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**Marshall Testimony of January 12, 1948**

**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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[p. 29]

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. 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 [p.29/30] endangers the free people of the world. This aid must cure the illness without impairing the integrity of the nations we wish to support. The challenge of our task is great.

We are faced with the necessity of making a historic decision. The proposed program will impose burdens upon the American people, but the quantity of exports contemplated is less than those of the past 15 months. The decision should be made on the basis of our most fundamental interests and I submit that none of these are more compelling than enduring peace and individual freedom.

Europe must be restored if a durable peace is to be attained. The United States has expended vast resources in the quest for peace. If by the expenditure of an additional amount, small in proportion to the investment already made, we can finish the job, certainly we should do so in our own interest as well as that of the world at large.

To a far greater extent than, I believe, is now recognized, the western European countries, by their own efforts, have made a well-organized start toward recovery. We have witnessed the unprecedented sight of 16 sovereign nations subordinating their diverse individual interests to a broader objective. The work of the Committee for European Economic Cooperation is a demonstration of the will of those European nations to work out with our help their own

salvation. The recent actions taken by several of the participating nations without awaiting hoped-for assistance from us is heartening. The pledges of this European group promise a far more cooperative system than has ever before existed on that continent. The European recovery program is designed to reenforce the joint efforts of the free peoples of Europe. It is not a series of piecemeal relief measures. I ask you and the whole Congress to keep in mind the great difference between recovery and mere relief.

To be effective, our action should meet four tests. It must be prompt. It must be adequate in amount. It must be efficient and flexible in operation. It must be cooperative in relation to the other participating countries.

The objective of this program is economic recovery. The time for relief programs is past. Relief assistance provided during the past 2 years has played a vital role. It has prevented starvation and pestilence. It has helped the people of western Europe to survive in freedom. But the concept of relief no longer meets the requirements of the situation. A constructive program for recovery is necessary. It should be adequate to its purpose of genuine recovery. If we do not move out to meet the problem in Europe today, it will certainly come to us here in the United States under conditions far more unfavorable to us.

Obviously an adequate program must be within American capacity to support, or it would be dangerous both to ourselves and to The free world. For that reason the Harriman, Krug, and Nourse committees and all the related departments of the executive branch have studied the impact of proposed foreign aid upon the American economy. They have concluded that a program of this magnitude can be "safely and wisely" undertaken.

The program developed at Paris by the Committee of European Economic Cooperation has been extensively examined, both to obtain American appraisal of the requirements for recovery and to assure that proposed aid would not unduly burden our own economy. From [p.30/31] these examinations have emerged the proposed program which calls for assistance to European recovery from the United States in the amount of \$6,800,000,000 for the period April 1, 1948, through June 30, 1949. On a comparable basis, the proposed program represents a reduction of about 20 percent in the Paris estimates. These reductions have been made, lot the most part, because of scarcities, and in order to minimize the impact in the United States, recognizing in particular the other burdens on the economy and the present existing inflationary conditions.

In my judgment, the proposed program, beginning with 6.8 billion dollars and carried through in decreasing amounts for each of the following 3 years, should make possible sustained economic recovery in western Europe. This figure results from complex calculations. It takes into account the anticipated production, exports, and imports of the participating countries in their relation to all parts of the world and the availability of supplies both in the United States and elsewhere.

I have so far stressed that the size of the program must be adequate to its purpose of supporting genuine recovery. It is equally important that the program be administered in a businesslike way that commands the confidence of the American people and the peoples and

governments of Europe.

In its operation it must be primarily a business, technical, and engineering job. The requirements of the European participants must be continuously screened as to need and availability. The efficient use of available funds must be assured. The utilization of the aid provided must be reviewed. These functions of business management we propose be assigned to an Economic Cooperation Administration. In exercising these functions, we should expect the ECA to consult with other agencies of government where appropriate.

The European recovery program is intimately related to the foreign policy of the United States and to our relationship with the participating countries. It will become the most important single expression of American foreign relationships in this part of the world. Its efficient administration will have far-reaching influence on our foreign policy. For this reason, as Secretary of State, I am vitally interested in finding the best possible organization and management for the program.

It has never been my intention that the administration of the program be hampered by unnecessary controls or interference from the Department of State. I have said before that I have an open mind, both on the specific machinery of administration and on the wording of legislation. I believe, however, that the authority for the administration of the program should be vested in a single individual and not in a commission or board, and that matters of foreign policy must be subjected to control and direction of the Secretary of State.

