, 1947, former Under Secretary Dean Acheson, who was prominently connected with the formulation of the Marshall plan, said, "Putting in working order the German production is considered by the American Government as the cornerstone of the plan which the European countries will be able to elaborate within the framework of the Marshall plan." From Mr. Acheson's statement, it is apparent that we are about to embark on a policy of rewarding our enemies and punishing our friends. Germany's neighbors and our only friends in western Europe are getting the impression that their security is being jeopardized.

We believe that we speak for the American people when we categorically declare that the Germany of 1948 cannot be made the cornerstone of Europe. We also firmly believe that most of the 16 nations which met in Paris last summer will never willingly accept Dean Acheson's views. In fact, these 16 nations have plainly expressed their views about Germany in the following language: "The German economy must not be allowed to develop to the detriment of other European countries as it was done in the past, but, if European cooperation is to be effective, the German economy must be fitted into the European economy so that it may contribute to a general improvement in the standard of living. In particular, the output of the Ruhr coal fields, which is essential to the European economy as a whole, must not again be used by Germany in such a way as to constitute a threat to European security, but must contribute to the rehabilitation of economic stability of the whole of Europe, including Germany herself. The increased production and export of Ruhr coal is, in fact, essential for European recovery and both coal and coke should be fairly distributed between those countries, including Germany, which depend upon the Ruhr for their supplies."

We believe that the American people will fully subscribe to the views expressed by the 16 nations. They will subscribe to these views because they have learned their lessons from the past two world wars and because they have been educated by the United States Government and by the findings presented to the United States Senate in 1945 and 1946 by the Foreign Economic Administration.

Basic to the whole problem of security is the aspect of economic security from future German aggression.

Few Americans today will question the self-evident truth that the ability to wage a large scale war is as dependent upon industrial and economic resources as it is dependent on military weapons.

The control of Germany's industrial potential is based on realistic considerations which have nothing in common with a "hard" or a "soft" peace. It is derived from a recognition of the direct relation of certain types of industrial potentials and economic weapons to a national war-making power. This was amply demonstrated during World War II.

The first protection against lawlessness is to disarm the lawless persons. A second and equally essential protection is to prevent those who are lawless from reacquiring the power and capacity to forge any new weapons with which they can again menace society.

It is for these reasons that a new method for controlling Germany's ability must be devised. It must be distinguished from the orthodox and strictly military problem of regulating Germany's armed forces or initially confiscating her finished munitions and aircraft, as was done after the last war and as is now again proposed by some Americans who refuse to learn the lesson. The most lasting form of economic and industrial controls would be one with the minimum amount of damage to the economic fabric of Europe and with the maximum amount of administrative feasibility.

Germany must be given an economy for peace. This can be accomplished by making a thorough analysis of all the branches of her economy, and by granting her the means of having a standard of living not superior to that of her neighbors. The control of Germany's economy should be designed to continue on an indefinite basis until the nations of the world feel that the pacification of the German mind and people is so assured that special protective devices need no longer be maintained.

Two and a half years have passed since this fundamental policy was laid down by the United States Government. We submit that there has been no evidence

presented to prove that Germany has changed in the 2½ years and that she is now fit to become the cornerstone of the new Europe. The American member of the Inter-Allied Reparations Agency in Brussels, Belgium, Mr. Albert Carr, made it quite explicit on December 7, 1947, when he said "The German industrial economy is still by all odds potentially the mightiest in Europe." Mr. Carr merely amplified the analysis submitted to the United States Senate by the Foreign Economic Administration 2 years earlier where it was plainly stated that "If we were to leave Germany to her own devices and not to institute a program of economic and industrial disarmament, Germany could be far better prepared for war within 5 years than she was in 1939" (p. 560 in A Program for German Economic and Industrial Disarmament, April 1946).

Germany is still so powerful because the democratic nations made the fundamental mistake after World War I, when Germany's economy was left intact as a result of which, in the years from 1920 to 1929, Germany built her modern industrial plants, repaired her rolling stock, erected many power plants, replaced installations and equipment in the majority of her commercial enterprises and supplied herself with modern machine industries and motor equipment. These were the years of overexpansion in the heavy industries. A capacity was built up in these industries that considerably exceeded civilian needs during these years. Steel was consumed in much larger quantities than a peacetime economy would warrant.

Because we failed to take into account the German economic potential after World War I, Hitler was in a position to utilize the tremendous potential left to him by the German Republic to further his war aims. And because Hitler's war machine was so tremendous, the German war potential is today substantially as the American member of the Inter-Allied Reparations Agency reported on December 7, 1947. Contrary to the popular belief spread by the same interests which wanted us to forget the lessons of World War I and of World War II, and which now say that Germany is economically destroyed, it is a fact that the size of the existing German industrial plant is enormous. All of it is still part of a huge industrial machine which was originally established and used for war and can again be used for war. The following economic realities speak for themselves.

Dyes.—Germany, less than four times the size of New York State, has one dye plant that can turn out almost as much dye in 1 year as all the plants in the United States together. Not one of its windows has been shattered. During the Second World War, it turned out great quantities of chemical materials for ordnance. It is in operative condition today.

Steel.—Germany's economic power after World War I was based on her tremendous steel industry. Mr. Carr stated on December 7, 1947, that in 1938 Germany had an estimated steel production capacity of 24,000,000 tons per year. This steel capacity was greatly enlarged during the war. In 1932 Germany produced only about 4,000,000 tons of steel, including that used to manufacture goods for export. Today practically all of the great iron and steel furnaces of Germany are ready for operation or can be in operation with minor repairs. Since Germany's capacity to produce steel is equal to that of France and Britain combined, it is clear that the mere existence of such a capacity is an invitation to war.

With reference to Germany's present-day steel capacity, the representative of the Inter-Allied Reparations Agency made the following statement in his article of December 7, 1947, in the New York Times:

"In 1938 Germany had a steel production capacity of 24,000,000 tons * * *. Since the equivalent capacity of 1938 had been greatly enlarged by 5 years of war preparations, Germany, therefore, still has a far larger industrial plant than when Hitler took power. Many experts believe that if Germany were allowed to resume production without restraints, within 10 years she would again be economic overlord of Europe."

Nitrogen.—In 1936-37 the world output of chemical nitrogen was about 2.6 million metric tons. Germany's share in 1939 was 1.6 million tons. It was this enormous capacity that enabled the demilitarized bombing of Warsaw, Paris, Stalingrad, and Coventry. The largest part of the nitrogen capacity remains or can be rebuilt in a short time, thus threatening the security of western Europe again.

Coal tar.—In 1937 Germany's coke ovens, which provided the coke byproducts also necessary for explosives, produced almost as much coal tar as all the coke ovens of the United States combined. From coal tar are derived thousands of chemical compounds important to all industries. The German capacity is now considerably greater than 1937 and was not materially reduced during World War II.

Fibers.—During the Hitler regime, Germany largely became self-sufficient in her synthetic fiber industries. Before his regime, she used to import about 400,000 tons of cotton. It is estimated that Germany's rayon factories have a combined capacity of at least 450,000 metric tons. Thus, she no longer has to worry about her cotton being cut off during war. Her synthetic fiber industry has suffered little permanent damage, and today Germany is still in a position to produce very great quantities of essential synthetic materials.

In 1933, the year that Hitler came to power, Germany imported 50,000 to 60,000 tons of rubber. Best estimates show that German synthetic rubber capacity today is over 100,000 tons.

Petroleum.—In 1934 Germany consumed about 4,000,000 tons of petroleum products. In 1944, Germany produced 1,000,000 tons of natural petroleum and about 5,500,000 tons of synthetic oil. Although the petroleum industry suffered damage during the war, a large part of her capacity to produce synthetic petroleum is still left.

Aluminum.—In 1933 Germany's capacity to manufacture aluminum was about 40,000 tons a year. In fact, in 1933, Germany's output was only 19,000 tons. Today, best estimates show that her capacity to produce aluminum is in the neighborhood of 250,000 tons.

Coal.—Germany never had many raw materials essential to wage war. However, she had coal in abundance to make up for her deficiencies. Coal is the material required for the synthetic gasoline industry, the nitrogen industry, the dye industry, the pharmaceutical industry, the plastic industry, and many other industries that provide substitutes for the resources that Germany lacks. How important Germany's coal production was can be seen from the fact that in 1933 Germany's production of her coal was about 109,000,000 tons and in 1938, under the stimulus of Hitler's 4-year plan for war, her hard coal production rose to 185,000,000 tons. Even with the tremendous requirements of Hitler's war machine Germany, in 1937, was able to export to her neighboring countries 45,000,000 tons of coal and briquets.

Perhaps the most important element for a nation's war-making capacity is its ability to manufacture machine tools. A nation superior in machine tools is possessed with the potential of instruments of war that surpasses the importance of the ability to produce soldiers. One tool may be equivalent to hundreds of workers. How important Germany's machine-tool capacity was can be gaged by the fact that in 1938 Germany, with a population of 70,000,000 persons, had a machine-tool inventory and a machine-tool capacity larger than that of the United States. Germany had developed her manufacturing industries far beyond her own consumption needs. Because of the predominance of her machine-tool industry she was in a position to dominate Europe as she was the main source of supply of those machine tools. Best estimates show that Germany, at the present time, has more than 4,000,000 tons of machine tools and a vastly undamaged capacity for new machine-tool production. As matters stand today, Germany with the exception of the United States, is the outstanding armament machine shop in the world.

The list of Germany existing industrial war potential extends to other fields such as shipping, shipbuilding, ball bearings, electrical power, electronic equipment, precision and optical equipment, and a vast striking array of primary and subcontractors in the direct armament field. Also pertinent to this problem is the fact that in 1944 Germany achieved the highest level of production in her entire history.

From the above it is clear that Germany's war potential exists despite the crushing military defeat we have inflicted upon her. It is also clear that we must learn our lesson. We neglected to learn it after World War I because the disarmament provisions of the treaty of peace aimed merely at reducing the standing military forces of Germany and the amount of direct military equipment which they could retain and which could be manufactured for them. This was the same approach which was taken during the 1920's at the various international disarmament conferences at which attempts were made to persuade the major powers to reduce their military establishments and their manufacture of articles of war.

As regards the German economic power, we refused to pay attention to it largely thanks to the activities of pro-German interests. Typical instances are provided in the case of some American investment houses and their policies of making loans to rebuild the German economic power. In the middle twenties, in spite of repeated warnings from our Ambassador Alanson Houghton, the house of Dillon-Reed & Co. of New York, made huge loans to the Vereinigte Stahlwerke

to enable the formation of the largest steel company and cartel in Germany and in Europe, and which finally succeeded in dominating Europe's economy. The capacity of the Vereinigte Stahlwerke to produce steel today is about 10,000,000 tons—or one German company alone can produce all the steel allowed Germany under the Anglo-American agreement of September 1947.

In the same prewar period a number of American concerns invested heavily in the German future. General Motors acquired and developed the Opel Works at the cost of more than \$30,000,000. I. T. & T. bought into various German corporations, Standard Oil and other companies signed cartel agreements with I. G. Farben, etc.

Thus, it is not strange that at the beginning of the war, some Americans with German ties assured their German friends that they would hold the bag for them in the United States during American neutrality, and would resume their pleasant and profitable business associations as soon as hostilities ended (New York Herald-Tribune, July 31, 1945).

When Germany surrendered, American representatives of these corporations immediately appeared on the scene in the Army or with assimilated rank on various Government committees and councils or as advisers charged with preventing the revival of Germany's industrial power. This has been frequently noted in the press for the past 2½ years.

