

U.S. FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

George C. Marshall Foundation, Lexington, Virginia

See page 29 for Gen. Marshall's testimony.

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

HEARINGS BEFORE THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

EIGHTIETH CONGRESS
FIRST AND SECOND SESSIONS

ON

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

PART 1

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

WEDNESDAY, DECEMBER 17, 1947

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

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

Chairman EATON. The meeting will come to order.

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

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

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

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

PART I—GENERAL PROGRAM

OBJECTIVES

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

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

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

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

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

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

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

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

FOREIGN AID COUNCIL

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

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

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

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

PART II—EMERGENCY BASIC REQUIREMENTS ASSISTANCE

EMERGENCY FOREIGN RECONSTRUCTION AUTHORITY

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

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

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

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

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

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

(5) to engage in foreign exchange transactions;

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT OF AUTHORITY

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

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

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

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

CAPITAL OF AUTHORITY

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

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

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

PAYMENT FOR COMMODITIES FURNISHED TO FOREIGN COUNTRIES

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

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

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

USE OF FOREIGN CURRENCIES RECEIVED

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

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

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

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

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

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

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

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

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

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

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

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

PART III—AMENDMENTS TO EXISTING LAWS

AMENDMENT OF EXPORT-IMPORT BANK ACT OF 1945

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

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

"; and

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

(b) The second sentence of section 2 (a) of the Export-Import Bank Act of 1945 is amended to read as follows: "The objects and purposes of the bank shall be (1) to aid in the financing and to facilitate exports and imports and the exchange of commodities between the United States or any of its Territories or insular possessions and any foreign country or the agencies or nationals thereof, and (2) to facilitate United States programs of aid to foreign countries in connection with the rehabilitation and reconstruction of their war-devastated economies by

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

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

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

EXPORT CONTROLS AND ALLOCATIONS

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

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

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

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

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

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

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

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

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

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

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

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

Chairman EATON. Off the record.

(Discussion off the record.)

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

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

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

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

Chairman EATON. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. JONKMAN. May I ask a question?

Chairman EATON. Mr. Jonkman.

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

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

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

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

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

That is the process through which the bulk operation goes.

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

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

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

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

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

Mr. JONKMAN. I see.

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

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

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

Mr. HERTER. And coordinate the other.

Mr. JONKMAN. Yes.

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

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

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

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

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

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

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

Mr. HERTER. This amendment [indicating]?

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

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

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

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

Chairman EATON. All of it?

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

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

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

Mr. FULTON. How about China?

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

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

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

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

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

Mrs. BOLTON. Very well.

Chairman EATON. I would like to ask two questions.

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

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

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

Chairman EATON. Just one more question.

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

Am I, as usual, wrong in that?

Mr. HERTER. Yes. I would —

Chairman EATON. As usual.

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

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

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

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

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

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

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

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

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

Chairman EATON. That is not unusual.

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

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

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

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

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

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

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

Mr. HERTER. That is correct.

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

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

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

Mr. MUNDT. It is in there?

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

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

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

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

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

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

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

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

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

Mr. KEE. Will the gentleman yield?

Mr. MANSFIELD. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

Chairman EATON. I agree with that.

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

Mr. HERTER. Yes.

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

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

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

Mr. HERTER. That is correct.

Mr. JAVITS. Thank you very much.

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

Mr. HERTER. Not entirely.

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

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

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

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

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

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

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

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

Chairman EATON. He has got to take it.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. VORYS. The day before yesterday.

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

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

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

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

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

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

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

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

Mr. HERTER. Yes.

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

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

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

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

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

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

Mr. LODGE. I see.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Chairman EATON. On the motion?

Mr. JARMAN. Yes.

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

Mr. HERTER. Five years.

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

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

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

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

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

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

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

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

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

MONDAY, JANUARY 12, 1948

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

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

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

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

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

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

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

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

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

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

- (1) promoting industrial and agricultural production in the participating countries;
- (2) furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, for 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.

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

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

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

DEPARTMENT OF STATE,
January 7, 1948.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I. WHY?

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

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

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

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

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

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

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

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

II. HOW MUCH?

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

Objective: Recovery

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

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

Time is vital

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

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

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

Amounts of required assistance

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

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

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

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

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

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

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

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

Can we afford it?

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

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

III. HOW?

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

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

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

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

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

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

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

Application of American aid

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

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

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

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

Organization for the program

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

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

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

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

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

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

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

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

CONCLUSION

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

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

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

Chairman EATON. Are you now ready for questions?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Does that answer your question, Mr. Chairman?

Chairman EATON. Yes, sir.

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. BLOOM. To where?

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

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

Secretary MARSHALL. That is correct.

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

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

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

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

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

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

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

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

Mr. BLOOM. I would like your opinion.

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

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

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

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

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

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

Secretary MARSHALL. Presumably so; yes, sir.

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

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

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

Secretary MARSHALL. No, sir.

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

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

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

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

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

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

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

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

Mr. BLOOM. What: China?

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

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

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

Chairman EATON. Mr. Chipperfield.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. CHIPERFIELD. I have it before me.

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

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

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

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

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

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

Mr. CHIPERFIELD. It does not say so.

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

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

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

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

Secretary MARSHALL. He is under the Administrator.

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

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

How are they involved in this program?

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

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

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

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

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

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

Chairman EATON. Mr. Kee.

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

Secretary MARSHALL. Yes.

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

Secretary MARSHALL. Not exactly, sir.

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

Secretary MARSHALL. Yes, sir.

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

Secretary MARSHALL. Yes, sir.

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

Secretary MARSHALL. Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

They said:

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

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

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

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

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

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

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

Secretary MARSHALL. You would like an example?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

That is a rather involved statement.

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

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

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

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

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

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

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

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

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

Secretary MARSHALL. There is always the President.

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

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

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

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

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

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

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

Mr. 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 making, performance, amendment, or modification of contracts and the expenditure of Government funds * * *.

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

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

Mr. 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?

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

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

Mr. VORYS. Who is Mr. Gross?

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

Do you wish to hear him right now, sir?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Secretary MARSHALL. That is a very interesting observation.

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

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

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

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

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

My advisers know of no such consultation.

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

Mr. BLOOM. Of what?

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

Mr. Richards?

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

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

Secretary MARSHALL. Yes, sir.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. Thorp just referred to that.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Secretary MARSHALL. That is correct, sir.

Mr. RICHARDS. Thank you, Mr. Secretary.

Chairman EATON. Mr. Jonkman.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Secretary MARSHALL. That is absolutely correct, sir.

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

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

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

I distinguish between relief aid and economic aid.

Why should those five be included in this program?

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

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

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

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

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

Mr. JONKMAN. How about Switzerland?

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

Mr. JONKMAN. How about Turkey?

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

Mr. JONKMAN. Ireland?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mr. JONKMAN. Of those five?

Mr. THORP. Yes, Norway.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Secretary MARSHALL. Yes, sir.

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

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

AFTERNOON SESSION

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

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

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

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

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

Secretary MARSHALL. It was projected there.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The more I think about it, the more I am confident that the problem of press releases will be an item for concern. There will always be press releases on what is being done and the manner in which a statement is drafted may have a very unfortunate effect in a certain country at a certain time. Yet the man drafting the statement can be totally unconscious of that, and be thinking only about reaction from the United States or from the Congress, or particularly reaction from a committee before which he or his chief has been appearing.

I have experienced considerable reaction of that character already, and I will say that that will probably become one of the trickiest procedures.

Yet in a sense it will have little to do with the actual administration of the plan.

In other words, a press release may cover a plain businesslike transaction. Its subject may be something that the Secretary of State was not concerned with at all in one sense. If the release was drawn in a businesslike manner, that might be so. However, the phrasing of a press release abroad will be used in attempts to pervert everything we do into some evil purpose or some reflection on the sovereignty or the pride of the people concerned.

Mr. JARMAN. Even in those instances, is it not probable that you, the Secretary of State, and the proposed Administrator will be able to iron out those difficulties of opinion without referring them to the President?

Secretary MARSHALL. I think so, and that is the reason I think the drafting of the legislation makes it unmistakably clear how we

approach the issue so that, 9 times out of 10, we will settle it between us.

In other cases where the Administrator feels I have too much of a Foreign Relations point of view, he might say, "I think we ought to take this to the President."

Mr. JARMAN. Since it is automatic, it automatically goes to the President; does it not?

Secretary MARSHALL. Yes, but in most instances one or the other of us will have the lead in the matter, and endeavor to compose the problem before it gets that far.

Mr. JARMAN. I would imagine under your able leadership, there would be few of them that would have to go further.

Secretary MARSHALL. Thank you.

Mr. JARMAN. You were asked a question several times this morning to the effect, "Why should we not put that in the bill that goes to the President?" That is not entirely necessary, because it is just automatic. If you cannot agree, it becomes automatic.

I can understand very pleasantly this morning your reference to "localitis." I can understand it first, even though I was a very junior officer, I am an old Army man myself, and I can understand that viewpoint. However, we have a disease of which you have probably not heard, with which some of our Members of the House sometimes become afflicted over here called "Senatitis."

Now you were questioned this morning about the fact that the wording of this bill and one paragraph in particular of it was so general that it would permit Russia to benefit under the plan. Later on, you mentioned that other countries might come in. The door is open to Russia; is it not?

Secretary MARSHALL. Yes, sir.

Mr. JARMAN. Russia went to Paris, as I understand, and left in a few days. All countries were invited; were they not?

Secretary MARSHALL. It is wide open, and the more countries that come into this on a truly cooperative basis, the greater ease we would find in composing the economic situation in Europe.

Mr. JARMAN. Therefore, it is no criticism of the legislation that it is sufficiently general to open the door to any country that might want to come in?

Secretary MARSHALL. I would not think so. Of course, any country that comes in has to meet the conditions.

Mr. JARMAN. Naturally that is all, Mr. Chairman.

Chairman EATON. Mrs. Bolton.

Mrs. BOLTON. Mr. Secretary, I have been deeply interested in the discussion and the questions that have been asked you.

May I go into a somewhat more general aspect of it for a moment and ask you whether, in your consideration of the whole program, you would feel it very important that only so much absolute assistance be given as is imperatively necessary?

Secretary MARSHALL. That is correct.

Mrs. BOLTON. And that it be done in the most economical way possible?

Secretary MARSHALL. That is correct.

Mrs. BOLTON. For instance, some of the possibilities might include plans for shipping steel from this country to one of the countries abroad, having it finished, and sending back the finished product.

That might prove to be exceedingly expensive. It might well be that ore from the Scandinavian countries and mills somewhere else might not only give the same amount of material, but might furnish employment and raise the morale. After all, that is basic.

Are you anticipating a very close study of all these details of procedures, with a view to cutting down our expense as much as possible?

Secretary MARSHALL. The investigation so far has gone to great lengths into the question of what the European countries could do for themselves, in the first place, and secondly what in particular they could do more economically and with better returns than with our doing it over here.

Mrs. BOLTON. Who has made those investigations?

Secretary MARSHALL. They have been made by a variety of groups.

Mrs. BOLTON. Groups of ours or theirs?

Secretary MARSHALL. Ours and theirs. The Europeans came out with the original proposals, of course, in the CEEC report which was transmitted to this Government last September. Since then we have been examining into all their proposals and there has been more time to go into the general situation. Our people have had contact with the subcommittees of the CEEC and in some cases we have developed new propositions which seem more effective or which had not been thought of before.

That will be a continuing process, and that is one reason why emphasis was laid on the desire to have the matter as flexible as possible, so that we could take advantage of these various conditions. Because what might be desirable according to the prices and labor situation and other factors of that kind today, 3 months or 6 months or a year hence it might be much more desirable and much more effective to do it on another basis.

Mrs. BOLTON. You say our people have been working with them. Do you mean members of the State Department?

Secretary MARSHALL. Yes, and the members of executive agencies that have been assembled. This interdepartmental group worked and is continuing to work on the general program.

Mrs. BOLTON. Then in going into the whole problem of economic methods, it would be your idea that that is the part of the work which would be delegated to what you call the business end?

Secretary MARSHALL. Yes. In fact, that is the major part of the whole procedure.

Mrs. BOLTON. Then if that is so, when you speak of the political areas, do you mean those matters which would be brought up under normal conditions between our Ambassador and the government in question?

Secretary MARSHALL. In part, yes.

To express it in a little more detail we mean that if a discussion is required between the high officials of one government and the high officials of another government, as a government-to-government affair, the approach should be made in the light of the existing diplomatic relationship, but the individual who is conducting the business aspects of the thing might be the principal speaker and probably the negotiator. However, he would conduct himself in the light of our diplomatic representation.

As I tried to illustrate a little bit this morning, in connection with the Ambassador at Large, he might be requested to go to a country

by the local Ambassador. In other words, the local Ambassador must consider the effect on all his future relationships in that country. The Ambassador at Large might be the one doing most of the talking. Presumably, the two of them would have discussed this in advance and the local color would be given to the Ambassador at Large by the American Ambassador to that particular country. There you must trust to some good sense, some wise judgment and similar factors on the part of those gentlemen.

The Ambassador at Large in Paris will have a viewpoint there in relation to the CEEC committee which he himself might change to a certain degree when he gets to Holland or Italy and hears what is going on there. He gets a much better picture than he would from an ordinary written communication.

Mrs. BOLTON. That would appear to be good common sense.

Secretary MARSHALL. It has this other aspect. That is, the normal operating procedure of our Government. I do not think we should wipe out existing structural procedure and start on a new basis just because we might find ourselves doing one thing possibly more advantageously in this case and having a most unfortunate effect at the same time or later on in other parts of the world.

Mrs. BOLTON. Would you feel that a separation of the Ambassador and the Administrator might lead to very real misunderstanding on the part of the other countries, even to the point of their thinking governmentally we had disagreed here at home?

Secretary MARSHALL. If I understand your question correctly, that might be the case.

The Ambassador at Large in Europe will be in direct contact with the Administrator in Washington, and the reason in particular for having such a man is, the Administrator would otherwise be up against the complication of having 16 different groups to work with, whereas in this plan his Ambassador is right on the ground with the Central Committee of the CEEC.

I do not know whether I made it sufficiently clear this morning, in relation to the Economic Counsellor's set-up in the embassies, and the appointment of personnel from the reserve which has been created in the Foreign Service. The actual language in the bill is not that originally proposed by the State Department. In fact, it was changed governmentally and in consideration for what was felt to be better.

What we wanted was to have people brought in on the recommendation of the Administrator. The Secretary of State would nominate these people, because the law provides that the Secretary of State had to nominate them if they are going to be in the Foreign Service, and if they are to be included in that reserve. However, the intent is to have the Administrator name the man and then the Secretary of State carries out the legal requirements.

Mrs. BOLTON. You suggested that it come largely, I judge, from the Foreign Service reserve?

Secretary MARSHALL. It is merely an assumption. You will find more talent, definitely, that way.

