

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 13, 1948

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

The committee met at 10 a. m., in the Ways and Means Committee room, New House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will please come to order.

We are very glad today to welcome back to his old haunts our distinguished former member and colleague, Ambassador Douglas. He made a very wonderful record here, and has done even better since.

I would like to say to the distinguished Ambassador that the House of Representatives represented here today is not exactly the same as it was in his time. It has improved somewhat, of course, in its politics, but apart from that it so happens that the world at this moment is in economic chaos. The one great solvent Nation so far is the United States, and all of the great problems come to us in economic form. For that reason, the legislation involved must, under our Constitution, originate in the House of Representatives. So, for the first time in 150 years, Mr. Ambassador, the House of Representatives is in the front rank of this Government and proposes to stay there.

We would now like to ask you what you are going to talk about today.

STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES AMBASSADOR TO THE UNITED KINGDOM

Ambassador DOUGLAS. Mr. Chairman and members of the committee, I am very happy indeed to be advised that this branch of the legislative body in certain respects has been elevated to a position of eminence, which under the system prevailing when I was a member it did not enjoy.

One of the things I should say in opening is that there is very little that I can add to what the Secretary of State, Mr. Marshall, has said. He has adequately and, I think, impressively, covered a number of vital points. He has shown clearly the extraordinary significance of the part of the world of which we are now speaking, toward the recovery at which this legislation is aimed, what it means to the United States and our deep national interest.

Many members of this committee have traveled abroad, and have felt with their hands, as it were, the conditions there. Therefore, it is necessary for me to state at this time that I do not feel that I can

enlarge upon what the members of the committee already know, or extend the observations which the Secretary of State has so adequately made.

I confess that I am startled and amazed at the extraordinary speed with which, in but a very brief period of time, the American people have burst out of their traditional intellectual continental cocoon, and are observing the United States in its relationship to the world.

I venture to say, Mr. Chairman, that no country in history has experienced such a profound change in such a short period of time. It is appropriate that that should be the case, for our country has emerged from the war, as a result of its energies, its industry, and ingenuity, as the most powerful Nation on earth. With power, there goes responsibility. It is inevitably associated with authority.

So I can add little to what has been said in a broad way about the significance of the European recovery program to the United States, but I think that perhaps I can silhouette the character and the quality, the nature and the importance of the area of which we are speaking, by referring to certain facts which disclose its industrial power and its cultural background. They are important, for these 16 nations, the recovery of which we are determined to support, constitute a community of nations of western civilization, of which we are an inescapable member.

If I may, Mr. Chairman, I would like to refer to the charts that have been prepared which graphically disclose to me in a more emphatic way than I have ever before realized or appreciated the real significance of the area of the world of which we are speaking.

Before I refer to the charts, I should like to say that the geographic orbit of these 16 nations extends from the northern most tip of Europe, along the Atlantic littoral through the northern coast of the Mediterranean to a point contiguous to the Middle East.

However, this is not all because many of them have appended territories which embrace large parts of north and west Africa. Thus, the entire area over which these 16 nations exercise their influence, covers that extraordinarily important part of the world extending from the Arctic limits of the European Atlantic coast line to the tip of Africa.

Economically, Mr. Chairman, this area is highly significant.

Expressed in terms of population and in terms of percentages of the world, these 16 participating countries represent 12 percent of the total population of the entire world. I should add that when I speak of the participating countries I include western Germany.

The population of the United States represents about 6.5 percent of the total population. Thus the two together comprise almost 20 percent of the total inhabitants of the globe.

Twenty-six percent of the literates of the world reside within the European area of which we are speaking, and 14 percent in the United States. Thus, some 40 percent of the total literate people of the entire world live either in our own country or in the community of nations of which we are an integral part.

Twenty-seven percent of the total world output, world production, is derived from these 16 participating nations, and 35 percent from the United States. The two together, making up this community of which we are a part account for 62 percent, which is almost two-thirds of the entire production of the globe. This, of course, is based upon the prewar period, 1938.

Mr. BLOOM. How do you define that?

Ambassador DOUGLAS. It is agriculture, it is industrial production, it comprises every product.

Mr. BLOOM. Does it include steel and coal?

Ambassador DOUGLAS. Yes.

Mr. CHIPERFIELD. How much food does the United States produce as compared with the world?

Ambassador DOUGLAS. I am not sure we have that figure, Mr. Chiperfield, but if I do not have it here I can provide it.

(The information is as follows:)

I. In terms of calories, the United States produced in prewar years about 8½ percent of total world food output. It is now producing approximately 11 percent of total world food output.

II. In the prewar period, the United States produced about 23 percent of the world's grains (excluding rice) and in 1945-46, the United States produced about 32½ percent of world grain output.

Mr. VORYS. You speak of world output of the total production. Is that in dollars or is it in tons, and do you compare tons of wheat with tons of steel and tons of jewelry?

Ambassador DOUGLAS. It is expressed in terms of the dollar value, as of this period.

Mr. VORYS. As of 1938?

Ambassador DOUGLAS. Yes; 1938, and the production outside of the United States has been translated into the dollar value as of that period. That was a convenient method of arriving at these calculations.

Steel, alone, is interesting. These 16 participating nations and western Germany produce 37 percent of the total production of the entire world, or did produce that much, whereas the United States produced 38 percent in the same period, for a total of 75 percent of the entire amount of steel produced everywhere. These 16 participating nations and western Germany operated and controlled 68 percent of the merchant tonnage in 1938, whereas the United States operated and controlled some 14 percent, for a total of 82 percent of the overseas maritime transportation facilities.

In chemicals, the participating countries contributed 40 percent of the total output in production of the world, whereas the United States produced some 26 percent.

Of all of the exports from every country and area throughout the world, 24 percent emanated from the countries of which we are speaking, and 17 percent from the United States. Of all the commodities imported into all the countries and areas of the world, the participating countries accounted for 39 percent, and the United States for 11.5 percent.

Stated in different terms, the United States and these participating countries accounted for approximately one-half of the entire world trade, expressed in terms of imports and exports.

This chart, combined with the next one, discloses the occupations in broad categories of the populations of the participating countries—71 percent, for example, are nonfarm workers, whereas only 29 percent are farm workers. That is compared with 40 percent nonfarm workers throughout the world, and 60 percent farm workers.

This indicates quite conclusively that this area was in fact the second greatest industrial area in the world, second only to the United States.

The industrial power of this area was tremendous.

Mr. VORYS. Mr. Ambassador, if you are interested in having us read the figures on that chart, most of us cannot do it from this distance. I do not know whether it is of any importance or not.

Ambassador DOUGLAS. The next chart supports the disclosures of the first two charts. It is one which shows the fact that this area of which we are speaking was the center of the complicated, intricate, and sensitive system of world trade because of its industrialization. Most of its foodstuffs had to be imported, as the previous chart disclosed. It derived its raw materials from the far corners of the globe. It fabricated them into finished articles and sent them out across the seas, selling them to a variety of different peoples scattered about the seven seas, and thereby this area derived foreign exchange, with which it was enabled to purchase the foodstuffs which are required to maintain life at a reasonable level of living and the raw materials that it required for fabrication into finished articles.

Mr. RICHARDS. Mr. Ambassador, in speaking of this area, as I understand it you not only include the 16 nations but the American and British zones of Germany, as well?

Ambassador DOUGLAS. That is right, sir. In referring to the 16 participating countries I meant, and always mean, to include the western part of Germany among them.

This chart is illustrative of the complexity of the trading of this area of which we are speaking. It was bound together with highly complicated arteries, this highly intricate sensitive industrial system. It was held together by an inland transport web as finely spun as the web of any spider; by an overseas maritime fleet carrying its goods out and bringing back the imports that were required, and by a financial system which hinged upon the general convertibility of one currency into another.

For example, these countries of which we are speaking incurred traditionally a deficiency on trade balance with the United States. However, they had surpluses on trade balance with other parts of the world. Because they could convert one currency into another, they utilized the surpluses with other parts of the world for the purpose of meeting the deficiency which they had with the United States and with the Western Hemisphere.

Canada, for example, had traditionally a deficiency with the United States expressed in terms of dollars, but a surplus with the European countries. It employed its surplus with the European countries for the purpose of meeting its deficiency with the United States. As I have indicated, and as is amply demonstrated by performance over many, many years, this area was the center of a highly industrialized and extraordinarily complicated, sensitive system. We are a part of that community.

However, there are more than merely the economic aspects of the area of which we are speaking. These participating countries were culturally and politically a part of the area to which we belong. We derive much of our basic philosophy, our political and economic philosophy, from the people who inhabit this area. This area and ours constitute the seat of that view strongly held by free peoples, that

the dignity of the individual is the central and pivotal core of civilized living. This was an area in which in varying degrees political institutions were built up around the conception of the Parliament: the right of men through their elected representatives to control and direct the national affairs.

Now, what has happened to this area? I failed to say this, Mr. Chairman, before: A part of the bloodstream of these nations was derived from the accumulated savings that had been invested overseas and that therefore provided the exchange, or a part of the exchange, which, added to their exports, enabled them to buy the imports which they required.

As a pure product of the war, the invisible income derived from overseas investments of these 16 participating countries has been converted from a surplus of approximately \$1,500,000,000 a year to a deficiency of \$500,000,000.

Mr. CHIPERFIELD. Would you please explain why?

Ambassador DOUGLAS. The principal reason was that they were compelled to sell their overseas investments in order to derive the exchange with which they could buy, and had to buy, the necessary implements of war to maintain their national integrity.

Ambassador DOUGLAS. Much of the merchant shipping controlled and operated by these participating countries has been sent to the bottom of the seas, purely as a product of the ravages of war.

The war damage to this area and its plants and facilities has reduced inordinately the productive capacity of this area. Before the war, this area derived a considerable economic benefit from the fact that prices of imported food and raw materials fell by far more than prices of exports. However, since the war the prices of their imports has risen by approximately 50 percent more than the prices of their exports. Thus, they have had to pay more for their imports and receive proportionately less for their exports.

The population within this area has increased, as compared with 1928, by approximately 20 percent. As I recollect the figure, almost 40 percent of that increase has occurred in western Germany.

Mr. FULTON. Is that increase because of the bringing in of other people from other countries, or is it a result of a birth increase?

Ambassador DOUGLAS. It is both. There has been a migration from the eastern part of Europe into this area. In other parts of Europe the birth rate in large measure has accounted for the increase.

Mr. FULTON. In spite of the death rate?

Ambassador DOUGLAS. Yes. It is one of the extraordinary facts that despite the toll taken of human life by the war, the population within this area has increased some 20,000,000. I cannot say that 40 percent of it is due to migration from the eastern part of Europe into the western part of Germany, but a substantial part of the 40 percent has been due to that movement of people.

Mr. VORYS. Now, you say 20,000,000 people, and you mentioned 20 percent.

Ambassador DOUGLAS. It is 40 percent.

Mr. VORYS. We are talking about a population of about 270,000,000 people, are we not?

Ambassador DOUGLAS. Yes, before the war it was about 250,000,000 and now it is about 270,000,000.

Mr. VORYS. Then that is not 40 percent.

Ambassador DOUGLAS. I meant to say, if I did not say it clearly, that about 40 percent of the increase has occurred within Germany. That is about 40 percent of the increase of 20,000,000 has occurred in western Germany.

Mr. RICHARDS. That is what you said.

Ambassador DOUGLAS. If I did not say it that is what I should have said.

Mr. BLOOM. That is what you should have said, and that is what you said.

Ambassador DOUGLAS. More than that, there has arisen out of the postwar environment, a division, as it were, between eastern Europe and western Europe. Eastern Europe provided for western Europe a significant part of its essential imports, particularly of foodstuffs. There is now no flow, to speak of, of commodities of that sort from the great granary into the great consuming area of Europe.

As was indicated by implication in the previous chart, south-eastern Asia was an area which produced large imports into western Europe, and exports to other parts of the world, from which many of these participating countries derived exchange with which they could balance their deficiencies with the western world, that is, the Western Hemisphere. That source of exchange has been in large measure eradicated. Indeed, some of the areas in this part of the world instead of being now as they were before the war a source of income, are now a source of expenditure.

In one part, for example, the ratio has fallen by almost 75 percent, and in order that it may be increased at all, western European countries have had to incur an expenditure to import into the area.

It is not disclosed on this chart, but, finally, the war produced great dislocations and shifts in the sources of essential supplies. I have referred by implication to one of them; that is to say, the source of foodstuffs from eastern Europe and that source is now withdrawn.

Another item is coal. The United Kingdom and Germany were the two great providers of coal for this entire area. Purely as a product of war they are not now providers of any great amount of this essential source of energy. It is essential to human life and essential to the production of goods.

Mr. CHIPERFIELD. Mr. Ambassador, there is a scale on the chart. How much is it out of balance?

Ambassador DOUGLAS. I was going to come to that, sir, if I may, when I try to explain the way in which the amount incorporated in the program has been calculated.

Now, all of these factors together—that is, the loss of investment income, the decline in production, the loss in income on account of services rendered, shipping, the unfavorable price movements (that is, the discrepancy between the price of imports and the price of exports) the divorcement of eastern Europe as a source of food supplies, and the consequent focusing of demands for food supplies on other parts of the world, the increase in population, the dilapidated state of southeast Asia, the shifting of the source of the demand for coal—have completely unbalanced the position of these participating countries.

If you will recollect, in the first chart it was shown that some 40 percent of the literates are in this area, and, historically, it was true

that this area was one of the greatest states of free government, one of the sanctuaries of the parliamentary system. Most of them were overrun and occupied by the German hordes, and their traditional form of government was destroyed.

With the wave of liberation, that which had been substituted during the war was in turn erased. Accordingly, many of the governments of these peoples have been faced with the tedious and arduous task of reconstructing political institutions where none existed. If, therefore, they have not been as precisely correct in the politics which they have pursued; if they have not observed as clearly as they might otherwise have observed public policies of a valid nature, it can in part be ascribed to the task of reconstructing and rebuilding political institutions where none existed.

That, I think, describes and discloses the nature of Europe as it was before the war, the quality, character, and significance of it, and what has happened to it.

Mr. BLOOM. Do you mean where none existed at the time of liberation; is that right?

Ambassador DOUGLAS. Where none existed immediately after liberation. The present estate of these participating countries has been diminished. Their postwar condition has been impaired and their immediate condition has been further damaged by, as you know, the visitation of one of the most extraordinary droughts Europe has ever experienced. This was in the year of 1947.

Mr. CHIPERFIELD. Do you know how that drought actually affected the crops in those 16 countries?

Ambassador DOUGLAS. In the case of France, as I recollect, for the crop year 1946-47 the production of bread grains was just over 7,000,000 tons. In the crop year of 1947-48 the production is estimated at 3,700,000 tons.

Mr. CHIPERFIELD. Was this reduction due to the fact that the peasants, themselves, did not plant as much wheat?

Ambassador DOUGLAS. I think, Mr. Congressman, there are other factors which have aggravated the agricultural condition and I could not honestly say it was due entirely to the drought.

Later on, if I may, I would like to refer to what is considered one of those factors and tell you now briefly that it was due in part to the rather tattered internal fiscal and monetary systems of some of the countries.

Mr. JARMAN. It was in large measure due to droughts?

Ambassador DOUGLAS. Yes, following the very cold and bitter winter.

Mr. MANSFIELD. When we speak of the eastern part of Czechoslovakia, is it not true that that drew a line between the satellite countries, on the one hand, and the 16 participating countries on the other?

Ambassador DOUGLAS. That is right. Thank you, sir.

Now, these 16 participating countries, as you know, have met for the purpose of calculating that which they could do for themselves individually. They determined that which they could undertake to do in a cooperative enterprise for each other, and the outside support required to bring that scale of balances into equilibrium.

I should like, if I may, Mr. Chairman, to explain how the United States Government has calculated the amount for the 15 months' period from April 1, 1948, through June 30, 1949, which will be

necessary to achieve the recovery of this extraordinarily significant and important part of the world.

I do not know whether the figures on this chart are large enough to be clearly visible.

Mr. VORYS. The invisible assets are invisible.

Chairman EATON. What is the title of that chart, Mr. Ambassador?

Ambassador DOUGLAS. This we might call the calculation of the \$6,800,000,000 which we believe to be necessary if these 16 participating countries and western Germany are to recover and to regain political and economic stability and thus to be forthright members again of the community of free nations.

I shall compare this chart, after I have finished explaining it, with the calculations made at the Paris conference by the Committee on European Economic Cooperation, and with the calculations made by the Harriman committee.

There are certain selected commodities, and the members of the committee will find a list of the selected commodities on, as I recollect it, page 115 of the document dated December 19.

It is entitled "Outline of European Recovery Program."

The amount of dollars necessary for the participating countries to purchase these selected commodities from the United States is \$4,239,000,000.

Basis of the \$6.8 billion

	United States	Other Western Hemisphere	Total Western Hemisphere
1. Selected imports.....	4,239	3,346	7,585
2. Other imports.....	2,750	1,478	4,228
3. Total imports.....	6,989	4,824	11,813
4. Selected exports.....	295	303	598
5. Other exports.....	1,960	1,455	3,415
6. Total exports.....	2,255	1,758	4,013
7. Merchandise balance.....	-4,734	-3,066	-7,800
8. Freight (net).....	-293	-145	-438
9. Other invisibles (net).....	+263	+13	+276
10. Balance (July 1, 1947, prices) (break-down available by countries).....	-4,764	-3,198	-7,962
11. Adjustment for higher prices..... All above figures based on July 1, 1947, prices, as was CEEC. This adjustment allows for a 7½ percent rise in United States and 5 percent in other Western Hemisphere export prices, and a 5 percent rise in European export prices. The rise in prices may well be greater than this allowance covers.	-412	-153	-565
12. Adjusted balance.....	-5,176	-3,351	-8,527
13. Total deficit Western Hemisphere.....			8,527
14. Uncovered deficit, bizonal Germany, with nonparticipating countries outside Western Hemisphere.....			200
15. Total to be financed.....			8,727
16. To be met by sources other than new U. S. Treasury financing.....			1,285
17. Total new financing by U. S. Treasury.....			7,442
18. Appropriations being requested by Army for prevention of disease and unrest in Germany.....			822
19. Subtotal.....			6,620
20. Add funds required for obligation prior to June 30, 1949, to cover contracts for shipments in subsequent period.....			200
21. Total requirement for first 15 months, ERP..... Rounded to.....			6,820 6,800

Mr. VORYS. Let us see if we can get this big chart tied into the chart on page 115.

Ambassador DOUGLAS. If you will add the first two columns of the chart on page 115 you will come out, I believe, with a total equal to these totals, before price adjustment. The table is entitled "Value of Selected Imports of Participating Countries from the United States Based Upon July 1, 1947 Prices."

The first column is the value of selected imports during the period April 1 to June 30 of 1948, and the second column is the value of the same selected imports during the period from July 1, 1948, to June 30 of 1949. I have put those two columns together to show how the calculation of the \$6,800,000,000 for the 15 months' period has been made.

Mr. VORYS. Have you not also made a price adjustment?

Ambassador DOUGLAS. The price adjustment is included in item No. 11. I will come to that.

These figures, in respect of the value of imports, were based upon July 1, 1947 prices, and then an adjustment on account of the increase in prices was made under item 11, but I think I can come to that, Congressman Vorys, and I hope to be able to explain it as we go through the chart.

Is this a useful method of presenting the matter to the committee?

Mr. CHIPERFIELD. Mr. Ambassador, to me abstract figures do not mean a thing unless you can tie it into the needs and requirements of a particular country. So many million metric tons does not mean anything.

Ambassador DOUGLAS. The first thing you have in mind is the availabilities. These calculations were based upon, among other things, two considerations. First, the requirements, and, secondly, the availabilities.

Mr. CHIPERFIELD. Otherwise, they would not mean a thing.

Ambassador DOUGLAS. They are based on precisely those two assumptions, among others.

The requirements on each one of the participating countries must be added to the requirements of all the countries and measured against availabilities, in order that we may have a complete picture.

Mr. CHIPERFIELD. However, Mr. Ambassador, those abstract figures you are now explaining just do one thing; they show that you had the right arithmetic to add it up to \$6,800,000,000.

Until we get this chart on Wednesday giving a break-down, I do not see anything to your chart except it is a total.

Ambassador DOUGLAS. It is a total for the 16 participating countries and western Germany and we are dealing with the 16 participating countries and western Germany.

The appropriation we are seeking is to establish or bring about and encourage recovery within these countries, and there is no way in which we could have an over-all view of the total amount unless we put the requirements of each one of the participating countries together and come up with the total requirements, always measured against the availabilities, and that is precisely what this chart undertakes to disclose.

There will be submitted to the committee the individual country studies embracing these countries.

Mr. VORYS. Is this not the fact, while your \$6,800,000,000 was arrived at by starting with, as Mr. Chipperfield says, various countries and various commodities and building from details up to a total, all you are doing is starting to describe the thing going backward, so we can have in mind how the total got to be that way, and it will not be until Wednesday until a detailed study can be made of item No. 1.

However, we can at least today get in mind, by studying backward, the way you arrived at the thing going forward, and how you got your figures.

Ambassador Douglas. That is precisely right. This is an overall attempt to disclose how the \$6,800,000,000, which is the total, was arrived at.

Mr. RICHARDS. You have just now started to describe it. You have not described it yet.

Ambassador DOUGLAS. That is right.

Chairman EATON. In spite of the figures, I think we could understand the printing if you would read them. We cannot see them.

Ambassador DOUGLAS. The first one is the value of the selected imports for each one of the participating countries, from the United States, amounting to \$4,239,000,000 and from the other Western Hemisphere countries, amounting to \$3,346,000,000, or a total of the selected imports, a list of which is to be found on page 115 of the document that has been published.

The total amounts to \$7,585,000,000.

Now, there are other imports that were not programed for each of the participating countries. They cover a wide, wide variety of articles necessary to highly intricate and complicated and sensitive industrial units.

Those other imports from the United States amount to \$2,750,000,000 and from the other Western Hemisphere countries, \$1,478,000,000, or a total of \$4,228,000,000.

The total imports, then, of the two categories, selected and other items from the United States, amount to \$6,989,000,000; from other Western Hemisphere countries, \$4,824,000,000; and from the total Western Hemisphere, \$11,813,000,000.

Mr. VORYS. I wonder if it is time yet to tell what you mean in general by selected imports and other imports. You used the word "programed" in the Senate hearings, and I did not get your explanation there.

It seems to me you have selected imports there. Someone has selected them and said these are the imports they ought to have. I would like to know what the other imports are.

Ambassador DOUGLAS. There are commodities which have been programed for these countries, and they are common to these countries. There is a great variety of other commodities in quality and kind for each one of the countries. Those programed are those which are generally common for all the countries.

Mr. JARMAN. Are those the selected imports?

Ambassador DOUGLAS. That is right.

Mr. JARMAN. The others are those which go to some countries but not to all?

Ambassador DOUGLAS. Generally speaking, that is true, although there are some commodities common to all the countries.

Mr. VORYS. Where do those show up in the book here, the other imports, in item 2?

Ambassador DOUGLAS. They are not shown. They are included in the country studies.

Now, the selected exports from the participating countries amount to \$295,000,000 to the United States and the exports to other Western Hemisphere countries amounts to \$303,000,000, for a total exports of selected commodities amounting to \$598,000,000.

Other exports amount to \$1,960,000,000 to the United States, and to the Western Hemisphere, \$1,455,000,000, or for the entire Western Hemisphere, \$3,415,000,000.

Total exports to the United States are \$2,255,000,000 and to the other Western Hemisphere countries \$1,758,000,000. For the entire Western Hemisphere, they are \$4,013,000,000. That is just on trade account.

These participating countries have a deficiency. That is, their exports are less than their imports in the amount of \$4,734,000,000 with the United States and \$3,066,000,000 with other Western Hemisphere countries, or a total, with the entire Western Hemisphere \$7,800,000,000. That is on trade account.

Mr. CHIPERFIELD. Does that last figure represent a balance of payments?

Ambassador DOUGLAS. This is on merchandise account only. I would like to explain that this calculation is not a pure monetary balance of payments calculation, because in respect of a large volume of commodities the figures have been derived by examining the essential nature of a variety of different significant and important commodities, the quantity of them, and translating the quantity into dollars.

Mr. CHIPERFIELD. Mr. Ambassador, in the interim-aid bill, and the \$350,000,000 relief bill, did not the State Department furnish a Balance of Payments chart for us?

Ambassador DOUGLAS. This is a total balance of payments, but I wanted to say it was not calculated in a purely monetary sense. We have taken commodities—at least, the selected and programmed items—and translated them into terms of dollars.

Does that answer your question?

Mr. CHIPERFIELD. Yes.

Ambassador DOUGLAS. On trade account and trade account alone the difference between exports and the imports with the United States is \$4,734,000,000. With other Western Hemisphere countries, it is \$3,066,000,000, and with the Western Hemisphere as a whole \$7,800,000,000.

Now, to that deficiency on trade account there has been added necessarily an item representing freight charges, and that is on a net basis. It will cost \$293,000,000 for us to transport the commodities to be exported from the United States to these participating countries, and from the other Western Hemisphere countries \$145,000,000. That is on a net basis. I want to make that clear.

Mr. VORYS. When you said "net," you mean the excess of freight charges for the imports over the freight charges for the exports as the net figure? Is that correct?

Ambassador DOUGLAS. No; that is not quite correct, sir. There are certain earnings and these figures, \$293,000,000 and \$145,000,000

represent the difference between the dollars which these European countries will earn on a shipping account and the dollars which they will have to expend on shipping account.

This calculation is further based upon the assumption that the Congress will authorize the sale of some 200 ships to the participating countries, and the bare boat charter during the period of the program, of an additional 300 bulk carriers, thus reducing the amount of dollars that would otherwise have to be expended to carry this freight and this traffic across the sea. Those ships will be manned by the country that controls them, they will fly the flag of the country that controls them, and the freight will be paid in the local currency and not in dollars.

Mr. VORYS. At this point could you possibly give us a figure of what the net freight deficiency would be if we did not follow the policy suggested and used all American bottoms and subsidized shipping?

Ambassador DOUGLAS. Over the entire period, the additional cost in dollars, which is probably a satisfactory way of saying the answer, would amount to about \$650,000,000.

Mr. VORYS. Is that over the 15 months?

Ambassador DOUGLAS. No; over the 4¼-year period. Over the 15-month period, the savings in dollars on account of the chartering of ships will amount to about \$100,000,000. With respect to the savings derived from the sale of ships—I do not know that figure. I think there is an additional saving on account of the sale of ships. I will try to give you that figure.

(The information requested is as follows:)

ESTIMATE OF THE SAVINGS RESULTING FROM THE TRANSFER OF VESSELS UNDER ERP

Estimated requirements for dollar freights are based on the assumption that approximately 200 vessels would be transferred during 1948. If provision for such transfers is not made in ERP, the dollar freight costs would be increased by approximately \$115,000,000 per year. Since the requested transfers included Liberty ships as well as some C-type and Victory ships, the increased costs would apply both to bulk cargo and liner services.

As against the \$115,000,000 increase in freight costs per year, the sale of the vessels would require a 25-percent down payment and an additional 5 percent for each year. The down payment and 1 installment on the 200 vessels would approximate \$32,000,000. In addition, the vessels transferred to foreign flag would still require dollars to cover port charges and other disbursements in dollars to the amount of approximately 25 percent of what the freight cost would be.

Considering these two factors, it is estimated that the failure to transfer the requested 200 vessels would increase the cost of the program by \$54,000,000 for the first year and \$81,000,000 for each succeeding year. Since some time would elapse between the commencement of the program and the final transfer of the vessels, it may be assumed that this \$54,000,000 would be the added cost for the first 15-month period. The aggregate cost added over the entire program would be approximately \$300,000,000.