It is noteworthy that Brig. Gen. William Draper of Dillon-Reed Co.—the same company which advanced the huge loan to erect the biggest steel combine in Germany—the money, incidentally, was never repaid by the Germans—was taken out of the Pacific theater in the spring of 1945 and was sent to Germany with the American military government, where he served as Director of the Economic Division and as Economic Adviser to General Clay until recently.

There were other officials with German connections who went to Germany soon after her defeat. Among these were Col. Sothenes Behn, Kenneth Stockton, and Mark Stundstrom of I. T. & T.; Charles H. Powell of Westinghouse; Brandon Grover, former head of Socony Vacuum of Rumania; Robert McConnell, formerly of the General Aniline & Film Co.; Peter Hoagland, formerly representing General Motors in Germany; Graeme Howard, also of General Motors; and Rufus J. Wysor, formerly of Republic Steel.

Upon entering Dusseldorf in the spring of 1945 uniformed officials of the United States Strategic Bombing Survey assured the leading industrialists of Germany that a bridge of friends was formed to protest the German heavy industry (preliminary analysis of the Stahl Union's method of pursuing foreign assets, Finance Division, Headquarters United States Control Council in Germany).

Many German criminal industrialists were left at their posts. The distribution of coal, Germany's most important raw material needed to reconstitute Europe, was left in the hands of the old German coal cartel. It was evident from the very beginning of our occupation of Germany that most of the top officials were not in sympathy with the idea of eliminating permanently Germany's war potential, nor were they in sympathy with the idea of controlling and restoring to peacetime needs the production of metals, chemicals, machines, and other items which the development of a war potential would require.

When the opposition of some of the top officials became known to General Eisenhower, the latter was forced to order all American officials to obey and loyally carry out the official policy fixed by the Big Three.

On October 13, 1945, in obvious reply to criticism leveled at some of his officials accused of going to Germany to propagandize against the decision of the Big Three, General Eisenhower issued the following statement:

"Any man in my organization whom I believe is not executing our policy with his heart as well as his head and hands will be placed in a job where he won't need his heart."

This notwithstanding, Dean Calvin Hoover of Duke University, just before returning to the United States, prepared for General Draper and circulated throughout his division of the Economic Division, an elaborate study to prove the impracticability of our policy (New York Times, October 7, 1945). Then on October 15, 1945, one Don Humphrey, also of Duke University, circulated a memorandum throughout the Economic Division in Berlin, arguing the inexpediency of exporting coal from Germany in spite of the fact that "the claims of the nations importing coal are persuasive, and that for the moment we are operating under a directive." Mr. Humphrey's thesis was that Germany should hold her coal because its use for manufacturing German goods for export would bring more outside money into Germany than the export of coal and other raw materials. This is fallacious because for the coal exported from Germany the French have

been receiving only a very small fraction of their coal requirements and thus been forced to pay \$23 a ton for United States coal. If Germany exported 50,000,000 tons of Ruhr coal per annum as compared to 45,000,000 tons in 1937, it would give her \$800,000,000 to \$900,000,000 in foreign exchange with which to import food and other raw materials. Such coal export is a physical possibility because, contrary to popular belief, the German coal mines have not suffered great damage and most of them have already been repaired.

Germany could produce and export more coal if we eliminate the vested interests from the industry and from politics. Germany could emulate Poland. Polish coal production in Upper Silesia has jumped from 38,000,000 to 59,000,000 tons in 1947, although the Polish miners have been receiving the same rations as the Germans. Moreover, Polish authorities say that they can produce 90,000,000 tons with better machinery and transport. The bald fact is that the essential element for the rebuilding of the shattered economy of Germany's victims is coal, and if Germany can prolong the economic prostration while her coal is used first to rebuild her heavy industries, she will emerge years ahead of her victims as the dominant economic power of western Europe, with a war potential practically unimpaired by defeat. So it was after World War I.

Very little has been accomplished by General Draper and his Economic Division during the 2½ years of occupation which would prejudice such a German effort, and much has been done to help it along with the following results:

(a) Germany's heavy industry is largely intact, and the industrialists are planning to revive the entire German industry just as they did after World War I.

(b) The leaders of German industry and large commercial banks have retained full control of their interests.

(c) With the exception of those very few who are now being tried in the United States zone, most of Germany's economic and political leaders have, so far, escaped justice.

The well-known magazine, *World Report*, published by David Lawrence reported on December 16, 1947, that Heinrich Kost was appointed to the position of general manager in charge of reviving the coal production in the Ruhr. The report also stated that the industrial recovery of all western Europe, as well as Germany, depended upon his effort.

Heinrich Kost was a member of the Nazi Party since 1934, years before the Nazi Party pressure on the businessmen to take out memberships. Previously Kost was general director of Rheinpreussen, one of the largest of the Ruhr's coal companies. The Rheinpreussen Co. is an integral part of the Gutehoffnungshütte, A. G. which in turn forms a part of the famous Haniel Trust, one of the largest concerns of Germany dealing with coal, steel, rolling stock, etc. The Haniel family has enriched itself tremendously during the Nazi regime. Heinrich Kost has been connected with the Haniel Trust for a number of years during World War II and in the prewar period. The cartels with which Heinrich Kost was associated financed Hitler's rise to power, and later on prepared Germany for aggressive war.

For the above reasons Kost's appointment was very severely criticized by his fellow Germans.

Speaking about the new German administration of the coal industry which is so vital to the recovery of Europe, the *World Report* made the following comment:

"Allied officials take the position that they will not interfere in administrative operations and will give advice only when asked."

It is noteworthy that among the Germans placed in high position with the new German Ruhr Coal Commission, one finds Reinhard H. E. Wuester, also a former Nazi. Among the representatives of German owners of coal mines, the outstanding name is that of Baron Waldemar Von Oppenheim, a Nazi banker and a close friend and collaborator of Baron Kurt Von Schroeder, the man who brought Hitler and Von Papen together.

The chief of the trustee administration of the north German iron and steel control is the notorious Heinrich Dinkelbach. He was the financial brains behind the notorious German steel combine, Vereinigte Stahlwerke. Records found by the military authorities in 1945 in the office of the Vereinigte Stahlwerke in Dusseldorf, show that Dinkelbach was closely allied with the Nazi Party for a number of years. When Dinkelbach was appointed to become the super-manager of the Ruhr industry by the British authorities in October 1946, his membership and activities in the Nazi Party were deliberately overlooked. Soon after he came to power and by virtue of his new position, he succeeded in freeing 27 of the 31 high officials of the Vereinigte Stahlwerke who were previously

arrested as notorious Nazis. The well-known London weekly, *News Review*, of August 7, 1947, described Dinkelbach's present position in the following terms: "Herr Heinrich Dinkelbach holds in Germany today the place once occupied by such powerful figures as Alfred Krupp, Hugo Stinnes, and August Thyssen. He is their direct successor. He is the Ruhr industrial magnate of 1947. Within the limits of disarmament and a four power level of industrial projects, he is reorganising the whole set-up. He had the same kind of job under the Nazis from 1933 to 1939."

Two years after World War I, Germany paid in goods and services and by other means, 8,000,000,000 marks in reparations. Two years after Germany's surrender only 31 mechanical, 3 chemical, 2 electrical, and 1 mine installation plant have been delivered to 18 nations as of June 30, 1947 (report by Inter-Allied Reparations Agency, Brussels, Belgium). The latest figures published by the United States Government reveal that only 682 plants in western Germany would be dismantled for reparations. In other words, Germany will pay reparations of about 1 percent of the estimated 50,000 plants she still has. The very same Inter-Allied Reparations Agency in Brussels calculated that Germany inflicted \$300,000,000,000 worth of damage on her neighboring nations.

To illustrate the tremendous damage done by Germany to her neighbors it will suffice to state the case of machine tools again. While Germany was master of France she took 80,000 machine tools from that country alone. Holland, for instance, lost 10,000 harbor installation units. Two and a half years after Germany's collapse, France has been able to recover only 10,000 machine tools out of the 80,000 taken by Germany. From these figures alone, it is clear that Germany has today a tremendous advantage over her neighbors. Should the present policy continue, it is apparent that the 18 nations will not be able to recoup what they have lost during Germany's occupation (p. 43, Soundings, London, England, December 1947).

Up to the present writing, the total residual value of German plants delivered to Germany's victims is 252 millions of Reichsmarks or \$63,000,000.

Former Assistant Secretary of War, Petersen, testifying before a congressional committee in February 1947, stated that "We have destroyed nothing that could have been turned to commercial advantage in our zone. In the United States zone we have destroyed only five or six powder plants." In the British zone only 7 percent of the tank, aircraft, artillery, and other factories termed dangerous by allied experts have been dismantled (report to the Foreign Ministers, Moscow, March 1947, by the British commander.)

Nor has the denazification program been carried out since the record shows that top Nazis have been released after questioning and allowed to retain their business relations. Of the numerous criminal industrialists, only Friedrich Flick, Hitler's secret chief munitions maker, was sentenced to only 7 years, while Baron Von Schroeder, general in the SS was released by the British. It was Baron Von Schroeder who put Hitler in power by bringing him and Von Papen together at his home. Hitler's chief spy in the United States in 1940, G. A. Westrick, was released July 1947.

The American people have learned what the German cartels have done to their economy. Secretary of War Kenneth Royall, stated on January 8, 1948, that "We have abolished the pernicious cartels." The World Report of December 9, 1947, categorically refutes this by reporting that the German cartels and monopolies are showing up again in occupied Germany, and flatly says that "Little has been accomplished toward the occupation goal of breaking up the 69 trusts that once controlled German industry." That same report also states that a plan is already afoot to rebuild the infamous I. G. Farben while its leaders are being tried for war crimes at Nuremberg.

The report of the decartelization branch of OMGUS dealing with the survey of Germany's major industries in the United States zone corroborates the statement made by the World Report of December 9, 1947, by saying that the functions of the coal cartel "do not appear to be greatly different from those it performed in the final phase of the war." As regards the British zone, very little has been done to abolish the pernicious cartels. Although the most notorious German coal cartel, the Rheinisch Westfälische Kohlen Syndikat has been officially dissolved by the British, the decartelization branch flatly states "that the function of the organization has been taken over by the Ruhr-Kohlen Zentrale" (p. 22, vol. 2).

As far as the French zone is concerned, the mines of the Saar have been placed in the hands of the commission Francaise Des Mines de la Sarre, an agency created by the French military government. The distribution of French coal in

the French zone which was formerly monopolized by the Kohlen Kontor Weyhenmeyer has been turned over to a recently formed organization known as the Union Charbonniere Rhenane. This concern is reported to be owned jointly by the Saar Gruben A. G., the operating company in the Saar, and a group of French importers, and it has been granted exclusive rights for the Ruhr and Saar coal within the French zone. Consequently, so far as the consumer is concerned, the present arrangement does not differ from the time when the coal trade in the Saar was completely dominated by the Rheinisch Westfälische Kohlen Syndikat.

It is clear from the above that nothing but the name has changed and that the German cartels are operating as before. It is also clear that article 12 of the Potsdam agreement which calls for the abolition of German cartels has remained a dead letter.

Abroad, Germany's cartel friends have been active, unmolested. The International Steel Cartel of Luxembourg, established in 1926 by the German heavy industry is active again and its head, Aloys Meyer, who has been Germany's representative for 20 years of that cartel, is still at his post (New York Sun, January 21, 1947).

The foregoing facts are not confidential. They are notorious and well known to our friends and foes alike. Certainly we may expect our friends and foes to be a little skeptical of our German motives when the actions of our official representatives are a broad reversal of our original policies.