The Administrator on one side and the Ambassador at Large, between them may have a number of men with whom they would want to work. It is their privilege to put forth those men.

Mrs. BOLTON. My all too slight knowledge of the personnel in the State Department and the Foreign Service leads me to ask that if the Service is so adequately staffed that it can spare these people?

Secretary MARSHALL. These are additional people.

Mrs. BOLTON. They are not being used at all now?

Secretary MARSHALL. They may be in any business in the United States. They may be lawyers, doctors, or something of that sort.

We will request them to come into this reserve position when the call comes for that particular talent.

Mrs. BOLTON. Most of them have seen service?

Secretary MARSHALL. I think some of them may have seen service but not necessarily in the State Department. The Foreign Service Reserve was established as a result of an act of Congress in 1946. However, I was told what will be endeavored is to collect the talent that had been demonstrated efficient, and I imagine, though someone else can tell you very specifically, that a great deal of that talent was not in the State Department at all.

Mrs. BOLTON. Now, if the Administrator and the Ambassador at Large agree on certain men and bring them in, how free will they be, and how free will the Administrator be, or does everything have to go through the usual channels which takes so everlastingly long?

Secretary MARSHALL. The main business transactions would be from the Ambassador at Large back to the Administrator and that would be just as quick as the radio, or the pouch or the ordinary mail. The Ambassador at Large would probably use the facilities of the State Department. That would mean if he were in Paris, he would probably turn to the teletype that we have, and in that way get quick communication with the Administrator here in Washington.

Mrs. BOLTON. It would not have to go through our Ambassador in France?

Secretary MARSHALL. No, not necessarily at all.

Mrs. BOLTON. It would go directly from the Ambassador at Large?

Secretary MARSHALL. From the Ambassador at Large back to the Administrator here.

I would think his report would go to both the Secretary of State and the Administrator, and if foreign relations complications were involved, we would endeavor to find the solution.

Mrs. BOLTON. It would be very necessary, would it not, to cut the usual red tape?

Secretary MARSHALL. In the ordinary business transactions, I see nothing to complicate that at all, because they would be using the quickest process, and could probably use the teletype of the State Department.

Mrs. BOLTON. You have spoken of the various reactions to public statements, Mr. Secretary.

I have had several reactions from one of the countries abroad already, in the matter of the discussions taking place here. It was amazing to many people that we should question any of it. They felt that they reached out to us and we were going to respond and they have been deeply disheartened by the fact that this was going through our usual processes of careful study. They have very definitely been disturbed by that.

Have you had any reactions of that kind at all?

Secretary MARSHALL. I do not know specifically of any. I know in general there is deep concern as to what is going to happen and how long it will be before it does happen. That is very normal and very natural.

Also, there is concern as to how much of our present proceedings will be picked up on a propaganda basis and used to our disadvantage. However, that is inevitable. It is the final result that determines, if it is not too long delayed.

Therefore, while we may find ourselves embarrassed by some of the accusations, in the end they turn out to be insignificant provided we come through; provided we come through in time.

Mrs. BOLTON. One of the problems is of course the matter of the amount. As I have studied it, it has come to me very strongly that the original CEEC proposition was, it boiled down in a comparatively short time.

That would make possible a special need on our part to study the figures exceedingly carefully, and it would be an unfortunate thing if the study we must make, as a responsible committee of Congress, should be interpreted as being detrimental to the ultimate results. Do you feel that there is an overamount of misunderstanding about that phase of our study?

Secretary MARSHALL. A misunderstanding where?

Mrs. BOLTON. A misunderstanding abroad.

Secretary MARSHALL. I do not know quite what to say in reply to that. It is to me very evident that we have a wealth of data such as we never apparently have accumulated before, and our problem is how to assimilate the information. From having very little technical information in the summer of 1947, we now have a mountain, and it requires considerable skill in getting at the basic heart of the problem in each particular case.

Now abroad, the reaction is from people who are in dire need of this and in dire need of that, and they are not particularly analytical about it. They just need it. All the different complications involved in their getting it are not understood by them. There may develop a feeling of misunderstanding, if not irritation, on their part, which will be provoked into hostility, if it is within the bounds of the propaganda effects.

I have no particular fears of these local individual reactions, if we come through. I think they will then be dissipated.

I say very frankly that I do not think we will ever be understood to the degree we would like to see our selves understood. When people are in the situation that you found them in your trip to Europe and they read about our life here and what we have, they are very human. I will put it that way.

Mrs. BOLTON. Mr. Secretary, just one more question on this general situation: It had seemed to us that one of the very real problems before us in setting up the administration of this whole plan, the relationship between the State Department and the Congress, it would seem imperative that some way be found whereby there may be the closest association between the two bodies.

Under the reorganization law, we have the Foreign Affairs Committee, committed to the responsibility of following everything in the foreign affairs field.

Would you be willing to give consideration to the possibility to some committee of the Congress, somewhat similar to the Atomic Energy Committee, that would sit perhaps weekly, or more often if it would seem necessary, to keep the closest contact and have a very detailed knowledge of how things are proceeding?

Secretary MARSHALL. I would like to think that over on the basis of workability, on the basis of frequency, and in relation to the powers of the committee.

However, I agree with you there is a necessity for very intimate relationship with the Congress.

Mrs. BOLTON. It would be in the top areas and not in the working areas, as envisage it.

It would not entail the committee of Congress going into the details of management, and so forth. That would be unworkable. However, they would be on the advisory plane, keeping in very close touch constantly. It would seem that that might solve some of the problems that face us in putting a bill through Congress, and so on.

I would be very happy if you would give it some thought.

In planning the recovery program for Europe, fuel is a very important factor, is it not?

Secretary MARSHALL. It is one of the most important factors.

Mrs. BOLTON. That would be of course coal over the various regions, and Polish coal would be of utmost importance, I assume.

Secretary MARSHALL. That is correct.

Mrs. BOLTON. In regard to oil, it was anticipated, was it not, getting oil from the Near East?

Secretary MARSHALL. It is hoped that the greater part of the oil required, particularly in the later years of the program, could come from the Middle East. If that does not prove true, we will have to have a restudy of the whole oil situation, because that will necessitate a revision of our present plans.

Mrs. BOLTON. A rather complete revision would be in line, would it not?

Secretary MARSHALL. Yes, a complete revision, but Mr. Krug can tell you more about that than I can.

Mrs. BOLTON. I am thinking of it rather more from the State Department's angle, Mr. Secretary, from the relations that are in such grave jeopardy between the countries of the Near East and ourselves at the moment, and that of course is a matter of State Department interest?

Secretary MARSHALL. Very much so.

Mrs. BOLTON. I think that is all, Mr. Chairman.

Chairman EATON. Mr. Gordon.

Mr. GORDON. Is the door shut for other nations to participate?

Secretary MARSHALL. What was your question?

Mr. GORDON. Is the door shut for other nations, such as Poland, for example, to participate in this program of European reconstruction, now or in the future?

Secretary MARSHALL. It is not.

Mr. GORDON. What would be the condition for it to participate?

Secretary MARSHALL. They would have to subscribe to the conditions which are laid down in the CEEC, and the later conditions that arise here by virtue of the laws which you gentlemen enact.

Mr. GORDON. Were Poland and Czechoslovakia asked to participate in this program?

Secretary MARSHALL. All countries in Europe were invited, except Spain. That was handled entirely by the nations in Europe.

Mr. GORDON. Can you tell us for what reason they refused?

Secretary MARSHALL. I will have to go into the records for that. I think I know the reasons they did not accept, but I have no official documents to indicate them. I am quite clear in my own mind, and I think all the rest of you are as to what actually happened, as for example, in the case of Czechoslovakia, which went through with acceptance, and then following the visitation in Moscow had to withdraw.

Poland did not get so far as to accept, but indicated the intention to accept and then went no further, I presume in view of what happened in connection with Czechoslovakia. They were invited and it was very much hoped they would accept.

Mr. GORDON. Mr. Secretary, in your opinion is there a determined Communist intent to kill off proposals in this legislation now before us?

Secretary MARSHALL. I could not hear the first part of your question.

Mr. GORDON. I repeat, in your opinion, is there a determined communist attempt to kill off the fulfillment of the proposals in this bill?

Secretary MARSHALL. Yes, sir; I think that is quite clearly stated in the pronouncements of a member of the Politburo, and by Mr. Molotov himself a leading member of the Politburo of the Cominform said:

The Marshall plan strikes at the industrialization of the democratic countries of Europe and hence at the foundation of their integrity and independence and in the planned for "Dawesization" of Europe was doomed to failure at the time when the forces of resistance to the Dawes plan were much weaker than they are now today, in postwar Europe, there are quite sufficient forces, even leaving aside the Soviet Union, and if they display the will and determination, they can spoil the plan of enslavement.

All that is needed is the determination and readiness of the peoples of Europe to resist. As to the U. S. S. R., it will bend every effort in order that this plan be doomed to failure.

That is a pretty direct answer, I believe, to your question.

Mr. GORDON. Thank you Mr. Secretary.

Mr. SMITH. Mr. Secretary, we are engaged in a gambling venture here, are we not?

Secretary MARSHALL. In the common acceptance of the term "gambling," I do not believe I quite agree on that. I would say we are not guaranteeing a result, but we think there is every prospect of success if we go into it wholeheartedly. It is in a sense like almost any business venture. You might call all of them gambles, as to whether the product is going to be worth while, whether the public will buy it, and whether other things happen that vitally affect the business.

I would not even say the program is speculative. I would say it is a very carefully considered action to meet a very critical situation along lines which we feel show a fair prospect of success, and I think a good prospect of success, if we carry through wholeheartedly.

Mr. SMITH. Do you feel at all it might possibly lead to war?

Secretary MARSHALL. I think it should avoid the issue of war rather than lead to war.

Mr. SMITH. Now then as I examine this bill, we are concerned here, are we not, with an economic problem, principally?

Secretary MARSHALL. We are concerned here directly with an economic problem which has a vital relationship to political matters.

Mr. SMITH. Do the political and humanitarian features tie in to the economic?

Secretary MARSHALL. They are tied inseparably to it. They are results that will flow from it.

Mr. SMITH. Now I notice on page 25 of the outline of the European recovery program which the committee has, it states on page 25:

Six years of war and enemy occupation has wrought heavy toll on the people and the economic structure of Europe.

Is there any other element present which has made for chaos in the European economic situation at the present time, or in the last 2 years?

Secretary MARSHALL. There is the constant demonstration of a consistent effort through all of the western European countries, but particularly Italy and France, to effect a complete change in the form of government to that of a police state or certainly a totalitarian state. A form of government destructive of those freedoms and liberties which have developed in western Europe and which we think are vital to world well-being and to our own security and future prosperity.

Mr. SMITH. Would you say that present Government policies from an economic angle have contributed to this situation?

Secretary MARSHALL. Present Government policies in Europe?

Mr. SMITH. I am thinking now, Mr. Secretary, about this matter of rationing and allocation. In other words, they have not permitted a free economy to operate since the war; have they?

Secretary MARSHALL. The governmental situations in some of those countries, notably Italy and France, have been such that they have had great difficulty in making normal efforts to restore their economic stability.

There have been actions taken by some members of the Government, as in France and later, after they left the Government, by some groups in France, to make it virtually impossible, at least for the time being, to engage in a well-ordered recovery program.

These actions have affected industry, and all of their normal relationships and have caused confusion and great concern among the population.

Mr. SMITH. We are concerned with production, are we not?

Secretary MARSHALL. Primarily; yes. The great cure in this immediate economic situation is production.

Mr. SMITH. How are we going to get it, by a continuation of the present policies of the governments, or are we going to make it possible for incentives to operate in the field of production?

Secretary MARSHALL. We are going to get it, I think, by the furtherance of agreements among themselves, which are already being started in their implementation, and by our providing a certain percentage of either funds or material that are in critical shortage over there, or in foodstuffs that the populations urgently require. Our assistance can begin to make the wheels turn.

Now the percentage of our part in the over-all plan is rather small. When you consider the bulk of the amount, it does not seem small over here, but compared to the total requirement in Europe it is a small percentage of the whole requirement.

I think perhaps it can be illustrated a little bit this way: We will say in June they were on a dead center, speaking mechanically and thinking of a locomotive. The wheels were hardly turning at all.

In addition to that there was great confusion among the crews, and great difficulty down the track.

Now more or less because of the psychological effect that arose, they got off dead center and began to make a little start. They got together and reached a very remarkable agreement, involving a great many commitments and concessions on the part of one nation and another. That again increased the momentum slightly. They are now struggling along on that basis.

However, with the forces working against such a recovery, and with the lapse of time, the oncoming winter and all of the attendant factors involved, a certain material support from us can have an effect far beyond the actual extent of that support. Therefore, our contributions should enable their effort to gain considerable momentum, until it begins to take care of itself.

MR. SMITH. The thing that troubles me is this, Mr. Secretary: We know that coal is a vitally important commodity. We know that foodstuffs are very, very important. We know that steel is very, very important. Now there are no greater deposits of coal in the world than in England, Germany, and the Ruhr area. France can produce food if we can make the farmers work. We can do the same with steel, but in some way or other, the production has fallen down there because those who produce are not willing to do so.

My point is, should not this legislation anticipate some way or means whereby we can furnish an incentive to produce?

Now, to support the fact that incentives are important, I refer again to this report, page 71, subsection (a):

Observers of the present state of affairs in Europe are agreed that the lack of adequate incentive for individual effort is having a pervasive and serious effect upon mining and industrial production and upon the farmers' willingness to cooperate in governmental-goods programs, and to channel products into legal distribution.

One of the causes (though by no means the only one) of the weakness of incentives, is the shortage of consumer goods.

If incentives is the answer, how does this legislation assist in that respect?

SECRETARY MARSHALL. I think this legislation assists toward that end in that we feel it will, by its effect, under its provisions and its utilizations of the means authorized, tend to break these vicious circles, which cause a great deal of difficulty as depicted in the sentence you have just read.

For example, the greatest incentive of the farmer to plant more crops and to bring his foodstuffs to the city for sale, is something to buy in the city with his money. This money must have a reasonably stable foundation.

At the present time, there is not only little to buy—I am speaking very particularly now of Germany, for example, and the American zone, to be specific—there is very little to buy but, what is more difficult, the currency question just defeats the whole procedure. What you get in one country, or what one country can do, is not translatable into values in another because of the monetary breakdown. Unless all transactions are in dollars, of which there are very few, they have no assured basis of trade. They have "soft money," so everybody holds back.

The greatest incentive I can conceive of in this matter is, a production that is stimulated one way or another by the goal of an improved

monetary situation, so that goods are there for the man to buy, and the money he gets for his product will buy an equivalent amount of goods. The trouble is, the situation is now a vicious circle. Until the circle definitely breaks among all these countries, until they are given some solid foundation for the currency alone, they are up against a somewhat insoluble situation.