Under the program recommended by the executive branch, there is provided not only the sale of these 200 war-built vessels, but also the temporary transfer of up to 300 additional bulk-cargo carriers to the participating countries on bare-boat charter for handling commodities made available by the program of United States assistance. The latter transfer is expected to reduce the financial requirements of the participating countries by \$240,000,000 in reducing their requirements for dollar shipping services. This amount is divided \$100,000,000 during the first 15 months, \$94,000,000 during the following fiscal year, and \$46,000,000 in fiscal 1951. A further \$110,000,000 would be saved through a general easing of freight rates, especially during the last 3 years of the program. Both these savings have been applied to the calculations of the dollar requirements for European recovery on an over-all basis, but have not been distributed by countries.

Should the program for this temporary transfer not be adopted, the total cost of the European recovery program would be increased by \$350,000,000.

The aggregate added cost if neither transfers nor temporary transfers of ships are provided for would thus be \$650,000,000.

Mr. BLOOM. How are these ships going to be sold, are they going to pay for them, or is it another one of those transfers of ships?

Ambassador DOUGLAS. The hire for the charter of ships will be a nominal one, it is contemplated. With respect to sales, it will be 25 percent down for the first year, on the sale, and the regular terms defined under the Purchase Ship Sales Act. It will be 25 percent down the first year. I have forgotten what the total period covered is under the Sales Act.

Mr. CHIPERFIELD. Do we loan them the 25 percent?

Mr. BLOOM. Is it paid in dollars?

Ambassador DOUGLAS. That will be paid for out of their other resources.

Mr. BLOOM. In other words, we get it?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. You do not know, but we do get it?

Ambassador DOUGLAS. That is right.

Mr. VORYS. We heard in Germany that the furnishing of 75 ships under charter, it was estimated, would result in a reduction in the cost for freight of \$40,000,000. That was not an official estimate. It was given to us by an American official and concurred in by German officials. I had thought if that figure was correct that the total savings through having the shipping handled otherwise than through American bottoms might be far in excess of the amount you mentioned.

Ambassador DOUGLAS. That \$40,000,000 saving was over what period?

Mr. VORYS. I understood it was a \$40,000,000 annual saving.

Ambassador DOUGLAS. That calculation would not be at variance with this calculation to any great extent. Seventy-five ships save \$40,000,000. Five hundred ships would save about \$250,000,000.

I do not know how that calculation was made. It may not have included the cost of bunkering and a variety of other things.

Then there is other invisible income from the United States amounting to \$263,000,000, and from other Western Hemisphere countries amounting to \$13,000,000. That is on account of tourist expenditures and a variety of items of that character. There is some income which is derived from the remaining foreign investments.

Therefore, the balance, the deficiency with the United States is \$4,764,000,000 and with other Western Hemisphere countries \$3,198,000,000, or a total for the entire Western Hemisphere, \$7,962,000,000.

Now, those figures, insofar as commodities are concerned, were based upon the price level as of July 1, 1947. However, between July 1, 1947, and October the price level had risen 7.5 percent. Therefore, insofar as the commodities are concerned an adjustment had to be made on account of the increase in the price level and that adjustment with the United States amounts to \$412,000,000, and with other Western Hemisphere countries \$153,000,000.

I have been reminded that for the other Western Hemisphere countries, the increase in the price level was 5 percent, whereas within the United States the adjustment was 7.5 percent. Therefore, the total adjustment on account of prices with the Western Hemisphere amounted to \$565,000,000. Therefore, the adjusted balance shows

a deficiency of \$5,176,000,000 with the United States; \$3,351,000,000 with other Western Hemisphere countries, and \$8,527,000,000 with the entire Western Hemisphere.

I would like to emphasize, if I may, one point. In regard to these imports it has sometimes been asserted it is proposed that the commodities to be imported into these countries will provide a standard of living higher than or equal to the standard of living in 1938. I would like to show you the standard of living it is calculated these imports will provide; it is based upon what is known as the caloric diet. It is measured in terms of calories. A diet of 1,650 calories has been estimated by the National Resource Councils to be the semi-starvation level of the diet.

In 1947 and 1948 the diet of the people living within these countries was approximately 2,250 calories. In 1948-49, the period for which these estimates of commodity imports have been calculated, it is estimated that the average diet will approximate 2,550 calories.

The prewar diet in these countries had a value of 2,800 calories.

The per capita diet in the United States of our nonfarm population is 3,200 calories.

I want to make the point that it is not contemplated by any manner of means that this import program, the quantities of goods required by these participating countries, is based upon the assumption that the standard of living, expressed in terms of caloric diet, will be even equal to the prewar.

Mr. CHIPERFIELD. Mr. Ambassador, you do, however, under this program expect to bring the production up in these countries beyond prewar levels?

Ambassador DOUGLAS. It must be done because it is only by increasing production, and very substantially, and thus increasing exports, that these participating countries will be able to compensate for the loss of their invisible income, the shifts of sources of supplies and the increased population.

Mr. JONKMAN. Mr. Ambassador, that is our principal ailment here, is it not?

Ambassador DOUGLAS. What is that?

Mr. JONKMAN. Production.

Ambassador DOUGLAS. I think the ailment here is due to a combination of different factors.

Mr. VORYS. On that 2,250 caloric figure for 1947 and 1948 I confess I am amazed to find it is that high, although I realize you have Turkey and some countries in there that have practically a normal diet. However, when I think that Austria and western Germany are in there, they are a lot nearer that 1,650 that you have marked as "semistarvation" than are the 2,250 that you say is the average.

Ambassador DOUGLAS. Yes. Well, averages are sometimes misleading, as you know very well. The level of the diet in a great many of these countries is substantially below the 2,250 calories indicated. There are some in which the caloric value of the diet is substantially higher. For example, that is true in the United Kingdom. The caloric value in the United Kingdom is somewhere in the neighborhood of 2,800 or 2,900. The caloric value in France would be very much less than that. You know what the bread ration in France

is now as compared to prewar. That was disclosed, as I remember it, during the hearings on interim aid.

Mr. BLOOM. Have you taken into consideration the children and what they are going to get?

Ambassador DOUGLAS. I do not know that there has been any segregation of the population by ages, in relation to diet.

Mr. BLOOM. In all the calculations I have heard, they do not seem to take into consideration the starving children in Europe, and that, to me, is the most essential thing that I know of at the present time.

Now, when you speak of starvation over there I understand the children are getting but one meal a day. If you do not take into consideration in this program the relief of the children of Europe I think you are overlooking one of the most important things connected with what you are trying to do.

Ambassador DOUGLAS. Certainly I think it is fair to say that there has been no indifference to the condition of children, but these calculations are not based upon any cataloging of the population, according to age. Obviously, however, if the caloric value were in this area increased from 2,250 to 2,550, the children will derive very substantial benefit from it.

Mr. BLOOM. That has been promised right along, but I have not seen anything effective.

Ambassador DOUGLAS. Mr. Nitze tells me the ration does favor children. I know that is true in Germany, but I do not know whether that is true in France or Italy. I know that is the case in Britain and western Germany. Whether that is the case in France or Italy I cannot say.

Mr. JARMAN. In these population figures here, a 2-year-old child is considered the same as a 50-year-old man, is he not?

Mr. BLOOM. A 2-year-old child does not need the same amount of food.

Mr. JARMAN. He does not need the same amount of calories, does he?

Ambassador DOUGLAS. It is a different type of diet.

I wanted to emphasize the point that this program is not aimed at increasing the standard of living to the prewar level in these participating countries.

Now, we come down on this chart to the deficiency of the Western Hemisphere, amounting to \$8,527,000,000. The uncovered deficit of the bizonal area in Germany with nonparticipating countries outside of the Western Hemisphere amounts to \$200,000,000, so the total to be financed amounts to \$8,727,000,000.

You see, Germany purchased commodities from areas outside of the Western Hemisphere and from nonparticipating countries, that is, countries other than the 16 that met in Paris and prepared their report. The deficiency that the bizonal area of Germany incurs, on account of its necessary imports with those countries, amounts to \$200,000,000.

Mr. VORYS. So far as the United States Treasury is concerned, you simply add that to the \$822,000,000 you are coming to later in item 18, and it is the cost of occupation for Germany, as far as we are concerned; is that right?

STATEMENT OF PAUL H. NITZE, DEPUTY DIRECTOR, OFFICE OF
INTERNATIONAL TRADE POLICY, DEPARTMENT OF STATE

Mr. NITZE. The average figure that will go to Germany is larger than the sum total of \$200,000,000 and \$822,000,000 because there is included in the \$6,800,000,000 some category-B items for Germany, that is over and above the amount necessary to prevent disease and unrest.

It is approximately \$347,000,000. However, this item of \$822,000,000 is just the Army appropriation for the prevention of disease and unrest, which is merely what are called category-A items. The items necessary for recovery are included in the \$6,800,000,000.

Mr. VORYS. However, the \$200,000,000 is in addition to the \$822,000,000?

Mr. NITZE. That is correct.

Mr. VORYS. So you have for Germany about \$1,400,000,000?

Mr. NITZE. It is something on the order of \$1,300,000,000, or \$1,400,000,000. That is for all zones in western Germany.

Mr. JARMAN. If the \$200,000,000 is in addition to the \$822,000,000, why is one plus and the other minus?

Ambassador DOUGLAS. This is a deficiency with countries other than the Western Hemisphere and other than the participating countries. That is a dollar deficiency with countries other than those enumerated and therefore it has to be added on to be accurate. It would be \$8,527,000,000.

Mr. LODGE. Does that \$200,000,000 represent a deficiency with the Soviet Union or her satellites?

Ambassador DOUGLAS. No.

Mr. LODGE. What is it due to?

Ambassador DOUGLAS. It is wool from Australia, hides from South Africa, and a variety of countries of that order.

Mr. FULTON. If you are excluding the participating countries and the Western Hemisphere countries and you are excluding the Soviet Republic, plus the countries that are within their sphere, and that then represents \$200,000,000, then the next question logically follows: What is the deficit to the countries within the Soviet sphere, the eastern European countries behind the so-called iron curtain?

Ambassador DOUGLAS. There is no deficit.

Mr. FULTON. That is an even basis?

Ambassador DOUGLAS. That is right.

The total to be financed is \$8,727,000,000.

To be met by sources other than new United States Treasury appropriations, there are a number of different items, or rather \$1,285,000,000 from that source.

Now the analysis of that \$1,285,000,000 is as follows: \$700,000,000 from other Western Hemisphere countries. That \$700,000,000 figure is based upon the past experience that these 16 participating countries have had with the other Western Hemisphere countries. The \$700,000,000 takes the form of credit extended. One of the Western Hemisphere countries has already extended a substantial line of credit to one of the 16 participating countries.

Mr. VORYS. Is that Argentine to Italy?

Ambassador DOUGLAS. I was referring to Canada, and that has not yet been exhausted.

Mr. MUNDT. Could you say which one of those have lines of credit?

Ambassador DOUGLAS. I will give you the general derivation of that figure now, and at another time I will be glad to discuss it with you in greater detail, because there are certain reasons why there should not be a complete analysis, in very great detail in the record.

Mr. BLOOM. There are certain of those figures that cannot be divulged; is that correct?

Ambassador DOUGLAS. Those are derived from lines of credit extended and previous rate of drawing on those lines of credit, and secondly it is derived from the fact that some of these Western Hemisphere countries will charge a price for the commodities which they export to the participating countries which is less than the price at which the cost of their imports was calculated.

For example, let us suppose that one of the participating countries calculated it needs 1,000,000 bushels of wheat, and that it costs \$3 a bushel. That is \$3,000,000.

Now let us suppose that that 1,000,000 bushels of wheat will be imported into one of the participating countries at a cost of \$2 a bushel.

The difference between the \$3,000,000, which is the cost of 1,000,000 bushels at \$3 a bushel, and the 1,000,000 bushels at a cost of \$2 a bushel, represents \$1,000,000, and therefore that must be subtracted from the cost of the imports. Is that clear?

Mr. CHIPERFIELD. No.

Ambassador DOUGLAS. If the imports were calculated to cost \$3,000,000 in this particular case because the price per bushel was \$3—

Mr. BLOOM. Suppose it is reversed. What would happen there in that so-called hypothetical case?

Ambassador DOUGLAS. At the moment, that sort of a transaction is not contemplated.

Mr. VORYS. You have made an estimate for that. That is your item 11, "Adjustment for higher prices."

Ambassador DOUGLAS. You will recollect that the adjustment on account of prices in the United States was 7.5 percent, because that is the amount by which the price level had risen, during the period July 1 to October.

The adjustment on account of prices for the balance of the Western Hemisphere was calculated at 5 percent. The reason for the difference is that we did not calculate any increase in prices for certain commodities already being sold at a price above the prevailing world market.

Mr. LODGE. Mr. Ambassador, we might eventually be called upon to pay that as a deficit during the course of the next few years, might we not?

Ambassador DOUGLAS. What was that, sir?

Mr. LODGE. Since that is a line of credit and not a grant, we might eventually be called upon to pay that; and therefore it is perhaps just as well, it seems to me, not to take that reduction too seriously.

Ambassador DOUGLAS. The \$700,000,000?

Mr. LODGE. No; the \$1,285,000,000 figure.

Ambassador DOUGLAS. No; I think that is a legitimate deduction.

Mr. LODGE. Are these countries not eventually going to have to pay up on this line of credit established by various South American

countries? If they do, that will constitute a deficit in their balance of payments which we, under this European recovery program, would perhaps feel that we would have to pay for.

Ambassador DOUGLAS. That is after the period is over.

Mr. LODGE. It is?

Ambassador DOUGLAS. Yes.

Mr. LODGE. I understand.

Ambassador DOUGLAS. If I have not made myself clear about the \$700,000,000, I will come back to it at another time; but it is a reasonably firm calculation of the amount of assistance and support for the western European countries based upon previous experience.

Then we calculate there will be \$500,000,000 derived from the International Bank, Export-Import Bank, and from private sources.

The calculation of the amount derived from the Export-Import Bank and the International Bank is based very largely upon the lines of credit outstanding and the rate at which they have been drawn down in the past. There is an item of about \$50,000,000 to \$100,000,000, to be derived from private investment sources, included in the \$500,000,000; and, in addition, some of the nonparticipating countries will provide \$85,000,000; so those two items, \$700,000,000, \$500,000,000, as well as \$85,000,000, go to make up a total of \$1,285,000,000.

Mr. BLOOM. Now you say "private sources." Are private loaning institutions permitted at the present time under our laws to make loans to foreign governments or the people of foreign governments?

Ambassador DOUGLAS. These may be direct investments.

Mr. BLOOM. According to the Johnson Act, I do not think that is permissible, is it?

Mr. CHIPERFIELD. Did not Bretton Woods repeal the Johnson Act?

Ambassador DOUGLAS. No. These would not be governmental transactions.

Mr. BLOOM. The Government may do it but not private loaning institutions.

Ambassador DOUGLAS. It is not contemplated that these will be loans to governments from private sources, but these will be investments made by private sources.

Mr. VORYS. Private sources in 16 countries that can secure loans?

Ambassador DOUGLAS. Yes; from private sources in the United States; or, alternatively, the investment by United States concerns, expressed in terms of dollars, in private undertakings in one of the participating countries.

Mr. BLOOM. You may be right, Mr. Ambassador, but I have never heard that the Johnson Act was repealed.

Ambassador DOUGLAS. The Johnson Act was passed in 1931 or 1932, as I recollect.

Mr. BLOOM. It still stands.

Ambassador DOUGLAS. During the period since 1931 and 1932, substantial sums have been invested by American corporations or individuals in these European countries.

Mr. JARMAN. That would include oil companies?

Ambassador DOUGLAS. Yes; oil companies and refining projects.

There is this feature, too, as I have just been informed: The Johnson Act does not apply to those countries who participate in and have contributed to the International Bank and the International Monetary fund.

Mr. BLOOM. Any foreign government who has defaulted in any of their payments to this country or in their obligations to this country—it does not apply there; but any countries who have defaulted in any of their payments to this country, or any of their obligations—the Johnson Act definitely does apply.

Mr. VORYS. It does not.

Mr. CHIPERFIELD. It does not.

Mr. BLOOM. Very well; I am wrong again.

Mr. JARMAN. The Johnson Act does not apply to any investment by the Ford Motor Co. in a plant in a foreign country, does it?

Ambassador DOUGLAS. A substantial part of the \$150,000,000 would comprise items to which the Congressman has referred.

At any rate, those three figures make up the total of \$1,285,000,000.

Mr. VORYS. Do I understand that \$85,000,000 is all that is contemplated from all the rest of the planet, by way of loans, grants, or anything else in this picture?

Ambassador DOUGLAS. No, sir.

Mr. VORYS. That is, outside participating countries?

Ambassador DOUGLAS. No, sir. Most of the participating countries cannot supply dollars to any great extent. I am talking only about the participating countries, because this balance of payments applies only to the participating countries. There are three or four countries who have dollars and can supply dollars to meet their deficits.

Mr. MUNDT. Let us approach it the other way, because it is certainly not clear to me or to Mr. Vorys yet: If we appropriate \$6,800,000,000, which is the requested amount for the 16 countries, how much is the rest of the planet going to contribute beyond that?

Mr. VORYS. It will be \$85,000,000?

Mr. MUNDT. It looks like \$85,000,000 by your figures, but you say that is not it.

What is the amount in figures that will be comparable to the \$6,800,000,000? We are supposed to put in that much. How much is the rest of the world going to put in?

Ambassador DOUGLAS. I have indicated that among the Western Hemisphere countries——

Mr. MUNDT (interposing). How much of the rest of the world will put something in? Give us a definite figure that will be comparable to the \$6,800,000,000.

Ambassador DOUGLAS. This calculation is based upon the deficiency expressed in terms of dollars with the United States and with the Western Hemisphere countries. Now, of the total deficiency, Western Hemisphere countries will provide some \$700,000,000 in support. The \$85,000,000 to which you refer represents the dollars that will come from the participating countries which have a deficiency but which will be able to meet that deficiency completely and wholly out of their dollar resources. Therefore, that has to be subtracted, because it is an item we will not finance.

Mr. MUNDT. There is now a total of \$785,000,000 to be contributed by countries other than the United States to the European recovery program?

Ambassador DOUGLAS. \$700,000,000 in support will be provided by Western Hemisphere countries.

Mr. MUNDT. And \$85,000,000 by the participating countries?

Ambassador DOUGLAS. To meet their own deficiency. They need no loan; they need no grant of any sort or character. They have a

deficiency in their balance of payments, and they will pay \$85,000,000 to meet their deficiency. It is cash on the barrel head.

Mr. MUNDT. Then we should be able to answer "yes" or "no" this question: Is the total amount which the rest of the world is going to contribute to the recovery program of the 16 countries \$785,000,000, outside of the United States contribution?

Ambassador DOUGLAS. The deficiency with the balance of the world is not expressed in terms of dollars. I might say that. It is expressed in terms of other currencies.

One of the other countries of the world has extended a line of credit to one of the 16 participating countries. This other country to which I refer is not a Western Hemisphere country. That is in the amount of some \$320,000,000. I cannot give you, sir, the amount of dollar aid the balance of the world may provide.

Mr. JARMAN. Is the answer to that question that the rest of the world will provide \$700,000,000 in dollar aid, plus an amount of which you are not sure, in other currencies?

Ambassador DOUGLAS. Yes; that is correct. I do know of one item of \$320,000,000, but that is to tide over one of these countries in a period of great stringency now and will be exhausted before this program goes into effect.

Mr. VORYS. We were told yesterday—one of our committee members was going through the countries and added up about 7 to 10 of the 16 countries which were labeled by Mr. Thorp as cash or loan countries.

Now does the \$85,000,000 represent all of the cash countries? Is that all of the amount that these 16 countries are going to pay of their own deficits?

Ambassador DOUGLAS. There are three countries having deficiencies in their balance of payments. The deficiencies of those three countries can be met and will be met out of their own resources. They will receive neither grants, loans, nor other support from us. And the deficiencies of those three countries amount to approximately \$85,000,000.

Mr. VORYS. Now, are there not some countries having no deficiencies?

Ambassador DOUGLAS. Yes; there are some having slight surpluses.

I doubtless have failed to explain the \$1,285,000,000 satisfactorily. Those are amounts for financing other than from appropriations of the United States Treasury. The total is \$7,442,000,000. There must be subtracted from the \$7,442,000,000, \$822,000,000, on account of an appropriation which the Army will seek from the Congress, for the purpose of preventing disease and maintaining order in Germany.

Mr. VORYS. Now, right at that point, since it has been announced that the State Department is taking over the administration of Germany June 30, and since the State Department is here contending for control of the funds, it is purely a confusing bookkeeping entry not to have the \$822,000,000 from now on added into the \$6,800,000,000; because, in the first place, it is all part of the total prospective cost to the taxpayer of European recovery; and second, it is all going to be administered by the same crowd in the same Department of the Government, if the law goes through as proposed here.

It is perfectly silly to carry that as a deduction and pretend we are talking about \$6,800,000,000 when we are talking about \$7,600,000,000 from now on.

Ambassador DOUGLAS. This is the only way it can be disclosed under the present distribution of authority. The Army now does have the responsibility for the administration of Germany. The Army will present this request for an appropriation.

Now, the State Department will not present that request; and it would be misleading—it would not be taking circumstances as they are, conditions as they exist, if the \$822,000,000 were not subtracted. That is the amount calculated by the Army to be necessary to maintain order and to prevent disease. There is \$400,000,000 other than the \$822,000,000 which will become available for the recovery of Germany. However, there is \$822,000,000 to prevent disease and to maintain order.

I think, giving the circumstances as they are, the authority of the Department of the Army as it now is, it would be misleading if the \$822,000,000 were not subtracted from the \$7,442,000,000.

Mr. VORYS. Just at that point, the total for Germany is going to be not \$822,000,000, or not \$822,000,000 plus \$4,000,000, but \$822,000,000 plus \$400,000,000 plus \$200,000,000, or about \$1,400,000,000; is that correct?

Ambassador DOUGLAS. That \$200,000,000 is in the figure. It is not \$822,000,000 plus \$200,000,000 plus \$400,000,000; it is \$822,000,000 plus \$400,000,000 or a total of \$1,222,000,000.

Mr. FULTON. Can you clarify that figure of \$822,000,000? Is that \$822,000,000 for all three zones of Germany outside of the Russian zone, or is it just our zone?

Ambassador DOUGLAS. It is \$822,000,000 which the Army will request for the purpose of preventing disease and maintaining order within the area of Germany over which it has jurisdiction.

Mr. FULTON. Does that mean the British and French zones or just the American zone?

Mr. JARMAN. In other words, Mr. Ambassador, is that not a cost flowing from our occupation of that area, rather than a cost, like these other costs, to recuperate the country?

Ambassador DOUGLAS. That is right. That is a sum of money which the Army will request to defray the cost of preventing disease and maintaining order within the area over which it has jurisdiction, a part of which is derived from the bizonal agreement with the British zone.

Mr. FULTON. How much are we putting into the British zone of that and how much into the French zone?

Ambassador DOUGLAS. The French zone is not included in the \$822,000,000. Now, as to the analysis of that \$822,000,000, you will have to get that from the Department of the Army. I am sorry I do not have it, sir.

Mr. JARMAN. Let us assume we do not pass this legislation. Would it not be necessary next year and the year after next, and as long as we occupy that portion of Germany, to be faced with some figure for occupation, even though this legislation were not passed?

Ambassador DOUGLAS. If this legislation is not passed, and economic and political stability does not begin to reappear on a solid foundation in Western Europe, the whole condition of this area will so change that I doubt that anyone can calculate what the cost to us will be in Germany, what the status of Germany will be, what will be the political structure of Germany, what views will control in the

Government of Germany, so I doubt that one can give an adequate answer to your question.

Mr. JARMAN. However, as long as we occupy Germany, there will be some expense, whether the bill passes or not?

Ambassador DOUGLAS. That is precisely right, sir.

Mr. JARMAN. Therefore, I agree that this is not to be included in this bill, because it is for a different purpose.

Ambassador DOUGLAS. The second implication in your question—and, in fact, it was an expressed statement of the Congressman—was that the State Department is to have jurisdiction over the expenditure of the funds. I submit that is not in accordance with the intentions or the ambitions or the plans of the State Department, or of the administrative proposal which has been suggested. However, we will come to that at another time.

Chairman EATON. Mr. Ambassador, would it be agreeable to you to adjourn shortly, now?

Ambassador DOUGLAS. There is just one more item.

There will be needed funds for incurring of obligations after June 30 of 1949, or rather to cover contracts for shipments for a period of 60 days or so after June 30, 1949. That amounts to \$200,000,000.

The total therefore which is being sought, and the explanation of the total amounts to \$6,820,000,000.

Mr. BLOOM. Is that \$800,000,000 included in the \$6,820,000,000?

Ambassador DOUGLAS. The \$822,000,000 is not; \$400,000,000 for straight recovery is.

Mr. VORYS. And \$200,000,000 in addition to the \$400,000,000 is included—it is at least included on the chart you have there, because you have it added in as item 14.

Ambassador DOUGLAS. I can explain it this way: There is somewhat of an over-simplification in this, but I think it will perhaps resolve the confusion—\$400,000,000 will be made available in addition to the \$822,000,000, for the recovery of western Germany.

The \$8,527,000,000 represents the dollar deficiency with the Western Hemisphere; \$200,000,000 of the \$400,000,000 required for Germany is included in that \$8,527,000,000 figure. However, there is a deficiency with countries other than those located in the Western Hemisphere, and outside of the area of the nonparticipating countries, in the amount of \$200,000,000, and therefore that has to be added.

Mr. VORYS. So that the total is \$1,222,000,000, and not the other figure?

Ambassador DOUGLAS. That is right, \$1,222,000,000. They are rounded off figures, but they are substantially correct.

I am at your service, Mr. Chairman.

Chairman EATON. The committee will stand adjourned until 2 o'clock, if the Ambassador will return then.

Thank you.

(Whereupon, at 12:05 p. m., the committee adjourned to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

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

Chairman EATON. The committee will be in order.

We will ask Ambassador Douglas to proceed with his testimony.

Ambassador DOUGLAS. Mr. Chairman, at the conclusion of the morning session of the committee we were discussing the final ending of the calculations which represented the basis for the request for \$6,800,000,000.

There are one or two points I would like to make, if I may, about the calculations.

The first has to do with the caption "Selected imports." The commodities included within that category of imports were selected, first, because they comprised the group of commodities which the Paris Conference, consisting of 16 participating countries, considered to be absolutely essential to the recovery of these countries, and, secondly, because the category comprised commodities of which generally there was a short supply.

It is not to be inferred from that statement that there are not other commodities in a very wide range of commodities that are not essential to the recovery of the European area of which we are speaking.

The second point I would like to make is that the National Advisory Council, which is charged with the responsibility of coordinating the lending policy of the United States—the National Advisory Council organization has made rough calculations and estimates of the amount of the \$6,800,000,000, which will be extended in the form of loans.

That rough and tentative calculation made by the NAC organization indicates that between 20 and 40 percent of the \$6,800,000,000 will take the form of extending credit.

Mr. BLOOM. That will be repaid?

Ambassador DOUGLAS. That is right.

These calculations that various departments of the Government have participated in making and which were explained to the committee this morning compare with other calculations. These other calculations were made by the 16 participating countries meeting in Paris and by the Harriman committee and I would like to explain to the committee what that comparison indicates. Before I do so, if the committee is not informed as to the historic development of the Committee on European Economic Cooperation, that is to say of the Paris Conference, and the evolution of the European recovery program, it might be well to have the record disclose what that history is. The Secretary of State on June 5 made a speech at Harvard, with which every member of this committee is thoroughly informed.