In the light of the foregoing it is clear that the plan to rebuild the German heavy industries as they were in 1936—agreed upon September 1947 by both Britain and the United States—does not take into consideration the inherent danger involved. An analysis of the German economy of 1936 clearly shows that it was a war economy—an economy described by Goering as one wherein the Germans had to consume less butter in order to produce more guns. The German economy of the twenties was artificially fostered by the German republic. It was costly to the Germans and it was tragic in its consequences to the world at large. As it was, the German heavy industry of the twenties could not subsist unless it received tremendous subsidies from the Government in the form of protective tariffs, tax rebates, and direct subsidies. Because of the fact that Germany's industrialists were afraid to lose the Government subsidies they were forced to exert all their pressure upon the German Government to embark upon policies which would make the existence of a large German steel industry necessary, regardless of economic justification. This constant pressure of the German industry finally resulted in a policy of aggression.

As soon as the industrialists realized the possibilities of Nazism, they made use of Hitler's chauvinism to further their aims. Hence it is clear that a restoration of the German heavy industry of the twenties or thirties, as now contemplated, will inevitably restore the conditions which have, time and again, forced the German heavy industries to play the role of the strongest promoter of the forces of aggression. It is equally clear why the 16 nations in Paris recommended that "The German economy must not be allowed to develop to the detriment of other European nations, as it has done in the past."

It is no exaggeration, therefore, to say that the success of the Marshall plan depends on the control and the allocation of Germany's coal from the Ruhr. When the 16 nations submitted their report to the United States, they recommended that France, in the year 1951, shall produce 12,700,000 tons of steel compared to 8,200,000 tons in 1938; Belgium-Luxemburg should produce 7,900,000 tons instead of 3,800,000 tons as they did in 1938, and the United Kingdom's production should increase from 10,600,000 tons to 15,000,000 in 1951. The 16 nations have also agreed that the Ruhr should produce only 10,000,000 tons of steel as against 17,000,000 tons in 1938.

One cannot say that these figures are exaggerated. There is no reason on earth why Germany's neighbors should not produce their own steel products rather than continue to be at the mercy of the German cartels, as was the case in the thirties. After all, one of the major United States aims during the war was to free Europe from Germany's economic domination.

However, the goals set by the 16 nations in the summer of 1947 cannot be met so long as they don't obtain the coal and coke from Germany. Before the war, when Germany was preparing for war, her industrialists paved the way by withholding coal and coke from her prospective victims, and by forcing them to purchase many of their required steel products from Germany.

With this in mind the Harriman report of November 12, 1947, came out in favor of rebuilding the heavy industries of Germany's neighbors first. On page 12 the report says, "As between steel production in Germany and an equivalent steel production in France, the priority should go the latter."

A close analysis of the proposed coal program will reveal that the present plans of rebuilding the western Europe countries do not provide the ways and means of implementing this recommendation of the Harriman committee. For instance, the report of the 16 nations reveals that \$3,560,000,000 will be allocated to the European coal industry to cover the requirements of coal-mining equipment of all categories. Of this sum, western Germany will receive \$1,414,000,000; the United Kingdom, \$1,042,000,000, the rest going to other countries. Taking into account that the Ruhr mines were newly equipped during the period of 1922-26, and that in the thirties and during World War II, the process of mechanization proceeded, an investment of so large an amount—40 percent of the total—is bound to favor Germany more than any other country. One would assume, therefore, that Germany would be in a position to export to her neighbors larger quantities of coal than in the thirties.

The report of the 16 nations stresses the increases in British coal production in 1951; it tells us of the increased exports of coal from Britain, but it is silent about the export of coal from Germany; and as far as export of German coal for 1949—only 21,000,000 tons is expected or less than 50 percent of the year 1937. If this policy is adhered to, it is plain that the steel industries of Germany's neighbors—France, Belgium, Luxemburg, Holland, and the other countries—will not be in a position to manufacture their stated quotas of steel in 1951. It follows, therefore, that Germany will be favored at the expense of her neighbors. Moreover, the net effect of this policy will be that Germany's steel production will reach the proportions of 1938, thus making Germany the dominating country in Europe again.

The recovery of western Europe depends on Germany's exports of coke. According to the Paris report, in 1951 Germany will export $5\frac{1}{2}$ million tons of coke while her total production is slated to be 29,000,000 tons. In this connection it is pertinent to point out that in 1938 western Germany produced 36,700,000 tons of coke—or 8,000,000 tons more than the slated production for 1951. Since Germany in 1929 exported 10,000,000 tons of coke, and in 1938—a time of intensive war preparation—she was still able to provide her neighbors with 6,000,000 tons of coke, it is clear that the low export and production of coke in 1951 is intended to favor Germany at the expense of her neighbors.

Another indication of the trend to rebuild Germany first is shown in the recommendation of the military authorities in Germany to request France to return to Germany 24,000 railroad cars. Considering that during the occupation Germany took from France an infinitely greater quantity of railroad cars, this request cannot but retard the recovery of France.

It is asserted in many quarters that Germany must be rebuilt first, because she will be in a position to supply her neighbors with industrial goods. There is no reason why Germany's neighbors should not manufacture these very same items. They have the capacity; they have the skill and they have the will to become independent from German economic domination. Thus, it is only fair to ask why France should be forced to ship 3 tons of iron ore from Lorraine to produce 1 ton of steel in Germany, whereas France could produce the very same steel if Germany were to supply 1 ton of coke to France. Moreover, it is essential that the rebuilding of Europe be accomplished at the least possible cost to the United States taxpayers. For instance, the Anglo-French discussion last year revealed the data presented by French engineers to prove that the cost of producing 1 ton of Thomas steel in the Ruhr is 86.3 prewar marks, whereas the same ton of steel can be produced in the Lorraine mills for 53.3 prewar marks. Moreover, these engineers claim that the Lorraine mills would require less coke than the German mills. This being the case, the American taxpayer is entitled to know why Germany should not produce more coke for export and why Europe should pay higher prices for steel produced in Germany.

As early as August 29, 1947, the Christian Science Monitor, of Boston, indicated what the result of the French efforts to have their own steel industry rebuilt was going to be. "The Anglo-American figure for German steel is a target which depends on coal and unless there is a phenomenal result from the new Anglo-American joint management of the coal mines, all signs point to German steel being given priority in practice."

It is frequently asserted that the restoration of German industry is indispensable to the European economy. The advocates of this theory claim that the revival of the Ruhr will substantially alleviate our financial burden. Here lies the greatest fallacy. If we allow the Ruhr to revive to her prewar capacity, it will follow that the Ruhr will absorb almost all the coal that Germany can produce. Meanwhile, Germany's neighbors will be deprived of the coal, thus retarding their

own economic recovery. Assuming, however, that Germany can immediately deliver the products of her heavy industries to her neighbors, her neighbors will be in no position to pay for those goods because the European countries do not have the dollars nor can they expect to have them in the near future, because they can obtain dollars only if they can produce goods for export. In order to produce goods for export, Germany's neighbors need German coal. The sad truth is that today, and in the foreseeable future, Germany's neighbors will have neither the markets nor the dollars with which to pay for the German goods. Moreover, all the western European countries want to produce goods for export. The net result will be that Germany will rebuild her Ruhr industries at the expense of the American taxpayer and with little benefit to the European economy in the short run.

It is clear from the foregoing that so long as the right to security by Germany's neighbors is denied, the European recovery program cannot accomplish its stated aims. We cannot and must not reward our enemies and punish our friends.

We believe it is appropriate to insert here a statement made September 21, 1947, by the former Under Secretary of State, Sumner Welles: "The Marshall plan will not be worth the paper it is written on unless the democracies of western Europe are assured of their safety from any new German aggression and unless the Ruhr's coal and steel become an intrinsic part of the economy of all of western Europe rather than that of Germany alone" (St. Louis Post-Dispatch, September 21, 1947).

Last but not least, the problem of safeguards in which the American people are interested essentially lies in the control of the Ruhr industries. The Ruhr is the backbone of the German industrial structure. The nation that has the control of the Ruhr, is master of Europe and is master of the coal, steel, chemical, and other industries. The two world wars have definitely proven that the present masters of Germany cannot be entrusted with the care and control of the Ruhr. That is why it is imperative that a scheme for the control of the Ruhr be considered along with the recovery of Europe.

In a recent article in the United States licensed newspaper *Der Tagespiegel* in Berlin, much space was devoted to the resurgence of "neo-Nazism." Even some German denazification officials have admitted that the genuine democrat is hopelessly submerged in the wilderness of Nazi ideology and lust for conquest which still rules German thinking. The enmity of most Germans toward our way of life is reflected particularly in the sabotage which is ceaselessly perpetrated by the Germans against allied policy. A few weeks ago, for instance, the Allied Bi-Partite Commission issued a three-page statement denouncing the Germans for seeking to cast reflections on the occupation authorities. This statement pointed out that the food shortages in Germany today are largely the result of deliberate acts of sabotage on the part of the Germans themselves. The report made the startling revelation that during 1947, 6,319,000 heads of German cattle had disappeared and presumably are being sold on the black market.

Several months ago the New York Times reported that the government of Wuertemberg-Baden had underestimated its grain crop by 62 percent. The correspondent for the New York Times stated: "That the German estimates were intentionally misleading is a charge that has been made repeatedly by Americans privately and by urban Germans publicly. The motivation for such sabotage of the attempts to feed the Germans in an equitable fashion, would be twofold: The desire to retain a proportion of the crop for sale at wicked prices in the black market, and a parallel desire to discredit the military government and its satellite German Government in the eyes of the Germans generally. But not only have the Germans sabotaged the production and distribution of indigenous foodstuffs, they have also resorted to the sabotage of Ruhr coal production which is 50 percent below prewar levels, and as Walter Lippmann pointed out several weeks ago in one of his columns, about 20 percent of the coal produced in the Ruhr disappears.

The same situation holds true regarding American shipments of cotton to Germany. Thousands of bales of cotton disappeared before reaching the German factories for processing. Likewise, it is well known that the German workers aided and encouraged by their leaders are actively engaged in sabotaging the reparations program which is so essential for the economic rehabilitation of Germany's victims.

These concrete facts reflect the state of mind of the Germans who have demonstrated no intentions whatsoever of cooperating in the rebuilding of a viable economy in western Europe which would prevent Germany from dominating the economies of her neighbors. Of course, the Germans will cooperate but they make one provision, namely, that the lion share of all American aid go to them. In this

way they can reconstitute their economic power and thereby block our help to the democratic forces in western Europe.

Germany's neighbors are well aware of these facts. They tremble at the thought that ERP may turn out to be a facade behind which the German powerhouse will be reinvigorated.

Revived industrial power could lead to a revival of Germany's military power and is furthermore, in the eyes of all Europeans, from right to left both undesirable and unnecessary. The French, for instance, think that they can better be trusted with European steel production than can Europe's twofold aggressors.

The Belgians and Dutch, as well as the French, see no valid reason why the vital Ruhr Valley industry should not be placed permanently under a European consortium. Germany's victims distrust any sort of Marshall plan aimed at European recovery around Germany and they note that each time the western European countries seem on the verge of swinging wholeheartedly into the western camp, American officials come out with some act that strengthens the western European Communists.

The Society earnestly believes that if ERP is influenced by the wishes and misconceptions of the Germany Firsters, then the basic aims enunciated by the Secretary of State will be seriously jeopardized. ERP has as one of its objectives to prevent the further inroads of communism. But everyone knows that the forces of communism were strengthened after Munich. Appeasing the Germans has produced more Communists than any other single policy in the world. If we repeat the same policy by allowing ERP to degenerate into an economic Munich—what can prevent Germany's victims from turning to the Communists for the answers? Every French worker who has to get along with 200 grams of bread daily, knows that the German ration is 300 grams. Every Frenchman knows that while France received during 12 months 771,000 tons of foodstuffs from the United States against payment in gold, the Germans obtained, during the year 1947, about 4,300,000 tons of food without having to pay 1 cent for it.