Take for example the endeavor to stimulate more coal production. Unless the coal miner can get more food for his extra efforts, he does not care about producing more coal. Then consider someone else, working at something else, just as hard. Does he get more food? No, he does not. Some action must be taken to establish an ordinary healthy state of commerce and trade in Europe.

The situation in Germany immediately relates to the other countries, which are very close by—Italy, France, and England. One difficulty we get into, is what do we use as the medium and basis for the transaction of business? The situation has resulted in merely a drain on dollars. Unless dollars were used there would be no business. We would find ourselves not providing the things that are necessary for Germany to obtain from these other nations, because there were no dollars for them. They simply did not have the dollars. Some means must be found for reestablishing the ordinary business of trade where the man has some confidence in the money, where he has an assurance that when he works he will get something back that has value, and he can use that to get something he needs at a reasonable cost. The whole situation will then begin to develop in a greatly improved manner, and eventually will blossom into a degree of prosperity.

Mr. SMITH. You, of course, are making a very splendid argument for free economy, and you do not have that in Europe.

Secretary MARSHALL. Well, you have it and you do not have it. In Germany, there is a tendency to have State control of railroads, State control of this, and State control of that. There is also the British experiment with a certain socialistic form of enterprise. All those things I think will accommodate themselves after a healthy resumption of a trade basis.

Mr. SMITH. I do not want to labor the point, but I have been thinking through this a bit and I am wondering what would happen to production in a coal-mine area, for example, if we plunked down a modern American drug store or an A. & P. store. Do you know what would happen to production? I would like to have Mr. Douglas answer that one.

Secretary MARSHALL. If the store would accept the money it would be desirable.

Mr. SMITH. We might give them American scrip of some kind or another. It might be a way of getting dollars back into Europe.

Secretary MARSHALL. I don't know. You are over my head on this monetary problem.

Mr. SMITH. I have but one more question, Mr. Secretary: Does this legislation anticipate a return of stock-piling materials in exchange for whatever loan or grant that we make to these countries?

Secretary MARSHALL. Yes; we have that in mind, to the degree that such materials are available and to the extent this country desires to purchase them.

Mr. SMITH. I hope we will make a very strenuous effort to accomplish that purpose.

Thank you very much.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, what will the effect of this proposal be on high prices in the United States?

Secretary MARSHALL. That is certainly a heavy question for me to answer. We propose in our planning to export a smaller amount of goods abroad than we did in 1947. I would assume that we certainly would wish under any circumstances, to continue our foreign trade and encourage it. How we accommodate that to the rising price spiral is something I will have to ask you to debate more with those who are the experts on that particular phase of the matter.

My own assurance in the relation of high prices to the program as a whole comes from the fact that I find so many complete disagreements among the experts that I think I may be sitting in the middle; maybe I can make as good a guess as the next man.

Mr. MANSFIELD. Mr. Secretary, in your opinion, what will happen if we do not adopt a proposal such as this now before us for consideration?

Secretary MARSHALL. My opinion is that we would find the European situation—certainly from our point of view—in a process of disintegration, which would quickly permit development of the police-state regime. We ourselves would be confronted across the Atlantic with, if not a trade barrier, certainly with a great detriment to our ordinary business, or commerce and trade. We would be confronted by a situation which we would view with greater forebodings, and that would require us to do much more here to reassure ourselves as to the security of our position.

Mr. MANSFIELD. Will we spend as much as contemplated here, and more, if we refuse to take this risk?

Secretary MARSHALL. I am quite certain we will spend much more.

Mr. MANSFIELD. I would like a general answer to this question: What will such a refusal mean in money, in national security, and in our own economic welfare?

Secretary MARSHALL. I would say as to money, in the end a much more costly procedure will be forced on us.

What was the second one?

Mr. MANSFIELD. In our national security.

Secretary MARSHALL. I would say our position would be very materially weakened and, therefore, the necessity would be for a materially weakened and, therefore would necessitate action to attain a stronger position from the viewpoint of national security.

Mr. MANSFIELD. And the third one, in our economic welfare.

Secretary MARSHALL. My own reaction to that, from what I have been told by those who have been working on this problem for a long time, is that the economic resuscitation of western Europe, or as much of Europe as possible, along normal lines, would have a very healthy effect on American prosperity, and the contrary would be greatly to our disadvantage.

Mr. MANSFIELD. If we do not proceed with this proposal, will we, in your opinion, lose western Europe by default, and, if so, to whom?

Secretary MARSHALL. I think I have partly answered that already. The vacuum which I have referred to several times, which I think must be filled if we are going to find a practical basis for a peace

agreement, will be filled by a governmental procedure that is antagonistic to all of our conceptions, and which will hang over us in Europe thereafter. It is quite plain that the leadership in such procedure, which is antagonistic to all we feel is normal and desirable, is dictated by the Soviet Union.

Mr. MANSFIELD. And if that should happen the cost to us would far supersede the amount of money now being considered?

Secretary MARSHALL. I think that would be the case; yes, sir.

There is another factor involved, which would have its effect on our future costs, on our security and on our future prosperity. There would be a tremendous reaction in western Europe were we to turn back now in this matter. The psychological impact of that is pretty difficult to calculate, but it would be tremendous, and I think it would be greatly to our disadvantage in the future.

Mr. MANSFIELD. Have we the resources to undertake such a program as now contemplated, so it will apply to the rest of the world?

Secretary MARSHALL. I refer to the Krug report and to the Harri-man report for an answer to that, Mr. Mansfield.

Mr. MANSFIELD. If we can go into this program halfway, is it your opinion that the end result will be just as bad as if we did not go in at all?

Secretary MARSHALL. I could not quite say "yes" to that. I think the result would be the expenditure of a great deal of money with very little return. A very small result that probably would not meet the situation from our point of view at all, in the end. In other words, we would have gone into an enterprise with inadequate funds, and the business would be a failure.

Mr. MANSFIELD. At that, it would be a delaying action?

Secretary MARSHALL. It would not only be a delaying action but would result in a rapidly deteriorating situation.

I made a statement before the Senate committee that if the program could not be adopted in full—meaning in its general over-all conception—we had better not go through with it at all. That was my advice to the Senate committee, and it is my advice here. I think it would be a very serious mistake to adopt halfway measures, because no one can tell us to what extent the resulting deterioration in Europe would carry us.

As I said a moment ago, there would be a tremendous psychological reaction, followed by a depression, I think, of spirit and effort. We must always have in mind that the smaller nations are always very fearful of whether or not we are going along with them into the future, or whether we are going to withdraw behind the Atlantic and the Pacific and allow their affairs to go on without any relationship to ours.

Mr. MANSFIELD. Mr. Secretary, part of the reason behind this legislation before us is to contain communism. If, during the life of this act, any of the 16 nations adopt a Communist form of government, what then would be our policy?

Secretary MARSHALL. I would not attempt to prejudge that at the present time, but I think I am probably correct in saying that they could not really go through with their pledges on such a basis as that.

Mr. MANSFIELD. I do not know whether this is the proper place to ask this question or not, but I am sure it will be brought up in connection with this proposed legislation: Can we afford both the European-recovery program and universal military training?

Secretary MARSHALL. Can we afford both?

Mr. MANSFIELD. Yes.

Secretary MARSHALL. I have very definite views on the subject, and I would prefer not to state them here. Frankly, I find some difficulty in having my recommendations considered as coming from the Secretary of State. There is, rather, a tendency to listen to me as an Army general and a former Chief of Staff, which is not particularly helpful to my position as Secretary of State. I would much rather not discuss the question of universal military training.

I will say I have very definite feelings on the subject, and I will add this much, that it is not a question of what you can afford to do. In my own view, if you do not do something like that you cannot later afford what you are going to be forced to do. It is an economy and not an expense.

Mr. MANSFIELD. I was very interested in statements made by Mr. Thorp about this proposed country by country break-down that we are going to receive Wednesday. I am looking forward to it with a great deal of interest, and I know all of the other members of the committee are.

One thing that struck me as a little odd was, I believe, Mr. Thorp's statement to the effect that as far as Luxemburg is concerned it might be a matter of both grants and loans. Is it not true that Luxemburg is the seventh greatest steel producer in the world, and is it not true also that the steel industry in Luxemburg is financed to a large extent by outside capital, and is it not also true that there is certainly no deficiency in the steel market throughout the world at the present time, and if those things are true why should grants be extended to Luxemburg?

Secretary MARSHALL. Well, can you not let Mr. Thorp answer that on Wednesday?

Mr. MANSFIELD. Very well.

Secretary MARSHALL. Thank you.

Mr. MANSFIELD. Is western Germany to be considered under the European recovery program as a unit, and are its resources to be used in the rehabilitation of western Europe in general?

Secretary MARSHALL. The American and British and, I think I am safe in saying, the French occupation zones are going to be part and parcel of the European recovery program.

You speak of Germany's resources being applied to Europe as a whole. Certainly, Europe is, at the present time, desperately dependent on coal from the Ruhr.

Great efforts are being made to produce more coal in the Ruhr, so as to increase the allocations of coal that are needed in the rehabilitation in Europe generally.

There exists concurrently the problem of rehabilitation of the American occupied zone and the British occupied zone, so that they will be self-sustaining and not dependent on us for funds to meet their deficits in the necessary imports of food and so on. Germany is an essential factor in the economy of Europe, and must be tied into this general program.

Mr. MANSFIELD. In my opinion, Mr. Secretary, it is probably the most essential factor in the reconstruction of western Europe.

Secretary MARSHALL. You might say it had been the heart of the great industrial development of Europe in the past.

Mr. MANSFIELD. I am wondering if some effort will be made to stop the dismantling of some of these plants to aid in the processes which go with this particular proposal.

Secretary MARSHALL. We are obtaining those detailed data regarding the plant situation at the present time, and they will be submitted to your committee. I have already made a statement before the Senate Foreign Relations Committee regarding those plants so that you gentlemen can have an opportunity to view all facts in the case and determine your own reactions in relation to it.

The matter is complicated by the fact that we want a self-sustaining Germany, and we want the output of production from Germany that is essential to the economy of Europe. But we do not want to create an industrial Germany that will be a menace—a menace in a military way—to the future of Europe. Another complication is the feeling of the people of France, in particular their extreme sensitivity to anything done in Germany which in their opinion some years hence might lead to another tragedy for France.

There you have the reaction of a population and its tremendous effect on the political leadership of the Government, and its effect on everything we undertake to do in connection with the industrial rehabilitation of Germany.

It cannot be ignored. They have had a tragic past. They admit that there must be a rehabilitation of Germany, sufficient to make it self-supporting, and particularly sufficient to assist the general economy of Europe. However, they find it difficult to agree with us and our staff as to just how that is to be done, and to what degree it is to be done, because they entertain very real fears. We may dispute the logic of those fears, but we cannot dispute the fact of the fears.

We are also confronted with a very real relationship in this matter with other countries. That holds good with respect to some of the satellite states, Czechoslovakia and others, who have suffered in the past through German military actions. In connection with these plant removals we not only have the previous agreements that were made, but we have the fears, if what they consider an excess number of plants are left there. There is our desire to make Germany, as quickly as possible, self-sustaining, and our desire under the European recovery program to rehabilitate the economy of Europe as quickly as possible. From that comes the feeling that this plant or that plant or the other plant might well assist in such a rehabilitation.

When you turn to the local situation—General Clay specifically, for instance—and the British, somewhat in the same position, there is an intense desire to settle the matter forthwith, in order to get the economy organized with a fair degree of permanency. All of these complications are not readily adjustable to a solution agreeable to all. That is a rather lengthy statement, but those matters are all involved in your question.

Mr. MANSFIELD. Thank you.

Chairman EATON. Mr. Merrow?

Mr. MERROW. If the Soviet Union should desire to take Western Europe by force, what could the countries in Western Europe do about it, or what could we do about it in our own inadequate state of preparedness?

Secretary MARSHALL. Of course, that would present a terribly critical situation. The countries of Western Europe are, in the main,

ill-prepared for a resistance. A great deal would depend upon the reactions of the populace, and their support of the government in its efforts to meet the crisis. It would require on our part a reconsideration of our entire foreign relations and our entire foreign policy, and I would prefer not even to predict at the present moment just what the action of our Government might be.

Mr. MERROW. Will they be any better prepared in Western Europe after this plan has been in operation for 4 years to resist such an eventuality?

Secretary MARSHALL. I would say certainly in morale they would be better prepared. I would say also that the possibilities for such an occurrence would be more remote as the prosperity of Europe is restored.

Mr. MERROW. I am asking these questions because I think there is an important principle that should be considered in connection with this principle which we are dealing with here today.

In the first place, we are talking about the rehabilitation of the economies of the countries in Western Europe, and we propose to rehabilitate those economies over a period of 4 years in the hope that the various countries will not go communistic. On the other hand, there is an equally important principle in foreign policy, in my opinion, and that is adequate preparedness on the land, on the sea, and, more especially, in the air.

It would seem to me that the plan under discussion would amount to pouring billions of dollars into Western Europe in the next 4 years without adequate air-force protection for the investment.

I wonder if you would be willing to comment on that.

Secretary MARSHALL. That has so many facets I would rather not discuss it.

Mr. MERROW. One thing more, Mr. Secretary: We have seen a good deal in the paper, to pursue this a little further, about a 70-group air program which, according to the Air Force, is the irreducible minimum of air power that we should have.

According to my information, we would have to have a supplemental appropriation of \$500,000,000 for the present fiscal year, and an appropriation of \$6,000,000,000 a year thereafter for each fiscal year for a period of 4 years to obtain that minimum. The number of first-line planes in the 70-group program being between 6,000 and 7,000, and the reserves of about 8,100.

Now, if that is the irreducible minimum for safety, it would seem to me that we ought to give consideration to the principle of preparedness, along with this principle about which we are talking today. If we spend \$16,000,000,000 or \$17,000,000,000 in the next 4 years in Western Europe, those countries have been enriched to that extent, and therefore they are greater prizes for any aggressor.

So it would be very difficult for me to go along with a plan of this type unless we have adequate air power so that our will will be respected. Otherwise, it seems to me we are throwing the money away.

Secretary MARSHALL. I do not see it quite that way, sir. I think the chances for warlike turbulence in Europe become more remote as Europe becomes stabilized. I do not think there is a threat along the line that was indicated in your statement. I think naturally that

we have to be strong for some years to come, and I am intensely interested that we find a way to do it that is not wasteful of our funds.

This program we are proposing is designed to create a situation which tends to stabilize a great area which is now in a state of economic weakness. Weakness easily leads to greater turbulence, which might in turn lead to something much more grave. We are not proposing an aggressive program, in one sense. We are not proposing specifically a defensive program in that sense. We are proposing a procedure to stabilize conditions in Europe, and by the very definition of the word I think the result would be to promote peace rather than to create a situation which would be more likely to develop a war.