Immediately after that speech Mr. Bevin, the Secretary of State for Foreign Affairs in the United Kingdom, and Mr. Bidault extended an invitation to all the European countries, excepting Spain, to meet and discuss what could be done. An initial conference was convened in Paris, attended by Messrs. Bevin, Bidault and Molotov. When it was disclosed at that meeting that the purpose of the Conference which was to be held, among other things, was to determine what each one of the participating countries should do for itself and for each of the other countries, Mr. Molotov departed, after having used some forceful and significant language warning for example the United Kingdom and the French that the steps which they were proposing to take would have unfortunate consequences.

Notwithstanding Mr. Molotov's departure, invitations were issued and 16 of the countries which received them formally accepted and met in Paris on the 12th of July. They organized their working committees and an executive committee and they then proceeded to

calculate or estimate what each one could do for itself and what collectively and cooperatively they could do for each other. In addition, they calculated the amount of outside support which would be necessary for the recovery of the community of nations.

What was perhaps more significant were the commitments which each one of the participating nations pledged itself to fulfill, and at a later time perhaps reference will be made to those undertakings and pledges. However, for the moment, dealing with the calculations of the outside support, it is interesting that the Committee on European Economic Cooperation produced a figure which upon relatively comparable assumptions to the figures prepared by the various departments of the United States Government, amounted to \$8,035,000,000 for the calendar year 1948, as against the figure prepared by the executive branch of the Government of \$6,303,000,000 for the fiscal year 1949.

In other words, after the Paris Conference completed its work and had submitted its findings to our Government, various groups of people working in committees in which there was representation from many departments of Government, went through this Paris report, commodity by commodity, insofar as the selected commodities were concerned, measured the availability of commodities in question and all the factors that entered into the final calculation, and came forward with an estimated amount necessary for the recovery of western Europe, which was roughly \$1,700,000,000 less than the amount calculated by those attending the Paris Conference, and which was included in the report of the Committee on European Economic Cooperation.

At the same time, the Harriman committee, consisting of distinguished Americans, drawn from outside of the area of Government personnel, reviewed the report of the Paris Conference, and on a basis comparable with that on which the calculations of the executive branch were made, produced a figure approximately \$6,330,000,000, as the lowest estimate, and another figure as their highest estimate, based upon a higher availability of commodities, and somewhat different price assumptions, of \$7,060,000,000.

Those figures which I have indicated are the deficiencies in the balance of payments. You can find this table on page 100.

Mr. BLOOM. They are all for the first 15 months?

Ambassador DOUGLAS. No; this is all on the basis of 12 months for the Paris report did not make any calculations for a 15 months' period, nor did the Harriman committee. These figures which I have just recited are based upon a 12 months' period, because it is the only basis, the only standard which can be used since no figures were made by the Paris report for a 15 months' period.

Certain adjustments had to be made, first, in regard to the figure proposed by the Paris report. It was calculated that \$920,000,000 would be provided from sources other than appropriations by the United States Government, reducing their figure of \$7,120,000,000.

The Harriman report produced one figure of \$6,330,000,000, in terms of July 1, 1947 prices. Then an adjustment upward of that figure was made on account of an elevation of the price level, the same adjustment on account of prices which was made by the various departments of Government. Accordingly, after that adjustment was made the \$6,330,000,000 figure was increased to \$6,880,000,000. The

Harriman committee estimated that \$1,100,000,000 should be had for the purpose of meeting that \$6,880,000,000 from sources other than funds appropriated by the Congress, thus reducing the figure to \$5,780,000,000, whereas on a comparable basis the end figure produced by the executive branch was \$5,789,000,000. When certain further adjustments are made in those figures, the end result of the Harriman committee's report, that is after including, for example, the \$200,000,000 on account of forward obligations and the appropriation of the Department of the Army of \$822,000,000, the end result of the Harriman committee was \$6,811,000,000, as compared with \$6,800,000,000 for the executive branch.

This is a very important point, because it is quite revealing: I should say that there are a number of differences in the internal composition of the Harriman committee's calculations from those made by the executive branch.

For example, the Harriman committee was more conservative in the amount of imports from the United States and from the other Western Hemisphere countries than was the executive branch.

As a result of the smaller imports, it reduced the exports from these participating countries quite substantially, as compared with the estimates and calculations made by the executive branch.

The deficiency on trade account remains approximately the same, but it is significant and important as a consideration to bear in mind that a reduction of imports even to the European countries must be reflected in a reduction of exports.

Mr. JONKMAN. Right at that point, is that because their exports would depend upon raw materials?

Ambassador DOUGLAS. That is precisely why, sir. At any rate the end result of the Harriman committee's calculations and the calculations made by the executive branch of the Government, if you take the lower of the Harriman estimates, are approximately identical, and the estimates made by the executive branch are just in a minute way lower than those made by the Harriman committee. There has therefore been a check as it were on the calculations made by the executive branch.

I should like to tell the committee why, in our judgment, the \$6,800,000,000 figure represents a minimum.

Mr. VORYS. Would you mind an interruption, Mr. Douglas?

Ambassador DOUGLAS. No, sir.

Mr. VORYS. I have heard it said that in view of the fact that the administration made suggestions to the Paris Conference and set up the Harriman report and the executive branch has the responsibility of administration, it would not be surprising or merely a coincidence if the figures all came out about the same. There are many who do not think that these are three utterly independent surveys as to the source of the figures they worked with, or as to the compilations they made.

Ambassador DOUGLAS. Well, as to the Paris Conference, Congressman Vorys, the calculation was absolutely independent.

Mr. CHIPERFIELD. Mr. Ambassador, did you not have something to do with those figures at Paris?

Ambassador DOUGLAS. Not with the figures.

Mr. CHIPERFIELD. The press seemed to indicate thusly.

Ambassador DOUGLAS. No; I can tell you precisely what happened.

Mr. CHIPERFIELD. Would you tell us?

Ambassador DOUGLAS. The first addition or total of the calculated requirements of the 16 countries was put at a figure approximating \$29,000,000,000 for the 4-year period. It was perfectly tentative. It had not been approved by the Conference or by the executive committee. That figure was disclosed to Mr. Clayton and disclosed to me. We both made from separate parts of Europe, the same kind of a reply. When that figure was reviewed by the executive committee and the Conference, they reduced it very substantially to \$22,400,000,000, including the items amounting to \$3,100,000,000, which they calculated could be made available through the International Bank and from other sources, so that it was only in respect of the total that any expression of the view from the United States was given.

The United States Government did not participate in the calculation of the commodity requirements. Conversations were had toward the very end, when the Paris Conference was drawing to its close, in regard to the undertakings which each country would make to the other countries, the nature of the cooperative effort. However, it was made clear that what was said was done in the form of friendly aid in drafting which the secretary said in his Harvard speech we would make available.

The Paris Conference report was slightly more than \$1,700,000,000 in excess of the calculation made by the executive branch of the United States Government for a 12 months' period, and, of course, all the figures that I am talking about, except the one with reference to the \$22,400,000,000 have to do either with a 15 months' period or 12 months' period. At the moment I am talking about the 12 months' period.

So much for the way in which the Paris figures were made. As to the Harriman committee, and this is directed to the second part of your question, Congressman Vorys, many of the studies upon which the Harriman committee's report was based were made by independent people, shipping for example, and a number of others.

Now, Mr. Harriman or the executive officer of that committee can explain to you much better than I can the extent to which those calculations were wholly independent of the Government. However, I think it is fair to say that there was not collaboration in the calculation of figures as between the Harriman committee and the executive branch. Mr. Nitze says there was collaboration in getting the data together, but there was no collaboration in the measurement of the availabilities and a whole variety of items of that character.

I cannot say—perhaps Mr. Harriman can—that the two calculations were wholly independent, but I can say they were not made with a view to having them come out at the same end point.

Mr. VORYS. That is understandable. I am not saying that critically. If they all three came up with perfect answers, they probably would look the same. So the mere fact that there is a similarity does not necessarily prove anything wrong about the figures.

Ambassador DOUGLAS. No. It does indicate that there has been a reasonable amount of very careful screening and scrutiny and review of the figures. The point was that two relatively independent reviews had come out with figures which were approximately the same, based upon approximately identical hypotheses and assumptions.

Mr. BLOOM. You were figuring on 12 months. The calculations were all on 12 months. How did you get \$6,800,000,000 on the 15 months' period?

Ambassador DOUGLAS. As I explained this morning, Congressman—

Mr. BLOOM (interposing). I did not hear it. Maybe I was not here at that time. All of your figures that you have been talking about now as I understand concern the 12 months' period?

Ambassador DOUGLAS. That is right, except for the end figure, which is an adjustment of the Harriman committee's figures for the 15 months, \$6,811,000,000 as against \$6,800,000,000. The executive figures for the 15 months were based upon a minute calculation of certain commodities for the 3 months' period April 1 to July 1, and the following succeeding 12 months' period.

Mr. VORYS. Of course, I hope you appreciate that having this placed before us in tables of yearly figures, and then jumping to 15 months is dreadfully confusing, but let me also point out that on the chart you have before us, there is \$200,000,000 in for the period after the 15 months, so that that is just another little added confusion in there. The item 20 on your chart is \$200,000,000 to go beyond the 15 months. That may be a nice idea, but it does not help to dispel the confusion.

Ambassador DOUGLAS. However, that \$200,000,000, Congressman, is for the purpose of liquidating during the 60 days after July 1 of 1949, the obligations that have been entered into prior to July 1 of 1949. We could have put that \$200,000,000 or hidden it in another place.

Mr. BLOOM. When you differentiate between the 12 months and the 15 months do you prorate that extra 3 months?

Ambassador DOUGLAS. Not insofar as the executive branch is concerned. On page 108 of the published document you will find the calculation for the 3 months' period, that is April 1 to June 30, or July 1, and from July 1 of 1948 to June 30 of 1949. That was a calculation for both periods, made in the same way. The reason for putting the 3 months' period and the 12 months' period together was in order to explain how the total figures had been arrived at.

Mr. BLOOM. That is what I wanted to know.

Ambassador DOUGLAS. There it is, sir.

Mr. VORYS. It is not very helpful because there is a little item of \$200,000,000 difference between the one that you have up there and the one on page 108. This one ends up "\$8,727,000,000," and that one ended up "\$8,527,000,000."

Ambassador DOUGLAS. \$8,727,000,000, sir, on line 15.

Now as to the comparison between the executive branch estimates and the estimates of the Paris report and the estimates of the Harriman committee, we had to take a 12 months' period because both the Harriman committee and the Paris Conference made their calculations for a 12 months' period. We could not have made any comparison had we not had the comparison on the 12 months' basis, that is. Is that clear?

I should like to explain why—

Mr. BLOOM (interposing). No one said "Yes" when you said, "Is that clear?"

Ambassador DOUGLAS. Does anyone care to say "No"?

Mr. BLOOM. Congressman Vorys is interested in the \$200,000,000 figure. I am interested in the \$6,800,000,000 figure.

Ambassador DOUGLAS. I can go through this again, the \$6,800,000,000. The \$200,000,000 I think is included, Congressman. The uncovered deficit of the bizonal German areas with nonparticipating countries outside the Western Hemisphere is \$200,000,000.

(The Department of State has submitted the following additional material on this matter:)

THE BIZONAL DEFICIT WITH NONPARTICIPATING AREAS OUTSIDE THE WESTERN HEMISPHERE

1. The bizonal area is expected to import substantially more than it will export to the nonparticipating countries outside the Western Hemisphere in the first 15 months of the ERP. These countries, which are known as other nonparticipating countries include not only the countries of eastern Europe but all countries which are not in the Western Hemisphere or dependent territories of the 16 participating countries. Among them are very important raw-material-supplying countries such as Australia, New Zealand, South Africa, China, India, etc. Included in the 6.8 billion dollars appropriation request for the next 15 months of the ERP is \$200,000,000 to cover a portion of the imports from these countries.

2. Attachments A and B provide an illustrative pattern of this trade, showing how the deficit has been calculated and the basis of the request for an appropriation covering this deficit. In making use of these attachments the following explanation may be useful. These comments apply to attachment B which deals with fiscal year 1949 but they hold equally for the period April to June 1948 which is dealt with in attachment A.

3. Estimated bizonal imports from eastern Europe, including the Soviet zone of Germany and all the nonparticipating countries in eastern Europe, are expected to amount to 93.8 million dollars. These imports include bread grains, industrial raw materials and manufactured goods, as well as the freight cost on these goods. Imports from non-European nonparticipating countries are expected to amount to 267.2 million dollars, including freight cost. These imports include wool, nonferrous metals, tropical fats and oils, and industrial raw materials.

4. Having in mind the fact that trade with the areas of eastern Europe and with the Soviet Union itself must be conducted on a barter basis it was considered necessary to assign to these areas sufficient German exports to balance the imports from them. The bizonal exports to all areas in the first 15 months' period are relatively small, compared to import needs, and, in the program which has been constructed, have all been assigned to areas other than the non-European nonparticipating countries. If some of these exports are, in fact, diverted to these countries, the result will be a decrease in exports to such areas as the Western Hemisphere and an increase in the bizonal deficit with these areas corresponding to the reduction in the deficit with non-European nonparticipating countries. Therefore the entire amount of bizonal imports from the non-European nonparticipating countries, 267.2 millions, must be financed in cash.

5. The remainder of attachment B indicates the division of the deficit of 267.2 million dollars between British financing under the United States-United Kingdom bizonal agreement, and United States financing as requested under the ERP authorization. It is necessary to rely on United States and British financing for the bulk of this amount because the bizonal area has neither foreign exchange resources nor the possibility of any substantial credits from these areas which are themselves suffering from a shortage of dollars and curtailing their imports from dollar areas.

6. The Department of the Army is in general agreement with this presentation.

ATTACHMENT A

Explanation of \$200,000,000 item for uncovered deficit of bizonal area with nonparticipating countries

April-June 1948:

Imports (including freight cost) from U.S.S.R. and eastern Europe)---	24.3
Imports (including freight cost) from other nonparticipating areas---	41.6
Total imports-----	65.9

April-June 1948—Continued

Exports to U.S.R.R. and eastern Europe-----	24.3
Total deficit with nonparticipating countries-----	41.6
Adjustment for price increase (7½ percent)-----	3.1
Total deficit at adjusted prices-----	44.7
British contribution ¹ -----	17.5
Uncovered deficit-----	27.2
Above in round figure-----	30.0

¹ Under the terms of the United States-United Kingdom bizonal agreement, revised as of Dec. 17, 1947 par. 1 (a) (iv). See Department of State Bulletin, Dec. 28, 1947, pp. 1263 et seq. It is contemplated that the British contribution will be largely available for procurement of goods and services from nonparticipating areas; if a portion of the contribution should be spent elsewhere, a corresponding shift in the destination of German exports would be required to cover a portion of the imports from the nonparticipating countries.

ATTACHMENT B

Fiscal 1949:

Imports (including freight cost) from U. S. S. R. and eastern Europe--	93.8
Imports (including freight cost) from other nonparticipating areas---	267.2
Total imports-----	361.0
Exports to U. S. S. R. and eastern Europe-----	93.8
Total deficit with nonparticipating areas-----	267.2
Adjustment for price increase-----	20.0
Total deficit at adjusted prices-----	287.2
British contribution ¹ -----	70.0
Uncovered deficit-----	217.2
Plus deficit for 3 months-----	30.0
Total uncovered deficit for 15 months-----	247.2
Appropriation request-----	200.0
Deficit not covered ² -----	47.2

¹ Under terms of United States-United Kingdom bizonal agreement, revised as of Dec. 17, 1947, par. 1 (a) (iv). See Department of State Bulletin, Dec. 28, 1947, pp. 1263 et seq.

² As noted in text, revision of figures now under consideration will substantially eliminate this uncovered deficit.

Mr. BLOOM. I think we will have to have a private conference on that.

Mr. Ambassador, you say about the International Bank, that is a loan, is it not?

Ambassador DOUGLAS. Was the question whether the operation of the International Bank takes the form of loans?

Mr. BLOOM. Yes. How is that figure in here, that must be a direct figure the same as a bank loan.

Ambassador DOUGLAS. Certainly.

Mr. BLOOM. How do you figure that in with the aid to the 16 participating countries?

Ambassador DOUGLAS. The total requirements were calculated at a certain figure, \$8,727,000,000. That is the total requirements. Now, how were the total requirements to be met? We calculated, or the executive branch did, that \$1,285,000,000 would be derived from sources other than appropriated funds. \$500,000,000 of the \$1,285,000,000 would come from the International Bank, private investment sources, and the Export-Import Bank. There is a deficiency, for example, of \$100, somebody needs \$100. He may decide that he can meet his need by borrowing \$50, and drawing down on a

cash account, or some other device, for the remaining \$50. That is precisely what this calculation is. The total requirements are \$8,727,000,000. How are they to be met? \$1,285,000,000 from sources other than appropriated funds of the United States.

Mr. Mansfield. May I ask a question?

Ambassador DOUGLAS. Yes.

Mr. MANSFIELD. How much do you estimate American businessmen will invest in Europe under this proposal?

Ambassador DOUGLAS. We calculated roughly that between 50 and 100 millions during the 15 months' period would be either invested by American individuals, or American corporations or loaned. That would be from private American sources.

Mr. MANSFIELD. Do you anticipate in the period beyond that 15 months that providing these initial investments should meet with some degree of success that additional American investments would take place?

Ambassador DOUGLAS. Congressman, if economic and political stability begin to reappear on a solid basis in western Europe, I think a profitable field for American investment will develop.

Mr. MANSFIELD. Is it the purpose of this particular measure to offer any degree of security or to guarantee any security to the American investments in the first 15 months?

Ambassador DOUGLAS. The legislation contemplates the guaranteeing of investments made by American corporations or individuals up to 5 percent of the total amount of money appropriated, and then only on account of the transfer from foreign countries into dollars of the amount invested, provided the enterprise earns money.

In other words, the American investor will take a complete risk as to whether the project in which the investment is made is a profitable one, or a nonprofitable one, and the guaranty will apply only to the ability to transfer from French francs or pounds sterling from England into dollars, and then only up to the extent of the amount invested.

Mr. MANSFIELD. I understand. Thank you.

Mr. BLOOM. That is a conditional loan, is it not?

Ambassador DOUGLAS. It is not a conditional loan.

Mr. BLOOM. The private investor has a conditional loan. He is only guaranteed up to 5 percent.

Ambassador DOUGLAS. No. The total amount of the guaranties which may be extended, under this particular provision of the bill, and indeed under any provision of the bill, cannot exceed 5 percent of the total appropriated. That is to say the total amount of the guaranties cannot exceed 5 percent of \$6,800,000,000, if the Congress authorizes and appropriates \$6,800,000,000.

Mr. BLOOM. Are the loans made by the International Bank and the Export-Import Bank the same kind of loans or conditional loans or are they different kinds of loans?

Ambassador DOUGLAS. The loan made by the International Bank is a wholly different sort of a thing. That is a loan made by that bank to a foreign country or to a concern within the foreign country that has the approval of the central bank of that foreign country.

Mr. BLOOM. However, the Export-Import Bank loans are lower?

Ambassador DOUGLAS. The Export-Import Bank is an agency of the United States Government, and it extends loans out of funds appropriated or a lending authority extended to the Export-Import

Bank by the Congress. However, I am talking about something different with respect to guaranties. Total guaranties may not exceed 5 percent of the total sum appropriated, and then the guaranty can only be invoked up to the amount of the capital invested abroad, and then only to transfer from the foreign currency into American dollars, and then only if the venture abroad is a profitable undertaking. That is, we do not propose that there should be a guaranty of the ordinary business risk, other than the exchange risk.

Mr. VORYS. However, Mr. Ambassador, the guaranteed loans, while the amount of them is to be limited to 5 percent of the \$6,800,000,000, that amount is to be in addition to the \$6,800,000,000?

Ambassador DOUGLAS. No, sir. It is included within the \$6,800,000,000. That is certainly the intention.

Mr. VORYS. Would that not be \$340,000,000?

Ambassador DOUGLAS. That is right.

Mr. VORYS. That is if a whole lot of loans came up to take absolutely every penny that was available, and the authorization was \$6,800,000,000, the first year, is that correct?

Ambassador DOUGLAS. The authorization sought is \$6,800,000,000; yes.

Mr. VORYS. If the authorization were \$6,800,000,000, then there could be \$340,000,000 of guaranteed loans.

Ambassador DOUGLAS. Guaranteed investments; yes.

Mr. VORYS. Would that mean that \$6,800,000,000 minus \$340,000,000 could be appropriated and spent, or that \$6,800,000,000 should be appropriated, and in addition to that \$340,000,000 of loans?

Ambassador DOUGLAS. \$6,460,000,000 would be available.

Mr. BLOOM. Will the gentleman yield?

Ambassador DOUGLAS. Let me explain how that operates. Let us suppose an American company undertakes to invest \$10,000,000 in France for a certain purpose, and that the administrator has guaranteed, subject to all of the limitations to which I have referred, that investment. Then \$10,000,000 will have to be set aside in order to meet the guaranty, should it be necessary to invoke it.

Mr. BLOOM. Following Mr. Vorys' question, would you now have to reserve the full \$340,000,000, the 5 percent?

Ambassador DOUGLAS. No, sir.

Mr. BLOOM. Supposing you went up to \$6,800,000,000 and these investments were made. You still have no provision for the 5 percent. So you would have to earmark \$340,000,000.

Ambassador DOUGLAS. However, they would take the place, Congressman, of support extended in another form and merely be a substitution. An American company invests \$10,000,000 abroad. As to the foreign country, the balance of payments is relieved to the extent of \$10,000,000, just as much as though \$10,000,000 worth of tobacco had been purchased and sent to that country. The dollar resources of that country will have been relieved to precisely the same extent; that is to say, \$10,000,000. The administrator then guarantees the \$10,000,000, subject to all the limitations and conditions to which I have referred. That \$10,000,000 is merely a substitution for relief of their dollar shortage in lieu of something else.

Mr. MANSFIELD. Does that not in effect, Mr. Ambassador, take the strain off the expenditures by this Government and transfer some of

the responsibility to American private industry or American private business?

Ambassador DOUGLAS. Indeed it does.

Mr. JARMAN. However, you would not have to set aside the whole \$340,000,000 initially because those items of \$10,000,000 might not add up to \$340,000,000.

Ambassador DOUGLAS. That is right. As the administrator makes the guaranties, he will set aside the amount necessary to cover the guaranty should it be invoked.

If he makes guaranties only to the extent of \$40,000,000, then that will be exactly the amount which will have to be set aside to make good on the guaranty should it be invoked at some subsequent time. If, on the other hand, he makes guaranties in the amount of \$340,000,000, then he will have to set aside the \$340,000,000 in order to make good on the guaranties which he has extended.

Mr. JARMAN. He has no authority to make more?

Ambassador DOUGLAS. That is right.

Mr. MERROW. How would the \$340,000,000 be affected then as to the loans that are guaranteed 100 percent out of that?

Ambassador DOUGLAS. They are not going to be guaranteed 100 percent, Mr. Congressman.

There is no loan given. The American business corporation makes an investment of its own money. Let us say it is \$10,000,000. The administrator then guarantees that corporation that, should the venture abroad be a profitable one, and should the American corporation experience difficulties in transferring the foreign currency which it earns abroad into American dollars, the guaranty of \$10,000,000 or the extent to which it is impossible to transfer from a foreign country into American dollars will be made good. But there will be no guaranty issued as to the business soundness of the enterprise, nor will the guaranty extend beyond the actual dollar capital invested.

Mr. MERROW. He sets aside dollar for dollar then, using the illustration that the corporation invests \$10,000,000. The \$10,000,000 must be set aside?

Ambassador DOUGLAS. That is right, sir.

Mr. VORYS. That must be held for 14 years. Is that not correct?

Ambassador DOUGLAS. Whatever the period of guarantee is.

Mr. VORYS. The limitation is 14 years.

Ambassador DOUGLAS. That is right. The guaranty might run for a shorter period. It might be liquidated in 4 years or 5 years.

Mr. MERROW. If all that money is lost, then what?

Ambassador DOUGLAS. If the money is lost the venture is unprofitable. That would show on the profit-and-loss statement of the company or corporation. There is no guaranty by the United States Government that the investment will be made good.

Mr. MANSFIELD. Mr. Ambassador, this would be in the form of risk capital on the part of private enterprise, and it would appear to me on the basis of your explanation that if American business does go into any of these European countries, under the plan contemplated by you, that they would in effect be doing something which the Government in another way might have to do, and it would appear to me also that this would be a very worth-while procedure because the stronger business goes in, then the greater stability of the particular countries concerned would be because business will not take a chance

unless there is a reasonable assurance that they would find a profit attached to what they do.

Mr. VORYS. Mr. Ambassador, as I understand your statement and the text of the bill, this has nothing to do with profit. If there is no profit in the venture there is no loss to the United States Treasury.

Mr. MANSFIELD. That is right.

Mr. VORYS. If, however, the venture is profitable in the sense that the American entrepreneur is paid in francs and cannot get dollars for his francs, that guaranty provides assistance, and we have under this a new form of guaranteed foreign exchange.

As I understand it has nothing to do with the profit of the venture. It is merely to unfreeze foreign exchange by a new way, guaranteeing that you can get dollars for your francs or other form of foreign currency.

Ambassador DOUGLAS. Let me give you an example. I know of an American concern that would like to make an investment in one of the foreign countries. It is a company whose assets are in dollars. It wants to make an investment in dollars. It is reluctant to do so because it is fearful that having invested dollars abroad it will not be able to get dollars back because of limitations on the convertability of the exchange. This device is designed to give the American investor a guaranty only as to exchange, a conversion of the foreign exchange into dollars, and then only if the venture abroad is a profitable one, and finally only up to the extent of and not beyond the capital invested.

Mr. JARMAN. If a \$10,000,000 investment made \$5,000,000, the guaranty would only apply to the \$10,000,000? In other words, if the \$10,000,000 investment to which you referred made \$5,000,000 during the time it was in operation, the guaranty will apply only to the \$10,000,000 and not to the \$5,000,000?

Ambassador DOUGLAS. If the investment were \$10,000,000 and over and above the repayment of the capital invested, the profit were \$5,000,000, or a total of \$15,000,000 were derived from the investment, the guaranty would apply only to the \$10,000,000.

Mr. BLOOM. Mr. Ambassador, I have the bill before me. It is an obligation of this Government to guarantee 5 percent of the sum appropriated under this bill or under the act? It is the sum total of 5 percent. Now if you guarantee, and that is what it says, the Government guarantees 5 percent of the amount of money appropriated, I cannot see that it is not encumbent upon the administration to hold back 5 percent for this provision of the bill. It says so, if you look on this page of the bill, and you will see that wording is very explicit and very clear. It is 5 percent guaranteed under the sum total of the appropriation.

Ambassador DOUGLAS. You are talking about what section?

Mr. BLOOM. Page 11.

Ambassador DOUGLAS. It is section 7 (b) (3) (ii)?

Mr. BLOOM. That is right. Now it said guaranty of 5 percent of the total amount appropriated.

Ambassador DOUGLAS. Yes; the language says:

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

Mr. VORYS. That is a ceiling, not a floor.

Mr. JARMAN. It does not say it may not be less.

Mr. BLOOM. If there is less invested, there would be a lesser amount of guaranty of the Government.

Ambassador DOUGLAS. That is right.

Mr. BLOOM. It is in my mind what you say about the 5 percent. Answering Mr. Vorys, I cannot see where it is not incumbent upon the Government to reserve 5 percent of the total amount appropriated so as to pay any of these things if the investment is made.