Dare we blind ourselves to reality? Dare we refuse to acknowledge the fact that the peoples in Europe of all political faiths still have a deep-rooted and natural fear of Germany? As Germany's victims remain flat on their backs and watch the Germany Firsters bow and scrape before the Germans, that fear instead of decreasing will inevitably increase and can easily be turned into a new upsurge toward extremist ideologies.

Let us not forget that the present economic crisis in western Europe was intensified by the devastations of World War II, but actually it had its roots in the political and economic relationships which have obtained in that continent for more than 25 years. These economic relationships have placed Germany as economic master of Europe and have been the major cause of instability and war.

European recovery has been retarded, in a large measure, by our failure to make Germany contribute in kind for the devastations she has wrought on her neighbors.

For 2½ years the victims of German aggression have waited for reparations and for the promised shipments of substantial quantities of coal from Germany. The failure to deliver has upset their plans for reconstruction which contemplated the utilization of Germany's surplus productive capacity. This has not been forthcoming and, instead, our policy with regard to Germany seems to indicate that very little will be done in this matter.

The contention that German production can solve the present economic crisis in Europe implies that Germany's victims will be rehabilitated through the purchase of German-made machinery and the proceeds of German exports shall be partially used to reimburse the American taxpayer. But the American taxpayer is not told that, as an additional burden, he will have to provide Germany's victims with the necessary dollars to pay for German exports. This is the logic of the Germany First argument which is supposed to save the American taxpayer from a crushing burden and put western Europe on its feet. Actually, it would represent a vast subsidy for the rebuilding of German economic and ultimately political hegemony in western Europe. Such a political and economic structure can only be maintained by continual drains on the American taxpayer, and will fall to pieces with our withdrawal.

Moreover, such an unjustifiable emphasis upon the reconstruction of Germany, irrespective of such steps as the United Nations may evolve for the political reconstruction of Europe, puts a grave and unnecessary burden upon America for the unilateral guaranty of Europe's future peace and order.

The Society for the Prevention of World War III believes that the basic principle for ERP should aim at reversing the economic and political trends of the past 25 years which have placed Germany in the key role as economic dictator of

Europe. This principle was established by the State Department itself on December 12, 1945. In its statement on that date, the State Department declared that it was the determination of the United States to—

(a) Weaken effectively the economic base from which war industry could be derived until a peaceful democratic government is firmly established in Germany.

(b) Provide material assistance to UN countries which have suffered from Nazi aggression and which now face tasks of rehabilitation and reconstruction from the damage of war;

(c) Insure that, in the recovery from economic chaos left by war in Europe, the aggressor nation, Germany, shall not reconstitute a peacetime standard of living at an earlier date than the countries ravaged by German arms.

While firmly supporting these over-all goals, the society points out that in allocating a billion \$5,000,000 to Germany (as part of the 6 billion 800 million requested) plus over a billion dollars a year for food and commodities to be sent to Germany, the share of Germany amounts to more than 28 percent of the total to be appropriated for the next 15 months for Europe. This places a heavy obligation on the American taxpayer for the rebuilding of an enemy country, who, through strikes and sabotage of its coal and food production, is jeopardizing its own revival. From a moral point of view, this is indefensible and unsound, and will certainly be utilized by those who oppose ERP as proof that our plans for European recovery are a facade behind which the German powerhouse will be reinvigorated.

Since Germany's threat to world peace lies not in her own capacity to wage an independent war within the next quarter of a century, but in her value as a partner in any future world conflict, it is important that her bargaining power as such a partner be kept to a minimum. Let us give some thought to the possible alliance between Russian communism and German technology, between Russian manpower and a strong industrialized Germany.

For all these reasons, the Society for the Prevention of World War III feels that there is every justification for withdrawing the \$1,005,000,000 allocated for Germany as part of the \$6,800,000,000. This would leave the military government, through \$1,250,000,000 appropriations for the next 15 months, in the exclusive charge of aiding Germany to solve its food and industrial problem.

We have mentioned before that many notorious Nazis and former Hitler supporters remain in key positions in Germany's industrial set-up. A partial list of the names and backgrounds of these industrialists was published in the October-November 1947 issue of our magazine, *Prevent World War III*, which is herewith submitted as part of the record:

1. *Alfred Hugenberg*

Alfred Hugenberg was one of the most heavy contributors to the Nazi Party funds. He was a member of the first Hitler cabinet. Since the defeat of Germany, he has been very active in the German steel cartel and especially active as chairman of the board of the *Vereinigte Stahlwerke*, the biggest steel combine in Europe and the second largest in the world. On December 4, 1946, when the British authorities were asked why they did not denazify and remove Hugenberg from the *Vereinigte Stahlwerke*, the British authorities answered: "It takes a vote of the shareholders of the company to remove him as board chairman."

Hugenberg has not been removed, and has been very active in the rehabilitation of the German steel industry in the Ruhr.

2. *Dr. Ernst Poensgen*

The spokesman for the German heavy industry, *Vereinigte Stahlwerke* and the coal industry has been for more than 30 years, Ernst Poensgen. He is now 77 years old. He was retired in 1943 under the express orders of Hitler in order to use his services in case of the defeat of Nazi Germany. For his outstanding services to the Nazi cause, he was decorated by Hitler personally with the title of *Wehrwirtschaftsfuehrer*—the highest decoration given to big Nazi tycoons. Ernst Poensgen founded the *International Steel Cartel* in 1926. In 1939, Ernst Poensgen, as spokesman for the German heavy industry, negotiated the famous *Dusseldorf* agreement with the representatives of the British heavy industries, Sir Percy Mills and Sir Andrew Duncan, dividing the world into two spheres for German-British economic exploitation.

Sir Percy Mills was, until recently, the head of the economic division in the British zone. Because of Poensgen's intimate tie-ups with the British heavy industry, he was reappointed head of the *Vereinigte Stahlwerke* 5 months ago. Thus, today he is in a position to continue his nefarious work against the interests of peace and in a position to rebuild Germany's war potential. Although he was a

member of the Nazi Party, he was never denazified, and now heads the reconstruction of Germany's war potential. In 1940, before France's downfall, Poensgen was appointed by general of the SS, Otto Steinbrink, to plan the distribution of the French heavy industry among the German steel magnates.

3. *Heinrich Dinkelbach*

Heinrich Dinkelbach is a notorious Nazi, and a member of the board of directors of the Vereinigte Stahlwerke and one who has worked in the closest possible association with Ernst Poensgen to build up Germany's war machine. Not only has he not been arrested, but he is now director of the iron and steel industry in the British zone operating from North Cumberland House in Düsseldorf—the house used to be called the Stahlhaus, up to 2 years ago. By virtue of his new position, he succeeded in freeing 27 of the 31 high officials of the Vereinigte Stahlwerke who were previously arrested as notorious Nazis.

4. *Robert Pferdmenges*

Once known as the richest man in Germany, Pferdmenges has been the head of a very important bank in Cologne and a close collaborator and friend of Baron von Schroeder, the midwife of nazism. Pferdmenges had actively collaborated with von Schroeder and like von Schroeder, is a Nazi. Today, he is a member of the new German Bi-Zonal Economic Council, in spite of his notorious past.

5. *Herman Abs*

The big commercial banks in Germany headed by the Deutsche Bank are again in operation. These big banks have played a tremendous role in making the Nazi regime what it was. The head of the Deutsche Bank is Herman Abs, who, under the Nazi regime, was more powerful even than Schacht. Two days before the fall of Berlin, Herman Abs was given facilities to go through the British lines with 7 billions of marks cash in order to establish his business in Hamburg, in the British zone. Ever since he has been acting as adviser on economics and finances to the commander of the British zone, Sir Sholto Douglas. In 1946, the Deutsche Bank, with the help of the Dresdner Bank, granted a loan of 125,000,000 Reichsmarks to the Vereinigte Stahlwerke for the purpose of repairing their damaged plants.

6. *Wilhelm Zangen*

Wilhelm Zangen was the brains behind the notorious Mannesmann combine which has played a tremendous role in foreign politics and the expansionist plans of Germany for many years.

William Zangen has been the chief administrator for the Mannesmann combine since 1933, immediately after Hitler's coming to power. Zangen was a very prominent member of the Nazi high command. Zangen is now working very closely with the British authorities trying to revive the German tube industry and the international tube cartel of Europe.

7. *Rudiger Schmidt*

Rudiger Schmidt was, and is, the brains behind Harpener Bergbau, one of the most important iron and coal components of the Frederick Flick concern. While Flick is now being tried as a war criminal, Schmidt has been in charge of the Rheinisch-Westphalische Kohlen Syndikat, the biggest coal cartel in Germany.

Nothing has happened to the cartel which controls 75 percent of Germany's hard coal production. Rudiger Schmidt, although a Nazi was placed in charge of the export division of the R. W. K. S. shortly after the occupying powers entered Germany. He has been closely tied up with the international coal cartel and the British coal interests.

8. *Dr. Wolf Witzleben*

Dr. Witzleben has been one of the highest officials of the Siemens Electrical Trust, the biggest in Germany and the most important electrical trust in Europe. The Siemens Co. was instrumental in installing the most efficient gas chambers and electrical devices for the purpose of exterminating the victims in Auschwitz and Buchenwald.

He is a very prominent Nazi and had close contacts with the high Nazi officials. Despite the fact that he was found guilty of the crimes by German denazification courts, the British authorities insisted that he be returned to the company because his services were indispensable. He is now active again, collaborating with Dr. Philip Jessen, the financial and political genius of the company, in coordinating the operations of the Siemens Co., in the four occupied zones of Germany.

9. Johan Benkert

Johan Benkert has been the engineer assisting Witzleben in devising the most efficient instruments to exterminate victims in the concentration camps. He, too, was convicted by the denazification courts, but ordered reinstated to his former post by the British authorities.

10. Bruno Pohlmann

Bruno Pohlman has been an engineer working very closely with Benkert and Witzleben. He was convicted by the German courts for the same crimes and ordered reinstated to his former post along with Benkert and Witzleben. All three were also found guilty of having used slave labor and of having committed atrocities against workers in the concentration camps at Buchenwald and Auschwitz.

11. Dr. Harold Rasch

The idea of procuring RFC loans to Germany was elaborated by Harold Rasch who was deputy director of the German Bi-Zonal Committee up to a few months ago. The same Harold Rasch was, during the war, the administrator of the Mannesmann combine which was the chief looter of occupied Europe in 1940. Not only was he not arrested as a war criminal but was also appointed deputy director of the German Bi-Zonal Economic Committee. Although Rasch is no longer with the German Economic Committee, his plans for priming German industry with billions coming from RFC, and his ideas for rebuilding German heavy industry are beginning to materialize.

12. Helmuth Vits

Helmuth Vits is the brains behind the Vereinigte Glanzstoff Fabriken, the rayon combine of Germany, and was closely identified with the economic plans elaborated for the Nazi regime. The VGF has several branches in the United States but these German branches have been cloaked as American and the cloaking was done by Helmuth Vits. Vits is a notorious Nazi but was never denazified and the VGF is very active again—particularly in the British zone and Vits himself is acting as adviser to the British zone for the purpose of rehabilitating the rayon industry.

13. Dr. Reinhold Maier

Dr. Maier was appointed Minister President of Wurttemberg-Baden. In 1933 he was a member in the Reichstag and voted in favor of giving Hitler full powers. When he voted for Hitler, he made the following comment:

"It is our hope and desire that the German people under Nazi leadership may bring the struggle to win freedom and new strength to a successful conclusion. We feel ourselves as one with the views expressed by Hitler here today."

When Dr. Maier was asked what he was going to do about the decartelization program he replied: "There is really nothing much to worry about now. Cartels are only effective where there is overproduction. German industry is not now overproducing."