Mr. MERROW. Mr. Secretary, I have long been in sympathy with the principle you have stated, but what alarms me is the statement made public only a few days ago by the head of the Air Force that the Soviet Union has three times the fighting planes that we have. In the recent bill reported by this committee for interim aid was a table showing the military strength of the Soviet Union on the land, which is tremendous.

Now, in view of what has happened in the past few months it would seem as though aggression is on the march again. Whereas I am for helping to stabilize western Europe, it would seem to me that if we do not have security at home, and are not adequately prepared, we are dissipating our funds.

In other words, we are building those countries up; they will be rich prizes for an aggressor. If we should go along for 3 or 4 years spending money in Western Europe, and do not develop an air force that could make our will felt around the world the time may come when the 16 nations will be overwhelmed and we can do nothing about it. In this event we have poured out our money and have lost it.

Secretary MARSHALL. I can only repeat what I said: That the more quickly the European situation is stabilized the less likely is the aggressive action you have indicated.

At the same time, I would say as Secretary of State that it is very important that we maintain our military strength. I think it is very important that we find the most effective way of doing it, and not the most wasteful way.

Mr. MERROW. Thank you, Mr. Secretary. As I have said, I am for the plan in principle, but I would like to see at the same time the amount of money that is necessary. If we proceed along that line then I think we will have the respect for our will around the world, and the money you would propose investing in western Europe will be protected if we have a strong air force. Otherwise, it will not be protected.

Chairman EATON. Mr. Colmer?

Mr. COLMER. I have no questions.

Chairman EATON. Mr. Judd.

Mr. JUDD. Mr. Secretary, as I read all the data that has been sent up and the various reports, it appears that these requests from European countries are based on an attempt to restore them to the general industrial and living standards they had in 1938; is that right?

Secretary MARSHALL. I do not think it contemplates a living standard on a par with 1938 at the end of 4 years.

Mr. JUDD. But it does contemplate industrial or production standards of that level?

Mr. THORP. I think that is correct, in terms of their original requests. That is, their requests would have brought them back to standards of about 1938, but those requests have been somewhat reduced in the screening and, therefore, as a result of the program that is being put forward here it would leave them below the 1938 level.

Mr. JUDD. Are you speaking of industrial standards?

Mr. THORP. I am talking in standards of living. I refer to terms of production, however, and say it would be above the 1938 level.

Mr. JUDD. How much above? Do you have that figure?

Mr. THORP. I think rather than to make a quick statement, I would rather work that figure out and supply it to you later.

Mr. JUDD. It would be different for different countries?

Mr. THORP. It would be different for different countries and different for different segments in the economy. It might average in the neighborhood of 10 to 20 percent above.

Mr. JUDD. Is it true, as I have heard said, that in the Paris Conference no country was permitted, and the group as a whole was not permitted to examine the figures and requests submitted by any other country?

Mr. THORP. No; that is not correct. What happened was each country submitted its own initial figures, but there were technical committees which took the main items and studied them as a group.

Mr. JUDD. For example, could you have Swedes and Frenchmen and Englishmen examine Italy's requests or the requests of Switzerland?

Mr. THORP. There were representatives from these countries on the committees. There were members representing the local picture, and they came up with their total estimate.

Mr. JUDD. So you think that their requests really were just to restore them to approximately 1938 or the levels you have mentioned, and not considerably in excess of that? There have been adequately you think, adequate collection and examination of figures, and they are not excessive?

Secretary MARSHALL. I am sure that they have been collected here in Washington, and we did find it necessary to make some reductions in the figures that were requested in the CEEC report.

Mr. JUDD. One of the reasons I brought that up was because of a letter I have received from a member of the Griswold Commission in Greece, a man of absolute integrity and wide experience. His letter reads as follows:

Today we are trying to put the final touches to a screening of the Greek Marshall plan requests and after witnessing in general the way it has been necessary to come up with some figures I feel compelled to intercede in behalf of the American taxpayers.

Gene Clay, of the Public Finance Division of this Commission, is leaving Sunday to appear before the proper committee on the subject and has made a heroic effort to analyze the Greek requests, and it is quite probable that the data coming from him will be more realistic than from many other countries, but surely the figures are the maximum amounts which the people of this country could conceivably absorb into their economy, and I am of the opinion they are much too high and in some instances would result in a disservice to these folks. There is a rather rigid limit to the standards of living which can be supported over the years by even the greatest effort of Greece. The general character of its farming areas does not recommend a mechanization, which in turn would greatly increase foreign-exchange requirements for repairs, fuel, etc.

I honestly do not believe we should attempt to impose western standards or the hope of achieving them on a country which simply never can support them. Too much of the Marshall plan planning, it seems to me, is predicated on everyone being elevated to western standards.

That is the impression I have received a good many times: That some of our people are trying to raise them to our standards, and if we get them up there by 1952, and then withdrew, they cannot possibly maintain themselves at such a level, and they will go down with greater chaos and confusion than if we had not raised them so high.

My question is, Are we being realistic in the estimates we are proposing for investment and assistance to those countries, or are the estimates too often in terms of what we would like to have rather than in terms of what is possible in some countries?

Mr. THORP. I think the estimates represent the best efforts of the executive branch of the Government to estimate what might be called the minimum assistance which is necessary to bring these countries back to something in the neighborhood of the prewar level. Also, to provide them with a balance, for the balance of payments. Of course, the reason the industrial production has to be above prewar is to offset the loss of invisible income, and they will have to have that extra production for the purpose of export, in order to get the imports they used to pay for from invisible income.

Secretary MARSHALL. I think, Mr. Judd, from my own point of view in that matter, the best protection we have against the idealistic procedure you indicated is the number of people we have had involved in the investigations.

It is possible that they may have erred in the idealistic direction, but to me it is hardly conceivable. There were too many hard-headed people in business and in economics and other matters involved in this program. They were considering the whole world situation, as well as these particular areas. It was not a small group. It was not a little, completely absorbed group that had "localitis" in their own activity. There was a large number of people, and many business people and economists and similar experts along that line.

That, I think, is our best protection against going idealistic.

Mr. JUDD. I would have more confidence in it if the screening had been done, or was being done, by other Europeans. I think they would be in a better position to scale each other down than we are. They are more realistic. That is the reason I asked the question as to whether there had been careful screening in the Paris conference of each country's figures by other European countries.

Secretary MARSHALL. You use the words "careful screening." That would require some definition.

The CEEC was an organization that was entirely new, almost without precedent in the world, and an organization that had only a limited number of weeks within which to operate. We have taken the CEEC report and have had a large number of people, experienced people, I will say, rather than experts, go through it.

There have been a great many conversations and discussions with portions of the CEEC committee, and finally we have come to certain conclusions.

It was not to be expected that an entirely new organization of that kind, and an organization of sovereign nations at that, could undertake the screening process that we turn loose on our own internal

affairs here, before we bring them up to Congress, and where you gentlemen frequently think we have done a very poor job of screening. We go through a screening process within our own operation, and then we go through another screening process before the Bureau of the Budget, and then we present the matter to Congress and there is still more screening done.

Well, that was not to be expected in this European organization; certainly, not in the first 2 or 3 months of its existence. Particularly where some countries were very poorly organized and were in a very turbulent state, which would be notably the case in Greece.

Mr. JUDD. In the next paragraph, this gentleman says:

Just yesterday a most significant remark was made to me by the chairman of the Greek Marshall Plan Committee as follows: "As long as France, Italy, England, and others are endeavoring to obtain for themselves more than their share of the Marshall plan funds we must make our requests on the same basis." That this is being done generally is too obvious for comment but recognizing it we still find ourselves hard put to screen their requests. Here we find that statistical information is too often compiled to prove a contention and not to disclose factual conditions. We have been compelled to mistrust their figures and, of course, it discredits their case from the start.

He is on the ground, he is sympathetic. He is doing his best, and yet he sees at the time he sends in his report that he cannot fully trust the figures.

Mr. THORP. May I add some facts to that story, Mr. Judd, because you gave a reference to the time when a man took a trip. I am able, therefore, to distinguish approximately the time when this letter was written.

The Greek deficit included in the CEEC report is for \$510,000,000. As a result of the screening which took place here in this country by the various committees it was quickly recognized that the Greek figure was excessive. It was realized to be a high figure, and the deficit which is included in our report is \$157,000,000 less than one-third the amount that is described in that letter that you are reading.

So I do think that at least that was caught in the screening by the executive branch, and I think we have to consider this now in terms of a suggestion of \$157,000,000, as the quantity of the deficit for Greece, rather than the \$510,000,000 which was originally suggested.

May I say one other thing, and that is that the original requests from the various countries, coming into Paris, totaled in the neighborhood of \$29,000,000,000, and they screened that, themselves, as you probably know, down to approximately \$22,000,000,000, so there was screening done in Paris by the countries themselves.

Secretary MARSHALL. You made several references, Mr. Judd, to their putting in larger figures in order to trade and get a better position. Somebody was getting this, so they were going to get that.

Well, I would not say that was peculiar to Greece, and I would not say that was totally due to the fact that it was a Government that was in very hard circumstances. I have heard that story right here in Washington many times.

Mr. JUDD. I was wondering if you had done to them what the Congress frequently does to you.

It is very important that we be able to defend the figures before the people, with relation to the level it is attempted to restore, and the realism of the figures as a means of restoring that level must be unassailable. That is, they cannot be torn to pieces.

Now, assuming we are agreed on our objectives and have hard-headed estimates, this matter of administration comes up. How can we do it? This particular American in Greece had a comment on that. He said—

It would be my earnest hope that this plan would be divorced from the Army and from the State Department, except that they be subject to draft by the administrator, as would other Government agencies. The State Department is not an efficient administrative agency, and the Army is too expensive. I hope the finest business administrative brains can be called upon to do the job without the strangulation which accompanies Government operation and its inherent red tape.

On this question of administration, and saying that it should not be independent, because it is tied in so closely with foreign policy, is it not true that this plan is tied in just as closely with domestic policy as it is with foreign policy?

Secretary MARSHALL. Yes.

Mr. JUDD. And that when whoever is at the head of it brings his requests to the Cabinet, they involve not only you, as Secretary of State, but they involve also the Secretary of Agriculture, the Secretary of Labor, the Secretary of the Interior, the Treasury, and the Secretary of Commerce; that is, it is a great deal larger than just a foreign-policy measure. Is that not true?

Secretary MARSHALL. That is true.

Mr. JUDD. Is that an additional reason why it must not be tied too closely to the State Department?

Secretary MARSHALL. We are not tying it more closely to the State Department than it is tied to the Department of Agriculture and the Department of Commerce. The law is already perfectly clear regarding those two agencies. It is not perfectly clear regarding the State Department. So no reference is made to the Department of Agriculture and no reference is made to the Department of Commerce, as such, specifically, because the Congress has provided the specific laws that define their responsibilities. The Administrator has to operate in accordance with those laws, which means he must deal with Mr. Anderson who is responsible for the allocation of foodstuffs between the United States and overseas. He must act in coordination with Mr. Harriman, because he, by law, is charged with the responsibility in regard to commodities other than foodstuffs.

The State Department's responsibility is specifically mentioned because it has not previously been defined in unmistakable terms. As I read you this morning, there have been two Executive orders on the subject which had been wholly ineffective, and this is too serious a matter to leave up in the air. It is basic how you place this organization in government. Had there already been a very specific clear law in regard to this particular issue there would have been no necessity for having the matter brought up in this manner, but there was not, and we had already two very definite failures. It is too critical a procedure to leave in a questionable state.

Mr. JUDD. Then this Administrator has to have for this emergency practically Cabinet status, does he not, in that he must present his requests and program before the whole Cabinet?

Secretary MARSHALL. That is right. He is in contact with almost every one of them, and several of them in some detail, in the principal activities in which he is concerned.

Mr. JUDD. And he must have a carefully defined status such as, for example, you had as Chief of Staff of the Army. The Army and the Navy are also instruments of foreign policy. But once the foreign policy has been determined—say, war with Germany, the Secretary of State could not determine what you, as Chief of Staff, do in achieving that foreign policy objective. You ran the Army.

Secretary MARSHALL. That is an overstatement.

Mr. JUDD. It would have been bad for the country, not to mention yourself, to have had you as the Chief of Staff, tied too closely to the Secretary of State, or any of the others, in carrying out the specific job that you were an expert in, qualified, trained, and specialized to handle. We need exactly the same sort of a set-up for this job with an individual specialized and qualified for it, and with as carefully defined and unrestricted powers for the job as you had as Chief of Staff for your job.

Secretary MARSHALL. For example, when I wanted to ship supplies during the war, and I wanted to do it quickly, I was in a continuous battle with the State Department because they wanted those ships to continue in the South American trade. I wanted those ships to take troops and matériel in certain directions. The matter was not settled in a day, and sometimes not in a month, and sometimes not in 3 months. I had to do business with that agency of the Government which was involved in foreign relations, which in this particular instance pertained to all of Latin America. I was just as impatient as it is possible for an individual to be and not give away to it. I had to transact business in that way.

That same matter was projected into North Africa. You may remember, we had quite a time about North Africa. Also, in the Far East. In all those things, the Secretary of State performed certain functions. I could not usurp those functions, and I was not a free agent to disregard them.

The same considerations apply here, only it is a very clear-cut case in this instance. I think because this was not defined in existing laws, it has become very much accentuated, far and away beyond what will actually happen. There must, to my mind, be no misunderstanding about it because in the past, where the language seemed to indicate to me a very good arrangement, in practice it proved not effective.

This particular issue is too far-reaching in its effects. I feel the reaction that comes into most of these discussions is the feeling that bureaucracy—meaning Government—is ineffective. Business is argued to be dynamic and to get results and have no red tape.

Well, it certainly can cut across a lot in many ways, and at the same time it gets involved very heavily I find sometimes in red tape.

By the very rules you gentlemen lay down, and of which this particular draft of a bill is a good example, matters come forward that introduce a great many complications in actually framing a bill which will meet the situation. That is government. That is inescapable.

In our Government, we have a great deal of that. I have struggled with red tape most of my life. I have been generally on the receiving end, but in later years sometimes on the cutting end. However, I will say this—I do not know that it has a direct application—it takes more knowledge and skill to cut red tape than any other particular endeavor I know in government, because you get into difficulty more quickly without realizing what the complications are going to be.

The State Department is well known as having never been an operating agency, an ordinary administrative agency. I am well aware of that. Also there has been a great deal of clamor about matters of protocol. Proponents of other organizational set-ups are thinking of protocol when they decide that the Department should have no dead hand resting on this vibrant administrator.

I am most anxious to see a very efficient administration of this affair, and to have a man at the head of it who knows how to do business and how to get results. Also, I hope he will be one of those rare individuals who has those qualities and still can get along with people. People like that are rather rare.