Ambassador DOUGLAS. Not until the guaranty is made.

Mr. BLOOM. The guaranty is made under the act.

Ambassador DOUGLAS. No. The guaranty is to an individual company and at the moment no one knows what individual corporations will seek a guaranty. Therefore, it is not necessary to put aside any sum until the guaranty is made.

Mr. BLOOM. Can you conceive of any company or any business firm, if they can get a guaranty of the Government to 5 percent of the amount of money they are going to invest, they are not going to take advantage of this act?

Ambassador DOUGLAS. Yes; I can. I know of one.

Mr. BLOOM. He is not of my faith, then.

Mr. CHIPERFIELD. Mr. Ambassador, why did they put a limitation of 5 percent in there? If this is a good thing, why do they not go beyond 5 percent?

Ambassador DOUGLAS. I cannot tell you why the limitation was put in, Congressman. It seems to me that it is a good thing to do.

Mr. MUNDT. They just grabbed the 5 percent out of the air to try it out?

Ambassador DOUGLAS. That seemed to be an approximation of the amount. The National Advisory Council, which is located in a position and is clothed with the authority to coordinate lending policies, produced that figure.

Mr. MUNDT. There are so many possibilities in view of the current discussions as to who is going to administer the act because the bill says that whoever administers the act will determine, I presume, whether corporation A or corporation B is going to get a guarantee to produce a certain product in a certain country. Is that right?

Ambassador DOUGLAS. It will have to be approved by the local government, and by the administrator.

Mr. MUNDT. By the administrator?

Ambassador DOUGLAS. By both.

Mr. MUNDT. That to me provides one very small argument why we should have a bipartisan board administering the act. I can see some very embarrassing situations arising. Suppose in Vienna the New York Times and the Chicago Tribune both get the idea they would like to put in a \$500,000 plant to produce newspapers there.

Mr. BLOOM. That is an atrocity.

Mr. MUNDT. They would like to produce a paper there under the terms of this guarantee. The administrator is under an embarrassing set of circumstances. Is he going to grant it to the Times or to the Tribune? I think a man might make money guessing which one would get the permission at the present time, but I think this should be a place where a board could decide. That is a pretty big responsibility in view of some of the things which have been happening in the commodity markets.

Ambassador DOUGLAS. In the first instance the administrator would not be in a position of approving one or the other until the local government had approved one or the other.

Mr. MUNDT. They make the first approval?

Ambassador DOUGLAS. That is right, sir.

Mr. MUNDT. Is it probable, then, that our Government endorse this decision?

Ambassador DOUGLAS. Not necessarily. We might have some serious doubts about the soundness of the proposed investment.

Mr. MUNDT. Did the advisory board conceive this idea, and I think it has some intriguing possibilities, but did they have in mind some limited time of economic activity to which it would apply, or was it anything of an economic nature?

Ambassador DOUGLAS. Anything within the program, a petroleum refining plant, et cetera.

Mr. MUNDT. It would deal only with those projects?

Ambassador DOUGLAS. Those projects which are within the program, that is right.

Mr. MANSFIELD. I think that the creators of this particular bill are to be congratulated for putting this particular item in there because while you mentioned companies which might be interested in investment in these European nations now being considered, nevertheless it is a fact, I believe, that at the present time certain American companies in both Japan, Germany, and elsewhere are not able to convert money which they have legitimately made from the occupation currency or the francs or whatever it might happen to be, into American money and consequently are suffering a financial loss. Is that not correct?

Ambassador DOUGLAS. Yes. That applies almost everywhere in the world. There would be no guarantee that would cover any previously made investments.

Mr. MANSFIELD. However, you are working on the basis of experiences which you have already incurred?

Ambassador DOUGLAS. Yes.

Mr. LODGE. In other words, it would not protect, for instance, publications which already have the difficulty of conversion?

Ambassador DOUGLAS. Do you mean enterprises?

Mr. LODGE. Such as the New York Herald Tribune in Paris, Time, or Newsweek, any of those publications which at the moment have difficulty in converting their local currencies into dollars. They would not be taken care of, only future enterprises would be taken care of.

Ambassador DOUGLAS. It is not intended that this guarantee shall apply to any investment of any character that has previously been made.

Mr. LODGE. Nevertheless it will not serve as an inducement for them to remain. It will serve only as an inducement for new enterprises to be brought in.

Ambassador DOUGLAS. That is right.

Mr. LODGE. Let us assume that none of this \$340,000,000 is obligated during the first 14 months of the program. Well now, since this is a balance of payments proposition, does that mean that you must either within that final month obligate the \$340,000,000 or else use it for other purposes?

Ambassador DOUGLAS. If it is not obligated it may be used for other purposes.

Mr. LODGE. What is the time limit on that? Within what time does it have to be obligated, or used for other purposes?

Ambassador DOUGLAS. Let me see if I can put it this way: The 16 European countries are short of dollars. We have calculated the amount of dollar assistance in relation to the available supplies of commodities, which will be necessary to cover that balance of payments.

Mr. LODGE. Over a 15 months' period.

Ambassador DOUGLAS. Over a 15 months' period. Now if an American enterprise considers it wise to make an investment of \$10,000,000 in one of these 16 participating countries, let us take France for example, and accordingly invests \$10,000,000 in France, France has \$10,000,000 which she did not formerly have.

Mr. LODGE. That is right.

Ambassador DOUGLAS. With that, she can buy cotton, wheat or whatever her requirements within the limits of the \$10,000,000 may be.

Mr. LODGE. That is right. I understood that. But let us assume that none of this \$340,000,000 is so obligated when the entire 15 months' period is over. Then the balance of payment is \$340,000,000 off, because there is not that amount with which to purchase wheat and so on as you just specified. What happens in connection with that \$340,000,000?

Ambassador DOUGLAS. That does not necessarily follow, Congressman, because if the guarantees are not made, not extended, then the funds appropriated will be available to provide the same dollar assistance that an investment made under a guarantee would have provided.

Mr. LODGE. However, the \$340,000,000 has to be open for guarantee during the entire 15 months?

Ambassador DOUGLAS. Yes; but only as long as the guarantees are extended.

Mr. LODGE. Yes; but the point I make is that after that, the 15 months' period, if no guarantees have been made, then the \$340,000,000 will be no longer available as guarantees, but will be applicable to the other provisions of the act in order to complete the balance of payments deficit; is that correct?

Ambassador DOUGLAS. Yes; but in any 1 month or week or day it makes no difference, so far as dollars available to the 16 participating countries is concerned, whether they are made available in the form of goods purchased with American dollars or whether they are made available in the form of an investment of American dollars in a foreign country.

Mr. LODGE. I quite agree.

Ambassador DOUGLAS. The result is quite the same.

Mr. LODGE. My supposition is that the funds will not be made available for either, since they have to be kept open for guaranties during the entire 15 months' period as I understand it; therefore if there were no corporations interested in investing money, no guaranties would be made available but the money would nevertheless be held until the end of the 15 months' period. Is that not correct?

Ambassador DOUGLAS. No, I do not think that follows, because the language says total liabilities assumed under such guaranties shall not

exceed 5 percent. Now let us suppose, as you put the case in your hypothetical question, no request for guaranties is made during the first 14 months. The dollars appropriated under the act would be expended to meet the program, and whatever the balance might be during the fifteenth month left in the appropriation, let us say for the purpose of illustrating, that it amounts to one-fifteenth of \$6,800,000,000.

Mr. LODGE. That is my question, then.

Ambassador DOUGLAS. The Administrator is not required under the act to extend the guaranty.

Mr. LODGE. How long must the Administrator do that?

Ambassador DOUGLAS. He need not keep any of it, because he is only authorized to make the guaranties and the total amount shall not exceed 5 percent.

Mr. LODGE. It seems to me the whole clause is illusory. He can obligate the \$340,000,000 in other respects and need not authorize any of it for this purpose.

Ambassador DOUGLAS. This is a permissive power.

Mr. LODGE. It seems to me that that is not right. There is no limitation of time. He can do it the first day it seems to me under what you said. He can remove this \$340,000,000 from this particular clause within the first day that the act goes into effect.

Ambassador DOUGLAS. If there are enterprises that seek guaranties up to the full amount of the guaranties which he is authorized to extend, he may.

Mr. LODGE. And therefore, a corporation might come to the Administrator 15 days after the act is into effect and he might meet the requirements in every other respect, and the Administrator could say, "I am sorry, but this total amount has already been allocated and therefore nothing doing."

Ambassador DOUGLAS. Hypothetically, that is possible. It is not likely.

Mr. LODGE. Therefore, it seems to me that the clause as written is illusory, and to that extent has very little meaning.

Ambassador DOUGLAS. I think there is an interesting point there, Congressman. The first is that it is illusory because it may not be used and the second is that it is illusory because it may all be used during the initial period.

Mr. LODGE. Precisely. The reason it is illusory is because it seems to me that there is no obligation on the part of the Administrator to withhold this 5 percent or any lesser amount for any given periods within the 15 months' period for this particular purpose. It is entirely permissive, discretionary, and therefore illusory as far as any obligation is concerned.

Ambassador DOUGLAS. You see, Congressman, I would presume that the Administrator would make the best business calculations that he could make in the light of experience as to how much he would be called upon to guarantee, and he would try to program it with reasonable orderliness throughout the period for which he was authorized to extend guaranties. This is the type of guaranty for which or in respect of which we have very little experience. It is pretty difficult, and indeed I think it is impossible, to prescribe definite and precise regulations as to how the guaranties shall be employed, what sums shall be set aside to cover anticipated guaranties that may be sought.

Mr. LODGE. I simply wanted to make it clear that it is illusory in that respect and that therefore this clause is permissive rather than mandatory.

Ambassador DOUGLAS. It is permissive; that is right.

Mr. MUNDT. I would like to pursue a little further the type of activity to which this guarantee can be applied. Did I understand you to say it should be applied only to economic activities involving the products which are to be distributed under the purview of this act; food, fabrics, fuel, and fertilizers, et cetera? Can it be applied to any activity of an economic nature which the administrator feels is serviceable to the United States?

Ambassador DOUGLAS. It can be applied, Congressman, to those ventures and enterprises which have been programed and approved. That is within the program. Let us take an example.

Mr. MUNDT. Let me ask you this specific question, because it seems to me this is a field where by all means it should be approved, and that is the activity mentioned down the line I believe by Mr. Lodge when he started in. The distribution of American news events by the Rome American, by the New York Herald-Tribune, Newsweek, Time, Life, through the showing of American moving pictures abroad, and the publication of American books, all of which are having difficulty now because they cannot translate their income into dollars, would it or would it not apply to those activities?

Ambassador DOUGLAS. If those activities were within the program, it would. If not, it would not.

Mr. MUNDT. How is a Member of Congress struggling for information to find out whether or not they are within the program going to determine it if you cannot tell me?

Ambassador DOUGLAS. I doubt in the present moment the program contemplates investments in moving-picture undertakings in the countries, or in the establishment of publications in these respective countries.

Mr. BLOOM. Does paragraph 1 apply there? Paragraph 1 on page 11, does that not apply?

Mr. MUNDT. I read that one. That is what gave rise to the question. It is not clear in my mind whether it would apply or not.

Mr. BLOOM. If the gentleman will yield, I think, Mr. Ambassador, the questions which have been asked you with reference to this 5 percent and the amount of money necessary to be held, I think the bill itself would be amended so as to make it certain what is really meant by it. I think the way it is now, that Mr. Lodge is correct in his statement that \$340,000,000 would have to be kept and you would have to keep it for a long time, whether for 14 months or 14 years. However, the bill presented here is very broad. It means certain things and it does not mean a lot of other things.

I think it should be amended so as to bring in all the points that have been brought out.

Mr. MUNDT. If I may continue my interrogatory, I do want to find out from somebody who knows, speaking for the administration or speaking for those who have conceived this bill, whether in your opinion it would apply to these information media, which I have recited; to press, magazines, book publishers, and motion picture operators, to be specific.

Ambassador DOUGLAS. These guaranties apply to the investment of new capital and not to investments previously made.

Mr. MUNDT. I understand that. So a new investment is made in pulp paper by Time magazine to print Life, Time, and Fortune in France, to be sold over there in France and they want it translated into dollars. Can they do it or can they not?

Ambassador DOUGLAS. That would depend upon whether they had the approval and consent of the local government in the first place, and as a part of the recovery program; and, secondly, it is conditioned upon whether the enterprise furthers and is in accordance with the fundamental purposes of the act.

Mr. MUNDT. Is it your position that that great vast area of latitude is to be left to some administrator of the bill and not be included in the legislation by Congress, as Mr. Bloom has suggested?

Mr. JONKMAN. Will the gentleman yield to me for a question?

Mr. Ambassador, it is all covered on page 2 in the act. The question is whether or not we include it in those purposes. At the bottom of page 2 you will find the purpose of the undertaking.

Ambassador DOUGLAS. That is right.

Mr. MUNDT. There is nothing there that by any stretch of the imagination could be specifically interpreted to exclude or include the question in point.

Ambassador DOUGLAS. In talking about the reconstruction and the recovery of a large part of the world, there are many things which this part of the world requires, and which contribute to its recovery and rehabilitation and restoration of stability within it.

That which is related to and is within the purposes of the bill, which is to achieve a recovery would be subject to the approval of the local government and having been approved by the local government would then be entitled to the extension of a guaranty, should the Administrator consider that it was within the purposes of the bill.

Mr. MUNDT. In order that we can begin to drift away from the sea of imponderables over to something understandable, it is not in the act. However, you are speaking now for the administration in support of the act.

Would it be in line with your recommendations and convictions that such activities as you have described would be suitable to be included or would you be inclined to think they would not?

Ambassador DOUGLAS. I would think I should give that more consideration because to be perfectly honest with you I have not thought about that particular type of an enterprise.

Mr. MUNDT. I know exactly where I stand on it. I want to stand out where you fellows do.

Ambassador DOUGLAS. Before I give you an answer I would like to consider it.

Mr. MUNDT. When you do that, will you also give thought to this: If you conclude that that is a wise economic activity to be treated under the provisions of this act, might it not also be wise and helpful to make it apply to enterprises which have already accumulated amounts of this unusable currency, because that would still get into the hands of the foreign country. The dollar exchange which they require would be included and it would tend to reinforce activities which presently are helping very greatly in carrying the American story abroad.

Ambassador DOUGLAS. If that were done, Congressman Mundt, the amount of the appropriation would have to be increased to the extent to which guaranties of that order were extended because otherwise no dollars would flow into the European countries on account of making good on such a guaranty. Is that clear?

Mr. MUNDT. I think that is clear.

Mr. BLOOM. That is a pretty good answer.

Mr. MUNDT. That is all, Mr. Chairman.

Mr. CHIPERFIELD. Would you care to proceed?

Ambassador DOUGLAS. I wonder if I might finish one other phase?

Mr. CHIPERFIELD. Proceed.

Ambassador DOUGLAS. I was about to say that in our judgment the \$6,800,000,000 is the minimum necessary to achieve recovery during the 15 months' period, or to carry out the purposes of the act within the 15 months' period, and I would like to tell the members of the committee why we consider or believe that to be the case: In the first instance, the grain available for the participating countries for the first year under this program is some 11,000,000 tons less than the stated requirements of these 16 participating countries, and as I showed or was disclosing this morning, the program does not contemplate, during the period 1948 and 1949, elevating the established standard of living to even the prewar standard of living.

Now secondly in respect of petroleum the deficiency is 8.8 million metric tons.

Mr. CHIPERFIELD. Are there available supplies up to \$6,800,000,000?

Ambassador DOUGLAS. The commodity requirements have been reduced because the amounts were not available and the deficiency in the first year in respect of grain is some 11,000,000 tons; in respect of petroleum it is 8.8 million metric tons; in respect of timber the deficiency is about 30 percent of the stated requirements. More than that, these calculations were based upon a price level as of October.

Since October the price level in the United States has risen, as compared with July of last year, almost 12.5 percent, in other parts of the Western Hemisphere, just under 15 percent, and throughout the entire Western Hemisphere to be exact 13.4 percent. In other words, the price level has risen far above the price level as of October which was the basis for the calculation. And that increase in price level since October has already reduced the amount of support contemplated in the \$6,800,000,000 by \$400,000,000.

Now the third reason why we believe that this is a minimum is because we have assumed a certain restoration of trade with Eastern Europe. For example, it is assumed that Poland will deliver 16,000,000 tons of coal to western Europe in 1948, increasing to 30,000,000 tons in 1951. It is likely that Poland will deliver that tonnage. However, there are uncertainties about it. For example, I think it was during the month of August the four northern European countries scheduled a meeting for the purpose of developing among them a customs union. They were immediately informed that should they proceed with their meeting and establish a customs union, coal from

Poland would be withheld, so that there are a number of uncertainties involved in the movement of commodities, essential commodities, from eastern Europe to western Europe, and yet the calculations are based upon the delivery of those commodities.

Mr. BLOOM. Is that Silesian coal?

Ambassador DOUGLAS. From that field, yes.

Mr. BLOOM. Is not that conditioned upon a loan?

Ambassador DOUGLAS. No, the delivery of 30,000,000 is not conditioned upon a loan. My recollection is the total amount exported was about 18,000,000 out of which 11,000,000 went to western Europe. That is my recollection. I will have to check my recollection as to those figures.

(The statement on this matter is as follows:)

Polish coal exports to countries outside the Soviet bloc: Table 1 attached indicates that Poland exported approximately 7,200,000 metric tons of hard coal and coke to countries other than eastern European countries in 1947. In 1946 she exported 2,300,000 tons to the same countries indicating that in 1947 she more than trebled her exports. Table 2 attached indicates Polish exports to eastern European countries in 1946 and by half-year periods for 1947. The data in table 2 reveals that the volume of exports to eastern European countries remained stationary in 1947 as compared with 1946.

The trend in Polish coal exports to countries outside the Soviet bloc since the inauguration of the Committee for European Economic Cooperation. The data in table 2 which give the exports for 1947 by half-year periods indicate that during the second half of the year Poland exported twice as much coal to countries outside eastern Europe than she did during the first half. Table 2, on the other hand, indicates that Polish coal exports to these countries rose approximately 1,200,000 tons during the second half of 1947 as compared with the first half.

For both groups of countries shown in the tables, the total volume of exports rose from approximately 12,000,000 tons in 1946 to almost 18,000,000 tons in 1947. Total exports to both groups of countries were approximately 5,500,000 tons greater in 1947 as compared with 1946 and the total increment inured almost wholly to the benefit of the western countries.

TABLE 1.—*Polish hard coal and coke exports to European countries other than eastern Europe, 1946 and 1947 (estimated)*

[Thousands of metric tons]

Country	1946	1947		
		First half	second half ¹	Total
Austria.....	124	187	582	769
Belgium.....	0	77	367	444
Denmark.....	731	320	690	1,010
France.....	596	220	335	555
Italy.....	10	206	204	410
Netherlands.....	4	118	185	303
Norway.....	379	190	508	698
Sweden.....	219	838	1,387	2,225
Switzerland.....	258	248	432	680
Portugal.....	0	0	4	4
Iceland.....	0	14	11	25
United Kingdom.....	0	0	70	70
Total.....	2,321	2,418	4,775	7,193

¹ Actual data available for period July–November, inclusive. Full 6-month figures based upon actual data for 5 months plus State Department estimate for December. December estimate calculated by projecting average for July–November and adjusting for seasonal factors.

TABLE 2.—*Polish hard coal and coke exports to Soviet and eastern European countries, 1946 and 1947 (estimated)*

[Thousands of metric tons]

Country	1946	1947		
		First half	Second half ¹	Total
Czechoslovakia.....	71	137	834	971
Finland.....	83	148	392	540
Yugoslavia.....	102	50	107	157
Hungary.....	150	137	126	263
Rumania.....	115	16	10	26
U. S. S. R.....	9,300	4,145	4,400	8,545
Total.....	9,821	4,633	5,869	10,502

¹ Actual data available for period July–November, inclusive. Full 6-month figures based upon actual data for 5 months plus State Department estimate for December. December estimate calculated by projecting average for July–November and adjusting for seasonal factors.

Mr. JONKMAN. Will the gentleman from New York yield?

Mr. BLOOM. Yes.

Mr. JONKMAN. Of course Russia could shut off that supply?

Ambassador DOUGLAS. That is precisely the point I was making, thank you, sir.

Mrs. BOLTON. Would you care to comment upon the 8.8 million tons of petroleum which you say is in deficiency? What would be required in your opinion if petroleum supplies were interfered with that are being counted on?

Ambassador DOUGLAS. That, of course, is another uncertainty and if they were interfered with, if for one reason or another sources of supply in the Middle East were shut off or diminished, then the whole petroleum program for Western Europe would have to be reviewed in the light of the diminishments thus created.

Mrs. BOLTON. So the refusal of Syria to ratify the agreement for the pipe line is of serious moment to the whole program?

Ambassador DOUGLAS. Yes, it is a consequence.

Mrs. BOLTON. That is only one instance.

Mr. MUNDT. How would that volume of petroleum be supplied, from the United States? It is coming from the United States now?

Ambassador DOUGLAS. It is calculated during the 15 months' period about 25 percent of the petroleum and petroleum products for Western Europe will come from the United States and that by 1951 only about 5 percent. For the increase in production of petroleum products it is assumed in other parts of the world will increase substantially, together with refining.

Mrs. BOLTON. In other parts of the world, largely the Near East?

Ambassador DOUGLAS. Yes, and the Caribbean.

Mr. MUNDT. Does that include petroleum-producing equipment or just products?

Ambassador DOUGLAS. Just the products.

Mr. MUNDT. Has your advisory commission or economic board determined that we have available for export of petroleum an amount represented by the 15 percent?

Ambassador DOUGLAS. There has been a long and complicated study on each one of these major commodities, including petroleum. I would be very glad to give you a copy of that. Mr. Krug is the person who has that.

Mr. MUNDT. I am just trying to find that out.

Ambassador DOUGLAS. Mr. Krug is the person who could answer your question in respect of petroleum much better than I. The program which is now being discussed before the committee is based upon the calculation of availabilities and Mr. Krug of course played a very, very important part in estimating available supplies.

There are other reasons why we believe the \$6,800,000,000 is a minimum.

Mr. LODGE. May I interrupt you there to ask you this: With respect to your third reason, aside from this problem in connection with the Silesian coal and in connection with petroleum, I assumed that this minimum figure is based on a maximum of reciprocal self-help among the 16 participating nations, and I would be interested if you would be kind enough to dilate for a bit on the extent to which we may expect reciprocal self-help among these nations and what has already been accomplished along those lines.

Ambassador DOUGLAS. I would be very glad indeed to do so. I wonder whether you would be good enough to withhold that question until I have completed these considerations, and then come back? Would that be satisfactory to you?

Mr. LODGE. That would be quite satisfactory.

Ambassador DOUGLAS. There are other important imponderables. This calculation which has been presented to the committee is based upon a certain volume of exports. That volume of exports from the participating European countries has to be achieved if the \$6,800,000,000 is going to be adequate. It may not for a variety of different reasons be achieved, not because of lack of desire to achieve it, but because of the intervention of factors over which these countries have no control.

Mr. CHIPERFIELD. Mr. Ambassador, if you leave that full amount of \$6,800,000,000 for the success of the program, then if something happens and you get less, then what is the situation?

Ambassador DOUGLAS. In our judgment, Congressman, it will impair the chances of the success of the program. However, there are a great many different risks as you know; Providence may be unkind. We may have crop failures, not only in Europe, if not in Europe, somewhere else in the world. There are a whole series of risks of that order over which man has no control, but there are a number of risks over which certain men have some control.

Mr. MUNDT. Mr. Ambassador, I think we are dealing with a highly important point when you are talking about the reason why \$6,800,000,000 should be the minimum amount appropriated. That is what you are starting out to prove in your statement.

Ambassador DOUGLAS. That is right.

Mr. MUNDT. It would be very helpful to the committee I am sure, and to the country if in establishing that as the basic figure you would establish it in terms of dollars as you go along. Now you say we need \$6,800,000,000 because we must have X number of bushels of wheat; X number of tons of oil, but that does not get it back in terms of dollars. Can you not put the dollar sign on those amounts as you go along, so we can add it and see how it comes out?

Ambassador DOUGLAS. I think a calculation can be made of that sort. There are imponderables as you recognize. One cannot say the extent to which the export target may not be reached.

Mr. MUNDT. There must be some kind of mathematics behind your arrival in your use of those factors to reaching that figure. I would like to know what that is.

Ambassador DOUGLAS. I have given you one mathematical calculation, expressed in dollars. The rise in prices, for example, has already reduced the effectiveness of the aid or the support by \$400,000,000.

Mr. MUNDT. I want to see the mathematics by which you start from scratch and reach \$6,800,000,000.

Ambassador DOUGLAS. Perhaps I do not understand, I am sorry.

Mr. MUNDT. I mean frankly if I had to go out and tell some South Dakota farmer tomorrow why \$6,800,000,000 is the least amount of money we need to get the program over, I could not do it simply by saying "The reason we need that much money is because we need 8.3 million tons of oil," and something else. I will have to show him we need 8.3 million tons of oil which is going to cost so many billions of dollars, or so many million, and we need so much grain which is going to cost so many million, so he can add up the dollar signs.

Ambassador DOUGLAS. That is in page 115 of the published document. There is a list of selected commodities expressed in terms of value and of quantity upon which the deficiency with the United States and the Western Hemisphere was calculated. That is page 115, 116, and 117 as I recollect.

Mr. MUNDT. Thank you.

Ambassador DOUGLAS. There is no table in regard to the item "Other imports."

Mr. JARMAN. Will the gentleman yield?

Mr. MUNDT. Yes.

Mr. JARMAN. Mr. Ambassador, may I comment to the Senator over there? On that proving to your people out there in dollars, you could not do that because of the fluctuation, day by day. Wheat might be 15 cents a bushel lower tomorrow. Oil might be 15 cents a gallon less. So it would be very difficult on that basis.

Mr. MUNDT. That is true, but if I tell them that, that is probably correct, they will say that \$6,800,000,000 is just somebody's wild guess because you have that fluctuation to contend with. I have to have some reason to firm up that figure.

Mr. JARMAN. That is what it cost, then. It costs that much, but the costs have gone up since then.

Mr. MUNDT. It would have cost about 13 percent less than that last October, as I understand.

Ambassador DOUGLAS. Last July.

Mr. BLOOM. I believe this morning you gave all of those figures.

Ambassador DOUGLAS. Yes.

Mr. BLOOM. You were analyzing those charts.

Ambassador DOUGLAS. I tried to.

Mr. BLOOM. I think it is a matter of record.

Mr. MUNDT. It is a matter of record, but not clear.

Mrs. BOLTON. I think you did not hear, Senator.

Ambassador DOUGLAS. This rise in prices which has already occurred will reduce the amount of the imports into the participating European countries by \$400,000,000, and therefore the effect of the rise in prices will be either to reduce the total production within the

countries and the amount available for export, on the one hand, or it will compel them further to draw down upon their already pretty well exhausted reserves. In either case, the amount of imports which they can continue to acquire will progressively diminish, thus affecting adversely in turn again their production. That was clearly evident and it was the significance of the calculations of the Harriman committee. The estimate of imports upon their lowest calculation was less than the estimate by the executive branch, and accordingly, the estimate of the exports from the participating countries was correspondingly less, which illustrates the significance of and the importance of imports into the countries if they are to achieve their production targets, export the commodities which they can export, acquire the exchange thereby for the purpose of purchasing additional imports, and thus keeping their full economic and industrial plant operating at an increasing momentum. And finally there is another imponderable: The Soviet through the Cominform has declared its open opposition to this program. We have witnessed during the course of the last 2 months organized efforts to interrupt and interfere with the production of several of these western European countries. To what extent organized efforts to frustrate the recovery of western Europe, to interrupt, interfere with the productive effort will be undertaken in the future, no one can say, but it is not likely that we have seen the end of such endeavors.