14. Wilhelm Simfendoerfer

Wilhelm Simfendoerfer was a well-known propagandist during the Hitler regime. The Laenderrat of Wurttemberg-Baden approved the appointment of Simfendoerfer as Minister of Culture on the strength of Maier's statement that he was indispensable to the success of administering Wurttemberg-Baden.

15. Dr. Joseph Baumgartner

Minister of Agriculture of Bavaria—Dr. Baumgartner, in a recent speech made before leaders of the Christian Socialist Union at a secret meeting in Munich, echoed the lies of Hitler and Goebbels. He bluntly boasted that he would sabotage American military government directives. He declared in part, "I am absolutely opposed to the export of additional valuable food into other laender (states) of the American zone or into the British zone. * * * It was simply decided by the Bi-Zonal Food Agency that Bavaria would have to furnish so and so many thousands of tons of fat within such and such a time. I refused, of course. The result was that these gentlemen got behind General Muller (Brig. Gen. Walter J. Muller, USMG of Bavaria) who ordered me to supply the fat. My answer was: You can of course put me in jail but I will not obey even this order of yours. * * * But almost the greatest difficulty is in the fact—I hope we are among ourselves—that today almost only third and fourth-rate Americans are here in Germany * * * it can be observed everywhere that the majority of important Americans here consist of Free Masons and Jews. * * *"

16. Hans von Schlange-Schoeningen

Schlange-Schoeningen is a close personal friend of Alfred Hugenberg who has contributed so much to Hitler's coming to power. He hails from East Prussia, was a prominent Junker, a large estate owner and a very prominent man in the Nazi party in eastern Germany. He was appointed in charge of agriculture in the British zone by the British commander. It is worthy of note that the deliveries of food in the British zone have been more delinquent than in the other western zones. Von Schlange-Schoeningen is now fighting against Dr. Baumgartner for the top post in the Agricultural Ministry of the new Bizonal Committee.

17. Gustav Kilper

Gustav Kilper was a very prominent Nazi under Hitler in Wurttemberg-Baden and was made deputy director of the Ministry of Economics in Wurttemberg-Baden at the special insistence of Rheinhold Maier, who claimed that the implementation of the plans elaborated by the Bizonal Committee of Economics would be a failure unless Kilper was made a very high official.

18. Joseph Beyerle

Joseph Beyerle was a prominent member of the SS and had a high court post under the Nazi regime. At the insistence of Maier, Beyerle was made Minister of Justice of Wurttemberg-Baden.

19. Walter Widmann

Walter Widmann was formerly chairman of the racial prosecution court at Wurttemberg-Baden and enjoyed very high prestige under the Nazi regime. He was appointed in 1946 as director of the provincial court because of his close association with the Minister President R. Maier.

20. Anton Pfeiffer

Secretary of State of Bavaria. He voted for the Enabling Act which gave Hitler his dictatorial powers, and during the war served in Hitler's counter-espionage service. He openly admitted, in 1946, that 62-80 percent of the verdicts rendered by the denazification courts were erroneous. Yet when his failures and neglect of duty were reported to American officials, the latter said, "Be careful. He is an old-line reactionary, and a strong nationalist. If you offend him, he might resign."

21. Minister President Lahr

The Minister President of the North Rhine Province which comprises most of the coal production of the Ruhr is Dr. Lahr, formerly closely connected with the German steel cartel. Dr. Lahr justified the low production of coal in his province on the ground that the total allocation of steel was only 5¼ million tons per year. Therefore, he claimed that there was no necessity for Germany to produce coal for exports, since Germany is not going to be the blacksmith of Europe as she was before the war.

Acting Chairman MALONEY. Mr. Jarman will introduce the next witness.

Mr. JARMAN. Mr. Chairman and gentlemen, we have had a lot of good witnesses here during the month we have been in session, and, incidentally, you will recall this is the beginning of the second month today. I have already informed you that the gentleman I am now going to introduce will be the best witness we have had, because he is my constituent.

He was educated in engineering and law. He is a student of international economics. He is vice president of the Alabama State Chamber of Commerce. He is vice president of Reichhold Chemicals, Inc., of Tuscaloosa, Ala., and Detroit, Mich., and has been active in promoting foreign trade for his company.

It is true, we did import him, but he was converted and he came down to Alabama.

STATEMENT OF CARL B. FRITSCH, VICE PRESIDENT, REICHHOLD CHEMICALS, INC., TUSCALOOSA, ALA., AND DETROIT, MICH.

Mr. FRITSCH. Thank you Mr. Jarman and Mr. Chairman.

I would like to endorse what these gentlemen have recommended for the internationalization of the Ruhr. I think the danger of rearmament there can be avoided very easily by setting up a non-military industrial council, composed of neighboring Marshall plan nations and the United States. There should be control until these people are converted, as I have been converted to the South.

Along with that, that would pave the way to join the iron ore of Alsace-Lorraine to the coal and the steel mills of the Ruhr.

With those two separated, it is like drawing an invisible line between the iron mines of Michigan and Minnesota, and the steel mills and the coal of Pittsburgh. If you separate those two, the iron miners of Minnesota and Michigan and the steel workers and coal miners of Pittsburgh and the Pittsburgh area would not starve, probably, but they would certainly suffer a great economic set-back. The economic unity would be disturbed.

If we do not do that, we will be going back to the same mistake we made following World War I, and we all remember the jockeying that occurred back and forth with respect to the Ruhr.

It is too bad that that international control of the Ruhr could not have been set up immediately, because I notice in the estimates they want 17,000,000 tons of our steel.

Having lived in Detroit 25 years before going to the great State of Alabama, I have good and close friends there. I get back there every 60 days. I know how every month at least, one or more of the great factories has had to shut down for a week or more because of a shortage of sheet steel, castings, or something.

If we want our own economy to remain unimpaired, and have enough materials here to help bring down our price inflation, the substitute would be to produce all the steel possible in the Ruhr, rather than to rob our own factories over here.

I think it is a matter of enlightened self-interest, that the proposal of the international control of the Ruhr be supported, together with the marriage of the French iron ore with the Ruhr coal and the steel mills. We are then promoting a natural economic unit that the Creator himself established and the mere border line between countries should not be allowed to stand in the way. If there is leadership that comes to power that opposes it, withdraw aid of the Marshall plan until they subscribe to something sound and beneficial and we will win out in the long run.

It is my opinion and the considered opinion of my associates and many of my business friends in Alabama, that the fate of Europe is the destiny of America.

Obviously, with any habitated area of the world within 60 flight hours of any habitable region, isolationism is gone forever. Hence, the Marshall plan was providential in its conception because it proposes to reestablish aid to Europeans, and recapture the right of self-maintenance. It certainly is true that if they suffered an economic collapse, it would set in motion a tidal wave of despair which would engulf the American shores as well.

By the same token, I would like to say that the bipartisan approach

to the consideration of this plan is providential, also. The high degree of statecraft practiced by the chairman and ranking member and their colleagues, respectively, of the Senate Foreign Relations Committee, the House Foreign Affairs Committee, and the House Select Committee on Foreign Aid has been outstanding. It has created a good impression on the American people and has inspired confidence. I feel today, something prevails in the minds of the people that did not 60 days ago, and that is that the majority, at least, favor its passage. There are some, of course, who can never get rid of prejudice.

There probably is very little I could offer to the voluminous testimony I saw piled up in Mr. Jarman's office this morning, that you have already received. However, there are three phases I would like to emphasize and then I shall be through.

The first thing is the problem of administration. I try to consider that in the light of the problem I faced when I suddenly moved from Detroit to Alabama with three other men in early 1942, to build a large phenol plant at Tuscaloosa. Tuscaloosa is just like Ann Arbor, Mich., Mr. Jonkman, it is a good university city, and a good place to raise children. We have no juvenile delinquency. Having lived in Ann Arbor once, I can speak authoritatively.

We went there to build this plant. I realize that certain of the over-all policy of the German Nation is of course of paramount importance. However, when Army Ordnance Association decided to award to our company the task of building a southern source of supply of phenol, in competition with eight other chemical companies, and our own board of directors approved the expenditure of \$3,000,000 for that purpose, and then our banking connections agreed to supply the additional funds needed to build it, they were through on "policy" and then it came to a matter of execution, and after that, operations. That is the phase I want to discuss. The first consideration concerning administration—it is assumed from the trend of thought, that over-all supervision will be lodged in an administrator of Cabinet status at least, if not rank which will give him the benefit of consultation with all other departments of Government and particularly the State Department, to make certain our own economy will not suffer from the aid extended.

I would like to stress the fact that the world needs at least one solvent nation.

The Administrator's office it appears will function as the primary point of contact with the chief representatives of the countries contemplated under the plan. Inventories of needs of beneficiaries will first come to his office for (1) examination with respect to over-all policy, and of course, that will be determined, by the President, the Cabinet, and the Administrator, along with the advice of Congress which it writes into the act. (2) Allotment of over-all funds with respect to current appropriations available or authorized. (3) Certification of such allotments to the several operating agencies having charge of the details of disbursements of the funds.

In other words, the function of the Administrator and his staff will be analogous to that of the Secretary of War and the General Staff of the Army. They will plan and time the launching of the attack on economic disintegration in Europe and will designate the means of direct and immediate relief.

Now the second phase concerns operations, which, if not well thought out and well planned, will jeopardize the success of the plan.

Any program for expenditure of such large funds as are contemplated will involve manifold details of equal magnitude of great diversification, which will require the combined talent such as is found in large financial and industrial institutions for successful operation. It appears that there are four classifications of funds that will be required. The first classification concerns emergency relief, which involves the supply of food, fuel, fertilizers, and medicines, which you have already been sending over in great amounts. As an agency to administer phase 1, it is suggested an appropriate division be established in the administrator's office itself for this phase of operations.

The advantages are that this will assure prompt action and cut red tape which is always necessary in relief matters.

Next, the financial risk: Such funds will be largely nonrecoverable except where the beneficiary government sells a portion of such supplies to its citizens, in which event, under arrangements made by the administrator, there may be some salvage after economic stability has been reestablished.

The second channel for the funds concerns raw materials for industries. The agency suggested to handle this phase of operations is the present Export-Import Bank. The advantages are that it has had wide experience in buying, selling, and financing the movement of raw materials all over the world, and is now organized, ready to function. This also assures prompt action in getting European industries going again. The sooner that happens, the less the drain on the American taxpayers. That must always be in the backs of our minds.

Number 3 involves the financial risk. Financing raw materials involves relatively short-term loans which should be repayable within a reasonable time out of receipts from domestic sales of currently finished goods and from an agreed-upon tax on exports on those goods, probably 50 percent recoverable the first year, increasing to 75 percent as conditions improve. The point is that we start the wheels of industry turning again.

The third phase of operations concerns currency reform and stabilization. The agency for that is suggested to be used and is affiliated with the United Nations, known as the International Monetary and Stabilization Fund. The advantages are that it has been accumulating experience for 2 years. It is reasonably well-staffed, it is ready to function. It has 46 subscribing nations which adds greatly to its strength in restoring order in the international exchange situation, which must improve before trade can move freely, and Europe will starve unless she trades.

For example, Germany up to the war, had an industrial surplus of 40,000,000 people. Forty million people had to produce enough excess industrial goods to support a foreign export to pay for the food they had to bring back to keep from starving. Hence, trade is imperative or else the Marshall plan fails. That means we have to have a sound yardstick for the measurement of values.

With the affected nations thus acting in concern through this agency—and they certainly cannot succeed without cooperation—the confusion resulting from the surprise attending the recent devaluation of the French franc can be avoided.