I think there has been considerable exaggeration in the reaction to this matter. The feeling of the Congress, on the one hand, is that a great deal is being asked of them, and, therefore, they want to see that it is very properly controlled. On the other hand, there is present the feeling that ordinary agencies of the Government are not as efficient as modern business. Well, Government agencies operate under the many and complicated laws that are passed by the Congress.

Mr. JUDD. Mr. Secretary, do you feel there would be any benefit in this Administrator—assuming we have a singleheaded authority—having an advisory committee—but not in the sense that there were so many advisory committees during the war who were merely advised as to what had already been decided—an advisory committee of representatives of industry, commerce, agriculture, labor, and so forth, who would have, defined, in the law, sufficient authority so that if they thought that the Administrator was unduly under the influence of the Secretary of State, or somebody else; or the Secretary of Agriculture thought he was unduly taking things from the American farmer, that they would have the right to appeal to the President over the Administrator, in exactly the same way as we have provided in the unification bill. We have one Secretary of National Defense but we provide specifically that the Secretary of the Army and the Secretary of the Navy and the Secretary of the Air Force can appeal over his head to the President if they feel that there is not proper balance in his handling of affairs.

This whole thing is so involved and it can mean so much damage to our economy if it is not well handled that I am sure this is the greatest objection or question to most people, whether we can get a mechanism that will operate efficiently and still not have such power as to throw us off balance.

Secretary MARSHALL. I think what you are proposing, Mr. Judd, would so limit the man that he would be under too much restraint to be able to do a good job.

Here is what I think will happen if we go ahead at all in keeping with the proposed bill: The individual concerned will have to work most intimately with the Secretary of Agriculture and the Secretary of Commerce, and more intimately with me, but my issues, I think and I hope, would be infrequent, rather than constant. The Secretary of Commerce and the Secretary of Agriculture would be involved a good part of the time; and the National Advisory Council is another group he will have quite a bit to do with.

Beyond all that, is the fact that that individual inevitably will be held accountable, by the Congress as represented by the committees, for how this affair is proceeding. You have it in your power to call

him up to testify. That will probably have a more restraining influence along the line you have just spoken of than anything else, and that may have so much of a restraining influence that it will make the matter too difficult. However, you cannot avoid that, that is a part of the Government. That is the way we are organized, and that is the way it will proceed. There will be great restraint, because the Administrator, personally, will have to appear and testify to his action along this line, or that line, and that involves him in his relations with Mr. Anderson, his relations to Mr. Harriman, his relations with the National Advisory Council, and his relations with me. So he is in a difficult position.

Now suppose you add another committee. Apparently the one you are referring to is somewhat of a check on him, rather than as a protection for him.

I am very much inclined to think that would impose just another confusing limitation. The conditions of Government are such that he is involved in these contacts from which he cannot escape. That is difficult. It is very hard to get a great business executive who is, by all the processes of individual enterprise and free enterprise in this country, a rather supreme individualist, to come into the Government and accept certain frustrations that are inevitable in the dealings with the Government. Yet that is what has to be done here. There is no other course possible.

I think it is quite essential to have in mind what these difficulties are going to be. They are going to be many. We must also consider the restraints, not only of those contacts as provided by law, but that are imposed by the necessity of reporting up here to Congress and answering all the questions that will be asked of him in detail, regarding each activity. There will be many letters, such as you have just read, which will provoke a certain line of investigation and upon which he will be called upon to make the reply. At the same time he is conducting a tremendously complicated agency.

Mr. JUDD. I would like to ask you a question along a different line. There is no question but what some of these 16 European countries have been doing very much better individually in the last 6 months, or 4 months, than I think most people anticipated might be possible.

Are they doing as well collectively, as a group, would you say, as some of them are individually?

Secretary MARSHALL. I hardly know how to answer that because the group action is only represented specifically by those sessions that are presently going on, particularly between France and Italy, in relation to both the monetary and the customs union. Discussions, I think, are now getting under way on the Scandinavian Peninsula.

The individual action, has been most encouraging, and I think it is very largely the result of the psychological impact of some hope of procedure.

Mr. JUDD. Do you think it is primarily the result of hope of help from us rather than, for example, the bad behavior of the Communist minorities in certain of those countries? In other words, is it due more to the successes of our side, or to the blunders of the other side?

Perhaps, not blunders, but a disclosure of their real objectives?

Secretary MARSHALL. I think that last has hardened all of these countries into the necessity of firm action on their part. Where their Governments have taken strength from the results of the efforts to

sabotage them, there has developed a stronger Government with a more definite purpose and with a more definite intent to go forward.

That is particularly the case where these great strikes were fomented. When they came out of that successfully, in preventing a general strike, they came out with a much firmer purpose to go ahead.

Mr. JUDD. Is it also true that they are getting a good deal of information in western Europe about what has happened to the peoples behind the iron curtain, which also hardens them?

Secretary MARSHALL. I could not say as to that, sir.

Mr. JUDD. There is a further question I am troubled about: Do you think western Europe can ever be economically self-sustaining, if each of those nations remains a separate economic unit?

Secretary MARSHALL. That is a rather technical question. It would be hard for me to answer it with my training. They were able to maintain themselves in the past. There have been a great many drastic changes in the world situation, but most of those changes apply, we will say, to England rather than to the continental countries. England is so dependent on imports, which makes this drastic necessity for a tremendous export program, particularly with her limited overseas investments on which to call as a source of invisible income.

The industrial productivity of the Ruhr has a relationship to the whole economy of Europe. The relationship of the Silesian coal fields is very important.

Mr. JUDD. Europe was not self-sufficient even when she had eastern Europe, which is largely the surplus area, and the deficit area is western Europe. I have grave doubts that even if this recovery program is well administered, and we put in plenty of money and make our very best effort, they can still succeed in becoming economically self-sufficient, unless they take vigorous steps to reduce trade barriers. In this country we are made up of 48 political units, yet we are one economic unit. There are no barriers at State lines.

Secretary MARSHALL. I think I can agree with you as to the degree of initiative required. They have made a beginning, which is a rather historic move, and I am hopeful that it will develop still further.

The problem in my own mind is whether or not the necessity becomes so drastically clear as it was last July and August. I am hopeful—the beginning having been made—that many commitments and agreements can be gradually worked out which will make it possible for them to overcome the deficiencies of their situation under present conditions.

Mr. JUDD. You will agree that we cannot do this without weakening ourselves, putting great strains on ourselves, and therefore it is hard to ask the people to weaken the United States even temporarily unless they are reasonably sure that out of that effort will come a compensating increase in the strength of the free democratic peoples.

Secretary MARSHALL. I think that is about it, sir. I do not like the word "weaken," because I am inclined to believe that we are not going to weaken ourselves.

Mr. JUDD. If prices go up it weakens our economy.

Secretary MARSHALL. If that continues, of course you get into a very serious situation whether you have the European recovery program or not.

Mr. JUDD. Over on your last page you say:

The United States is the only Nation today with the strength to lend vital support to such a movement—

and surely that is true. But the United States cannot carry on this kind of a program long, and the world will hate us certainly if we continue indefinitely to be world nurse and policeman.

Is it not true in a sense that really, about all this effort does is buy us some time, and buy them time, in which to move ahead into a better world organization which hereafter can carry such loads?

In the emergency this job must be done by us because we are the only ones having the strength to do it. I am asking if your Department, or the Government, has in mind anywhere in the near future our country initiating steps to reform or amend the United Nations, or revise the United Nations' machinery so that it, over the long-term periods, can do this which we are called upon at great cost and effort and risk to do ourselves, now?

Secretary MARSHALL. Having brought the United Nations into it, you have given me a pretty large order. It is certainly our hope, and it is certainly my intention—and I was chairman of our delegation to the United Nations Assembly meetings—that we would develop along lines which in the future would make it possible for a situation like this to be met by the United Nations rather than by a nation like ourselves having to take the steps that we have taken, or are contemplating taking now, in order to put the situation in order.

This program is not aid, in one sense. It is a constructive proposition, with a constantly decreasing obligation on our part.

In other words, if all goes well, if it can be carried out as we visualize it now—if unexpected circumstances do not intervene to make it more difficult—we will be out of the woods by the end of the fourth year. Now, beyond that is the question you brought up as to whether or not Europe can, under its modern conditions, be self-supporting. I know perfectly well we cannot continually help indefinitely and that they will have to maintain themselves on their own part.

As to the United Nations, that is in growth, and I hope, will develop to full growth. We took certain steps at this last meeting to try to improve the situation, to try to build up an organization that could undertake problems such as this, but long before there might arise the situation in which Europe now finds itself. There must be continual evolution in the functioning and in the development of the United Nations.

I think we are inclined to be impatient. There is most certainly a desire to see a more effective organization on the part of all of us, and it is as strong with me as it is with anyone else in the country.

I recognize it is a long, tedious process to have fifty-odd nations reach basic agreements. The fact that we did get as far as we did recently, to me, is very encouraging. The gaps in the procedure, and the "flies in the ointment," are evident to all of us; but we did do certain things and took certain steps which I hope later will receive general confirmation, as a greater degree of trust develops among nations. This lack of trust is our great trouble at the present time.

Mr. JUDD. But it is still true that the United Nations in its present structure is so constituted that one of the big five, if it so chooses, can block recovery and put us in the spot we are in now. For two years and a half one nation has blocked recovery, and forced us to carry this load. Therefore, must we not use the time we purchase in this effort to get that road block out of there—with Russia, if possible; without her, if necessary? Otherwise we may get over this emergency, but we

still do not cure the situation. We do not set up a mechanism that can cure the situation.

Secretary MARSHALL. I would say, in answer to your statement, Mr. Judd, being put in the position we have been, and carrying out the action that is proposed, we would greatly strengthen the situation. We would greatly strengthen the United Nations by our actions. We would create a situation where there would be more firmness of purpose and more general accord in that purpose toward the end to which we all aspire.

I think it is imperative for us to try to keep the organization growing.

Mr. JUDD. I wish you Godspeed in that.

That is all, Mr. Secretary.

Chairman EATON. The chairman would like to state that we hope to get through with the Secretary today. In other words, to do that we would have to stay here until 5 o'clock. We have four more very distinguished members of this committee who would like to interrogate the Secretary and unless there are some reasons with which the Chair is not now familiar, I would like to suggest that these four distinguished gentlemen lean to mercy and consume the hour between them so that all will have a chance.

Mr. FULTON. We have already agreed to that among ourselves.

I wanted to point out to the Secretary that your coming before this committee is in a different capacity than in coming before the Senate committee.

You, I believe, appeared there testifying to a specific bill, which was the same bill as H. R. 4840.

According to a motion passed by this committee, you are not appearing on any particular bill. You are appearing on this bill, partly, and on the Herter bill, but chiefly on the forming of a United States foreign policy for postwar recovery. The generality of the questions here are directed toward the formation of a policy by this committee, which may or may not be the same as the State Department's policies and which may or may not result in an independent bill being offered. Did you understand that that was the case?

Secretary MARSHALL. Not as clearly as you just expressed it.

Mr. FULTON. If that is the case, I would like to ask you, then, how this particular European recovery plan of which you speak fits into a world recovery plan. Have you been approached by many nations—for example, from the Far East—for a similar recovery plan—or have you, in your official capacity, been approached by the Latin Americans for such a recovery plan for them?

Secretary MARSHALL. I have been approached by China and the Far East, and I do not know whether there has been a general Latin-American approach, but it does amount to an approach by certain of the other American Republics.

Mr. FULTON. Then there have been meetings by certain countries to make inquiries other than just the European countries; is that correct?

Secretary MARSHALL. That is correct.

Mr. FULTON. Do you know of any far eastern countries who have had meetings for this specific purpose?

Secretary MARSHALL. The Far East?

Mr. FULTON. Yes. Was not there a meeting of the 11 nations at Manila recently for a similar program for the Far East?

Secretary MARSHALL. I was checking here to find out. I do not think of any offhand, and I wanted to make an appropriate reply.

Mr. THORP. The Economic and Social Council of the United Nations have certain regional commissions, one of which is a commission concerned with the problems in the Far East. I believe it was their second meeting. They had earlier an organization meeting. They had their second meeting in Manila, to discuss, in general, problems of economic improvement.

Mr. FULTON. Has there been any figure come out of that meeting?

Mr. THORP. Not that I know of. The report of that Commission is to come to the United Nations and will be made public, but I do not believe that that report has reached the State Department as yet.

Mr. FULTON. Has there been any amount given by the Latin-American nations that they will require for economic recovery?

Mr. THORP. As a whole, or individually?

Mr. FULTON. Either individually or as a whole. Have you been receiving figures?

Secretary MARSHALL. Yes; we have been receiving figures, and we were receiving them before this plan ever came up.

Mr. FULTON. What is the over-all statement of the total amount of world recovery necessary from the United States? How much will our American taxpayers have to put up in all, and over what period?

Secretary MARSHALL. A statement of the over-all requirements, which will involve the China problem in particular, will be submitted at a later time.

Mr. FULTON. I was the fellow who asked about the Wedemeyer report once before. Will you, then, give Congress the Wedemeyer report which you previously said you couldn't give?

Secretary MARSHALL. No, I cannot.

Mr. FULTON. Then we will have to act on the China policy without having the full information of the Wedemeyer report.

Secretary MARSHALL. That is correct.

Mr. FULTON. That concerns me, then, on this administration that is going to be set up. Will Congress be given access to the figures that may develop or the reports that may be given to this administration if it is under the State Department—because if those figures are going to be submerged the way the Wedemeyer report has been submerged and Congress can't see them, how can Congress set a policy?

Secretary MARSHALL. I think that is a totally different reason, and a totally different problem.

Mr. FULTON. What is your reason?

Secretary MARSHALL. I cannot state that here, other than to say I don't think it is in the public interest of the United States, and particularly of China.

Mr. FULTON. Can I ask you, then, are you specifically opposed to the Herter bill, which sets up the outside administration and gives so many foreign policy powers to an outside organization?

Secretary MARSHALL. I am not quite familiar with the foreign policy provisions; but as I understand it, the Herter committee operates with a board of directors, isn't that correct, which represents the Congress, the State Department, and the various agencies of the Government?

Mr. FULTON. Now do you object to that?

Secretary MARSHALL. I think that is not a sound basis, because it plans a great limitation on the individual who has to accommodate himself to all these agencies and their Government contacts.

Mr. FULTON. Would you give this administrator, either under your bill—or the Herter bill, the power to cut off relief without consulting and taking the direction of the Secretary of State?

Secretary MARSHALL. Will you repeat the question again, please?

Mr. FULTON. Would you give this administrator, either under the State Department version of the bill or under the Herter bill, the power to cut off relief in a country without taking specific direction of the Secretary of State?

Secretary MARSHALL. I would say, in all probability, such action might have a very definite effect on foreign policy.

Mr. FULTON. So you would not give him that independent judgment of cutting the relief off with any country?

Secretary MARSHALL. I cannot conceive of that, not having a very definite effect on foreign policy, and the question would be whether we could hazard the result or whether we should make some concession to the situation.