Mr. JONKMAN. You have extensive knowledge of the situation. Would you care to comment as to why Russia has not cooperated? Comment only if you care to. I do not want to put you in an embarrassing position.

Ambassador DOUGLAS. I think if the chairman would consider it to be appropriate at some time, it would perhaps be profitable to suggest a variety of different aspects of this problem in executive session.

Mr. JONKMAN. I will withdraw the question.

Mr. CHIPERFIELD. We would like to arrange that sometime, Mr. Ambassador.

Ambassador DOUGLAS. Those are the reasons generally why we believe this program represents a minimum which is necessary to achieve the purposes of the act during the 15-month period.

Now, Mr. Chairman, I might go on and talk about the administrative provisions of the bill. I might talk about the commitments which the European countries made to each other. Perhaps this would be an appropriate time for me to refer to them, because Congressman Lodge has already put a question.

Mr. LODGE. Mr. Ambassador, I understood the Secretary of State to say that the entire success of the recovery, rather than the relief aspects of this program, depended upon this reciprocal settlement, and that seemed to me also very important in view of this 1938 comparison which always crops up. I wonder if that is what we are trying to do, if we are trying to restore things to 1938 or whether we are instead going to recognize that the world in 1938 was changing, and that, therefore, what we must try to do is to achieve some sort of economic federation in Europe, rather than put Humpty-Dumpty together again, so to speak.

Ambassador DOUGLAS. Well, Congressman, these 16 participating countries met and they made certain undertakings which are as important in themselves as any calculations which they might have

made. For if these undertakings are observed faithfully, and I see no reason to believe that they will not be observed faithfully, the Paris Conference may well be a landmark in modern history. These 16 countries disclosed their internal economic position to each other, the first time it has been done, and they undertook to do certain things which would alleviate their positions, progressively and mutually, and I would like to refer the committee if I may to those commitments. They are to be found on page 13—at least all except one, in the report of the Committee on European Economic Cooperation.

The first of these was to develop production to reach the targets set, especially for coal and food.

I think it might be interesting in this connection to look at the production chart, to show what production was in 1938, what production fell to, and what the goals set may be. I think it is the third chart.

The black bar represents the production of all grains, meat, coal, finished steel, hydroelectric power, respectively, in 1938.

The next bar represents the production in 1946. That is this bar here—that is 1947.

The next bar represents the production in 1948.

The last bar represents production in 1952. With respect to all grains, these countries have undertaken to increase their production to a level substantially above the prewar level. With respect to meat, unfortunately it is still below, about $1\frac{1}{2}$ million tons below the prewar level.

However, in coal they undertake to increase their production from 551,000,000 tons, where it stood before the war, to 586,000,000 tons roughly, by 1952.

In finished steel, they undertake to increase the production from 34,000,000 to 40,000,000 tons. In hydroelectric energy they undertake to increase their production from 60,000,000,000 to 112,000,000,000 kilowatt-hours.

Those undertakings in regard to production are important and significant. They are necessary, because of the various adverse consequences inflicted on these countries by the war, which cannot in a short period of time be overcome except through increased production and an increase in the volume of exports.

Mr. LODGE. I think that is extremely vital, Mr. Ambassador, but it was not precisely what I had in mind.

Ambassador DOUGLAS. I understand you had some other things, but these are undertakings by themselves.

Mr. LODGE. These are individual undertakings on the part of each nation?

Ambassador DOUGLAS. That is right. It is the sum total of them.

Mr. LODGE. What I was interested in was the trade aspects between the nations, and the way in which we could coordinate the bilateral arrangements which we make with each individual nation on a collective European federated economic basis.

Ambassador DOUGLAS. I understood. I was just taking these commitments in order. I was coming to some of the others which are of the nature you have in mind.

The second one was to make fullest and best use of their existing productive capacity and of course their available manpower.

The third is to modernize their equipment and transport. The fourth is to apply all necessary measures leading to the rapid achievement of internal financial, monetary and economic stability. That is an extraordinarily important consideration. I think Congressman Jonkman made some reference this morning, to the dilapidated internal fiscal affairs of some of these western European countries, associated with an unnatural exchange level. It has had an extraordinarily great depressing effect upon the production in each one of these countries whose financial system is tragic. These countries undertake to put their internal monetary and fiscal houses in order, and establish appropriate exchange rates that may be maintained. That is an extraordinarily and important significant factor because it means it has the effect of improving the whole financial and monetary system of this area of which we are speaking.

MR. LODGE. Mr. Ambassador, before you discuss that, may I ask you, in talking about putting this internal house in order, what your attitude would be with respect to price controls within these various countries, and how you believe it affects the burden on the American taxpayer? Do you believe that price controls have acted to increase production and to rehabilitate these countries and therefore finally diminish the burden on the American taxpayer or do you believe that there must be a gradual relinquishment of price controls within these countries?

AMBASSADOR DOUGLAS. I think the Congressman knows my traditional view on matters of that sort. I have not seen any reason to change my fundamental belief. I suspect that there are, perhaps, emergency conditions in which controls are perhaps necessary, but in my peculiar position I would like to discuss that, too, with the committee on another occasion.

Now, these 16 participating countries committed themselves to cooperate with one another, and with all like-minded countries in all possible steps to reduce the tariffs and other barriers to the expanding of trade both between themselves and with the rest of the world.

That is an undertaking to make of this area one in which commerce can move much more freely than it has moved before, in which the barriers, interferences with the flow of trade will be reduced. Indeed it is a step in the direction toward a goal which the Congressman has in mind.

MR. LODGE. With respect to these bilateral agreements, not only between this country and the participating nations, but between the participating nations, who is to be the judge as to whether these agreements are being properly lived up to? Will that be the Administrator of the program? Is that to be entirely within the discretion of him to determine, or what degree of flexibility he believes is proper, what concessions should be made within the spirit of these agreements?

AMBASSADOR DOUGLAS. There will be a continuing organization, and one of the purposes of the continuing organization will be to review the progress made toward the satisfaction of the pledges that these countries have made toward each other. So the first step will be the judgment of the organization itself.

MR. LODGE. That would be the Administrator?

AMBASSADOR DOUGLAS. The continuing organization of the 16 participating countries.

Mr. LODGE. They will determine whether the agreements are being lived up to, the Administrator will not?

Ambassador DOUGLAS. I would say that would be the first step. These 16 countries have committed themselves to the establishment of a continuing organization, consisting of representatives from each one, for the purpose of reviewing the progress made towards the satisfaction of the pledges given and to achieve in a cooperative measure the purposes in mind. This organization would make the first assessment of the extent to which the pledges had been fulfilled. The United States would have a representative to this continuing organization.

Mrs. BOLTON. Are those commitments parts of the record of the Paris Conference?

Ambassador DOUGLAS. They are. You will find them all, except with regard to the commitment of the continuing organization, in paragraph 32 of the record of the Paris Conference.

Paragraph 13 refers to the continuing organization.

Mr. LODGE. Now, with respect to the bilateral agreements with these several countries which participate, who is to determine whether any individual had failed to live up to any one of those bilateral agreements?

Ambassador DOUGLAS. The Administrator.

Mr. LODGE. The Administrator would determine that?

Ambassador DOUGLAS. Yes.

Mr. LODGE. If he finds there has been a substantial failure to live up to these agreements, what can he do then, or what should he do?

Ambassador DOUGLAS. The intention is clearly expressed in the document which was published. The United States reserved the right to withhold in whole or in part any further assistance or support.

Mr. LODGE. However, he has a very large discretion there as to whether he believes that certain concessions should be made with respect to those pledges?

Ambassador DOUGLAS. Yes; there may be a failure due to acts of God, over which there is no control at all. There may be failure because of the interventions of unfriendly forces, over which the participating countries will have no control. One will have to assess the reasons for any failure.

Mr. LODGE. Would you feel, Mr. Ambassador, that both with respect to the bilateral treaties and with respect to the arrangement made between the participating nations, that this nation, or our administrator, must definitely take the lead in attempting to achieve a maximum of reciprocal self-help among these nations?

Ambassador DOUGLAS. I think it is clear that he must do that.

One of the basic premises upon which this proposal was put forward was that the participating countries engage in an enterprise of mutual help.

Mr. LODGE. That will inevitably involve certain internal reforms which hitherto have been regarded as strictly a matter of internal affairs of certain countries, such as the coordination of tax systems and of fiscal matters and what not which would make effective the customs union or a sort of economic federation within the intention of this program. Is that not correct, sir?

Ambassador DOUGLAS. I am not at all clear that you have not covered a broader field than that which is covered within our own

Federal Union. We have a variety of different tax systems among the 48 States, and yet we have this free-trade area.

I think I know what you have in mind.

Mr. LODGE. I have one specific example that perhaps will suffice. Let us assume that under the Benelux agreement you have the removal of the trade barrier between Belgium and Holland on beer. However, Belgium retains its excise tax on beer. Naturally, people would purchase in Holland where there is no excise tax. Obviously Holland must put on a comparable excise tax, or Belgium must remove her tax, in order to create a fair competitive market. It seems to me that the European nations must tend toward that. Would you agree with that, sir?

Ambassador DOUGLAS. I think the larger area of free trade, the better it will be. The more closely integrated is the economic system, the better.

Mr. LODGE. I am sure you feel we must do our utmost to bring that about.

Ambassador DOUGLAS. Yes. I believe we must be prudent and cautious, lest we be actually guilty of invading the sovereignty of the countries.

I am sure the Congressman knows what I have in mind.

Mr. LODGE. Yes. On the other hand, I believe that there are many customs and traditions which are perhaps obsolete; and if the advantages of doing away with them were properly pointed out, very definite progress might be achieved along those lines.

Mrs. BOLTON. Would the gentleman yield?

Mr. LODGE. Certainly.

Mrs. BOLTON. I think it perhaps would be pertinent to remember some of our own history. It took us some years to drop the barriers between the States, did it not?

Mr. LODGE. Yes. That is just exactly why I make these suggestions, Mrs. Bolton.

Ambassador DOUGLAS. There are these other commitments, too, they have made to remove the barriers on the movement of people.

Mr. LODGE. It is particularly important, in view of the surplus population in Europe.

Ambassador DOUGLAS. That is right.

Mr. LODGE. I presume that although there is nothing in the bill about it—there will be some efforts made to solve that problem which is, as you yourself have pointed out, one of the basic causes of economic distress.

Ambassador DOUGLAS. Among other things, Mr. Congressman, it is only by achieving a more closely integrated economic system in western Europe that they will be able to overcome some of the extraordinarily heavy burdens that the war has imposed upon their backs.

Mr. CHIPERFIELD. Because of the fact that there are five more members in attendance at a conference with the Senate, Dr. Eaton suggested that we recess at 4 o'clock.

We would like to have you in attendance at 10 o'clock tomorrow morning, if that is agreeable.

Ambassador DOUGLAS. That is agreeable.

Mr. CHIPERFIELD. We will adjourn at this time and reconvene at 10 o'clock tomorrow morning, in the same room.

(Whereupon, at 4 p. m., the committee adjourned, to reconvene Wednesday, January 14, 1948, at 10 a. m.)

UNITED STATES FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 14, 1948

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

The committee met at 10 a. m., in the Ways and Means Committee room, New House Office Building, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will be in order.

Mr. Ambassador, will you proceed with anything you have before the questioning begins?

FURTHER STATEMENT OF LEWIS W. DOUGLAS, UNITED STATES AMBASSADOR TO THE UNITED KINGDOM

Ambassador DOUGLAS. Mr. Chairman, yesterday Congressman Jonkman, I think it was, asked the extent of support that would be provided in the recovery of the 16 participating nations by countries other than the United States. Unfortunately, at the time I was not prepared to give him an answer to the question which was put. I can this morning, and in this form: The participating countries incur a deficit during the 15 months' period with nations other than the United States and other nations located in the Western Hemisphere, in the amount of \$811,000,000. Of the \$811,000,000, you will recollect the United States proposed to cover \$200,000,000 because the deficiency was incurred by the bizonal area of Germany over which we have jurisdiction. Accordingly, there is left an uncovered deficiency in the amount of \$611,000,000. That \$611,000,000 will accordingly be made up in the form of credit or other support extended by countries not located in the Western Hemisphere.

Members of the committee will recollect that the total amount of support provided by the countries in the Western Hemisphere other than the United States approximates \$700,000,000, so that the total amount of support provided for the recovery of the participating countries from sources other than the United States represents approximately \$1,310,000,000. That of course is exclusive of the South African loan to the United Kingdom to which I made reference yesterday in the amount of \$320,000,000. That loan is designed to carry the United Kingdom through until the period covered by the European recovery program commences.

There is a reference to the \$811,000,000 deficit to which I just referred, incurred by the 16 participating countries with nations not located in the Western Hemisphere on page 97 of the document entitled "Outline of European Recovery Program."

Chairman EATON. Is this amount of outside assistance in addition to that proposed by the United States?

Ambassador DOUGLAS. Yes, sir.

Chairman EATON. Are you ready for the questioning?

Ambassador DOUGLAS. Whenever the members of the committee are ready.

Chairman EATON. We will begin with Mr. Chipperfield.

Mr. CHIPPERFIELD. Mr. Ambassador, in your opinion will the impact of this program on our domestic economy be such that it would require rationing and price control to be restored in this country?

Ambassador DOUGLAS. Mr. Chipperfield, in the first place the exports from the United States contemplated under the European recovery program during the 1948-49 period will be substantially less than the exports during the previous year. There will be, of course, commodities in short supply. Therefore there will be a certain amount of relief within the United States during the period in question, assuming that Providence is kind to us in the matter of climate, weather, and crops, as compared with the previous period.

Mr. CHIPPERFIELD. Then you are hopeful, I take it, that we would not have to restore price control, is that the answer?

Ambassador DOUGLAS. Not on the basis of this program, Mr. Congressman.

Mr. CHIPPERFIELD. Of course, there are other factors in the price spiral besides this program. I realize that.

Ambassador DOUGLAS. All great wars have produced, in their wake, a period of inflation. It was true after the Napoleonic wars, it was true after the Civil War, it was true after the First World War, and so it is true after World War II.

Mr. CHIPPERFIELD. Do you think price control is helpful to production? That certainly is what we need now, is it not, to carry on a program like this?

Ambassador DOUGLAS. Production of course is the essence, really, of human life, and the progress and development of human conveniences and the elevation of the standard of living. I think that price control can be so extensive as to have a depressing effect on production, but agricultural products are, of course, very high.

Mr. CHIPPERFIELD. Would you favor or propose a provision in this bill which would direct the Administrator to discontinue aid to any country, which through its own fault, refused to substantially supply the cooperative effort agreed upon at the Paris Conference?

Ambassador DOUGLAS. It is stated in the published document to which I have previously referred, the Outline of European Recovery Program, that the United States intends to reserve the right to withhold aid—I do not recollect the exact language—either in whole or in part, in the event that undertakings made by any one of the respective countries are not honored.

Mr. CHIPPERFIELD. I find no such provision in the bill, although some say it is implied.

Ambassador DOUGLAS. I am not clear, Mr. Congressman, that there is such an express provision in the act.

Mr. CHIPPERFIELD. Section 10 I think employs it, does it not?

Ambassador DOUGLAS. The Congressman is correct, and section 3 partly implies it. It reads:

Any country wholly or partly in Europe, including its colonies and dependencies, is a participating country within the meaning of this Act, while it remains adherent

to a joint program for European recovery designed to accomplish the purpose of this Act.

Mr. CHIPERFIELD. Since you have turned to section 3, let me ask you this question about section 3: Under your explanation in this published document, you say that it permit any other country to join, if they cooperate in this program. Is that correct?

Ambassador DOUGLAS. That is right, and become a full-fledged member of the cooperative effort.

Mr. CHIPERFIELD. What does the language say? "While it remains an adherent."

It cannot so remain something that it has not already been a part of.

Ambassador DOUGLAS. I see the Congressman's point. It does not express a provision for the extension of the list of countries. However, it does not prohibit the extension of the list.

Mr. CHIPERFIELD. Very well, take this language in lines 3 and 4 of this same bill, where it says, "including reduction of barriers which may hamper such trade." You do not have to be a free trader to be for the Marshall plan, do you?

Ambassador DOUGLAS. I do not understand.

Mr. CHIPERFIELD. It is the language just above where you read. It is page 3, lines 3 and 4.

Ambassador DOUGLAS. You see the participating countries have committed themselves and made undertakings to facilitate the exchange of commodities internationally, and expressly to reduce the barriers to the flow of trade, including the reduction of tariffs and the elimination of exchange restrictions and a variety of impediments of that order.

Mr. CHIPERFIELD. If I approved this bill as written, would I be expressing my approval of the reciprocal trade agreements, or the principal of free trade?

Ambassador DOUGLAS. Definitely not, Congressman.

Mr. CHIPERFIELD. I am glad to learn that.

Ambassador DOUGLAS. I would have no apprehensions on that score, because this applies to the undertakings made by these particular countries, and is not intended and indeed it does not expressly commit the United States to any such policy.

Mr. CHIPERFIELD. Will you furnish this committee with a breakdown as to how Great Britain spent the \$3,750,000,000 loan?

Ambassador DOUGLAS. I will furnish that information during the course of the hearings.

Mr. CHIPERFIELD. How much is Great Britain asking approximately under the Marshall plan?

Ambassador DOUGLAS. That depends upon unforeseen things, of course.

Mr. CHIPERFIELD. I understand.

Ambassador DOUGLAS. During the 15-month period, the British deficiency with the Western Hemisphere approximates some \$2,500,000,000.

Mr. CHIPERFIELD. If she did not receive that amount would Great Britain go communistic?

Ambassador DOUGLAS. The population of Great Britain is a very stable body of people, of long experience and tenacious character. I would doubt very much whether what we call communism would take hold of the minds of those who reside in the United Kingdom,

But if Great Britain does not receive additional support, then the imports into Great Britain will fall, the already relatively low standard

of living in Great Britain will fall, and a variety of other consequences, Congressman, touching us in other parts of the world will follow.

Mr. CHIPERFIELD. In the purposes of this act it is stated that unless normal economic conditions and stable economic relations are restored in substance, the countries of Europe will not be able to maintain free institutions and national independence.

Now, is not that "unless normal economic conditions are restored, these countries are going to lose their sovereignty and their freedom"?

Do you believe that?

Ambassador DOUGLAS. I believe that, Congressman, that unless the western part of Europe achieves economic and political stability, based upon the traditional conception and application of the parliamentary system and the dignity of the individual, that there will necessarily follow at a minimum a series of restrictions and controls on the liberty of individuals both in the economic field and in the political field, and that a fertile area will be provided for the planting of the seed and the taking root of ideas which are wholly hostile to our conception of civilized existence.

Mr. CHIPERFIELD. Mr. Ambassador, I mentioned to you a moment ago, about giving the personnel under this program the benefits of the Foreign Service Act. Will you comment on that?

Ambassador DOUGLAS. I should like to say, Congressman, that the administrative proposals put forward in advance, constitute "a" system of administration which appears to us to meet certain fundamental specifications. I would like to emphasize the word "a".

With that as a preamble may I go on and answer your specific question. I confess that the language of the act can be construed to be, if not in conflict, at least not necessarily consistent with the explanation in the document which I have referred to, the Outline of European Recovery Program. Under the language of the act, dealing with the appointment of ECA personnel in overseas posts, it is intended, although the language may not be clear and precise, that the recruiting of the personnel normally shall be undertaken by the Administrator, combined with such recruiting as the Secretary of State, may jointly undertake with the Administrator. There might be some recruiting among the career officers, for there may be a few members of the permanent career Foreign Service who meet specifications of certain of the overseas ECA personnel. The appointing power is vested in the Secretary of State because he is the only one under existing law who can appoint to the Foreign Service Reserve, and it is intended that the ECA officers, other than those in the regular Foreign Service who meet specifications, shall be covered into the Foreign Service Reserve.

The Foreign Service Reserve was established by the Congress in order that there might be appointed for specific and specialized jobs, competent personnel from outside of Government service, and outside of the permanent Foreign Service. There are today approximately 200 such Foreign Service Reserve officers.

Now, as to why it is considered advisable to appoint the ECA officers to the Foreign Service Reserve, the administration of the European recovery program abroad requires real competence, men who have had experience and have been sufficiently backgrounded to qualify them to undertake extraordinarily difficult tasks.

Now, in the Foreign Service Reserve, men enjoy a title and emoluments which give them a status and a position in foreign countries——

Mr. CHIPERFIELD. (interposing). Is it not true that personnel may be taken out of the Foreign Service Reserve and put under the benefits of the Foreign Service?

Ambassador DOUGLAS. There seems to be a little misapprehension as to just what the Foreign Service Reserve is.

There are just a handful of inactive Foreign Reserve relief officers. The Foreign Service Reserve was established by the Congress in order that the competent and experienced people, equipped to do specific jobs and undertake specific tasks, might be recruited from an area wholly outside of any reserve, wholly outside of the Government service for relatively temporary periods of time.

Mr. CHIPERFIELD. Thank you very much.

Ambassador DOUGLAS. About the Foreign Service officers, and the Economic Cooperation Administration officers abroad, I have said that the appointment to the Foreign Service Reserve gives such a Foreign Reserve officer a status in a foreign country, and emoluments which could not be provided insofar as status is concerned, in any other way, I believe, and as to emoluments which could be provided only by specific provision of the statute.

A minister, for example—and in the major embassies, it is contemplated that the ECA officer would have the rank of minister—including his pay, his allowance and other emoluments, receives approximately \$21,000 a year—just short of \$21,000 a year.

A counselor selected from outside and brought into the Foreign Service—and in the minor embassies, the ECA officer would be a counselor—receives emoluments, totaling approximately \$17,000 a year, though he can, under the statute, be increased by another approximately \$1,500.

(The following letter is inserted to clarify the points raised in the foregoing:)

DEPARTMENT OF STATE,
Washington, February 10, 1948.

Mr. BOYD CRAWFORD,
Clerk, Foreign Affairs Committee, House of Representatives.

DEAR MR. CRAWFORD: This is to clarify what might appear to be a discrepancy between the testimony of Ambassador Douglas and information furnished by Mr. Donald W. Smith of the Office of the Foreign Service during a telephone conversation with Mr. Frank Lindsay.

As pointed out by Mr. Smith, it has been contemplated that the chiefs of the special missions for economic cooperation would be appointed Foreign Service Reserve officers, or the equivalent. However, as Ambassador Douglas testified, it is contemplated that in the more important countries, the chief of the special mission would be given the personal rank of Minister.

In such cases, the salary of a minister, \$13,500, would be paid by utilizing the maximum rate of class 1. Together with the allowances appropriate for a Minister, the emoluments thus could total nearly \$21,000 in a major post such as London.

With reference to adherence to various personnel standards of the Foreign Service, such as age-in-grade standards, it has been the intention that applicability of such standards would be determined jointly by the Secretary of State and the Administrator in so far as ECA personnel were concerned. Adequate flexibility will be further insured under proposed legislative changes giving the Administrator an option as to whether or not the Foreign Service system is utilized in making appointments, as is now under consideration.

If there are any other points on which you desire further clarification, please let me know.

I am returning herewith your file on this subject which you brought to my attention.

For the Secretary of State:

Sincerely yours,

CHARLES E. BOHLEN, *Counselor.*

Now I do not mean to say that there are not many Americans who would be willing to serve overseas at a smaller rate of compensation, but I do mean to say that it is difficult to obtain the sort of competence that is necessary, properly to administer in a businesslike fashion, and in a way that will provide the Congress and the American people with an assurance that it is being properly done, unless we can offer compensation which is at least partially commensurate with the significance and importance of the task.

Moreover, in dealing with the representatives of foreign countries, the title which a person has gives him a status.

It is for those reasons that the bill contemplates the covering into the Foreign Service Reserve, of those who have been recruited by the Administrator to perform the functions overseas, and to discharge the responsibilities incident to an appropriate administration of the program.

Now in London, if I may give you a personal idea of what I would contemplate if the Congress saw fit to approve this particular provision of the legislation, I would place the ECA officer who would have the title of minister, in charge of all the economic operations of that embassy, for there is no economic facet of the British economic condition which is not related to the European program of recovery.

I would be very glad to show the members of the committee the type of monthly report which we now get out on Britain, covering every phase of the economic life of the country, excepting one feature of it, which is secret but that too is now a part of our monthly review of the British industrial, economic and financial operation.

We do that in London, even though there is not a European recovery program, because it is an important and a significant bit of information—a cumulation of information for us to have. Is that clear?

MR. CHIPERFIELD. Thank you very much, Mr. Ambassador.

Chairman EATON. Mr. Ambassador, before calling on Mr. Richards, I would like to have clarified two ideas advanced by Mr. Chiperfield.

He raised the question of whether price control would affect production. It would seem to me when he raised that question, price control has as its object, if it has any, increased consumption and if you have increased consumption it would seem you would have actually increased production to meet that. Is that correct?

Ambassador DOUGLAS. Price control often does have the effect of redistributing in ways which the marketplace would not distribute the various commodities produced by any country.

Chairman EATON. The second point was, Mr. Chiperfield raised the question of if he had to advocate this bill, which I expect he will, of course, it would mean he would have to commit himself in favor of free trade. Now is it the intention that among these 16 nations, there will be established a complete free trade, or a partial free trade?

Ambassador DOUGLAS. The commitment is to reduce the barriers to trade, to reduce tariffs, and through the financial undertakings, to establish exchange rates which can be maintained, and that are appropriate, and thus to remove the exchange controls and also to remove quotas.

Now one of the devices that various countries have, they believe, necessarily employed, to protect their position, their financial resources, has been the imposition of quotas and exchange control. They are far greater, far more insuperable barriers to the flow of trade than tariffs, and that is one of the reasons why such emphasis has been placed upon the reformation of the internal fiscal affairs of the countries. Such reforms are desired to permit establishment and maintenance of exchange rates representing the relative cost-price conditions first; and, secondly, with achievement of that first result, that quotas and exchange restrictions may be removed, thus erasing and eradicating the two greatest of all impediments to the flow of commerce. But beyond that the 16 countries have committed themselves to go further and reduce tariffs.

Now it is interesting that the Benelux countries have formed a customs union which is a free-trade area and that France and Italy are now negotiating for the purpose of forming a customs union.

I made reference yesterday to the abortive endeavor of four other countries to form a customs union.

These 16 countries have committed themselves to study a customs union among them all, and embracing them all.

One of the great difficulties in establishing a customs union—I do not suggest that it is an insuperable difficulty—or free trade area among the entire group of countries is the peculiar relationship which the United Kingdom has with her crown colonies and the members of the Commonwealth.

Mr. RICHARDS. Mr. Ambassador, to go back a little bit, the Secretary in his Harvard speech proposed to the European nations that they get together and work out a plan to help themselves, and assured them if they made progress in that direction some assistance, toward the restoration of Europe could be expected from the United States.

Now as a result of the Secretary of State's suggestion, an invitation was extended—I believe Great Britain made the first move—to the nations of Europe to get together as suggested by the Secretary of State.

Sixteen nations in Europe accepted that invitation. I think their last meeting was in Paris last summer.

Now as the result of that meeting, and the Secretary's proposal, the United States has shown its good faith—the Congress of the United States has shown its good faith by passing an interim-aid bill in the full light of what the Secretary of State had proposed.