With regard to the financial risk, the funds now available to this agency may have to be bolstered by an increased subscription or a loan from the United States, which would require congressional action. Possibly this furnishes opportunity to employ a fraction of the gold metal stored at Fort Knox to good advantage. Time, custom and tradition argue strongly in favor of such a course as a means of restoring confidence.

You know, it is not the possession but the use of things that determines the value.

By stipulating that any such loan would enjoy a preferential position in the event of liquidation of this agency, the risk is small and the probability of 100 percent recovery is strong. Meanwhile, individual currencies of course, will fluctuate in value, but as the healing process takes effect, stability will return in the natural order of things and values will be restored. If the remedy fails, we will then find the whole Marshall plan will fail also, and all values at home and abroad will suffer seriously and the whole capitalistic system may be placed in jeopardy. There can be no multilateral foreign trade unless money, which is the language of trade, has a dependable value as a yardstick. Barter on a bilateral basis is only a temporary makeshift;

The fourth and most important of all, I think, members of the committee, concerns the operations that have to do with supplying capital goods. The agency suggested is the International Bank for Reconstruction and Development, which is affiliated with the United Nations and is already functioning. The advantages are that it has been accumulating experience for over 2 years, is excellently staffed, and it also is ready to function. It has 46 member nations who have subscribed a total of 8.25 billions of dollars to its authorized capital of 10 billions of dollars. Russia and some of her satellites are not members, incidentally. The United States and the United Kingdom combined exercise voting control.

It is both impersonal and international in character, hence any pressure brought to bear on a defaulting borrower, whether on a government or a private debtor, would be on behalf of all of the other member nations. Otherwise, should the United States stand alone as the creditor, it is easy to see how its international relations could deteriorate, harmfully. We all could remember cartoons of the foreign press pictured Uncle Sam as Uncle Shylock when we pressed for the settlement of foreign debts after World War I. Finally, this agency is not limited to 4 years, but is a continuing organization specifically designed to supervise long-term loans until maturity.

Now as to the financial risk: Capital-goods loans involve long terms; 5, 10, 20 and as much as 30 years, depending upon the nature of the productive enterprise or facility. Such loans should be limited to self-liquidating projects and handled with the same prudence as that exercised by any private financial institution. They would be secured by mortgages or liens on the tools and facilities financed and would be subject to amortization serially. Because of wide diversification, it is believed over-all losses would be small.

In addition to bolstering existing industries and increasing their productivity, under the charter of this World Bank, it can also participate in financing new productive facilities, not only those located in the more affluent nations, but in the backward countries of the

world as well. This feature is extremely important from the standpoint of world recovery.

For example, competent authorities assert that the world production of fertilizers of various types must be increased threefold if the great masses of humanity are to be fed an adequate diet. Nitrogen, the most essential of all, can be extracted from the air wherever electric power is available. This would lead to the construction of large hydroelectric plants in many localities or gas-fired or coal-fired plants where petroleum or coal resources are available. It is no longer a mystery as to how such plants can be built and operated so as to be self-liquidating. Fortunately, potash deposits are generously distributed throughout the world, particularly in Europe. Phosphates would have to be imported into Europe but are plentifully available in northern Africa. The importance of this is apparent when it is considered that England is now in her ninth year of food rationing.

Another example is the condition of the internal rail transportation systems of Europe and other areas which are inadequate for distribution purposes and sorely need rehabilitation. A small tax on each ton of freight hauled would assure liquidation of any long-term foreign loan made for such purposes.

A great host of such enduring projects, large and small could be enumerated if space would permit. How stupendous is the task in Europe alone is evidenced by the fact that in many areas the accumulated enduring structures and works of five centuries were wiped out in the recent conflict. From the Arctic Ocean down to the Mediterranean the story is the same. Everything is needed—housing, farm tools, utilities and instruments of production and distribution. It is not a 4 year job but involves a restoration and expansion program which may require a quarter century for its completion.

In the words of Floyd Gibbons, whom I recall went around the country telling us about the wreckage of World War I—I think he was the first newscaster on any radio.

Like a giant plowshare, the recent war uprooted the universe; it upset the normal channels of procurement of the necessities of life; it impoverished the soil man feeds on and destroyed the tools man lives by. It may take a generation or more to restore their equivalent.

Now here is an item, "saying to taxpayers," which I think means very much, which I think this form of operation will help to promote.

So far as financial risk is concerned, it is believed that the handling of long term loans through the World Bank will not only reduce the risk of loss to the irreducible minimum, but it will also lessen the drain on funds coming from the American taxpayer very considerably.

In the first place, this World Bank may borrow funds through public offerings of its own direct obligations such as debentures and bonds, having definite dates of maturity, in order to augment its cash resources. The bank is authorized to guarantee, participate in or make loans to any member or political subdivision thereof or any business, industrial or agricultural enterprise in the territories of a member. However, the total amount outstanding at any time in such loans may not be in excess of the total subscribed capital, undivided profits, reserves and surplus of the bank. This provision of course adds to the security behind any obligations of its own marketed by the bank.

This—this phase of the Marshall plan—would not have to look solely to the United States Treasury for financing. The door is open to private investors in any country for participation and to other governments as well which, as recovery progresses, may have balanced budgets and enjoy a treasury surplus. It is easy to see that in time to come this bank might well assume the status of a world-wide, I should say public, investment trust which would help to establish a common economic purpose among nations.

This would be a distinct aid to peace. Eclipsing the famous East India Trading Co. and the Hudson Bay Co. launched generations ago by English adventurers, its primary purpose would be sound development rather than exploitation.

In fact, article I of the Bretton Woods agreement, which enumerates the various objectives of the bank, sets forth in section (i) as purpose No. 1, the following:

To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

That last is very important, because unless we begin to develop the backward nations, so as to increase their purchasing power, and the industrial population and the highly industrialized nations keep on increasing, where is that increase in population going to find a market? There just will not be any.

You can go so far that when a ton of raw material is exported from Java, or Ceylon, or any of those colonial countries of the British, Dutch, or Belgium, there is a tax, and that tax should go into schools and hospital facilities, to allow those people to become producers beyond the necessities of life, so they can acquire a surplus to buy from the industrialized nation. I would rather do that than to bribe some wild chieftian to deliver 500 boys at a given day to a given plantation.

It is submitted that this not only is a laudable purpose reflecting an unusually high degree of statesmanship, but that it fits the pattern of the fourth category of the Marshall plan perfectly.

United States financial support: In augmenting the funds of the bank, three alternatives appear to open to the United States, two of which would require congressional action.

(1) Complete the payment of the \$3,175,000,000 stock subscription of the United States, the balance of which amounts to \$3,105,785,000. This is already authorized under section 7 of the Bretton Woods Act of Congress.

(2) Subscribe to any further issues of long term bonds offered by the bank patterned after the successful public offering, dated July 15, 1947, the proceeds of which were used largely for the French loan. This would require special congressional action.

I am told by one of my insurance executive friends that some of the larger insurance companies look upon those 3 percent World Bank bonds as gilt-edge securities and they are in the market for more when they are available. That is a very good sign.

(3) Subscribe a substantial sum earmarked for "surplus account" of the bank, with the provision that any such subscription would enjoy a preferential position over the rights of stockholders in the

event of liquidation. This would also require specific congressional authority.

The advantage of the last alternative is that the funds would be well secured against loss, and the availability of such surplus would encourage private investors to buy the bank's securities since the bank's charter provides that its borrowings shall not exceed the sum-total of stock subscriptions, undivided profits, reserves and surplus, and all of which add to the assets behind any bond issues of the bank. This provision inspires confidence.

One other reason for turning to this bank on long-term loans is what I think is the necessity for having an impersonal agency.

Any program involving a heavy investment or long term loans requires careful inquiry as to the security offered; the caliber and qualifications of the personnel or managers who will spend the proceeds, and the purpose for which the financing is intended. In addition, the loan must be monitored; progress reports carefully scanned; production records examined; trade outlets encouraged; criticism levied when due; and pressure brought to bear whenever any default in payment of interest or principal occurs.

These things are all legitimate functions of a well-organized financial institution. They are not the normal functions of government, certainly not in a democracy. In fact, no single government, acting alone should welcome such responsibility for fear that its international relations might deteriorate. Public criticism of business, financial or commercial affairs, is a delicate weapon which can be applied effectively only on an impersonal basis. As suggested before, the personality of "Uncle Sam" is too vibrant with generosity to risk its counterpart "Uncle Shylock," particularly in international affairs.

No doubt Hamlet had personal loans in mind when he warned, "Neither a borrower nor a lender be, for a loan oft loses both itself and friend."

There appear to be two public agencies, however, which can levy criticism of a public nature which is accepted as being impersonal. One is a court of law and the other is a bank of juridical authority. Obviously a court of law is no place to lodge matters requiring financial and business administration except estates in-probate and affairs in bankruptcy. This then forces the choice of the second alternative—a bank of juridical authority, and this choice precisely fits the "World" Bank, an institution to which Hamlet's warning is not applicable.

Though Europe is not dead, she is almost bankrupt, but we will pass that up.

If the International Bank for Reconstruction and Development, which fortunately has its headquarters in Washington, D. C., is chosen to administer category number four of the Marshall plan, then the administrative personnel of the bank will have to be appropriately augmented.

As presently organized, the bank's personnel provides for an advisory council of not less than seven members to be selected by the Board of Governors and to include representatives of banking, commercial, industrial, labor, and agricultural interests. No mention is made of science or engineering which constitute the backbone of modern progress and improvement of individual well-being. Evidently, the duties of this council are perfunctory since it is scheduled to meet only once a year or on other occasions as the bank may request.

What is needed to help administer the Marshall plan is a full-time group of men of scientific vision qualified to pass on the merits of requests for loans from the bank for industrial rehabilitation, agricultural expansion, resource development, and so forth. Men like Kettering of General Motors, Keller of Chrysler, Wilson of General Electric, Conant of Harvard, Compton of MIT, Bowman of Johns Hopkins—Dr. Bowman knows more about the geography of the resources of the world than any man in the world—Stine of du Pont, Brown of Johns-Manville, Reichhold of Reichhold Chemicals, Queeny of Monsanto, and so forth, any one of whom would make an excellent executive chairman of such a group.

Therefore, as a practical alternative to the present Advisory Council, it is suggested that the bank set up a permanent World Reconstruction Council composed of men chosen because of their skill in the various branches of science and their past experience in great engineering and industrial undertakings. These should be men who are not afraid to make a mistake, and having made it, men with the manhood to admit it and the courage to rectify it or start all over again. It is no place for timid souls.

This Council and its staff would be charged by the bank with the responsibility for examining and cataloging the reconstruction plans and needs of all applicant countries of both an immediate and long term nature; suggesting adequate plans conforming to the experience of modern science, engineering and industry in the more progressive countries; and making similar plans and technical "know-how" available to the more backward countries.

The execution of the plans would depend largely upon the initiative and the will to work of the countries concerned, aided by the technical guidance of the Council which would establish an inspection system to assure that the money is spent for the purpose for which it was loaned. The acid tests of any project would be:

Does it put men back to work in productive enterprise.

Will it help recapture self-maintenance? That means that more boys will have to give up the classics and turn to engineering and science and those studies in England. More of them will have to give up the counting room and develop leadership and industrial expansion.

It is designed to utilize local resources—soil, mineral and otherwise, supplemented when necessary by imports of essential raw materials.

Does it meet modern standards?

Are cost estimates inadequate or excessive?

Does it duplicate present facilities unnecessarily?

Is it monopolistic?

Will it promote trade multilaterally?

Will it enrich the few or serve the multitude?

Does it abandon the foolish idea that Europe can be restored on a 35- or 40-hour work-week basis?