Mr. FULTON. Now, suppose Russia came forward with an independent plan, similar to yours, for the reconstruction of Europe. Have you given any thought to what might happen then—whether you would correlate your plan with it or would you cooperate with the Russians on such a plan?

Secretary MARSHALL. It would depend, I would say very decidedly, on how the matter was put forward.

I think there is a Molotov plan right now. I think there was some reference to it yesterday or today.

Mr. FULTON. What is your opinion on it? Will you cooperate with, oppose, or correlate with it?

Secretary MARSHALL. Under the present conditions, there have been no circumstances that would permit cooperation with it, except the suspension of our own efforts in western Europe.

Mr. FULTON. They, in turn, oppose your plan as you oppose theirs?

Secretary MARSHALL. I don't think I would say I oppose their plan, because I don't think they are offering anything to western Europe. They are consolidating eastern Europe.

Mr. FULTON. Then, going along further on this plant dismantling. The dismantling of the plants is done under a reparations policy that was set at Potsdam; and, of course, those policies were instituted before anything came up on the European-recovery plan.

What on the policy planning level is the State Department doing, to revise the Potsdam policies of reparations?

Secretary MARSHALL. We are not actually engaged in a revision of the Potsdam negotiations, other than the decision with relation to whether or not the capital asset transfers of plants will be made at the present time, and if so, on what basis.

Mr. FULTON. Are you tentatively holding up this dismantling and transfer of the plant out of the western zone of Germany until you can determine what that policy will be?

Secretary MARSHALL. Do you mind if I read this?

Mr. FULTON. How long is it? I am limited on my time. If you put it in the record, we will just consider it in.

STATEMENT BY SECRETARY MARSHALL ABOUT REPARATIONS

We are in the process of continuing discussion with the British in an endeavor to arrive at adequate arrangements regarding any farther shipments of dismantled plants to the East. We are also restudying the whole question particularly as it relates to the recent announcement that deliveries by the Soviet Union are imminent under the reciprocal delivery provision of the Potsdam agreement. That is not a simple question, because the Soviets are just beginning to deliver badly needed commodities in compensation for capital deliveries already made to them. We do not want to adopt a definite policy for the future until all these implications are fully understood.

For the present, however, the only deliveries to the Soviet Union which are going on or are in immediate prospect from the United States zone represent the tag ends of the plants previously allocated to the Soviet Union, the delivery of which was not suspended when the United States stopped further dismantling of general purpose plants in May 1946. These deliveries consisted largely of general purpose equipment from war plants, the retention of which in Germany has never been contemplated. The final portions of three such plants in the United States zone are now being delivered—a Bremen shipyard which was allocated to the Soviet Union in 1945 and which was already 95 percent dismantled as of December 1, 1947; and the general purpose equipment from two war plants, which, as of December 1, 1947 were, respectively, 60 percent dismantled and 53 percent shipped, and 86 percent dismantled and 84 percent shipped.

The delivery of these final portions has not been halted because their retention in Germany would not assist the economy of the western zones, and no economic justification could be given for holding on to the remnants of plants already substantially delivered. It appears preferable to complete these deliveries which were not suspended when general reparations were halted in May 1946. Until a definite governmental decision is reached as to further deliveries, it is desirable to avoid any action which might precipitate the whole issue and possibly invite reprisal by the Soviet Union. We can well afford, we think, to complete these relatively minor commitments until a firm decision has been reached as to our future course.

There has been no suspension of the general dismantling program.

It is difficult to state fully why a temporary stoppage should not be made without a full discussion of the reparations program. But there are two considerations which, in our judgment, make it exceedingly unwise to call a temporary halt to the program as a whole. The first is that to stop dismantling, and then try to resume, would have a very serious political consequence within Germany. The Germans of the United States zone have been promised that the dismantling will be promptly concluded, and that that will be the end of the matter. In other words, they are now clear as to the situation, what they have to do. They know where they are and can plan accordingly. If there is a stoppage, there will be uncertainty and contention, and the reparations issue will again be in the forefront. Any further delay by this Government will encourage political opposition within Germany.

The second reason is that a stoppage would seriously prejudice our relations with the recipient governments, members of the Inter-Allied Reparations Agency. The disadvantages of a permanent halt apply in a large measure to even a temporary halt. Those countries need the equipment now. I am talking about the 18 nations (not including the Soviet Union and Poland), which are western nations. We are obligated to deliver the equipment by international agreement, and failure to do so would give propaganda material to the critics of the United States within those countries. It is true that most of those governments are prospective recipients of assistance under the European recovery program. But their policies with respect to German reparations are dictated by many considerations which cannot easily yield to our desires.

I do not wish to suggest that the Congress should not have a real opportunity to examine the reparations program. The Department will be able to provide the data soon and I hope that the Congress will be able to consider it in the next few weeks. I do not wish to appear to prejudge the conclusions of the Congress, but I venture to predict that when it has considered all the factors it will not desire to purpose any radical revisions of our existing policy toward the signatories of this Paris reparations agreement.

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

A/S 84. Deutsche Schiffs und Maschinenbau, Bremen/Weser—Shipbuilding advance list.

Allocated December 6, 1945.

95 percent dismantled as of December 1, 1947; 95 percent shipped.

Estimated date for completion of delivery: February 28, 1948.

A/S 6. Press, Stanz und Ziehwerk, Ru. Chillingworth, Nurnberg—Pressings, war plant.

Allocated April 24, 1947.

60 percent dismantled as of December 1, 1947; 53 percent shipped.

Estimated date for completion of delivery: March 31, 1948.

A/S 62. Dynamit A. G., Stadeln—Explosives, war plant.

Allocated January 24, 1947.

86 percent dismantled as of December 1, 1947; 84 percent shipped.

Estimated date for completion of delivery: January 31, 1948.

Secretary MARSHALL. Well, we are in the process of discussing the situation with the British; in order to arrive at adequate arrangement for any further shipments of dismantled plants to the east; that is, to the Soviet Union.

Mr. FULTON. Does that pertain to France, too?

Secretary MARSHALL. There is no argument really about France or those countries, except as to whether or not plants in prospect of being dismantled and shipped should be maintained in Germany for itself for more prompt rehabilitation.

In that respect, the discussion that is going on now is obtaining all the data from General Clay and the British area—but particularly our area—as to just what is the status of these plants; in other words, to submit the information that had been asked for in Congress, so that you might form a judgment in relation to this dismantling process.

Mr. FULTON. Now, there had been some talk of this plan of yours being inflationary. As a matter of fact, I think it is just the opposite, and may I ask you a couple of questions on that line very quickly?

During the year 1947 we exported about \$14,000,000,000, and we got back in about \$5,000,000,000 worth of goods, so we had about \$9,000,000,000 deficit; is that correct?

Secretary MARSHALL. I think that is approximately correct.

Mr. FULTON. And that \$9,000,000,000 deficit was inflationary, because we got nothing for the money we put out, or the goods we put out. We sent the goods, and we got nothing back, so it was inflationary.

Now, if this program goes ahead, and by reconstructing Europe or certain areas of the world so that we can get goods in return to make up that \$9,000,000,000 deficit, we really are making an anti-inflationary measure rather than an inflationary measure, are we not?

Secretary MARSHALL. I think that is correct.

Mr. FULTON. So that instead of being inflationary, in a long-time view, this is really a deflationary plan or a reflationary plan, because it puts solid goods to coming back in to give us something instead of a deficit?

Secretary MARSHALL. It results in a more normal production in relation to trade; and certainly, on the long-term basis, it would have that effect.

Mr. FULTON. So that when you get this trade built back up and have a multilateral basis of trade, then you need some sort of an organization, do you not, to give rules of fair conduct of international trade? You need an international trade organization, do you not?

Secretary MARSHALL. Yes, sir.

Mr. FULTON. Will you tell us how that international trade organization that is being formed now at Habana—the charter—will fit into the Marshall plan?

Mr. THORP. It is complimentary. If the recovery of Europe is to be effected, it must be based on a more free flow of commodities among countries, which is the principle of the Charter. On the other hand, unless you have an elimination of the present extreme shortages of goods, you cannot hope to accomplish this free flow of trade, and therefore the ITO and the European recovery plan are really very much interlinked with each other of terms of each one furthering the objectives of the other.

Mr. FULTON. Now under the Bretton Woods agreement and, of course, the act that was passed, by the Congress implementing it, there was a requirement that no nation be allowed to deviate from a certain set, agreed-upon rate of exchange for their currency; that is, fixing the currency rigidly.

Do you not think it is time we made some change on that and had currency exchange on a more reasonable and a more realistic basis? Do you not think that would help the plan?

Mr. THORP. I think one of the purposes to be achieved in the plan is to get more realistic foreign-exchange relationships and rates. I think the difficulty up to now has been the difficulty of any country being able to determine at the present time what is the appropriate rate of exchange. Therefore, there have been tendencies to allow rates to persist, even though they tended to be unrealistic, somewhat longer than should be the case.

Mr. FULTON. Then do you not think something should be done on the United Nations level or the Bretton Woods level to get away from that fixed setting of unrealistic values of exchange and getting back to good business again, the way we were earlier?

Mr. THORP. That is something which the International Monetary Fund can deal with, and my impression is that it is a problem they are much concerned about.

Mr. FULTON. Are you going to integrate that question of exchange with the Marshall plan so that we will not get to a place where by changing the valuation of their currency we will lose out in the end and perhaps have inflation or deflation. Have you thought of that?

Mr. THORP. Yes. That is part of what we would expect to cover in the bilateral agreements with the countries and also in working closely with the International Monetary Fund, looking toward thawing out this exchange situation.

Mr. FULTON. Do you not then think there should be some limitations put in this bill on what we expect the countries to do on their exchange valuations, so that we will not get caught in the middle? Do you not think we should have some principles set out in this bill to take care of it?

Mr. THORP. They have already agreed among themselves, I am certain, on financial objectives, and there would be covered in multi-lateral agreements.

Mr. FULTON. Why do you not have Congress put some requirements in the bill for that? As I see this act, there is nothing in the act that sets good requirements that they should live up to.

Mr. THORP. In the act there is section 10 (b) (2), which describes what should be included in the bilateral agreements and one of them is:

Taking financial and monetary measures—

there is a commitment, of course, by the other countries—

necessary to stabilize its currency, establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system.

That language was intended to accomplish the purpose which I think you are describing.

Mr. FULTON. Yes; but the question I am bringing up here is that the methods of doing it are not set out—that is, the end result—and would the Secretary object to Congress saying by what methods that should be reached? Would you object to that?

Mr. THORP. I wonder whether one can be sure as to what method would be appropriate. That is, having in mind that you want a proper exchange rate fixed, you already have procedures set up in connection with the Monetary Fund for doing that, and the Bretton Woods agreement provided a basis of the procedure to be followed, and this provided the inducement to break down the present tendencies to freeze improper rates.

Mr. FULTON. In closing, I was going beyond the Bretton Woods agreement and suggested even a change in that.

Mr. JAVITS. Mr. Chairman, I would like to make a parliamentary inquiry: Would this be the appropriate time to ask unanimous consent to insert the motion adopted by this committee which is the frame of reference for these hearings? Would the chairman entertain such a unanimous-consent request?

Chairman EATON. I see no reason why not. Do you make that request?

Mr. JAVITS. Yes; I do. I request unanimous consent that the motion may be inserted at the opening of these hearings.

Chairman EATON. If there be objections, they may be stated now. I hear none.

Mr. JAVITS. I refer to that motion, Mr. Secretary, so that you might have in mind rather clearly the framework which was intimated by my colleague, Mr. Fulton.

I shall confine my questions to 10 minutes.

You have been asked a good deal about the alternatives of undertaking and not undertaking the European recovery program, and you have testified eloquently and excellently on that, both here and before the Senate committee.

Now I would like to ask you about the success of the program. Is it just as important from the point of view of our foreign policy that this program be crowned with success as it is that it should be undertaken?

Secretary MARSHALL. That is correct, sir.

Mr. JAVITS. Is it not a fact that a failure in the program, if the European nations do not to some extent get on their feet, will hurt us at least as much and possibly more, as a failure to go on with it at all?

Secretary MARSHALL. Probably so.

Mr. JAVITS. Now the success of the program is tied up, is it not, with what happens in the rest of the world, other than the United States and other than the countries affected; is that true?

Secretary MARSHALL. That is to a large extent the case.

Mr. JAVITS. For example, has the Department given consideration to the fact that a very large amount of the money we are asked to appropriate will be spent in Latin America?

Secretary MARSHALL. Yes, sir; very much so.

Mr. JAVITS. And that rising prices in the Latin-American countries, as they did with the British loan, will make much less useful this assistance which we are giving to the European countries?

Secretary MARSHALL. I am not so certain of that particular reaction. My own thought in that connection was that the money spent in Latin America will stimulate a certain amount of trade throughout the world. We will buy goods there to obtain goods in short supply here for the European program. They obtain money to buy goods here that are not in too short supply, and we are starting the blood circulating in that respect.

Mr. JAVITS. For example, \$6 wheat in Argentina will considerably devalue that which we lend or give to the Europeans?

Secretary MARSHALL. That is correct.

Mr. JAVITS. Is it not a fact also that raw material supplies must flow to the nations we are trying to aid; in other words, that they need such materials for recovery and that those material supplies would come in part from Asia and the East Indies?

Secretary MARSHALL. I think quite a bit is due from those countries.

Mr. JAVITS. So that stability in that area of the world and some measure of productive recovery there is also essential to the success of our plans?

Secretary MARSHALL. It is certainly connected with it. I am thinking in terms of the fact that trade from that area to Europe, had been almost terminated through lack of a monetary situation that permitted a firm basis for recompense.

As trade is stimulated, their position, I assume, would be strengthened. I say "their." I mean the Far East and those countries where at the present time the economic condition is weakened because business is so slack that their prosperity is in danger. So, in that sense they are important to the recovery plan, but I would also say the recovery plan is very important to them.

Mr. JAVITS. Does that lead, Mr. Secretary, to the deduction that to make a success of the ERP, we must immediately proceed to deal with economic rehabilitation problems in both Latin America and the Far East?

Secretary MARSHALL. We certainly have those matters to be considered. We are very shortly going to bring up to the Congress the problem on China. To what extent we would get into the general economic situation in the Far East as it relates to all the other countries concerned out there, I am not prepared to state at the present time.

Mr. JAVITS. Well, the bill itself states, does it not, Mr. Secretary, that we are to be concerned in the bill with the colonies and dependencies of the European nations?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. And that immediately gets us into a very large area in Africa, too?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. Is it not a fact we will meet with the Latin-American nations beginning at Bogota, at which time we will again discuss economic cooperation in America?

Secretary MARSHALL. That is the purpose of the meeting.

Mr. JAVITS. And the impact of that meeting upon the European recovery program will be very great?