Finally, I turn to the inevitable questions: What does the United States get out of this? Why should the people of the United States accept European burdens in this manner?

European economic recovery, we feel sure, is essential to the preservation of basic freedom in the most critical area in the world today.

European economic recovery is essential to a return of normal trade and commerce throughout the world.

The United States is the only nation with the strength to lend vital support to such a movement. [p.31/32]

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:) [Not included here; see Senate testimony statement.]

[end p. 32/begin p. 38]

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 [p. 38/39] 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 the 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. [p.39/40]

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 [p. 40/41] 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 [p.41/42] 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? [p. 42/43]

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. [p. 43/44]

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. Chipperfield.

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. [p. 44/45]

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 [p. 45/46] 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 net 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, [p. 46/47] 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 [p.47/48] 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 [p. 48/49] 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 of 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 Secretary 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 [p.50/51] 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. KEN 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. VORYS. 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 malting, 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. VORYS. 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? [p.51/52]

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 [p.52/53] 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-[p.53/54]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 (e) 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 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. [p. 54/55]

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. [p.55/56]

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 [p. 56/57] 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 [p.57/58] 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 get together among themselves on a mutual self-help basis.

I thought that the circumstances made 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. [p. 58/59]

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?

Irr. 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. [p.59/60]

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. [p.60/61]

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 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. [p.61/62]

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 crises 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.

They 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. [p. 62/63]

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. [p.63/64]

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 [p. 64/65] 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. [p.65/66]

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 [p.66/67] 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? [p.67/68]

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. [p.68/69]

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 ourselves 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? [p.69/70]

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 [I] 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? [p.70/71]

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. [p.71/72]

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. [p.72/73] 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 break-down. 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 [p.73/74] 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.  
[p.74/75]

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 [p.75/76] 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 Harriman 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? [p.76/77]

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. [p.77/78]

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, [p.78/79] 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 [p.79/80] 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 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? [p. 80/81]

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. [p.81/82]

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 [p. 82/83] 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. [p. 83/84]

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. [p. 84/85]

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 materiel 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. [p.85/86]

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 [p.86/87] 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 [p.87/88] 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—  
[p.88/89]

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 [p.89/90] 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? [p. 90/91]

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? [p. 91/92]

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. [p.92/93]

#### 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. [p. 93/94]

#### STATUS OF PLANTS IN UNITED STATES ZONE SCHEDULED FOR SHIPMENT TO USSR

A/S 84. Deutsche Schiffs and Masehinenbau, 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 and 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? [p.94/95]

Secretary MARSHALL. Yes, sir.

Mr. FULTON. Will you tell us bow 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 multilateral 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. [p.95/96]

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 results—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 under-taken?

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? [p.96/97]

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. [p.97/98]

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 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? [p.98/99]

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 cooperatively—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? [p.99/100]

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"? [p.100/101]

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. [p.101/102]

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 breakdown 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 [p. 102/103] 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".<sup>1</sup> 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 membership [p.103/104] 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.

#### E. 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." <sup>2</sup>

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. <sup>3</sup>

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, <sup>4</sup> 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 considerations

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 [p.104/105] 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.<sup>5</sup> Twelve participating countries issued separate declarations to the Conference on the internal financial and economic reforms undertaken or contemplated.

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. [p. 106/107]

### *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 extraordinary 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.

In their final report, the 16 CEEC countries undertook "to remove progressively the obstacles to the free movement of persons within Europe."<sup>7</sup> 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."<sup>8</sup> 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 [p.106/107] 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,"<sup>9</sup> and referred particularly to the forthcoming meetings of the committees and sub-committees 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 soft-woods. 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 they are hampering production of important types of manufacturing equipment. In addition the Steel Committee, in cooperation with the [p.107/108] 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.<sup>10</sup> 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.<sup>11</sup> 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.

[footnotes to the enclosed report are found at the bottom of the page on which the fn # appears]

1. CEEC report, I, p. 133.
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 ulna 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.
5. OEEC Report, I, pp. 26, 27.
6. OEEC Report, II, p. 461, 524.
7. CEEC Report, I, p. 13.
8. CEEC Report, II, p. 437.
9. CEEC Report, I, p. 38.
10. The prewar system was administered by the RIV (Rogohnnento-Intornntionnlo Velcoli or International Wagon Union).
11. CEEC report, II, p. 175-178.

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 [p. 108/109] 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.)