Thus augmented with personnel, and adequately financed, the World Bank would be the logical instrument to take up the slack where the Marshall plan leaves off some 4 or 5 years hence. This may provide the answer to the unavoidable question, "What will succeed the Marshall plan?"

Germany I have touched on, and the last point is economic unity. Germany must be included: If for no other reason than to lessen the burden on the taxpayers of the United States, it is submitted that

western Germany, which is under the jurisdiction of the United States, England, and France, should be included as the seventeenth nation under the Marshall plan.

The plain truth is that Europe cannot recover prosperity and become self-sustaining without an industrialized Germany. Ask the sober-thinking citizens of any neighboring states and they will agree that Germany both as a seller and a buyer is the hub of the wheel of economic unity in central Europe. Before the war she was England's best European customer. England needs Germany badly today and so does France. All of Europe needs her great industrial capacity, operating at 100 percent efficiency, in order to restore, in part at least, the tragic destruction wrought by war and to discharge reasonable reparations.

To be effective, the iron ore of French Alsace and Lorraine must be joined with the coal and steel mills of the German Ruhr. Economically these two regions are so interdependent upon each other that any artificial separation would be like drawing an invisible but impassable line between Pittsburgh and the iron-ore mines of Michigan and Minnesota. Pittsburgh with her steel mills, steel workers, and coal on the one hand and the Lake Superior region with its iron ore and miners on the other hand would both starve unless that impassable barrier were removed. The economic unity would be destroyed.

Danger of German rearmament could be avoided by establishing a nonmilitary industrial council composed of representatives of appropriate Marshall-plan nations and clothed with the authority to prescribe its policies especially in the Ruhr, and specify its production schedules for the next generation while German youth is being indoctrinated with democratic ideals.

Finally, only through such a policy can Germany become self-supporting and produce an exportable surplus sufficient to pay for her imports of food, particularly from the United States, Canada, and the Argentine. We as a Nation cannot afford indefinitely to support a "poorhouse" in Germany.

Economic unity: At the conclusion of the Paris Conference, September 1947 of the Committee of European Economic Cooperation which comprised the 16 original nations contemplated under the Marshall plan, certain definite conditions were subscribed to, including the following:

- Recognition of common objectives and responsibilities.
- Cooperation in eliminating trade barriers.
- Restoration of monetary stability.
- Development of resources in partnership with other nations wherever possible.
- Removal of obstacles to free movement of peoples within Europe.

A good example which I gave a moment ago is the iron ore of Alsace-Lorraine and the coal and steel mills of the Ruhr.

Here at last is the promise of economic unity growing out of a common economic purpose and springing from enlightened leadership. Here, in contrast to excessive emphasis on nationalism during the aftermath of World War I, at long last is an expression of common sense from strong, God-fearing peoples.

There are 270,000,000 of them and they rank next to us in productive skills and the great majority of them are Christian people.

Profiting from the mistakes of the past, these 16 countries have recognized in most tangible fashion their natural interdependence.

This, more than anything else makes them a good credit risk and inspires faith in their future progress.

It is imperative that those responsible for the administration of the Marshall plan hold these nations to these vital promises.

It simply will not make sense for American taxpayers to pour out funds for European relief and stand idly by while permanent recovery is stymied by the fumbling and bungling of any decadent leadership, wherever it may exist or come to power; which is unwilling to sacrifice its personal political ambitions for the welfare of all. It will be of no avail if the billions thus generously given, are sacrificed on the altar of national prejudice. The choice is economic unity or economic disintegration.

In the words of Hon. John Foster Dulles, when he testified before the Vandenberg committee, "We must keep pushing them to do it."

This concludes the considerations which I desired to emphasize from the standpoint of sound business, sound economics, sound finance, and forward looking policy, upon which the success of the Marshall plan so largely depends.

Acting Chairman MALONEY. Mr. Fritsche, I believe this is the clearest, most intelligent statement I have heard presented to this committee. I can say that I readily understand that you had your early business training in the North, and that you have made a great contribution to the State of Alabama.

Mr. CHIPERFIELD. I want to say that this is an excellent statement, and I mean excellent. It is the most constructive I have heard, and I do not say that, Mr. Jarman, because of our warm friendship.

Mr. JARMAN. I told you he would be better than any witness we have had.

Mr. CHIPERFIELD. He has been a wonderful witness.

You say the Marshall plan is a providential thing, and then you set forth a Fritsche plan which I think differs greatly from the Marshall plan. I could be for a Fritsche plan but I do not think the Marshall plan follows your suggestions at all.

I was greatly impressed by your separating this relief and rehabilitation into four categories. Mr. Vorys and I, when we were in the hospital together, discussed that very thing—maybe all three of us are thinking along the same lines.

Acting Chairman MALONEY. I believe it is very clear.

Mr. CHIPERFIELD. It is exceptionally clear. This is the first time currency reform and stabilization has been mentioned. You know, since I came back from the hospital, I have been harping on that.

Is this not true: You can have economic recovery over there, but unless you stabilize the currencies and have the international ability to start the flow of goods back and forth so they can be internationally converted, you have no chance for the Marshall plan to succeed.

Mr. FRITSCHÉ. We have learned that, in the last few years, trying to keep our four plants supplied with materials.

Mr. CHIPERFIELD. You must keep focused on that stabilization of currencies and the international exchange of currencies or all your pouring of money into those countries will amount to nothing, because you can build them up, but they will never be self-sustaining until you bring about that objective; is that not correct?

Mr. FRITSCHÉ. I agree with you.

Mr. CHIPERFIELD. I do not know whether the Marshall plan emphasizes anything of that kind. They are talking about a general recovery. Let us say we bring Greece up to a certain level. Well, that is not going to do Greece any good, any more than when you give a man blood transfusions, unless you find the cause of his hemorrhage.

Unless Greece has a currency that can be stabilized and that can be exchanged with other currencies that she may have exports and imports, you get nowhere.

I like also the fact that you said on page 3 that where the beneficiary government sells a portion of its supplies to its citizens, there may be some salvage of funds. Under the interim-aid plan they have been selling almost all of it and the poor peasant in France who does not have enough francs or the poor fellow in some city in Italy who does not have enough lira he does not get the benefit in that case. I hope we will adopt some plan where only part of it is sold and the other part will be given away to the poor, the needy, and the aged.

Mr. FRITSCHÉ. There is a simple way to recapture some of that. That would be to block the funds until they do get back to a decent basis, over there. Of course, they have nothing to send us in the way of goods over there now and we do not want their gold. We have too much of that.

We could sell due bills on those funds to American tourists. We could then get some of it back.

Mr. CHIPERFIELD. Have you submitted this statement to the Foreign Relations Committee?

Mr. FRITSCHÉ. No, sir.

Mr. CHIPERFIELD. I certainly hope that Mr. Jarman sees that it gets into the hands of the members of the Foreign Relations Committee, because I think it is vital and important to have us consider the suggestions that were made here.

Acting Chairman MALONEY. Mr. Chiperfield, I fear that we might find enmity confronting us if America happens to see fit to stop aid. This plan takes that possibility away, by putting it in a World Bank. It is a beautiful answer to that question that has been in my mind for some time.

Mr. CHIPERFIELD. That was the purpose of voting for an International Bank, but we do not make use of it. Here we have this stabilization group under the United Nations, just standing around doing nothing about it. We have a stabilization fund. What are they doing with it? Those are some of the things that bother us as members of the committee and, therefore, I appreciate very much your coming before us and giving us the benefit of your views which are those of a businessman with business ideas.

Acting Chairman MALONEY. Mr. Kee.

Mr. KEE. Mr. Fritsche, I think you have made it quite clear to all the members of the committee that you favor what is known as the Marshall plan.

Mr. FRITSCHÉ. Yes, sir.

Mr. KEE. My information may be somewhat limited along the subject, but in your attitude of favoring the plan, you are not entirely in accord with the position taken by the Governor of your State, Mr. Folsom, are you?

Mr. FRITSCHÉ. I am quite certain that he does not represent the studied opinion of the thinking people.

Mr. KEE. I am glad to hear that.

Mr. FRITSCHÉ. The fact is, if you do not mind, I am going back to something humorous: My good friend Harry Ayres asked me to come over to the annual dinner of the chamber of commerce. Since I was studying this, I got up and talked about the subject extemporaneously. Some of these ideas crystallized while I was on my feet. I find that a great help.

I had to refer to the attitude of the Governor of Alabama, of course. I drew the conclusion that democracy is still on trial in this world, and is supposed to have been born in ancient Greece, and one of the foremost proponents of democracy over there, a great philosopher, went around preaching wisdom and they poisoned him.

Down South last year we had a candidate for Governor who went around preaching nonsense and the people elected him. That is democracy.

Mr. KEE. I was interested in your four classes referred to in the administration of funds.

I take it you are rather in accord with the determination of the Senate Committee on Foreign Relations with reference to the administration set-up. I believe they have adopted something similar to the Brookings Institute plan, with few exceptions. I believe they established a nonpartisan advisory council of probably 14 members, to act in an advisory capacity only. It takes the veto power away from the Secretary of State, but permits the President to be the final arbiter on questions affecting foreign policy. Is that your understanding?

Mr. FRITSCHÉ. Yes; it is my understanding. This Administrator and his staff are the same as the Secretary of War and his staff.

It is a good deal like this: The most personalized department in any government is the foreign relations department and we all know how confidence is built up through social contacts and social gatherings.

I should say that if the State Department should administer these loans, they could look out their windows over there and see the American minister with his spats on and his gold-headed cane, walking up the walk. They would say, "Here comes old Uncle Shylock, again, asking for his money."

If I borrow money from the director of the bank in my home town and default on payment, I am embarrassed. Pretty soon I start to walk on the opposite side of the street so I won't have to look him in the face. He feels hurt because he suffers personally.

If I borrow from the bank and I default, I can face him smilingly. He will say, "Well, Fritsche had some hard luck but he will come through. Just give him some time."

There is the danger point. If you give it to the State Department, you have the same political things that come along from international diplomacy.

You ought to scrutinize those loans just as a private bank would on a loan to our company or any other company. If there is a need for the product, they want to make, and if they have the raw material supply, it would be all right, we could do it.

Mr. KEE. Personally, I cannot see anything inconsistent between the adoption of the Marshall plan and its administration, provided for in the bill before us, and your suggestion with reference to its administration.

In other words, as I understand it, it is not your idea that we incorporate into this legislation, your suggestion with reference to certain funds being handled by the Export-Import Bank, and certain funds, to be handled by the International Monetary and Stabilization Fund, but your suggestion was that, as the funds are administered by the Administrator, he make use of these agencies to administer this group of classes of funds. Is that not correct?

Mr. FRITSCHÉ. I would assume so. Whether he would need special congressional authority to use these agencies, I do not know. That would have to be investigated by your own people.

Mr. KEE. As a matter of fact, in your third classification on currency reforms, I take it that we will have to secure currency reforms in the various nations, not right off the bat, but secure it by bilateral agreements with them that they are going to take or will take these steps to effect currency reforms, not as a condition precedent to receiving this aid, but as a contractual relation between our country and the recipient country, they agree to effect these currency reforms, as a consideration for this aid.

If we wait before we render any aid at all, until we effect all these reforms, we will not be doing anything to get them up on their feet. All we can rely upon is this agreement with these 16 nations, that they will effect these reforms. Is that your idea?

Mr. FRITSCHÉ. That is correct. You cannot do it all at once. I would hate to have to be the Administrator of this fund, however, and start out from scratch and build up a brand new organization. It would drive me crazy. I know you could not do it in a year. Even if you appropriated 6.8 billion dollars this year. They could not spend it.