Secretary MARSHALL. Yes, sir.

Mr. JAVITS. So we are really facing a global problem if we look at it from the point of view of success, rather than an isolated problem with 16 European nations?

Secretary MARSHALL. That is correct.

Mr. JAVITS. Is it not also true that one of the assumptions of the Paris plan is that within the next 4 or 5 years a much greater quantity of, for example, timber, will flow from eastern Europe to western Europe?

Secretary MARSHALL. That is the hope.

Mr. JAVITS. So the basic assumption in the whole European recovery plan even goes to betterment of relations with the Soviet Union and its satellites?

Secretary MARSHALL. That is what we hope.

Mr. JAVITS. And therefore the challenge to American foreign policy is not on the limited basis of one area, but on a global basis of every area?

Secretary MARSHALL. I think that is reasonably correct, sir.

Mr. JAVITS. Now within the limits of my time, Mr. Secretary, I would like to ask you about the plans for the participation by United States private investment in the rehabilitation of Europe and, as we have just concluded, probably the world.

Now that is covered by section 7 (b) (3) of this bill and I fail to find in that section enlightenment on one important point.

Is it not a fact that in the past there have been very real difficulties to reconcile the activities of American private concerns with the governmental foreign policy of the United States? May I give you an instance of that? For example, it had been charged and I think it had been fairly well shown that in pursuing business operations, cartel arrangements were made between American companies and German companies which had a material effect on our preparedness for war and German preparedness for war.

Now what does the Secretary recommend be put in this bill to protect us against any such future occurrence, in view of the fact that the policy of the bill is to encourage American private investment?

Secretary MARSHALL. This bill involves certain guaranties in addition to private investment.

The interpretation you bring up I am going to ask Mr. Thorp to endeavor to answer.

Mr. THORP. I think the protection here is that it is not automatic. It is a project that has to be approved by the Administrator and also must be approved by the foreign government, and therefore with those two approvals, one would hope that it would be a project that would be to the benefit of both countries.

Mr. JAVITS. Mr. Thorp, do you contemplate, then, in that answer a continuing supervision by the governmental agency, the United States governmental agency concerned, to be sure that that investment is being administered and carried through in accordance with the dynamics of American foreign policy, or do you not?

Mr. THORP. I believe we do not; that is, these particular concerns would be no more subject to review and scrutiny by the United States Government than other American enterprises functioning abroad.

Mr. JAVITS. Do you not therefore feel we are laying ourselves open to exactly the same mistakes that we have made in the past, except at this time we are participating in a much more active way, by guaranties and underwritings; that is, the Government is?

Mr. THORP. I am not at all sure that the way to deal with that is to deal with it through this particular limited group of companies. If there is a problem of the kind which you describe, that should be dealt with on the basis of all American foreign investments and not some segment of them.

Mr. JAVITS. May I say to the Secretary that I favor very much the idea of having American private industry and investment participate in the rehabilitation of Europe, but I do think we need a little more thought about the technique in view of past history.

Secretary MARSHALL. Thank you.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Secretary, assuming that the four conditions which you laid down were to carry through—in other words, that the aid were to be rendered promptly, adequately, efficiently, and co-operatively—do you believe that the European recovery program will be sufficient to protect the governments of western European countries from capture by external force?

Secretary MARSHALL. Do you mean external to the particular countries concerned?

Mr. LODGE. Yes, sir.

Secretary MARSHALL. My reaction to that is that the more favorable the situation becomes, the less the opportunity for external sabotage and riots and strikes to be effective, to the extent of threatening the stability of the government. The greatest hazard we are involved in now is a weak country in a debilitated state, where there are evil forces endeavoring to stir up such dissension and such ill will that it leads to a break-down in the existing form of government.

Mr. LODGE. I would, of course, agree with you, sir, that this will do a great deal to minimize or diminish such disturbances.

I believe you said earlier in your testimony that a great many people became Communists simply out of misery. In other words, it perhaps might be put this way, they became Communists because they have no other constructive alternative.

In other words, this plan is designed to combat the contagion of communism.

I believe that in the "iron curtain" countries, in Poland for instance, there are perhaps 3 percent Communists and in Hungary there are perhaps 5 percent, and so on. It is a small percentage.

Therefore I am pressed to the conclusion that insofar as this program combats the popularity of communism, it is certainly a very vital and urgent thing.

However, I wonder if it is enough to simply combat the popularity of communism? Accordingly, regarding this as a strategical measure among other things, I would like to ask you whether you feel, sir, that there are other things that we can do beside this to protect these governments from capture by communism?

Secretary MARSHALL. I would take it that you have in mind possible military requirements?

Mr. LODGE. Well, sir, I had in mind all sorts of things which I realize you would not be able to discuss here, and which I would not ask you to discuss but what I would like is some indication that these things will be done because it occurs to me that with a minimum of expense we might protect a very huge investment and also safeguard our national security and the peace of the world.

I would like to have your comment on that, if you feel you would like to give it.

Secretary MARSHALL. I certainly cannot go into detail here at this particular time.

Naturally we have been thinking about the various factors involved in the issues you have brought up, and it is quite a problem as to just what might be done, in view of the various requirements for doing it, and particularly in view of the commitments involved in doing it.

That is a rather vague reply to what you have just asked me, but all of that will be considered, and I think quite carefully.

There is a considerable difference in view among my own advisors and those of the associated and particularly related branches of the Government. It is not an easy question to answer, but it involves considerations that are not being ignored at all, and are constantly in mind.

Mr. LODGE. I would like to know, sir, in that connection, whether you would agree with me that in Greece, for instance, the first thing to do is eliminate the disturbance. That is because you cannot restore economic stability until you have eliminated their disturbance.

It would seem to me that in France and Italy, to a lesser extent, that is true.

It seems to me that there must be some specific effort directed toward the restoration of political stability before you can have economic stability. Would you care to comment on that, sir?

Secretary MARSHALL. I think what you say regarding Greece is true. The question is, How are you going about doing it? That involves some issues in connection with Greece that I would not care to comment on publicly.

Mr. LODGE. Mr. Secretary, it is my understanding that Great Britain has recently made an agreement with Soviet Russia, providing for the exchange of British capital goods against Russian agricultural commodities.

Do you anticipate that under this plan these capital goods might be provided by us, or that we might provide goods to replace those capital goods in Great Britain?

Mr. THORP. This particular arrangement is, as you know, an arrangement for certain goods to be provided by the United Kingdom in return for things which they very much need, primarily wheat and coarse grains.

I doubt very much if one can develop any sort of program which would involve quarantining certain shipments. Actually our hope is that through the expansion of trade in various directions the net effect on the American economy will be reduced, and it has not been our position that we should take steps to curtail the ability of any of these 16 countries to obtain articles they can get from other parts of the world.

Mr. LODGE. In other words, the answer to my question is, "Yes"?

Mr. THORP. That is not right.

Mr. LODGE. My thought is that some of these goods might end up in Russia by way of Britain, while Britain obtains commodities in exchange from Russia.

Mr. THORP. Not any of our goods could do that. They would be goods that would be produced by the British. I am sure our goods would have to fit in with the requirements in the particular country.

Secretary MARSHALL. I had some discussion with Mr. Bevin about this.

The British were obtaining certain things from other countries which were in short supply over here, and it would reduce by that much any pressure on us to provide certain items.

Of course grains were involved in the transaction. Now you have carried it still further into replacement of the particular items that the British would utilize in that exchange.

The factor of our being involved to the extent of what we provide out of this European recovery program being utilized by Great Britain to meet the exchange payments for Russia had not been analyzed by me. The general procedure is one of a trade relationship, which is a healthy proposition, and of a particular arrangement which favored us to the extent that it reduced the pressure for the particular items which happened to be in short supply in this country.

Mr. LODGE. Yes. I can see how that might be beneficial.

Mr. Secretary, in connection with the dismantling of the plants in Germany, it is my understanding that there are some 47 pipe producing and assembling plants in the former British Zone of Germany.

I understand they are labelled for dismantling.

One of them in particular is capable of welding large-sized pipe up to 24 inches, which is the type, as I understand it, which is much needed for the transporting of oil, and would save scarce tankers if used in carrying Arabian oil from the Persian Gulf to the Mediterranean for use in Europe. My question would be this: In connection with this aid do we contemplate the dismantling of these plants in Germany, such as those which produce necessary short supply items?

Secretary MARSHALL. The original allocations were made on a very careful basis under our authority in the occupied zone of Germany.

Whether or not these calculations completely fit the general European recovery program, I cannot authoritatively state with finality at the present time, but I think in the main they do.

There had been a difference of opinion regarding some pipe plants. We have called on General Clay for a very detailed report, so that we could screen the proposal still further over here, to see if it will create any disadvantages to the implementation of the European recovery program.

Mr. LODGE. In other words, no damage has yet been done in that connection. We still have that problem to deal with?

Secretary MARSHALL. We are trying to settle it right now.

The real issue or complication will be that General Clay is very reluctant to stop in the procedure—it is a very lengthy, tedious procedure incidentally—but he is very reluctant to call a halt to what he is aiming to do because that makes it difficult for him to get the German people well organized and going ahead, when they are still in a state of doubt as to a particular plant, whether it stays or it doesn't stay.

Mr. LODGE. You mean the procedure of dismantling?

Secretary MARSHALL. No, but whether or not the plant is to continue in Germany. So the quicker that is settled from his local point of view, the more easy it is for him to go forward with the rehabilitation of Germany.

We have called upon him for a quite detailed report as to just what the status of each case is, the purpose being to bring that information to the attention of congressional committees, so that they may go over the matter and express themselves.

Mr. LODGE. Mr. Secretary, the present preamble of H. R. 4840 mentions foreign countries which undertake to cooperate with each other in the establishment of the maintenance of economic conditions essential to a peaceful and prosperous world.

Then section 3 refers to the countries which are participating countries.

At the time all these countries were called together, were all the countries of Europe invited to the Paris conference?

Secretary MARSHALL. All except Spain.

Mr. LODGE. Under this bill, the door is open for Russia and her satellites to participate if they can meet the conditions?

Secretary MARSHALL. That is correct.

Mr. LODGE. Is it open for Spain to participate if she can meet the conditions?

Secretary MARSHALL. That is another issue that I cannot answer at the moment.

Mr. LODGE. I wondered whether Spain was being treated on the same basis as Soviet Russia or not.

Secretary MARSHALL. There is nothing in the bill, as we say, that prevents that, but you have a general situation over there in the economic accord of these nations where they, on their own initiative, decided not to invite Spain to participate.

Mr. LODGE. That was decided by the nations?

Secretary MARSHALL. That was decided by them and not by us.

However, the bill makes no provision against Spain participating. That would have to be an issue that we would decide as it came up.

Mr. LODGE. In connection with the matters which have already been brought up to some extent, that is to say in connection with reciprocal aid between these various countries, the break-down of customs barriers, and so on, I fully appreciate that there are grave difficulties with respect to monetary matters and taxation, and so on. However, would it be possible, in view of the importance which you lay to that element, to provide this committee with more detailed information (a) as to what agreements already have been made among these various countries as to reciprocal help, (b) as to what has been accomplished to date pursuant to these agreements, (c) what agreements are in process of being made, and (d) what is your estimate of the future possibilities of reciprocity along those lines?

Secretary MARSHALL. That could be done, sir.

EUROPEAN RECOVERY PROGRAM

EUROPEAN ECONOMIC COOPERATION AND SELF-HELP

CEEC commitments

The Committee of European Economic Cooperation at its meeting in Paris last summer considered various measures to promote economic recovery by means

of (1) increased cooperation among the European nations; and (2) self-help and mutual help in the fields of production and internal financial and monetary reforms. The following statements summarize the commitments made, the progress thus far in putting these commitments into effect and further steps which are contemplated or which might be undertaken.

Progress along these lines must be the result of initiative by the participating countries themselves. They are well aware of the need for increased cooperation and self-help. As the following record shows, they have already made considerable progress and laid the foundation for further developments which should produce significant results. The European recovery program, if adopted, will assist and encourage this common European effort tremendously.

A. INTER-EUROPEAN PAYMENTS ARRANGEMENT

The Financial Committee of the CEEC Conference recommended the adoption of a proposal made by the delegations of Belgium, the Netherlands, and Luxembourg for setting off debits against credits in inter-European payments by means of the transferability of European currencies between each other. The Committee agreed: "The transferability of European currencies would permit a country which has a credit in its relations with another country to use it to settle a debit resulting from current payments to a third country. A set-off of this nature would reduce to a minimum payments in gold and convertible currencies [and] would make it possible to abandon the existing procedure for bilateral balance of trade * * *." It would permit dealing "only with the disequilibrium of the trade of a given country in relation to other [participating] countries of Europe taken together".¹ The Committee recommended that a meeting of experts should be held in London to work out the technical details of this proposal.

In accordance with this recommendation, a Payments Agreement Committee met in London from September 22 to 27, 1947, and also in Paris from October 15 to 25, 1947. As a result of these meetings, a multilateral compensation agreement was signed on November 18, 1947, by Belgium-Luxembourg, France, Italy, and the Netherlands. It provided for monthly compensations or clearing offsets among the contracting countries.

The nature of these offsets can be illustrated by a simplified hypothetical example. Suppose that under a bilateral payments agreement, country A owes country B \$20,000,000 as a result of trade between the two countries. This exhausts the credit margin which country B has agreed to extend. Country A can no longer import from country B in excess of its direct exports to country B except by paying in gold or dollars. The same situation exists between country B and country C. Country C, however, owes country A \$10,000,000. The position before clearing takes place is, then, as follows:

Country A owes country B.....	\$20, 000, 000
Country B owes country C.....	20, 000, 000
Country C owes country A.....	10, 000, 000

The clearing makes it possible for each creditor to reduce its claim on its debtor by \$10,000,000. This gives the following result:

Country A owes country B.....	\$10, 000, 000
Country B owes country C.....	10, 000, 000
Country C is in balance with country A.	

The credit margins of A and B have been restored to the extent of \$10,000,000 each thus permitting new trade to the extent of \$20,000,000 which otherwise could not take place.

The operation of the multilateral clearing arrangement was entrusted to the Bank for International Settlements, aided in its work by a committee composed of delegates of the contracting countries. The first meeting of this committee was held at Basle at the BIS offices from November 20 to 25, 1947, and a second meeting was held at Brussels from December 18 to 22. These meetings established two types of offsets: Those involving increases in balances or the creation of new balances, and those involving only decreases in balances. Directives were given the BIS for making proposals among offset possibilities.

The November agreement was left open to the adherence of other CEEC countries on either a fully participating or an occasional basis. Full membership carries the obligation to accept automatic offsets or those involving only decreases in balances under existing bilateral payments agreements. Occasional member-

¹ CEEC report, I, p. 133.

ship permits the participant to accept or reject in whole or in part any offsets proposed. A third category of participation would provide merely for the regular transmittal to the BIS of monthly statements of payments agreement balances in order that the BIS may have a complete view of the European payments situation. Denmark, Norway, Sweden, the United Kingdom, and Austria have thus far undertaken to participate as occasional members; consideration is also being given to the participation of bizonal Germany.