Now what I am interested in right now is what those nations have done since the Paris conference to help themselves. I think the peoples of the United States are very much interested in that point.

I understand that some of the group have taken steps to solve the problem of customs barriers. So far as the Luxemburg group is concerned I think studies had begun before the Marshall proposal.

Ambassador DOUGLAS. That is correct.

Mr. RICHARDS. Outside of that, I know of no steps that have been taken to solve this problem, except the studies that have been instituted by the Governments of France and Italy to solve their separate customs problem.

Now what has this group of 16 nations done to work out its own salvation, since that time?

Ambassador DOUGLAS. You will recollect, Congressman, that one of the commitments these participating countries made to each other was to reform their internal financial and monetary systems and to establish currencies within their countries in which their citizens had confidence.

That was an important commitment, for as many of the members of the committee realize who were in Europe during the summer, and others because of their knowledge of the effect of padded currencies the lack of confidence in the local currencies has been a depressant upon production and in addition has been one of the barriers to the flow of goods. It has been a depressant on production in a number of different ways, Mr. Congressman—and this is apropos of a question which Congressman Jonkman put yesterday morning in respect to agriculture—for in some of these European countries where there is no confidence in the local currency, there has been in a certain sense a flight from currency into goods.

Farmers have not disgorged, as they otherwise would have disgorged, the full measure of their harvests for the market. They have stored a part of their harvests.

Secondly, instead of cultivating as large an acreage as they might otherwise have cultivated for the purpose of growing grains, some have tended to shift their operations to livestock, for livestock is more lasting than some of the agricultural harvests. Therefore, in respect to agriculture and agricultural production, the restoration or establishment of currencies in which there is confidence will be positively a spur to agricultural production as compared with the depressant on production arising out of the lack of confidence in currency.

Mr. RICHARDS. While you are on the matter of currency, I fully agree with you about that.

It seems though that the European nations are depending upon the United States to stabilize their currencies through the provisions of the Marshall plan.

Now, what I know is what they have done themselves to stabilize.

Ambassador DOUGLAS. Perhaps I was dwelling on this point at too great length and if so I beg your pardon.

There has been another depressing effect on production arising out of the effect of currencies: Workers have worked as long hours as it was necessary to acquire that amount of currency which they could immediately spend.

The lack of confidence in currency was discouraging saving. They were not disposed to save that which might become of decreasing value in the immediate future, and accordingly some of them, instead of working for production, bought leisure which they could buy at a very low price, on account of the tax structure in the first instance and on account of the lack of commodities which they could buy on the market in the second instance.

Now, France, in order to cure this situation has recently enacted legislation which is very drastic and which is aimed at curing the condition. Indeed, it was a brave and forthright action on the part of the existing Government in France. They have taken a very forward step, aimed at achieving or satisfying one of the pledges which France, among other nations, has made.

It is doubtful in my judgment, though, Congressman Richards, as to whether any country in Europe can fully restore complete confidence

in the currency unless production increases, for there is a relationship between the price level, the value of currency on the one hand and the volume of production on the other, and accordingly if there is to be a real and a lasting restoration of confidence in currencies, production in each one of these countries must rise. There must be a larger volume of consumer goods upon the market. There must be a greater production in order that there may be greater exports, and as a result of the greater exports, in order that there may be a greater volume of exchange with which the necessary imports may be purchased. While each of these countries inherited a pretty dilapidated estate from the wartime period of occupation, they have pledged themselves to take the necessary steps within their power to cure the condition. It is highly unlikely that they will be able completely to cure their infirmities in this respect, unless they can buy more imports.

Have I made my point in that respect clear? Italy too has taken forthright steps aimed at curing her internal confused fiscal and monetary situation.

Mr. RICHARDS. Have they done anything collectively?

Ambassador DOUGLAS. Yes; they have, Congressman. They have established what is called a clearing exchange. All of the 16 participating countries are not members of that exchange, but a clearing exchange among a large number of these countries has been established. It went into effect during the first days of January this year.

As to production, they are making a determined effort. In the case of Britain for example the present rate of production on an annual basis is higher than in any year since 1940, and it is contemplated that Britain will export coal during the year 1948 in an amount greater than the amount which she committed herself to export in the Paris Conference.

Mr. RICHARDS. Now, Mr. Ambassador, as I understand it, some of the 16 nations have surpluses of certain commodities.

Some of them of course have shortages.

Has anything been done by the 16 nations as an entity, to pool the resources of these 16 nations? For instance, Italy has a surplus, or did have last year, of olive oil. Great Britain is beginning now to have a surplus of coal over and above her own needs. A few of the other countries have surpluses in some commodities. Now, what are they doing to pool their resources before they call on the United States to get in there and save the whole situation?

Ambassador DOUGLAS. Well, Congressman, the Paris Conference report contemplated that the surpluses that any of the countries might have that were needed by the other participating countries would flow to them.

Mr. RICHARDS. However, they have done nothing concrete about it since the Paris Conference?

Ambassador DOUGLAS. Britain has begun to export coal to the continent of Europe. That is a specific example of what has already taken place.

Mr. RICHARDS. How do they pay for that coal? Do they take local currency for that?

Ambassador DOUGLAS. They are making financial arrangements with other countries. We are not financing it and it is not contemplated that we finance it.

Mr. RICHARDS. What I am interested in is whether or not these nations have gotten together and said to each other, "We will give and take and help each other." The United States through interim aid, sent this stuff in there, and to increase their incentive to work, and also to meet their every-day needs, we agreed to accept local currency in payment for these relief supplies, and the fund built up in this way is used for further relief. Now, if Great Britain is producing more coal than she needs and there are many nations over there which do not have anywhere near as much coal as they need, is Great Britain willing to accept payment in local currency for the coal she ships to them, or does she demand payment in pounds or dollars?

Ambassador DOUGLAS. Of course, a multilateral trading system of the manner the 16 European countries are trying to restore involves the exchanges of their currencies, pounds into francs, French francs into Belgian francs, Belgian francs into lire, so that these currencies circulate around and have a purchasing power which can be exercised through their convertibility.

I do not know precisely what the financial arrangements are that Britain is making in this particular instance on the export of coal, but it is certain that the United States is not paying for it.

(Additional information on this point is as follows:)

TERMS ON WHICH THE UNITED KINGDOM IS EXPORTING COAL

The United Kingdom is not receiving dollar payments for coal exported to other participating countries. The United Kingdom is attempting to obtain essential food and raw material imports in exchange for its exports. Strenuous efforts are being made to reduce the trade deficit with other countries by increasing exports of coal and other commodities. Exports are being directed to those countries which will make available immediately and on reasonable terms the goods needed.

The United Kingdom is negotiating comprehensive trading arrangements with coal importing countries which are able to supply it with needed commodities. A bilateral trade agreement involving coal has already been concluded with Sweden. Similar agreements are being negotiated with Denmark, the Netherlands, and Finland. Since January 1, 1948, small shipments of United Kingdom coal have been sent to France and Italy.

Mr. JONKMAN. Mr. Ambassador, do you think that England is taking dollars for this coal, even though we do not furnish them?

Ambassador DOUGLAS. No. England needs dollars, of that there is no doubt.

Mr. JONKMAN. Are you certain that these exports of coal are being paid for in local currencies?

Ambassador DOUGLAS. I am certain that they are either being paid for in the local currencies of the 16 participating countries and not in dollars. It is not determined whether they will be paid for in goods or not. Barter of course restricts the thing we are trying to accomplish.

Mr. RICHARDS. Instead of each individual nation trying to stabilize its own currency based on its individual economy, would it not be helpful for these 16 nations to proceed along the lines they have said they would proceed along, and fix a standard value for all the currencies in those 16 nations, and thus facilitate trade and commerce between them?

Now as I understand the 16 nations have taken no collective action along that line.

Ambassador DOUGLAS. Congressman, it is almost an impossible task to undertake unless there is reasonable stability in each one of these countries. No one believes more than I do in a sound and valid internal fiscal and monetary system for any country, and no one believes more than I do in the stability of some sort of a currency that has elements of commonality in it, for it is a common currency that is one of the most useful servants of trade.

Now the elements of commonality, such as they were, which existed before the war, and such as they were to a lesser extent during the period of occupation, have been completely shattered by the devastation of the war, and the task of restoration is not an easy one.

It will take courage, forthrightness on the part of governments, and time. It cannot be done overnight.

Mr. RICHARDS. I agree with you, Mr. Ambassador, about that. This currency problem, and stabilization of world currency, is one of the greatest problems of this age or any age, for that matter.

If they cannot do that, and it is evident that they cannot do it overnight, do you think that a barter system among the 16 nation to handle the surpluses in one nation and the shortages in another would not be helpful, during this period of depression?

Ambassador DOUGLAS. Congressman, I think that clearing arrangements have been established that are more effective than barter, because barter is a purely bilateral arrangement, one country with another; whereas money is an instrument of exchange and it can be translated into a whole variety of different commodities in a variety of different areas. The significant thing is that notwithstanding the difficulties implicit and inherent in the restoration of fiscal stability, these countries have already established this clearing arrangement through which the currencies of one country may be cleared with currencies of another.

Therefore, the steps that have been taken are not unimportant. Indeed they are quite important.

I would like to make one further observation and it is this: For the reasons which I have indicated, if the support from the United States is forthcoming, the cooperative effort of these countries to which they have pledged themselves can be, and I believe will be, advanced. The pledges will be met. However, unless there is a European recovery program of such magnitude that these countries will be able to buy the imports which they need, they will necessarily be compelled to impose further and further restrictions upon imports, exports, the convertibility of exchange; further and further quotas and exchange restrictions.

I doubt, sir—this is an honest and very considered opinion—if the type of economic integration to which you refer and which you would like to see established can be had among these participating countries unless their present estate is so organized that they will be enabled to purchase the raw materials which they need, and thus to increase their production for export, accordingly to buy in turn imports, and as a result to break through this stifling and strangling group of

devices which have been taking the breath of life out of the economic system.

Mr. JARMAN. Going back to the increased production of coal in Britain, France had been importing coal from the United States; had she not?

Ambassador DOUGLAS. Yes, sir.

Mr. JARMAN. That coal that goes from Great Britain this year to France—it does not make any difference whether Great Britain collects in pounds or francs. Of course, she is not going to collect in dollars. Does it not relieve to that extent the need of dollars from the United States by France?

Ambassador DOUGLAS. It does indeed, sir.

Mr. JARMAN. Regardless of what she collects?

Ambassador DOUGLAS. It does indeed, sir.

The profound and far-reaching alteration in the source of supply of coal, purely an incident of war, has imposed upon the European countries during the year 1947 a dollar cost approximating \$700,000,000 which those European countries before the war did not have to defray.

Mr. RICHARDS. May I ask a question?

Ambassador DOUGLAS. According to the extent to which coal requirements of these countries can be met from indigenous sources of the United Kingdom or the Ruhr, to the same extent the dollar burden on these countries will be diminished. This program contemplates restoration of the indigenous sources of supply of coal.

The prewar production of coal among the participating countries, as I recollect it, was 552,000,000 tons a year. By 1952 the production of coal will be 585,000,000 tons of coal.

Mr. RICHARDS. Now, Mr. Ambassador, in that connection the point I wanted to make is this: If Great Britain has, say, 1,000,000 tons of surplus coal, is there any authority in the collective organization of the 16 nations to allocate that coal to the member nations needing it most?

As I understand it, Great Britain can send that coal to Canada. She can promote her own program of trade. But unless the central agency within the 16 member group can compel Great Britain to send that surplus to help other members of the group, I do not see where we are going to get anywhere.

Ambassador DOUGLAS. Well, Congressman, the prewar flow of British coal would be approximately as follows: Some for bunkering, some to Argentina, for the coal that was shipped out to the Argentine provided Britain with the exchange for which she bought meat and other agricultural products and raw materials from the Argentine, or even other parts of the world. So as to the extent to which Britain resumes the exportation of her coal to the Argentine, to the same extent her demand for dollars is diminished.

Britain exported coal to Norway and to Sweden. Ships went out from Britain carrying coal and they brought timber and other essential raw materials back to Britain.

They satisfied approximately one-half of the coal requirements of Italy. My recollection is that about one-third of the prewar coal requirements of France were satisfied directly or indirectly from the United Kingdom. The Netherlands was one of the countries whose coal demands were met by British exports of coal.

Indeed, Britain and the Ruhr were the two great suppliers of coal for that continent.

Now the exports of coal from Britain, and I understand two cargoes have already gone, has been destined for France. This is the way the allocation machinery operates, where coal is now in short supply: There was established 3 years ago, I believe, what was known as the European Coal Organization, on which the United States was represented. The European Coal Organization, in the light of the amount of coal available for export from the Ruhr, the Saar, and from the United States and certain other sources, then recommended to the suppliers the allocation of that coal among the members of the Organization.

The coal in the light of the allocations when confirmed by the specific countries was then generally purchased through agents within those countries.

The European Coal Organization was superseded, I think it was in January of this year, by a new committee called the Coal Committee of the Economic Commission for Europe.

That Commission has now taken over the functions of the European Coal Organization so there is allocation machinery in existence now. I should say that that organization is a United Nations organization and I should like to point out one factor in regard to one aspect of the Commission: although the Soviet may be represented on it, it does not have the power of veto.

Mr. RICHARDS. Now, Mr. Ambassador, let us take into consideration another commodity—steel—which is one of the scarce commodities in Europe right now.

Ambassador DOUGLAS. I beg your pardon. The Soviet Union has not participated in the coal committee, but some of the satellites have.

Mr. RICHARDS. Steel is one of the short commodities. I understand Great Britain is building more shipping now than all the other nations of the world combined. I understand she is asking for allocation of 2,000,000 additional tons of steel.

How would we propose through this legislation to handle a situation like that?

Ambassador DOUGLAS. There has been established under the Economic Commission for Europe a steel subcommittee which will study ways and means of increasing steel production.

I am not at all clear, sir, and I would not want to give a definite impression that that committee has authority to recommend international allocations. I have doubts as to whether it has and I would not want to mislead you in any way in my answer. I doubt that it has allocating powers.

Mr. RICHARDS. No power has developed through the 16-nation group to handle a situation like this in Europe?

Ambassador DOUGLAS. Not yet. Not in respect to steel. I think that is a correct answer.

Mr. RICHARDS. Now, Mr. Ambassador, I am very much interested in this matter of stock piles.

Ambassador DOUGLAS. May I just make one further observation about the cooperative effort of the countries?

Mr. RICHARDS. Yes.

Ambassador DOUGLAS. They are anxious to cooperate, but for reasons which I have indicated they may find it impossible to honor

their pledges unless support for their recovery is provided. They have committed themselves to the establishment of a continuing organization, consisting of the representatives of the participating countries, and the United States will have a representative, if the Congress approves this recovery program, and this is what the group of nations said precisely in relation to this continuing organization:

This organization will insure to the fullest extent possible by joint action the realization of economic conditions necessary to enable the general objectives to which each country has pledged itself to be effectively achieved.

They have committed themselves to establish this organization when there is reasonable assurance that the amount of support necessary to the carrying forward of the copoerative effort will be forthcoming.

Mr. RICHARDS. Thank you, Mr. Ambassador.

Now we have two bills here before us, one of them is the one carrying the name of Dr. Eaton as its author, and the other is that of Mr. Herter, the chairman of the Herter committee.

Now each bill makes reference to stock piles of strategic materials of which we are in short supply. Now if you will look on page 18 of the Eaton bill, section 5, it says that the sale to us is to be facilitated of the strategic materials in which we are in short supply, and the Herter bill at the bottom of page 13 suggests that these strategic materials should be turned over to us in payment for some of these materials and supplies we are going to furnish to Europe. What do you think about that?

Ambassador DOUGLAS. To the extent, Congressman, local currencies are used for the purchase of strategic materials, to that same extent the amount of dollars that the countries possessing the strategic materials may earn through commercial exports is diminished, and accordingly, to the same extent the amount of dollars which we would have to appropriate would be increased if there is to be European recovery.

Let me put it this way: One of the exports of the participating countries is a strategic material to the United States and through it the participating country derives dollars. They are included in their estimated dollar income as a result of sale to us.

Mr. RICHARDS. Then you do not feel that there would be any real advantage in the United States requiring that surplus strategic minerals be turned over to us in part payment.

Ambassador DOUGLAS. No, sir. We will have to make up the deficiency in their dollars caused by the purchase of the strategic materials with local currency.

Mr. RICHARDS. The gentleman from Connecticut would like to ask a question.

Mr. LODGE. In view of that could this money be given these participating countries with the understanding that it will be repaid in the form of strategic materials at a subsequent date?

Ambassador DOUGLAS. Perhaps it would be appropriate for me to refer to the provisions in H. R. 4840 that cover strategic materials, and the way in which it is proposed that the administration of this bill in this regard would be conducted.

The bill provides that each one of the participating countries possessing strategic materials shall facilitate the sale to the United States of strategic materials on reasonable terms and in reasonable

quantities after allowance is made for the country's domestic and commercial export requirements.

I think the bill provides that the administrator may advance funds for the exploration and development of production of strategic materials.

Now it is contemplated in the administration of the bill that in the event of a loan, for example, strategic materials valued as of the date they are imported into the United States could be applied toward the repayment of a loan.

Moreover, it is contemplated under the administration of the bill that local currencies received as the counterpart of any grant that the United States might make, could be used for the purpose of engaging in exploration for and the development and increased production of the strategic raw material.

My recollection is that it is estimated that as a result of the operation of the provisions of the bill and the administration of them, some \$171,000,000 should be available. I would like to review the matter, and I will put a statement in the record.

(The information is as follows:)

STATEMENT ON STRATEGIC MATERIALS

The primary consideration in connection with obtaining strategic materials is an increase in their production, since production at current levels is generally not adequate to meet existing needs. It is the considered judgment of the executive branch that the method of obtaining strategic materials proposed in connection with European recovery program legislation is more likely to result in our obtaining a larger quantity of such materials than alternative plans which have been suggested.

Under the proposed legislation it is contemplated that (1) part of the funds appropriated may be used by the Administrator of ECA to finance development of increased sources of supply (sec. 8 (c)), (2) technical information and assistance may be provided to aid in increasing production (sec. 7 (a) (3)), (3) under the bilateral agreements with participating countries, local currency proceeds may be used to foster exploration development for production (sec. 10 (b) (5)), and (4) the bilateral agreements will provide for the recipient countries' facilitating the sale to us in quantities, on terms, and for time periods to be agreed, of strategic materials beyond their requirements for domestic use and commercial export (sec. 10 (b) (5)). The time period may extend for a considerable number of years.

Furthermore the legislation authorizes the Administrator under certain circumstances to require the repayment of loans under the program in the form of delivery of strategic materials. Ordinarily, however, it is contemplated that such materials will be purchased by us with dollars separately appropriated. It is believed that the incentive furnished by our purchasing such materials for dollars will result in a greater production and a larger procurement by us than would be the case if the countries were required to furnish such materials without dollar payment as a condition of our assistance. Moreover this procedure will permit the transactions to be handled directly with private producers and distributors rather than confining them to Government channels.

For the reasons stated above the Munitions Board representative on the inter-departmental subcommittee which prepared the policy recommendations on strategic materials summarized in the Outline of the European Recovery Program strongly favored the proposal in the form presented to the Congress.

The ultimate monetary cost to us should be approximately the same regardless of whether we pay for such commodities in the future or whether we require the countries to furnish them to us without dollar payment. This may be explained as follows:

It is contemplated, in any case, that assistance under the European-recovery program should be in the form of loans rather than grants up to the estimated capacity of each participating country to repay without jeopardizing the objective of sustained economic stability. In calculating the capacity of a country to repay, its receipts from future exports of all types including strategic materials

which might be sold to us, would be taken into consideration. If we require the delivery of strategic materials as a consideration for a grant the capacity of the country to repay any loans would correspondingly be diminished. We would to that extent have to reduce the amount of any loan which might otherwise have been made to the country and to increase the amount of our grant. Moreover the grant would become a loan.

It makes little difference to us financially therefore whether (a) we make a smaller percentage of our assistance in the form of loans and a larger percentage in form of grants, requiring repayment of part of the grant in strategic materials (the grant thereby becoming a loan), or (b) make a larger percentage of our assistance in the form of loans, getting repayment of them either in dollars, part of which would be supplied by our purchases of strategic materials, or in the form of strategic materials in the first instance.

The suggestion that grants might be repaid by delivery of strategic materials by any country which at any time in the future might have a dollar surplus contemplates the making of "Contingent loans." It involves for many years a constant scrutiny of the ability of any country to repay. It necessitates coordination with both private lenders, if any, the International Bank if it has made a loan. It might lead to bitter disputes between our country and others and, what is more important, it might not encourage to the fullest extent the exploration for and development of increased production of strategic material.

In view of the great importance to the United States of increasing its supplies of strategic materials, the program which we believe offers the greatest prospect of obtaining them in the largest quantities has been recommended by the executive branch.

Mr. RICHARDS. The Herter bill provides that the United States shall receive part payment in strategic materials.

Ambassador DOUGLAS. Yes, sir.

Mr. RICHARDS. These particular countries do not need them; they would not have to buy something to replace them. It would not follow that they would have to have money from the United States to buy something to replace them; therefore their economy would not be hurt.

Ambassador DOUGLAS. However, Congressman, the surplus over and above their internal requirements are included in the balance of payments calculation and would be exported to the United States in consideration for which the country would receive dollars.

Now to the extent to which that surplus of strategic materials, over and above the internal demands of the country, are paid for in local currency, to the same extent their dollar receipts are diminished and to the same extent either we would have to appropriate an equivalent of dollars or the program would be diminished to that extent.

Now there is one other very practical consideration, Congressman: These countries need dollars. They do not need local currency. If they are to receive local currencies for the strategic materials in excess of their domestic requirements, the spur to engage in exploration undertakings and operations and the production of the strategic raw materials which we need will be withdrawn.

Mr. RICHARDS. Well, there is nothing in the bill to guarantee even the sale of strategic materials to us.

Ambassador DOUGLAS. It is contemplated, Congressman, that in the bilateral contracts which the Administrator will make with these participating countries the matter of strategic materials will be covered.

Mr. RICHARDS. Do you not think that it should be clearly stipulated in the bill that we are to receive these surplus strategic materials, if they are available? There is nothing nailed down in here at all.

Section 10 (b) (5) of the bill reads as follows:

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;

Mr. RICHARDS. Some of those countries have no surpluses right now, but they have the means for developing them through the money we are providing here. I hope something can be worked out in this field to the end that we get something we need in return for our aid.

Ambassador DOUGLAS. I do, too, sir.

There are two questions here. One is our getting the stock pile of the strategic materials and the other is the way in which the strategic materials will be paid for.

Mr. RICHARDS. As I understand it, your contention is that through this bill we should not demand the surpluses we need, other than by paying for them in dollars?

Ambassador DOUGLAS. That is right, as to the manner of payment.

As to the delivery of strategic raw materials, I think the bilateral contract should be very precise and we should take every step that we can reasonably and honorably take, to require the delivery of the strategic raw materials to us.

Mr. BLOOM. Mr. Ambassador, in talking about the strategic materials and materials that are of domestic use, that are used every day in this country, there are two of these countries in the 16 participating nations that have the absolute control of the most essential thing we need in this country, and we are using more than 50 percent of the production every year and that is tin.

In mentioning the strategic materials you did not mention tin. We need tin in this country. There is only one other place we can get it if we do not get it through England and the Netherlands.

We have to pay them the price put on tin. That we need every day in the world. The only thing in the world for which there is no substitute is tin, and yet we are at the mercy of the few countries to get the supply of tin that we need every day in this country, not only the stock pile, but the daily use of tin.

Do you not think, specifically in the case of tin, there should be some arrangement or some agreement whereby the United States should get the tin necessary to use, that they must use every day, and also a sufficient amount for their stock pile?

Ambassador DOUGLAS. I do, sir. Tin is in world short supply. Consequently it is one of the few items which remains under international allocation so that there can be an equitable distribution to the United States as well as to other countries of the world.

Mr. BLOOM. You did not mention anything about that at all.

Ambassador DOUGLAS. I was merely giving illustrations and my point did not immediately strike on tin.

Mr. BLOOM. I agree with Mr. Richards and the other gentleman who have spoken here, that we should at this time—this committee in 1935 went into this matter with reference to tin very thoroughly, as you know, and you know that during the war, if it was not for the

operations we made with Bolivia, we would not be able to make a mower in this country. That is the control that England and the Netherlands have on tin. There is no substitute for it.

Ambassador DOUGLAS. I agree with you, Mr. Congressman. The war in the Far East cut all the Allies off from the high-grade tin deposits in Malaya and the Netherlands Indies. If I omitted tin it was because I was merely giving an illustrative list, and I should have put tin at the top of it as an item in which production expansion is vital.

For the record, \$72,000,000 out of the \$171,000,000 figure to which I referred is on account of tin, which is an indication of the importance that is placed upon expanding tin production.

Mr. BLOOM. The important part of it is this: They have the control of this thing. They make the price. They make the allocation of what we are to get, and this country today cannot transact its ordinary business unless we have at least 50 percent of the tin ore that is mined throughout the world.

Ambassador DOUGLAS. The International Tin Committee has been disbanded. The tin cartel no longer exists. However, I agree that the bilateral arrangements that are made with the countries should protect the interests of the United States adequately, with respect of tin, just as the interests of the United States should be protected in respect of all of the other strategic materials.

Mr. JAVITS. Is not the nubbin of this matter we are discussing now, Mr. Ambassador, to be found in the inflexibility of this bill with regard to the needs for mutuality of consent between the participating government and the United States as to the use of impounded local currency? Is not that exactly the point that we are to change if we are to meet the very proper views, and that you yourself agree with, which have been expressed here?

Ambassador DOUGLAS. I am not sure I understand what you mean, Mr. Javits.

Mr. JAVITS. It is the provision that local currency shall be spent only by mutual consent between the United States and the participating countries. Is it not exactly at that point that we are to have greater freedom of action, with respect to these strategic materials?

Ambassador DOUGLAS. I think there has to be flexibility in the administration of the Act, Congressman.

The explanation of the use of the local currency is included in the document that was printed by the committee entitled "The Outline of European Recovery Program," and as I recollect it there are six purposes for which the local currencies may be used.

Mr. JAVITS. Only with the consent of the other countries.

Ambassador DOUGLAS. That raises a question, Congressman, which I would like to discuss with you at great length.

Mr. JAVITS. I did not want to intrude on the time of my colleagues.

Ambassador DOUGLAS. The matter of local currency is one of the most perplexing problems in the administration of this act. I could give you some figures of the magnitude of the local currencies that

may be accumulated which, if left subject to our control exclusively, would give us the power of financial life or death over these countries.

I would appreciate the opportunity very much to go into it with you and get your views.

Mr. JAVITS. On my own time.

Ambassador DOUGLAS. All right, sir.

Mr. MUNDT. Mr. Ambassador, you have been talking about these bilateral agreements, dealing with strategic materials. We have some experience tables I presume now on the ease or lack of ease which we can make bilateral agreements as a result of the passage of the Fulbright bill, some 16 or 18 months ago.

Could you tell us with how many of these 16 countries you have been able to conclude satisfactory working agreements on the Fulbright bill in the last 18 months?

Ambassador DOUGLAS. I would have to supply that, Mr. Congressman, because I do not have it.

Mr. MUNDT. Have you been able to do it with England in your own particular field of specialization?

Ambassador DOUGLAS. I cannot answer the question.

Mr. MUNDT. You will provide the material?

Ambassador DOUGLAS. Yes.

(The information referred to is as follows:)

The Fulbright Act, passed on August 1, 1946, introduces a concept of international cultural relations without precedent. While it has similarity in principle with the boxer indemnity fund and the Belgian-American Foundation, the administrative practices implicit in the act fit into no familiar pattern.