If you will look at the chart which I call "Road map of American friendship dollars," we find these friendship dollars flow from 140,000,000 people through the Congress to the President, and if you will follow the arrows, you will find the ERP Administrator. Under the Administrator is the European Recovery Administration and under that is the Emergency Relief Division. That is the only one he would have to set up and there are plenty of agencies in Washington from whom he could recruit his staff. That would be the friendship money.

The second is the Export-Import Bank. This is in existence and he would not have to worry about that.

Mr. KEE. That would take care of the raw materials?

Mr. FRITSCHÉ. The short-term loans.

The third is the International Monetary Fund. That is new money. It may take some of our gold.

The fourth is the International Bank, together with the Reconstruction Council, which furnishes the agricultural tools, factories, utilities, mines, and mining equipment and transportation. They have to increase their staff, but they are ready to go.

Therefore, we have a short-cut.

Now from those, to 17 European countries, through economic unity, we hope to serve 270,000,000 people, bringing food, shelter, and raiment first. People have to eat before they can work.

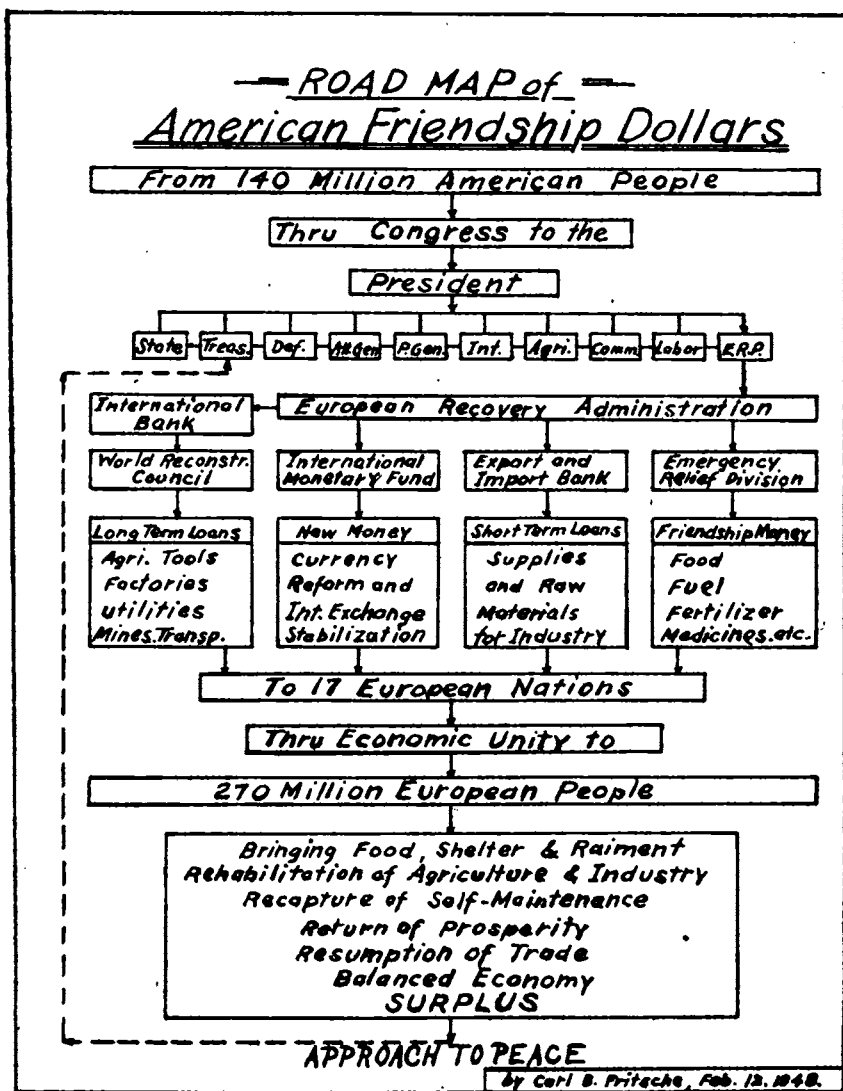
Rehabilitation of agriculture and industry, that means full employment. Recapture of self-maintenance means self-respect, too. Then

the return to prosperity, the resumption of trade, the balanced economy, and then the surplus will begin to accumulate. Not in all of them, of course. Then part of that surplus will flow back to the Treasury.

I think a plan like this can cut the over-all estimate of the Marshall plan in half. In other words, we will have valid security behind half of it that is recoverable.

Acting Chairman MALONEY. Without objection, the chart entitled "Road map of American friendship dollars" will be included in the record at this point.

(The chart referred to is as follows:)



Mr. KEE. I think you have made some wonderful suggestions and I cannot see where it would not be possible for the Administrator to make use of these agencies to administer the funds as suggested by you. I think it could be done by him without any change in the act as now proposed.

I thank you.

Acting Chairman MALONEY. Mr. Vorys.

Mr. VORYS. Mr. Fritsche, I am like the others, in that I am tremendously impressed with the constructive statement you have made.

Coming back to your statement, here is what perplexes me if the same person is handling short-term loans, long-term loans, and also "give-away" money; a lot of our neighbors from Europe are going to say "Well, I just want to talk to the give-away department," and are going to try to proceed to try to prove how they are only eligible for grants and not loans. That is not a theoretical proposition, that is going on in Washington and has been in the last 2 or 3 months.

Some of the 16 nations have been quietly trying to show that they do not want to borrow anything. They say, "We cannot pay it back, we are never going to, and therefore, we want a grant so there will be no hard feelings later."

It seems to me that your Administrator would be much better off if right at the outset he were forced to say to those who come in, "My give-away money is extremely limited in amount and it has congressional limitations thrown around it so that you cannot appeal to me. I just do not think you qualify."

I meant this to be a question, but I wanted to know what you thought might be the limitation on the Emergency Relief Division, whether you think there should be, let us say, a congressional limitation on that amount or not.

Mr. FRITSCHÉ. I presume the State Department is sending revised estimates to this committee all the time on the amount needed. Not having any contacts there, I could set no figure.

However, I do feel that if one man administers all four categories, you will have scrambled eggs.

Mr. VORYS. That is the proposal, today.

Mr. FRITSCHÉ. You have to separate benevolence from straight business. They are entirely different things.

Mr. VORYS. There is this in the State Department proposal: That the loans shall be handled through the Export-Import Bank and shall also be processed through the advisory council, and the test shall be, ability to pay, so an applicant, instead of coming in and saying, as he would at the bank, "Now I can pay this," under the present set-up he comes in and says, "I need this, but believe me I can't pay it back and I will prove it to you."

Now some of us are concerned with getting a set-up where that will not happen. I think your suggestion is helpful. However, I wondered whether you have any suggestion as to some way in which we could state a percentage limitation, or a limitation by description, upon the friendship money or the give-away money. Have you thought about that part of it?

Mr. FRITSCHÉ. I am certain the committee can write such a definition. Your approach to the problem is very commendable, there. I think it is an important thing to consider.

Mr. VORYS. You see at present we have been told that it is estimated from 20 to 40 percent of the 6.8 billion dollars which is proposed as the absolute minimum, which will be in the form of loans; we are told that the balance will be in the form of deposits of local currency in these countries, for the most part, but under no provisions which will ever involve repayment to the United States of any such balance.

I wish in view of the perfectly brilliant analysis you have presented here to us, that you once more, as a public service, you and your associates study that problem, which we must face right here.

It is a problem of designation of the amount that is to be for grants.

Let me say this, that as far as I am concerned, I would be quite willing to authorize the full amount requested, the 6.8 billion dollars, if proper provisions were made for insuring that the bulk of it or three-fourths of it were to be part of a revolving fund and not three-fourths of it possibly give-away money.

Acting Chairman MALONEY. Mr. Jarman.

Mr. JARMAN. You see from the reaction here, I was not wrong when I told them what a good witness you were going to make. In fact, if I had not known you were going to be a good one, you would not be here, frankly.

I knew you would be, and I wish to thank you very much for your very able and thoughtful analysis of this situation, which has proven very valuable to the committee.

I have a little note here from one of the ranking members of this committee. It says, "your constituent certainly put something on the ball. He is good."

My friend over there, the way he looks, lighting his cigarette, the reason he is in the fix he is in, he has not been in a fight, but he fell down on the ice and broke his arm. That is the trouble with him. That is all that is the matter with him. I think his suggestion about the Foreign Relations Committee is good. They have closed their hearings, but they may be able to get his statement in the record.

Mr. CHIPERFIELD. Would the gentleman yield?

Mr. JARMAN. Yes.

Mr. CHIPERFIELD. I would like to see, too, the members who were not here today receive a copy of his statement, because I think it should be especially brought to the attention of the members of our committee who are not here.

Mr. JARMAN. I agree with you, and we will do that.

I do not know whether he has enough, or not. If not, we can have some made.

Mr. VORYS. Will the gentleman yield?

Mr. JARMAN. Gladly.

Mr. VORYS. I would suggest that it would be extremely helpful for us to get copies of this statement to the members of the Senate Foreign Relations Committee who are now wrestling with the provisions of the law, for such help as it would be to them. I regret that Mr. Fritsche did not have an opportunity to appear in person there, but that is one thing that could be done.

Mr. JARMAN. I think that is a good idea and we will do that.

You spoke of Mr. Brown of Johns-Manville. He was a witness here last week, and a very good witness.

Again, I want to thank you very much for your able presentation.

Mr. FRITSCHKE. I want to say that the interim reports you have been

giving to us down home, following your trips to all parts of the world have helped not only to sustain our interest, but to give us the information that inspires us to be helpful. I am glad it is my first opportunity to testify before your committee, rather than the committee at the other end of the Capitol.

Acting Chairman MALONEY. Mr. Jonkman.

Mr. JONKMAN. I want to join the others in complimenting you on your splendid statement. I want to say to you that it is such a businesslike approach that I only wonder if I really understand what you say in this statement of yours.

You are dividing the relief work, so to speak, and the economic reconstruction work, are you not?

Mr. FRITSCHÉ. Yes, sir.

Mr. JONKMAN. Up to this time, the administration witnesses take the position that even the reconstruction work—this industrial reconstruction—may be a matter of grants and loans, and that if they are loans, they are going to be not loans that have the usual character of loans in this respect: For instance a country that wanted to borrow from the banks in New York, would have to make certain representations to secure that loan. Now they say the Export-Import Bank releases some of those conditions. In other words, your loan from the Export-Import Bank, while it is a repayable loan, has not got the usual characteristics of a loan.

Now they say in this situation we are going to create a third class of loans that even the Export-Import Bank could not handle, because they have not sufficient promise of being repaid under their rules.

Now the point is this: Why not, for instance, put the actual expenditures of relief money in the hands of the Administrator, but when it looks to him as though it should be a loan, send them to the Export-Import Bank and let them meet the requirements of the Export-Import Bank. If they cannot do that, then send them back to the Administrator to make the grant.

In other words, what I am saying is, if you are going to create that third class of loans, you are going to spoil the whole sum that comes in that category because if some are left to feel that they are not expected to repay, why should they all not feel that way?

Now is that what you mean, for instance, that where there is possibility to pay and probability of repayment, that then it should be handled by the Export-Import Bank for short-term loans and by the World Bank for long-term loans?

Mr. FRITSCHÉ. That is exactly it. The Administrator in that respect would be like a floorwalker in a department store, he would guide the customer to the counter where he could get what he wanted.

Mr. JONKMAN. It is a very healthy approach and I shall again read your statement with much interest. I wish we could get both committees to absorb considerable of it.

Acting Chairman MALONEY. Mr. Fritsche, we thank you very very much for coming down here, because this has certainly been a very fine approach to this matter.

If there is nothing further to come before the Committee, we will adjourn until Tuesday, February 17, 1948.

(Whereupon, at 4:55 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, February 17, 1948.)

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