On January 19, 1948, the first inter-European clearing under the new system was announced, calculated as of December 31, 1947. While the extent of this first offset was limited, it demonstrated the technical feasibility of the mechanism. The effectiveness of the system will be increased as additional countries participate in the operations.

B. CUSTOMS UNIONS

Custom union study group

The Study Committee of Customs Unions, established in August 1947 at the CEEC conference, considered the question of customs unions as a means of achieving the speedier reduction and eventual elimination of tariffs between a group of countries. On September 12, 1947, thirteen of the CEEC countries declared their intention to create a study group "for the purpose of examining the problems involved and the steps to be taken, in the formation of a Customs Union or Customs Unions between any or all of those [13] governments and any other governments invited to participate in the work of the study group."²

This study group met in Brussels on November 10, 1947, upon the invitation of the Benelux countries (Belgium, Netherlands, and Luxembourg). Fourteen of the sixteen governments which participated in the Paris conference sent delegates. Norway and Sweden, as well as certain countries of the British Commonwealth, were represented by observers.³

The group examined the possibility of establishing a common customs union among all the countries represented and appointed a tariff committee which composed a questionnaire to be sent to the member states. The answers to this questionnaire, which were to be completed December 15, should permit the tariff committee to define the basis upon which a model of a common tariff may be prepared and offered for adoption by all interested countries.

The report of the tariff committee, which will take into account the principles laid down in the draft charter of the International Trade Organization,⁴ will be submitted to the group at its next meeting in Brussels January 26, 1948. This report will contain recommendations concerning, in particular, the establishment of a common nomenclature, the choice to be made between specific and ad valorem duties, and the evaluation of merchandise subject to ad valorem duty. It is anticipated that at this meeting arrangements can be made to complete the preparation of a specimen common tariff.

Regional customs unions

In addition to the project for a general European customs union including a large number of countries, there are several projects of more limited scope under consideration.

The four Scandinavian countries (Denmark, Iceland, Norway, and Sweden) following a conference of their respective foreign ministers in Copenhagen August 27-28, 1947, announced at Paris that they "were taking steps to examine immediately the possibility of an extension of the economic cooperation between their countries, including the question of the elimination, wholly or partly, of the customs frontiers between the four countries." Committees within the respective governments were appointed, but there has not yet been a further meeting of a joint study group.

The French and Italian Governments during the Paris Conference decided to appoint an examining group to study the conditions under which a Franco-Italian customs union might be established. On December 22 the Franco-Italian Mixed Commission for the Study of a Customs Union Between France and Italy announced the signing of a report, the complete text of which will be made public after examination and approval by the two governments. This report recommends not only a customs union but a full economic union between

² CEEC report, I, p. 35.

³ Representatives of the following countries attended as delegates: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Switzerland, United Kingdom and Turkey. Norway, Sweden, Canada, Australia, New Zealand, South Africa and India sent observers.

⁴ In particular article 42 according to which inter alia the common tariff of the several countries participating in a customs union ought not on the whole to be higher or more stringent than the average level of the duties applicable in the constituent territories prior to the formation of such a union.

the two countries, to which other governments of Europe would be invited to adhere. The report is understood to make recommendations for integration in the fields of agriculture, industry, foreign trade, finance, transport, manpower, and customs matters, and for the establishment of mixed committees to devise a joint approach on monetary matters. The report estimates that the economic union might be completed at the end of 4 or 5 years.

The Benelux customs union, which was initiated prior to the meetings of the Committee of European Economic Cooperation in Paris, entered into effect January 1, 1948, as the result of the exchange on October 29, 1947, of instruments of ratification of the Benelux Customs Convention. In addition to the customs union, agreement has also been reached to press for enactment of legislation for the unification of excise, transmission, and luxury taxes, and to continue further study of the problems connected with an over-all economic union. A summary examination of the experience gained in the establishment of the Benelux union served as the point of departure for the Brussels study group.

On September 19 the Greek and Turkish Governments represented at the CEEC Conference in Paris agreed to devote attention to the study of a regional customs union between the two countries. Interministerial committees both in Greece and in Turkey are currently studying problems related to a Greek-Turkish customs union. After the two committees have completed their independent studies, each will prepare a specimen customs union as a basis for joint discussions.

C. FINANCIAL AND MONETARY STABILITY

In the general report to the Paris Conference the 16 CEEC countries stated that the "success of [their] program depends on internal economic, financial, and monetary stability being restored, or maintained" and that where stabilization programs are required, they will be carried out with determination.⁵ Twelve participating countries issued separate declarations to the Conference on the internal financial and economic reforms undertaken or contemplated.⁶

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.

⁵ CEEC Report, I, pp. 26, 27.

⁶ CEEC Report, II, pp. 461, 524.

France

In its declaration to CEEC the French Government proclaimed its intention to carry out a comprehensive fiscal reform for the purpose of putting an end to financing itself through advances from the Bank of France, and to keep investment expenditures strictly within the limits of the resources derived from internal or foreign loans.

A program, largely inspired by the French commitment to CEEC, was proposed by the Ramadier government before the November cabinet change. On the expenditure side, it called for administrative economies, the elimination of subsidies which had aggravated budgetary deficits, and the complete elimination of the practice of financing uncovered treasury needs through advances from the Bank of France. On the receipts side, the program called for a comprehensive fiscal reform whose main objective was to simplify and control more effectively the antiquated French tax system.

This program has been accompanied by restriction of private bank credit through raising the discount rate, quantitative limitation of the volume of credit, and measures to channel available credit away from speculative and other non-productive uses and into priority sectors of the economy.

These combined measures led to an immediate strengthening of the franc, but in November the Communist-inspired strike wave further increased the magnitude of both the economic and financial problems. After having successfully overcome the immediate threat, the Schuman government proposed the most drastic tax and economy measures any French Government has taken since liberation to achieve economic and financial stability. France's budget for the calendar year 1948 incorporates the principles proclaimed in the French report to CEEC and elaborated in the October program. The over-all civil budget is to be cut 10 percent compared with 1947 in spite of price rises. A beginning has been made on tax reform and an increase of taxation. Expenditures have been further reduced by downward revisions of reconstruction expenditures foreseen under the Monnet plan. These measures are expected to result in a balancing of the ordinary French budget for 1948 at about 900 billion francs and of the extra-ordinary budget at 300-350 billion francs. This compares with a budget deficit in 1947 of 274 billion francs.

In its recent actions the Schuman government has undertaken to impose necessary sacrifices consciously rather than to let them be worked out by the blind forces of inflation.

An adjustment in the foreign exchange value of the French franc was announced January 25 by the French Government. The new rate, the French believe, will encourage the export of French commodities, the cost of which had become excessively high to foreign purchasers under the old rate of 119 francs to the dollar. The expected increase in French exports and tourist trade should, therefore, help France to acquire needed United States dollars and other foreign currencies. For example, American tourists contemplating a visit to France will now receive over 300 francs to the dollar instead of the former 119 francs. The adjustment of French exchange rates so as to accord more accurately with present French costs and prices is expected to promote in general a balance in the French international economic position.

France also hopes that the more attractive rate will encourage French capital now in foreign countries to return to France. This repatriation of capital would supply France with additional dollars.

D. MANPOWER

In their final report, the 16 CEEC countries undertook "to remove progressively the obstacles to the free movement of persons within Europe."⁷ The Manpower Committee, established at the Paris Conference, was entrusted with "assessing the availabilities and requirements of labor among the participating countries and of determining ways in which the coordinated transfers of workers between these countries can be facilitated."⁸ After securing information from the participating countries, the American, British, and French zone commanders in Germany, and the International Refugee Organization, the Committee completed a report which (1) showed manpower resources and requirements of these countries as of June 1, 1947, (2) reviewed action taken by governments to meet manpower deficiencies or surpluses, (3) recommended that countries whose manpower deficiencies cannot be met from their own resources should examine the possibility of concluding

⁷ CEEC report, I, p. 13.

⁸ CEEC report, II, p. 437.

agreements for the recruitment of manpower, including displaced persons, in other countries.

A conference on manpower, sponsored by the Italian Government, is to convene in Rome on January 26, 1948. The International Labor Office, the International Refugee Organization, and the Food and Agriculture Organization have been invited to send observers, as well as the United States. The conference will develop measures to utilize more effectively surplus manpower in such countries as Italy, to facilitate the movement of labor across international boundaries, and to improve occupational qualifications and training.

E. THE PRODUCTION EFFORT

At the CEEC Conference the participating countries set certain production goals which in their estimation represented the scale of agricultural and industrial output which must be achieved to supply the needs of the European population in 1951. The 16 countries undertook to use all their efforts to develop their national production in order to achieve these goals.

However, before the national productive effort can be made effective, the essential raw materials must be forthcoming. The attainment of these production targets depends in varying degrees upon the increased supply of essential imports from the Western Hemisphere. Within the limits imposed by shortages of necessary commodities and disorganization of production due to strikes, there has been significant progress in three of the most important fields figuring in the production program set at Paris.

The United Kingdom has increased coal production from a weekly rate of about 3.5 million tons last summer to a rate of 4.4 million tons in December. Coal exports to the continent have been resumed. Coal production in the Ruhr reached a daily rate of 275,000 tons in December as compared with 216,000 tons last May.

Early last fall the French Government revised sharply upward the bread grain acreage goal for 1948, originally fixed at 84 percent, to 95 percent of the prewar average. It is therefore estimated that France will produce 400,000 tons more than the original CEEC estimate for the consumption year 1948-49. In addition, the French Government now plans to raise bread grain production in French North Africa to 4 million tons annually as compared with the CEEC estimate of 3.5 million.

All the principal European steel-producing countries except the United Kingdom (Germany, France, Belgium-Luxemburg, and Italy) substantially increased their 1947 crude steel production over 1946. In the case of Belgium-Luxemburg, 1947 production surpassed 1938. While 1947 production in the United Kingdom was slightly below 1946, output in the last quarter of the year was at an annual rate in excess of 1946, achieving in October an all-time high annual rate of 14.3 million tons.

F. PARTICIPATION BY CEEC COUNTRIES IN THE ECONOMIC COMMISSION FOR EUROPE

The CEEC report established the principle that "wherever suitable international machinery exists, it is the desire of the participating countries that these tasks should be effectively followed up within the framework of the United Nations,"⁹ and referred particularly to the forthcoming meetings of the committees and subcommittees of the Economic Commission for Europe. Five of the sixteen countries, not as yet being members of the United Nations, are not members of the Economic Commission for Europe, but they have been invited to those meetings of committees of the Commission in which they have indicated an interest.

Commodity committees

Technical committees have been established by ECE to deal with a wide range of commodity problems. The Coal Committee has taken over the work of the former European Coal Organization in recommending allocations of coal. A Fertilizer Subcommittee has met to make recommendations for increasing production of nitrogenous fertilizers, and a Timber Subcommittee has been established to make recommendations for increasing production of timber, particularly softwoods. A Steel Committee has been created, with subcommittees on ball bearings, conveyor belting and ceramic insulators, all of which are in such short supply in Europe that they are hampering production of important types of manufacturing equipment. In addition the Steel Committee, in cooperation with the

⁹ CEEC report, I, p. 38.

Coal Committee, plans to give consideration to the possibilities of increasing steel production by a more effective utilization of existing coking capacity and better distribution of metallurgical coke, as suggested in the CEEC report.

Inland transport committee

Some of the most significant achievements of ECE thus far have been in the field of European inland transport. The Inland Transport Committee has taken over the work formerly performed by the European Central Inland Transport Organization. As a result of the work of the Rail Transport Working Party, 12 countries and the bizonal area of Germany have agreed to reestablish as of March 1, 1948, the prewar system for exchanging freight cars. This arrangement had the advantage of providing a regular procedure for the return of individual cars to countries of ownership, thus facilitating the flow of traffic across international borders. Its adoption will eliminate the chaotic situation which has prevailed since the war under which no country would return cars without a compensatory movement from another country.¹⁰ As a result of the work of a Road Transport Working Party, eight countries, together with the western zones of Germany, agreed to grant on a reciprocal basis freedom of operation for 6 months to highway trucks engaged in transit movements through their territories. In addition, the three German zones, Denmark, the Netherlands, Sweden, and Switzerland agreed also to grant freedom of movement for all other international transport of goods by highways, thus allowing the direct delivery of goods from the factory or farm in one country to the consumer in another.

The Road Transport Working Party has also made progress on the longer run problems of highway development. It has formulated plans for a network of improved interconnecting international highways designed to increase the efficiency of through truck traffic by eliminating the poor roads which heretofore clustered around international boundaries.

Electric power committee

The Electricity Working Party of the CEEC Conference in Paris proposed an International Program for additional electricity generating plant projects in Italy, France, Germany, Austria and Switzerland, in order to supplement national programs for plant extensions.¹¹ Implementation of this program would require that the United States supply certain equipment which will not be available in Europe, so no further steps have been taken to commence actual construction of the plants. The Electric Power Committee of ECE has, however, continued the work begun at Paris. This has involved a continuing survey of European large-scale power resources, examination of a possible international high-tension network, and of the desirability of further standardization of electrical equipment.

Mr. LODGE. As I understand it from you, Mr. Secretary, you would not be very optimistic about the success of this program unless some very definite steps are taken, not only for self-help within each of these countries, but for a certain amount of, let us say, economic federation among these countries; is that correct?

Secretary MARSHALL. That is one of the most important considerations in the entire program.

Mr. LODGE. Thank you very much, sir.

Chairman EATON. Mr. Jackson?

Mr. JACKSON. Assuming you are twice as weary as anyone else around the table and believing that humanity like charity should begin at home, I yield back the balance of my time.

Chairman EATON. Mr. Secretary, on behalf of the committee, I wish to thank you for your very informative testimony today.

However, I would like to say one thing before we break up: Dr. Judd made a reference to the Chief of Staff and expressed the hope that this new Administrator might be something like the late Chief of Staff. I can only say on behalf of the committee and the entire House of Representatives, I think, that if we could find in this country an

¹⁰ The prewar system was administered by the RIV (Regolamento-Internationale Veicoli or International Wagon Union).

¹¹ CEEC report, II, p. 175-178.

Administrator comparable to the Chief of Staff, and his ability and success, the whole country would be immensely pleased.

We will meet tomorrow morning at 10 o'clock in the Ways and Means Committee room, and Ambassador Douglas will be the witness.

Thank you.

The meeting is adjourned.

Secretary MARSHALL. Thank you very much, Mr. Chairman, and you gentlemen for your kind treatment.

(Whereupon, at 5:10 p. m. the committee adjourned to Tuesday, January 13, 1948, at 10 a. m.)