While it may appear that little progress has been made, a careful review of the situation will indicate that the achievements to date have been considerable. It should be pointed out that even at the time of the passage of the act it was not contemplated that actual exchanges would begin until the academic year 1948-49 and assurances can be given that such exchanges will take place before that deadline.

The principal complications have arisen from the regulations issued by the Treasury Department governing the use of currencies derived from surplus disposals abroad with the responsibilities which they impose upon the financial offices of the Department for the meticulous consideration of the financial aspects of the program as they involve possible convertibilities of currencies, protection of United States interests in times of wide fluctuations of exchange rates, etc.

In spite of the intricacies involved and the great amount of time required to resolve many fine questions of international financial relations, agreements have been concluded with two countries for the operation of the program and their educational foundations have been established and initial programs are ready for departmental approval for getting the programs into operation. The status of the programs in the remaining 20 countries in which programs are actively being considered at this time is as follows: The necessary implementing agreements are in the hands of 9 foreign governments for discussion looking to signature and may be signed at any time depending upon the speed of action in the other countries. One agreement is now in the process of transmittal and 5 more are in the final stages of clearance and should leave the Department within the next 2 weeks. In the case of 5 countries, agreements are ready for discussion with other countries but considerations of foreign policy require that signature be postponed. In view of the many problems involved, and the number of agencies of the Government concerned, the progress to date does not appear to be unsatisfactory.

Status	Country	Amount in current agreement	Duration of program under present agreement ¹
2 signed.....	China.....	\$20,000,000	20 years.
	Burma.....	3,000,000	Do.
9 under discussion.....	Italy.....	5,000,000	5 years.
	France.....	8,000,000	20 years.
	Belgium.....	3,000,000	Do.
	Egypt.....	1,500,000	5 years.
	Iran.....	200,000	1 year.
	New Zealand.....	2,300,000	20 years.
	Austria.....	250,000	1 year.
	Philippines.....	2,000,000	20 years.
	Turkey.....	500,000	2 years.
1 in transmittal.....	Czechoslovakia.....	2,000,000	5 years.
5 in clearance.....	United Kingdom.....	5,000,000	Do.
	France.....	1,000,000	1 year.
	Netherlands.....	5,000,000	5 years.
	Australia.....	5,000,000	20 years.
	Norway.....	1,260,000	5 years.
5 held for political reasons.....	Hungary.....	5,000,000	20 years.
	Poland.....	8,000,000	Do.
	Siam.....	4,000,000	Do.
	Netherlands Indies.....	7,000,000	10 years.
	Finland.....	1,250,000	5 years.

¹ In most cases the 5-year programs are subject to renewal up to a limit of \$20,000,000.

Mr. VORYS. Mr. Ambassador, the figures that have been presented refer to a return to the year 1938 as a basis for European recovery. Is that not an approximate date used?

Ambassador DOUGLAS. That is right. However, I do not think it is fair to say they are compared with 1938. Production figures were compared with 1938. The standard-of-living figures, expressed in caloric value of diets, were related to 1938, and a variety of things of that order, but the calculation of the amount required is not related to 1938.

Mr. VORYS. That is the point I wanted to bring out. This draft bill before us, in a sort of general statement at the beginning mentions a return to economic normalcy in Europe.

Now, I note in the CEEC report the following reference to the 1938 status of the 16 countries.

Their income from foreign investments and other invisible exports was sufficient to purchase nearly one-quarter of their imports from the rest of the world.

That is on page 4.

If Europe before the war got a fourth of their imports from investments and invisibles, I just do not see any chance of our facilitating their return to that sort of a situation.

Ambassador DOUGLAS. It is not contemplated the United States will make up the foreign investments, Congressman, but it is contemplated in this program that the production of these European countries shall be so increased that the losses of their investment income can in part be made up.

Mr. VORYS. Who is supposed to buy that production? If they need dollars are we supposed to buy this increased production? I do not think we can. I do not think we can absorb the gigantic increases in production that are contemplated by a number of these countries.

Ambassador DOUGLAS. It is not necessary that we absorb them, Congressman. What is necessary is that ultimately as western Europe recovers, currencies will become convertible, and that therefore countries other than the United States will absorb a part of the

increased production. It is, of course, contemplated that we will absorb some of it but not all of it by any manner of means.

Mr. VORYS. It seems to me that the CEEC report and the administration bill contemplate in general a restoration of normal economic conditions in Europe, as in 1938, that those are the conditions that led to war, and those are the conditions that can never be restored, and I do not see very much vision any place around in attempting to create some new way for these Europeans to live. I do not think they all can live as they once did. I think many of them are going to have to move away. However, throughout this thing it seems to me, they have been talking about dollar shortages; they are talking about restoration of that 25 percent, a quarter, of the imports that they used to get through invisible means. I do not see how it is going to work out based on the information placed before us so far.

Do you think it is going to work out otherwise than by our simply buying their stuff and continuing to pump dollars into there, one or the other?

Ambassador DOUGLAS. I think it can be worked out, Congressman. As I have said to the committee on a previous occasion, I think there are risks in this program, and I would be the last one to make the statement that this program will certainly and without question achieve the purposes for which it was designed. However, I think, Congressman, in measuring the risks that are implicit in this undertaking, we have to measure the risks that are certain if we do not undertake it.

Mr. VORYS. By the way, at this point—if somebody else has asked this question skip it—I hope that you will have prepared and bring up to us here a dollars and cents sort of budget estimate on what a policy of withdrawal would cost.

You have discussed it, General Marshall has discussed it, I myself have discussed it in public speeches and otherwise, the possible cost of withdrawal. I have made some rough estimates in my own mind, but it seems to me that it might be quite possible to make a fairly reliable estimate of what the policy of doing nothing might add up to in military expense and otherwise.

Ambassador DOUGLAS. I would be very glad to discuss that with you and see what can be done in accordance with your request. Would that be satisfactory?

Mr. VORYS. Yes. Now to come back to this matter of 25 percent invisibles for Europe. What that means is this: That the European economy became older, as they exhausted their natural resources, through investment all over the world, they had arrangements that enabled them to secure an excess of imports over exports that worked rather well until the war. That is right, is it not?

Ambassador DOUGLAS. Except it was not the product of their becoming older that furnished invisible incomes.

Mr. VORYS. In any case, the proposal now is that the United States take up the torch of civilization and assume a position of world leadership and stewardship and that we furnish all this stuff to the needy world in the time of its need.

Whenever we talk about making it in the form of investments rather than gifts, we are reminded of the temporary shortage of dollars and are urged not to make it in the form of loans, so that we will have some invisible returns come in.

I wonder why, as we exhaust our resources through this crucial period to meet the needs of Europe and of the world, we should not do what Europe did in arranging for some invisible assets to bring in some imports?

Ambassador DOUGLAS. Congressman, to compare the existing situation with that long period that started somewhere in the middle of the eighteenth century and earlier, and that extended up to 1914, and to a lesser degree during the twenties and the thirties is, I think, incorrect.

The foreign investments made by the European countries were not made in an environment such as the environment which now prevails. They were not made by governments on the whole. They were made by private investors who provided the capital for the development of our railroads. It was private investors that provided the capital for the development of many of our industries. That was the type of private transaction that occurred all over the world: the accumulated savings of the foreigners in many of these respective countries went out to seek overseas investment in an environment in which there was little doubt about the future; the foundations of society had not been undermined; confidence as to the organization and permanence of society prevailed and accordingly private investors sought a profitable employment of their accumulated savings in the far corners of the world.

That environment now does not exist. Private investors in the United States are not disposed in this sort of an environment to invest funds overseas, until economic and political stability begin to reappear in a form which will justify the taking of the risk. That is the first part.

Mr. VORYS. I would like to comment on that, if I may, though I also want your full answer: Would it not be a good idea if we could arrange our long-time policy so that a somewhat similar pattern would be followed, that instead of having forced investment by Government action of private citizens' money, we would attempt to stimulate private investment over the world?

Ambassador DOUGLAS. Congressman, that is one of the purposes of this act. It is implicit in it. The fundamental purpose of this act is to encourage the restoration of stability in their part of the world, so that private investment may thereafter legitimately and properly and prudently play its part.

Mr. VORYS. Is this not supposed to be a long-term policy we are discussing now? I thought perhaps after many, possibly necessary, emergency stopgap actions here and there, that we were attempting now to settle upon a long-term policy for the United States. Am I wrong about that?

Ambassador DOUGLAS. You are quite right, sir. This bill is designed to provide a coordinated program, not for relief but for the recovery, and the resurgence of stability in this critically important part of the world. It is because of that, that the authorization sought is for a period of four and a quarter years.

Mr. VORYS. Yes, but in terms of the policy, wholly without regard to specific authorizations of money, we ought to be thinking about a policy that runs longer than 4 years, should we not?

Ambassador DOUGLAS. Of course we are, Congressman. The fundamental purpose of this act is to achieve recovery and stability in western Europe.

Mr. VORYS. Then what?

Ambassador DOUGLAS. Once recovery and stability in western Europe are achieved, there is no further need for American public support for the participating countries, and private investment may then play its part. The assets that are hidden in western Europe will begin to emerge during the period, and government will be withdrawn from this type of operation. That is the fundamental policy. That is the fundamental purpose and objective.

Mr. VORYS. After that period, then will come the time when we will need a Government policy of such a character that private investment will be encouraged and protected. Is that not true?

Ambassador DOUGLAS. I am not certain what you mean, Congressman. The creation of an environment in which private investment plays its part, yes, and the establishment of peace. Private investment plays its part in a peaceful atmosphere.

Mr. VORYS. The mistake we made during and after the last war, many people think, was not requiring commitments from other nations when we were needed. It seems to me most important that we do not make that mistake again, and that we do not get up a policy of throwing in aid in war and in the sort of peace that we have now, if it can be called peace, without any commitments from our beneficiaries, as to what is going to happen when we are no longer needed but when we may need strategic materials and other things.

It seems to me what I thought was a long discussion of policies, which would go beyond the 4- or 5-year period of dislocation but into the future, is being too much confined to just what we are to do during this period of need, and not what the rest of the world is to do when the immediate period is over and when we may want something, strategic materials, for instance.

I cannot see why, on strategic materials, we should not make a provision which might, as Mr. Jarman said, make our present procedure a loan, but a very limited type of loan. Those countries should agree that they will pay us back in strategic materials some day, if, as, and when new sources of strategic materials are opened up, in return for what we are doing for them now.

I cannot see what is wrong with that. That is the particular item of discussion this morning that makes me think we are not looking ahead far enough.

Ambassador DOUGLAS. Congressman, these contracts and obligations may run for a long period of time.

I refer you to section 10 (b) (5) which reads in respect to strategic raw materials for stock-piling purposes:

for such period of time as may be agreed to.

Now those contracts may run for a period of 10, 15, or 20 years.

Chairman EATON. Will the gentleman yield?

Mr. VORYS. I yield.

Chairman EATON. I have had a very interesting suggestion here sent up to me, that we buy all the strategic materials that we wish to stock pile, pay for it in money and subtract that amount from these proposals that we now are considering. How would that strike you?

Mr. VORYS. We have just been told that part of that is already budgeted and in response to the suggestion that we go ahead and agree to buy some more, or that they agree to sell some in the future

for the stuff they get, we are told that must not be done, as I understand it.

Ambassador DOUGLAS. I do not say that cannot be done, Congressman; I am prepared to say, however, that during the period which we are now considering, to any extent to which the device of requiring payment to the participating countries in local currency is followed, to the same extent during the period which we are discussing their dollar deficiency will be increased. The results will be that either the program will be correspondingly decreased and recovery be correspondingly postponed, the chances of achieving our objectives impaired, or, alternatively, an equivalent increase will be necessary in the amount of dollars appropriated.

Mr. LODGE. Mr. Ambassador, I do not quite see how the deficiency of dollars would be augmented by agreements providing for the turning over of raw materials which we need or strategic materials, upon the termination of this program. It seems to me that the dollar deficit would be handled exactly the same way, and I will take an example. Let us assume that we need coal. Well, I believe you said that the British have 200 or 300 years reserve. They could not possibly mine all that at once and use it, but in the course of time they can, and that would apply to other materials which are strategic. At the time that they would turn over these strategic materials, the crisis would on my assumption have lapsed and they would be no longer in need of the dollars which we are providing under this program.

Ambassador DOUGLAS. May I make this observation: Congressman Vorys has very properly referred to one of the very great changes that has occurred as a result of the war, in the position of the participating countries. He has referred to the statement made in the Paris report that the situation was that in the prewar period 25 percent of the imports of these countries were acquired as a result of the income from foreign investments.

He has pointed out that the income derived from that source is now very substantially diminished. What was formerly a surplus is now a deficiency, and the implication of his observation was that that change in position of these countries has imposed an obstacle in the way of the achievement of prewar recovery and stability.

As I understand it, that was the effect of the observation he made. He can see that is one of the difficulties.

At the same time, after having made the observation that that great change is a difficulty, it is suggested that the difficulty be aggravated by requiring these countries which would otherwise derive dollars from their exports of strategic materials, to deliver them to us without receiving an equivalent amount of dollars.

Mr. LODGE. They would not otherwise derive dollars from them unless they sold them to us.

Ambassador DOUGLAS. You are suggesting that the difficulty be aggravated by requiring them to deliver the strategic materials to us for nothing, or in consideration for their local currency counterpart.

Mr. LODGE. It would not be for nothing, it would be to increase the percentage of this sum to be loaned only as a long-term proposition and at a time when there would no longer be a dollar deficit in the country.

Ambassador DOUGLAS. If it is possible to achieve recovery, according to the observation of Mr. Vorys, then the difficulty is aggravated by requiring them to deliver for nothing, or for a local currency, strategic materials during the period in question or later on.

The sole question here, and this is a question about which I cannot have a fixed opinion, and about which I doubt anybody can have a fixed opinion, is the ability of the foreign country, without incurring continuous deficiencies in their balance of payments with all things that follow from it, to deliver their resources to us for nothing, or for local currency. That is something that has to be reviewed in the light of their then capacity and ability to pay.

Now as to the extension of loans for the development of strategic raw materials, it is contemplated in one of the bills which you are considering, that the Administrator may make available funds for the purpose of exploring for and increasing the production of strategic raw materials.

It is contemplated that those loans for purposes of that character or for some other purpose may be repaid during the life of the loan for whatever period it may run, in terms of, or by the delivery to the United States of strategic raw materials, valued, perhaps at the time of delivery, according to the prevailing market price of the materials delivered. Does that answer your question?

Mr. VORYS. Of course, there are gambles involved in this whole program. Would anything give more evidence of the confidence of the United States in the future of these 16 nations than for us to lend them money to be repaid in convenient ways a long time in the future; loans which would obviously be no good unless those countries had a long and prosperous future.

Ambassador DOUGLAS. Well, Congressman Vorys, it is an inescapable part of the capacity of the exchange mechanism and of the countries to get dollars with which to repay.

Now they may be going concerns internally, but unless they can transfer their local currency or their exports into dollars, they cannot repay.

Mr. VORYS. That is not the kind of loans we have been discussing at such great length this morning. We have been talking about a possible loan—I think Mr. Jarman made the point that you might call it a loan. We are talking about a possible loan of dollars, repayable not in dollars but in say a certain percentage of production of lead or in tin 15 years from now.

Ambassador DOUGLAS. That is contemplated under the act.

Mr. JUDD. Will the gentleman yield?

Mr. VORYS. I yield.

Ambassador DOUGLAS. I think it is explained on page 49 of the document submitted.

Mr. JUDD. Following up the question of the gentleman from Ohio as to what would be the psychological effect on these countries of our saying "We expect you to be able to pay a portion of these grants or loans over a period of years by the transfer to us of certain strategic materials for stock piling."

I agree with the gentleman from Ohio it would have a favorable effect. On the other hand, coming back to the section you read, page 18, section 10, what could have a more adverse effect psychologically

than the first words of that subsection which indicate that we never expect them to be able to get back to the point where they can repay in critical materials of which we hope they will have surpluses? We say that they must enter into agreements that hereafter they will sell "to the United States for stock-piling purposes for such period of time as may be agreed to and upon reasonable terms" and so on.

We say to them, "You do not have the privilege of being so mean as to refuse to sell us some, but instead give it to our enemies. However, we do not expect you to get in such shape that you can repay, not in dollars, but in materials."

Ambassador DOUGLAS. Let me repeat, it is contemplated that loans made may be repaid by delivery to the United States of strategic raw materials, the value of which will be calculated at the current prevailing market prices.

Mr. JUDD. This does not speak about repaying, it says "facilitating the sale to the United States."

Ambassador DOUGLAS. That is one of the things, Congressman. Certainly during the period they are short of dollars, that should be appropriate. Certainly, we want to facilitate the sale to us of strategic raw materials, but it is also contemplated that some at least of the loans may be repaid by delivering to the United States strategic raw materials, valued as of the current market prices prevailing at a certain time.

Mr. JONKMAN. Mr. Chairman, will the gentleman yield to me?

Chairman EATON. I wonder if it would be possible to recess until 2 o'clock at this point?

Mr. JONKMAN. Is not our difficulty here that we do not distinguish between the times we are talking about grants and the times we are talking about loans?

Now only 20 to 40 percent of this proposed amount is going to be loans. The rest is going to be grants.

Now as I understand your line of reasoning you say, if you are going to ask them to give us in return for credit, stock-piling goods, there will be taken away the dollars they expected to get for it that they have already figured on?

Ambassador DOUGLAS. That will, sir.

Mr. JONKMAN. If they have \$200,000,000 worth of oil in their exports counted at the present time and we say "We want you to give us that for stock piling," they are going to have less dollars, are they not?

Ambassador DOUGLAS. Let me put it this way, Congressman: Let us suppose we extend to a country a loan——

Mr. JONKMAN (interposing). I am talking about grants now. A loan has to be repaid. The very fact that you talk about the possibility of a loan being repaid shows it is a bad loan.

Ambassador DOUGLAS. I thought you were talking about a loan. I beg your pardon.

Mr. JONKMAN. I was talking about grants.

Ambassador DOUGLAS. Would you mind, Congressman, repeating what you have just said?

Mr. JONKMAN. If instead of giving them a grant we say, "Well, now, we do not like to give it all away. Why do you not give us back some strategic materials? You do not need them, and we will apply them on account."

That I think if I follow your reasoning is taking away the dollars that you have already figured on in basing your dollar needs?

Ambassador DOUGLAS. That is right, Congressman.

Mr. JONKMAN. Then what is there to prevent us from saying that even on these grants, after this 5-year program is completed that we expect them to repay some of these grants? Let us say Britain will have \$2,000,000,000, and I think it is going to be mostly grants. Let us request them to give us a certain amount of oil, say 5,000,000 barrels at \$5 a barrel. I am not talking about loans, I am talking about grants.

Ambassador DOUGLAS. It would depend entirely, Congressman, upon the capacity of Britain to make up the dollars which she would thereby lose.

Mr. JONKMAN. That is not going to be now, but 5 years later.

Ambassador DOUGLAS. Let us suppose they have recovered 5 years from now, Congressman, and let us assume that they are in balance. Then let us suppose that they deliver to us, 5,000,000 barrels of oil at \$5 a barrel, they will be thrown out of balance again, or maybe.

Mr. JONKMAN. At that time?

Ambassador DOUGLAS. At that time. That is why I said, Congressman, at the present moment I do not believe anybody can forecast the ability of any country 5 years from now, to undertake to do certain things of the order you suggest.

Mr. JONKMAN. Then we come back to Mr. Vorys' statement, that a quid pro quo for the United States, whether tangible or intangible, always lies in futurity.

Ambassador DOUGLAS. If they could afford to pay it we would expect something of that sort. However, would it not be rather inconsistent for us to engage in this undertaking, aimed at the restoration of recovery and stability in western Europe during the period in question, and then to require these European countries, or to exact from them, conditions which will undermine the stability and recovery which they have achieved?

Mr. JONKMAN. My understanding of the situation is that in that very statement you are begging the whole question.

The plan, as you said a moment ago, to turn from relief to reconstruction but nevertheless to plan there to help them help themselves

Now, under the new plan we are just getting in worst. For instance, under the residual aid bill we had six recipients. Under the interim aid bill we had three. Now we have 16. It is "Come one, come all." It is a free program. That is all.

Chairman EATON. Mr. Ambassador, would you be willing to recess now?

Ambassador DOUGLAS. If I may, I should like to present to the committee the country studies to which reference has been made and which the committee has requested, and I should like to make it very clear exactly what these country studies are, but perhaps it would be better if I did that after lunch.

Chairman EATON. The members of the committee that have not already recessed will now recess until 2 o'clock.

(Whereupon, at 12:30 p. m., the committee recessed to reconvene at 2 p. m. the same day.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m.)

The CHAIRMAN. The committee will be in order, and we will resume with our witness, the Honorable Lewis W. Douglas, Ambassador to Great Britain.

STATEMENT OF HON. LEWIS W. DOUGLAS—Resumed

The CHAIRMAN. Mr. Jarman.

Ambassador DOUGLAS. Mr. Chairman, before questions are put to me, may I say that the country studies which we had promised to be submitted to the committee were submitted this morning. May I make just a short explanation for the benefit of the committee of what these country studies are?

The CHAIRMAN. Yes.

Ambassador DOUGLAS. And how they were made and the purpose of the studies.

The CHAIRMAN. Yes.

Ambassador DOUGLAS. The accompanying set of country studies has been prepared by the executive branch for use in connection with the consideration of the European recovery program. These studies deal in the first instance with the economic and political backgrounds of the 16 countries represented at the Paris Conference, as well as western Germany.

In so broad a field, it was necessary to pick out the aspects which seemed most relevant to the subject at hand. The studies are not, and could not be, within the necessary limitations of space, comprehensive, but it is believed that they will be useful in presenting pertinent background data.

The background statements are accompanied by separate analyses of the part to be played by each country in the recovery program. Since increased production is the keystone to European economic recovery, particular attention is given in the studies to the production programs contained in the report of the Committee on European Economic Cooperation. These programs have been analyzed and evaluated by technical United States working groups after representatives of the CEEC who came to Washington had given further explanation of the Paris report.

With respect to the components of such trade, the United States technicians treated exports and imports in two broad categories. The first category includes a list of selected items which, with certain minor exceptions, were those intensively studied by the CEEC technical committees. This category also includes certain other major commodities exported from the United States in which supply problems are likely to arise.

The second category includes all other imports and exports.

The estimates in the first category for each country are more accurate as to each commodity than the estimates in the second category. Special United States commodity committees were established to study production, import and export potentialities of items on the selected list. Moreover, these items include those in which, by and large, there has been wide experience in planning international allocations and supply.

On the basis of the analyses mentioned above, estimates of the balance of payments positions of the respective countries were prepared. The balance of payments estimates as well as estimates of production, exports and imports must be understood to be illustrations of what may reasonably be expected.

In setting forth estimates of imports there is no intention to suggest specific country allocations or commitments of any kind. Actual commitments will be made in the future by the Administrator—or whatever agency is charged with the responsibility of administering the program—in the light of specific programs and all of the estimates.

These estimates, therefore, are derived assumptions which are necessarily inherent in all forecasts particularly of a complex problem. Nevertheless, it is believed that careful consideration has been given to relevant factors and that the estimates, taken as a whole, reflect the magnitude.

The CHAIRMAN. Thank you.

Ambassador DOUGLAS. May I also state just for the record that commodity reports covering all of the commodities on the selected lists excepting petroleum have been submitted to the committee.

With these commodity reports, there have been also submitted the confidential supplements to the commodity reports. They disclose in tabular form the value of exports and imports and a variety of other items.

Mr. CHIPERFIELD. You would not be able to read those here, would you?

Ambassador DOUGLAS. Oh, no, sir, not here; that would absorb so much time.

The CHAIRMAN. But if we do not read them now, when will the time come from to read them later?

Ambassador DOUGLAS. Well, that is the problem of all of us—shortage of time and shortage of dollars.

Mr. BLOOM. May I ask a question?

Mr. JARMAN. I have not yielded yet.

Mr. BLOOM. I am sorry; it was just one question.

Mr. JARMAN. All right.

The CHAIRMAN. If it is only one question, you may be permitted to ask it.

Mr. BLOOM. Mr. Ambassador, I believe you stated this morning that there were in that long list of strategic commodities a total of \$172,000,000 commodities. Could you give me the articles that are included in it?

Ambassador DOUGLAS. Yes; but it is a long list.

Mr. BLOOM. Since it is a long list, I shall not take the time, then. But, for tin, you have nearly 50 percent of that \$172,000,000. I believe that is correct.

Ambassador DOUGLAS. I could, Congressman, submit into the record this long list. You asked how many items there are there. Let's see how many items there are.

Mr. BLOOM. Well, never mind counting them right now. At any rate, I believe that tin alone is 50 percent of the entire amount of \$172,000,000.

Ambassador DOUGLAS. Tin would represent about one-third, a little over a third.

Mr. THORP. About 40 percent.

Ambassador DOUGLAS. Yes; about 40 percent.

Mr. BLOOM. And, how many different articles are of that nature?

Ambassador DOUGLAS. Of this particular group, there are 16 items specifically referred to, and a variety of items not referred to.

Mr. BLOOM. Tin is the most essential of them?

Ambassador DOUGLAS. There are about 30 to 35 in the entire list.

Mr. BLOOM. Well, anyway, the tin is the most essential of the articles you have in the list?

Ambassador DOUGLAS. It occupies the largest place in the list, yes, sir.

Mr. BLOOM. There would be no difficulty in the few countries that control the tin output, or rather the cartel in tin controlling the world output, there would be no difficulty through them for that requirement; I mean, the requirement for use in this country for stock piling and for domestic use both.

Ambassador DOUGLAS. In the first place, Mr. Congressman, the cartel has been dissolved, it is not now in existence. In the second place, as to those amounts necessary for stock-piling purposes, arrangements can be made for them.

Mr. BLOOM. You say the cartel has been dissolved?

Ambassador DOUGLAS. So I am informed, yes, sir.

Mr. BLOOM. Well, the same smelters are still in existence and the same stockholders have the same stock, so I do not see how the cartel could have been dissolved.

Ambassador DOUGLAS. The same companies may and do continue in existence, Mr. Congressman, but the arrangements that had been made among them for the purpose of fixing production and price are no longer in force and effect.

Mr. BLOOM. That is all. Thank you.

The Chairman. Now, Mr. Jarman.

Mr. JARMAN. Mr. Ambassador, in introducing your figures originally, you referred to the fact that they were quite revealing, very revealing. I wish to emphasize that by saying that while I have realized that these 16 countries constituted a very important segment of the world, I had no idea that they were as important as I learned from your figures on those charts. Incidentally, somebody did a mighty good job in preparing the chart, and deserves commendation for it.

I have made a number of speeches in my district since my visit to Europe last fall, speeches in which I had thought I had done a reasonably fair job of selling this program and, particularly, selling the reasons for the necessity for it. I have since been hearing you have been exceedingly regretful, however, that before I made the first of those speeches I had not had the opportunity of hearing your testimony, in which event I think I would have discarded at least half of what I said and taken at least half of my speech from your testimony.

I wish sincerely to thank you for it. I think your testimony has been very valuable and very helpful. I wish to say further that I do not think there has been any witness who has appeared before this committee during my 11 years membership on it who had the subject relevant to which he was testifying so thoroughly at his fingertips as you have. I think you have done an excellent job here for us, just as I am sure you and your assistants have done an excellent job for the country, and I wish to thank you for it.

It naturally follows that I do not have a great many questions along the line that heretofore have been propounded to you. I do want to emphasize certain of your replies and also gain certain further information which I did not get, perhaps, perfectly clear.

You spoke of the trade balance between the 16 countries and Soviet Russia, and you spoke of it as being balanced as between them. Now, how great is that?

Ambassador DOUGLAS. Well, I meant to say, Congressman, that the trade between western Germany and the European countries to the east is in balance over the period of the recovery program.

Mr. JARMAN. As between the 16 countries and eastern Germany, however, there isn't any trade of any consequence now?

Ambassador DOUGLAS. I think there is, Congressman, but it is very difficult, if not impossible, to get the relation between the trade between eastern Germany, which is the Soviet zone, and the countries located east of the "iron curtain." So, I cannot answer precisely that question. But, there must be coal, timber, for example, which are being exchanged.

Mr. JARMAN. Along that line, you were questioned at length this morning, you will recall, about what, if any, the 16 countries were doing to aid themselves. The point seems to have been made that, for instance, England ought to sell coal to the 16 countries, and not to other countries.

I was wondering, if England should sell coal which they have to Rumania and if they should get wheat in return, would that not serve exactly the same purpose as if they sold it to France—with respect to relief under this program, I mean.

Ambassador DOUGLAS. It would have the effect of taking some burden off us.

Mr. JARMAN. Because they need wheat, and if they get it from Rumania, they need not get it from us—to the extent they obtain it from Rumania.

Ambassador DOUGLAS. That is right; yes, sir, I agree.

Mr. JARMAN. Now as to the foreign customers of the 16 participating countries, I would like to ask you a question. They do have a little foreign investment, don't they, or it may even be more than a little? Are there any figures as to the approximate amount?

Ambassador DOUGLAS. I do not have them in my mind, but I think yesterday the question was put and I indicated that we would insert those figures in the record. I am sorry I do not have them in my mind at the moment.

Mr. JARMAN. Well, you said something about it this morning, at least I made this note here, that instead of these being investments, they were in reality liabilities. Do you know what I had in mind when I made that note?

Ambassador DOUGLAS. You are referring to the invisible account.

Mr. JARMAN. Yes.

Ambassador DOUGLAS. Well, on the entire invisible account, the surplus that these 16 countries prewar enjoyed amounted to approximately 1½ billion dollars. That includes income from investments overseas, shipping services, and a variety of other services of that character, and there was in 1947 a deficiency of \$500,000,000. If you will notice in the chart, it is calculated for the period of 15 months. The invisible account includes the income earned on their foreign

investments, which is approximately \$4,900,000,000. That is to be found on page 103 of the public document.

Mr. JARMAN. I do not find myself in agreement with the criticisms that have occurred concerning these committees, such as the Harriman and other committees—the criticism that they seem to have reached practically the same conclusions. I do not agree because I am impressed with the fact that they are dealing with the facts as they are, and that in a committee diligently studying them and studying them sufficiently long, that committee will necessarily reach approximately the same conclusions as another such committee. Therefore, I think it is complimentary to those committees, rather than subjecting them to criticism—the fact that their conclusions agree.

It reminds me—the criticism reminds me—of something that none of our colleagues here except the chairman knows anything about, because they are sufficiently new here that they have not had the experience with civil-service examinations. They will have that experience, if they see the time when they have the misfortune to gain control of the Congress, and if they do gain that control, then they will find that they will be subjected to exactly the similar criticism we have known. They will find that everybody who wants to be a rural carrier or a postmaster will want an examination fixed so that they will be on the eligibility list, and they will be severely criticized just as we are and just as these committees are criticized for having reached exactly the same conclusions, one with each other.

It follows that one of my colleagues asked you some question about this 5 percent guaranty to private industrialists; he asked you if it was grabbed out of the air. I have forgotten what your reply was, but my impression was that from the thorough way in which you have this at your fingertips and the thorough investigations that these committees have made, there could be no question but that it was not grabbed out of the air; that is, that on the other hand, this 5 percent was based on good and sufficient justification and that the reasons for it were thoroughly justifiable. Is that not true?

Ambassador DOUGLAS. It was based on a necessarily very rough calculation of the amount of American private investments which might be undertaken under the guaranty. In one sense, it was therefore arbitrary; in another sense it was not a wholly unrelated guess. It is sort of a guaranty, Congressman, and it is very difficult to arrive at an estimate that is reasonably accurate. I might put it this way: that it was thought that 5 percent of the total fund appropriated, as a limitation upon the amount that could be guaranteed, was somewhat higher than the total amount for which guaranties would be sought.

Mr. JARMAN. But that 5 percent, as compared to the 95 percent, was not grabbed out of the air.

Ambassador DOUGLAS. No.

Mr. BLOOM. Will the gentleman yield?

Mr. JARMAN. Yes.

Mr. BLOOM. Following up this 5 percent, that is not 5 percent of the amount of goods going to be sold; it is 5 percent of \$6,800,000,000?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. So that the 5 percent is not 5 percent of 100 percent, but it is 5 percent, to a total amount of \$340,000,000; isn't that right?

Ambassador DOUGLAS. That is right.

Mr. BLOOM. So if you sell \$10,000,000 worth of goods, he is getting—instead of 5 percent of the sum total, he is getting 5 percent of this appropriation of \$340,000,000?

Ambassador DOUGLAS. No, Congressman. An American investor who believes that there is a good business risk in Europe, a good venture in which he can invest his funds profitably, can ask for a guaranty of the total amount of his investment. This has nothing to do with goods. It is a guaranty of investment only, the capital sum of the investment, and then only if the project is profitable, and then only if he experiences difficulties in transferring the local currency into dollars.

Mr. BLOOM. But, it is still \$340,000,000?

Ambassador DOUGLAS. That is the limit beyond which the guaranty cannot go.

Mr. BLOOM. That is right.

Mr. JARMAN. I just wish to emphasize the fact that while the 5 percent, as between, say, 4 percent or 3 percent or 7 percent, is a little harder to get, it is my guess that it was not grabbed out of the air, as compared to the 95 percent. In other words, you could not use 95 percent of the money that way because there would not be enough left from the remainder.

Ambassador DOUGLAS. That is right.

Mr. JARMAN. And, therefore, it was not grabbed out of the air.

Ambassador DOUGLAS. That is right.

Mr. JARMAN. Now, I would like to know whether, Mr. Ambassador, I have been correct in the statement in which I have indulged, when I spoke to this effect—that while there are exceptions, I gained the impression that, on the whole, the people of Europe, as individuals, as governments, and as countries, although they are working under very considerable handicaps, are doing a very good job in trying to help themselves. Do you agree with me on that?

Ambassador DOUGLAS. I think that is substantially correct.

Mr. JARMAN. And, now, the gist of the whole thing is that these countries need dollars. It does not make a great deal of difference how many francs the Frenchmen have, or how many pounds an Englishman has; if he has got to pay dollars for the food he needs to keep himself alive, then he will be just as hungry as if he did not have any local currency. Isn't that true, generally speaking?

Ambassador DOUGLAS. Yes, sir.

Mr. JARMAN. And so, anything that was discussed here this morning which would operate so as to tend to reduce the supply of dollars in these countries during the next few years can but add to the amount we must supply, if we assume that we have a duty in this; and I am going to indulge that assumption strongly—that we do have a duty.

Ambassador DOUGLAS. Yes.

Mr. JARMAN. I am wondering what the situation would be—I wonder if I could have an expression from you—if, suppose all currency today were convertible, what would be the situation of these 16 countries? Of course, I realize that is an utopian assumption.

Ambassador DOUGLAS. If all currency were immediately convertible, the economic environment of the world would be entirely different.

Mr. JARMAN. Would be what?

Ambassador DOUGLAS. Would be wholly different. We would have achieved a condition of international economic stability which I think would make it unnecessary for the United States to provide the sort of program which we are now contemplating and considering.

Mr. JARMAN. I am pleased to hear that. Without having talked to you, that is exactly what I thought. It simply emphasizes the fact that the need is for dollars; there was a time when we were a debtor nation rather than a creditor nation—we can assume, if we do not dwell too lengthily on our resources and our industry and what not—by a stretch of our imagination we could say there could have been a time before the First World War, could there not, when we might have found ourselves under similar conditions of that kind?—as I say, we would have to stretch our imaginations to reach that conclusion.

Ambassador DOUGLAS. Well, sir, our economic situation is so unlike that of the European countries that it is hard or impossible to make a comparison like that.

Mr. JARMAN. As I say, you would have to use your imagination.

Ambassador DOUGLAS. Oh, sure.

Mr. JARMAN. Returning to the question of tin, about which Mr. Bloom spoke and asked you concerning, and referring now not only to tin but to other strategic materials, although tin was the major one, it is your position, is it not—and I agree with it, if I understand correctly—that these agreements for the furnishing of tin or such materials, the mechanics of it, so to speak, of furnishing the materials to us at some later date—that those details need not necessarily be spelled out in the bill?

Ambassador DOUGLAS. I doubt if there is any need to spell it out in detail in the bill. The bill authorizes certain things. It provides that when loans are made that the Administrator shall negotiate the terms at which the loans will be repaid, and if not repaid in terms of money, in terms of what; that is, the bill does now authorize the repayment of loans either in money or in stated goods.

Mr. JARMAN. You are referring to section 5?

Ambassador DOUGLAS. No; it is section 7 (c) (1):

The Administrator may provide assistance for any participating country, in the form and under the procedures authorized in subsections (a) and (b), respectively of this section, through grants or upon payment in cash or on credit terms or on such other terms of payment as he may find appropriate.

So that he is authorized under the terms of the act to require repayment of a certain portion of loans in goods.

Mr. JARMAN. Considerable reference occurred this morning, you will recall, to the fact that we should evidence our confidence in the ability of these countries to come back by indulging in additional loans to those contemplated here and indicating that it was somehow a reflection upon them for us not to do so.

Now, I wonder how valuable our confidence in those countries would be if the evidencing of it in that manner was such that it resulted in this—that they never can come out of the slough of despond in which they find themselves, or creating a situation through conditions put into the loan such that they must fall back again into that slough.

Ambassador DOUGLAS. I doubt if they would accept it as a manifestation of confidence on our part if they considered they were unable to meet the conditions of the loan.

Mr. JARMAN. I agree with you on that.

Ambassador DOUGLAS. As a matter of fact, with respect to those countries that cannot repay or cannot repay in full all of the support that is contemplated to be extended, the requirement that they should repay would impose future dollar burdens upon them and thus aggravate the difficulty instead of relieving it.

Mr. JARMAN. Speaking of the repayment of the loans, some reference was made before adjourning this morning—and I have forgotten what it was exactly—to the repayment of a loan to this country in dollars, for any loan. I am wondering if any loan is ever repaid to this country on account of a loan to Europe in actual dollars, or whether it is not done by balance of trade.

Ambassador DOUGLAS. Yes; it is repaid in dollars.

Mr. JARMAN. Actual dollars?

Ambassador DOUGLAS. Either dollars derived from the export of goods or dollars derived from the sale of goods to some other country or countries, or the export of gold.

Mr. JARMAN. But those dollars—maybe I did not say exactly what I meant. If there is actual transportation of dollars, say in gold, from a European country to this country, those dollars still are derived from the sources mentioned, and those are over here, isn't that right?

Ambassador DOUGLAS. That is right.

Mr. JARMAN. Actual dollars do not really cross the Atlantic.

Ambassador DOUGLAS. Well, they may, of course, actually mean gold.

Mr. JARMAN. Bullion?

Ambassador DOUGLAS. Yes; gold bars.

Mr. JARMAN. It seems now to me that all of this discussion about strategic materials, whether they should obligate themselves to pay for some of this assistance in the future in strategic materials and so forth, it seems to me that it all resolves itself to the question of whether it is our duty, the duty of this country, to try to remedy the situation in which that great and important segment of the world finds itself, largely at least through causes not of its own making and for which it was not responsible.

If we do reach the conclusion that we do owe a duty, then it seems to me that we are simply wasting time in discussing whether we should take money out of one pocket and put it in another by requiring them to pay us in materials in the future. For my part, I think we—and I have said this repeatedly—do owe a duty in this unfortunate situation from a strictly humanitarian standpoint, and that, secondly, the position of leadership in which this country has found itself through no particular effort on its part, either—it is just like Topsy, it is just because of its resources and vast area and the industry of its people that it got into that dominant position—I am impressed by the fact that there results from that position the duty, that there rests upon the shoulders of this country an obligation as being by far the leading nation of the world not to permit this great section of the world to fall into ruin and be dominated by communism if we can possibly avoid it.

I think further that we owe a duty to ourselves, to our country, and particularly to the little lads, the little boys who today play around the firesides in the homes of the United States, to do whatever we can to prevent the domination of the rest of Europe and then,

perhaps, the rest of Asia, by communism and the probable consequent slaughter of those little boys on the battlefields of World War III or IV.

So, for my part, whether they do pay us back in tin or some other strategic materials in 10 or 15 or 20 years or not, it seems to me the duty devolves upon us, a duty so grave and so tremendous that we are not accomplishing a great deal in indulging in argument about whether we should carry this out so as to let them drift back into that slough of despond by commitments to us for the future which they probably could no more make good than they could after World War I, when we proceeded to help them out by loaning them billions of dollars which they could not possibly have repaid.

Thank you very much for indulging me.

Ambassador DOUGLAS. I think our national interests could best be served by playing a part in the restoration of stability in western Europe, and if there are countries who can afford to repay over a period of time loans extended them or repay by returning to us strategic materials, then I think it is to our national interest that it be required; but the important thing is, as you have indicated, we have an exceedingly vital national interest in the restoration of stability in this important part of the world.

Mr. JARMAN. Now, the repayment back in strategic materials that we have spoken of, if they can do it; that is contemplated by the bill without amendment by this committee?

Ambassador DOUGLAS. That is right.

The CHAIRMAN. Mr. Vorys is recognized for one or two additional questions.

Mr. VORYS. Thank you.

I note in today's paper that the International Bank was marking time until they see how the Marshall plan is coming out. Now, when we had the bank and fund before us, we thought that the fund would stabilize currencies, and that the bank could do the reconstruction and maybe, if it was not enough, that we could come along afterward and help out.

I am wondering on this matter of stabilization of currencies; what is the situation with reference to the International Fund? Why can't they do it now?

Ambassador DOUGLAS. I do not know what the plans of the committee are, but I presume that possibly the committee will hear the executive director of the International Monetary Fund before the hearings are concluded.

I suggest also that the Secretary of the Treasury, who is the chairman of the National Advisory Council, could perhaps throw more light on the question than I can. You understand, I am not trying to duck the question.

Mr. VORYS. No. I think that is a good suggestion, and I hope to have these witnesses. Now, there has been a good bit of discussion about the type of administration. In fact, it has even been pointed out that you could have two secretaries of state.

Do you feel that the lend-lease mechanism was a mistake or that it was wrong?

Ambassador DOUGLAS. No; I think it operated very well.

Mr. VORYS. Back in 1944 I attempted to put the administration of UNRRA under the Secretary of State and my motion to have that

carried out was taken out on a roll-call vote after we got back in the House. You may remember we first operate in committee of the whole. I thought at that time that it was a good thing to have the international organizations under the Secretary of State, but, of course, I was greatly persuaded by the arguments used to defeat the amendment that I placed in that bill.

I guess you were not in the Government either during UNRRA, or Lend-Lease, were you?

Ambassador DOUGLAS. Yes; I was in the Government for 2 years in the life of Lend-Lease, during the war.

Mr. VORYS. During the war?

Ambassador DOUGLAS. Yes.

Mr. VORYS. Were you in Lend-Lease, connected with the Lend-Lease Administration?

Ambassador DOUGLAS. No, sir. I was about a week, and then stayed in the War Shipping Administration.

Mr. VORYS. You will remember we had a Lend-Lease Administrator.

Ambassador DOUGLAS. Oh, yes. I had a great many associations with Lend-Lease during the war.

Mr. VORYS. And, while there were conflicts at times in other countries and possibly here from the fact that we had two separate administrations and that the directive merely gave advisory powers to the Secretary of State, as far as I know it was not considered fatal to the efficient operation of lend-lease. Perhaps I should ask these questions of some other witness.

Ambassador DOUGLAS. As I recall it, and my memory may be wrong, the basic lend-lease agreements were made by the Department of State and under those agreements the Lend-Lease Administration operated.

Moreover, as I recall it, there was the Munitions Assignment Board, and there were a variety of agencies of that character that allocated the materials to Lend-Lease which in turn made arrangements for the delivery of that material so allocated to the recipient countries.

I can just make this point, that in the administrative proposals that have been submitted to the Congress providing a method of meeting what we think to be the principles that should be observed, it is not contemplated that the administration should be under the Secretary of State, and I say that in all candor. The impression has gotten abroad that that is the intent but I can assure the Congressmen that it is not the intent. As I understand the history, there was a group in the administrative or executive branch of the Government that first insisted that the administration of the Economic Cooperative Administration be in the Department of State and subject entirely to the jurisdiction of the Secretary.

The Secretary took a firm position in opposition to that view. He said there was only one thing in which he was concerned and that was that the administration of the European recovery program be subject to foreign policy. He did not want to be concerned with the vast variety of business undertakings and operations that he would have to be engaged in.

Mr. VORYS. Well, on that matter of the degree to which foreign policy might be affected, I think the statement was made before us that it could be 20 percent of the questions coming up, but the state-

ment was made before the Senate that conceivably every question could involve a question of foreign policy.

That could be true, could it not? There is no percentage way in which we can determine in advance what aspects of the administration of such a vast and important program as this would involve foreign powers?

Ambassador DOUGLAS. I think it is possible to define at least a segment of the operations that is not related to foreign policy. Then, of course, Congressman, the administration of the European recovery program has to be fitted into the functions and responsibilities of a variety of different governmental agencies. It is not only the State Department. I do not want to take your time to enumerate them, or to take the time of the committee, but there are a great many departments of government that have responsibilities and are discharging the responsibilities that are intimately related with our internal economic position and with the allocation of materials for export and the granting of export licenses, and a variety of things of that sort.

Petroleum, for example, and wheat, are wholly outside the State Department, and the responsibilities for the discharging of functions of that order are vested in other agencies—the Department of Commerce, Department of Agriculture, Department of the Interior, and then there is the Department of the Army which has jurisdiction over Germany.

Mr. VORYS. I am quite familiar with that point. I just wanted to bring up this one aspect, that when I made an attempt to put UNRRA under the Secretary of State, it was voted down, and now they are advocating this. I just wondered—

Ambassador DOUGLAS. UNRRA was an international organization and the State Department did handle the relationship between our Government and UNRRA. In the case of the Board of Economic Warfare the line of jurisdiction was not clearly drawn and it created a great deal of trouble—I don't mean in the Western Hemisphere, but in other parts of the world. It became a part later on of the Foreign Economic Administration.

Mr. VORYS. But it did have a separate administrator?

Ambassador DOUGLAS. Oh, yes; but we provide for that, too, Congressman, wholly separate from the Department of State.

Mr. VORYS. I have just this one other question. How does anybody decide—more specifically, how does the Administrator decide how much is to be a grant and how much is to be a loan? What is to be his test?

Ambassador DOUGLAS. The ability to repay. Of course, he has to consult with the National Advisory Council.

Mr. VORYS. The ability to repay in dollars?

Ambassador DOUGLAS. That is right; or, as the bill provides, in other terms.

Mr. VORYS. Then the whole test is a stabilization of currency test; is that it?

Ambassador DOUGLAS. No, that is not the whole test. The ability to transfer would be one test, but there would be a great many other tests, too, that would be applied.

Mr. VORYS. You see, we had two former experiences where we gave away or furnished for free or granted vast amounts. One was

when the consideration was military, in lend-lease—a matter of security. The other was where it was a matter of relief. Now, while there are or at least may be substantial security considerations, and while also there are relief or humanitarian considerations in this, there is still a third thing that bulks more largely, and that is the economic situation.

The amounts that are necessary for military purposes, that is money well spent, or at least money that must be spent; and the amounts that are given for humanitarian or relief purposes, of course, we expect no pay for that—we look for no repayment there.

But, when it comes to giving away money for economic-purpose activities for which I have not been able to figure out a formula and have not found one and have not heard of one that has satisfied me, that is something else, and that is what I am asking about in particular.

Ambassador DOUGLAS. On page 45 of the document which was published under the title, "Outline of European Recovery Program," there is an explanation of the criteria that it is contemplated will be applied. It really starts on page 45 and extends over to page 46.

Mr. VORYS. Yes, I am familiar with that. It comes back to their ability to repay in dollars, and that again comes back to a stabilization proposition, it seems to me.

Do we pour in dollars until there is a new kind of stabilization required, or what is the test? Another way of stating it is that the test is ability to repay, and that we make grants when there isn't any ability to repay. There are a lot of people in the world and a lot of nations in the world that are not able to pay, and that test alone is insufficient—inability or ability to pay—and there is not enough to grant to take care of all the requests where there is inability to repay. Is that right?

Ambassador DOUGLAS. That is right, but we are not taking care of all of those requests, Congressman, by any manner of means. This program was designed and prepared to achieve a clear objective, and that was the recovery of stability, the restoration of stability, both economic and political, in a part of the world which is of extraordinary significance to western civilization, of which we are an integral member.

Mr. VORYS. I have no further questions.

Mr. CHIPERFIELD. Mr. Mansfield?

Mr. MANSFIELD. Mr. Ambassador, there have been a number of reports spreading around the country concerning the effect on the American economy of this proposal. Just how much wheat is it contemplated will go overseas under this plan?

Ambassador DOUGLAS. Secretary Anderson, I presume, will be asked to testify before this committee, and he will be able to answer your question specifically. The commodity reports should disclose the percentage of wheat. It is 15.3.

Mr. MANSFIELD. Do you have any idea about the quantity of box-cars in percentages?

Ambassador DOUGLAS. That is about 13.9 percent of estimated capacity.

Ambassador DOUGLAS. That is 13.9 percent.

Mr. MANSFIELD. How much of our coal?

Ambassador DOUGLAS. About 5.5 percent.

Mr. MANSFIELD. How much of our steel?

Ambassador DOUGLAS. Finished steel, about 2.9 percent; crude and semifinished, 1 percent.

Mr. MANSFIELD. Now, Mr. Ambassador, you are perhaps more conversant with the situation in England than any other person in the Government, and I would like to ask you what, in your opinion, is England's economic position today in regard to coal, for coal consumption and shipments overseas?

Ambassador DOUGLAS. The present rate of production of coal in the United Kingdom is at the annual rate of approximately 215,000,000 tons. The British themselves for the year 1948 have set a production target, as I recall it, of 214,000,000 tons.

During the year 1948 they will continue restrictions on the domestic consumption, in order that there may be available for export the amount which they undertook to export during the year, which is, to my recollection, 7,000,000 tons. It is likely they will export more than that.

By 1952 their program calls for a production of 249,000,000 tons of coal a year, which is greater than the annual rate of production during the period 1934-38. I believe they can achieve that goal if they attack the problem with vigor and determination.

Mr. MANSFIELD. Is it true that one of the reasons for the British coal deficiency in recent years is because of bad management under the government which preceded the present Socialist government, by which I mean to state that approximately 70 percent of what was taken out of the mines was retained, and something between 20 percent and 30 percent was put back into the mines, which, if true, would offer a contrast almost in exact opposite to what the coal producers were doing in this country—is that true?

Ambassador DOUGLAS. That is right. The British coal industry is in its present state for a variety of different reasons. One, the mining properties suffered from indifferent management extending over a long period of time. Moreover, the industry became bound up in certain emotional prejudices, and the figure which you have recited is an indication of the difference between the way in which the coal properties were managed in the United Kingdom and the way they have been managed in the United States.

Of course, that situation was aggravated by the war. During the war, when Britain was confronted with the dilemma of leaving the younger men in the mines in order to assure production or to draft the men out of the mines into the army, they took the second horn of the dilemma. The younger men were withdrawn from the mines, and the number employed by the mines fell from something over 800,000, where it stood in 1937 or 1938—it was about 1,100,000 at another period—to something under 700,000 at the beginning of 1946. Therefore, there was not only an absolute decline in the number of coal miners, but there was a qualitative change in the age distribution.

Mr. MANSFIELD. That, coupled with the fact that there has been relatively little modernization with machinery, plus the fact that a good many of these young men who have left the mines have refused or have been reluctant to go back into the mines, has contributed to the decline of British coal production.

We hear the statement made that the people of England and other European countries just will not work. Is that statement a true statement or are the factors which you have brought out been responsible

in large part for the decline in production and not the lack of effort on the part of the workers themselves?

Ambassador DOUGLAS. Generally speaking, in Britain there is a desire to work. In the coal mines, as you know, commencing, I think, on the 1st of May, Britain adopted a 5-day week. That 5-day week has been abandoned, and coal miners are now working 5½ to 6 days a week. In the steel industry they are working 7 days a week.

Mr. MANSFIELD. What is England's relative position in shipping today, as compared with the period just prior to the war?

Ambassador DOUGLAS. In round numbers, Britain lost approximately 25 percent net of her merchant fleet.

Mr. MANSFIELD. How much has she regained?

Ambassador DOUGLAS. I am sorry that I cannot give you that.

Mr. MANSFIELD. Could you find that and put it in the record?

Ambassador DOUGLAS. Yes; I can find that. I can give you the number of ships that are now on the ways, but I cannot tell you what percentage, precisely, of that which she lost during the war has been replaced by new construction. I will give you that figure.

(The information requested is as follows:)

United Kingdom merchant fleet (in millions of dead-weight tons)

Total United Kingdom fleet, 1939	22.7
Deduct:	
War losses	15.3
Marine losses	1.2
Total	16.5
Balance	6.2
Add:	
Captures and acquisition from enemy	1.1
Purchases of United States war-built tonnage (since passage of Ship sales Act of Mar. 8, 1946)	2.3
Purchases of old United States tonnage (period 1939-June 1947)	.8
Purchases from elsewhere (period 1939-June 1947)	.1
Total	4.3
Balance	10.5
New building over period 1939-June 1947	10.6
Grand total	21.1
Net loss during period 1939-June 1947, including the allied tonnage replacement scheme	1.9
Leaving June 1947 tonnage at	19.2
Tonnage 1938 equals	22.5

Source. British Embassy and Ministry of Transport Office, London.

NOTE.—The difference between figure of 19.2 and 20.1 in ch J, Maritime Transport Report, is accounted for by the difference in time, and by inclusion in 20.1 figure of United States lend-lease vessels.

Mr. MANSFIELD. Could you give the committee just what that 25 percent loss means in tonnage?

Ambassador DOUGLAS. In dead-weight tons it amounted to some 15,360,000.

Mr. MANSFIELD. Yesterday you brought out some very interesting illustrations about the decline in the 16 western European countries of certain of their industries. How much of a percentage of shipping have these 16 nations, as a whole, recovered since the war?

Now, I have in mind the fact that as far as Greece is concerned, it is practically back to normal, due to the fact that we turned over so many ships to them. Other countries have likewise been helped in part by us, and I am just wondering, on a percentage basis, how much they have recovered from the losses of the war.

Ambassador DOUGLAS. At the end of 1938, the dry-cargo tonnage under the control of the participating countries amounted to approximately 36,000,000 tons.

At the end of 1947 the figure amounted to 32,000,000 tons; that is, exclusive of Germany.

Mr. MANSFIELD. What kind of tons did you use in answering my question with regard to the loss in British shipping?

Ambassador DOUGLAS. I used dead-weight tons.

Mr. MANSFIELD. What is the difference between dead-weight and gross tons?

Ambassador DOUGLAS. I have been using dead-weight tons all the way through. The capacity of a ship expressed in dead-weight tonnage is, roughly, the capacity of the ship to carry cargo.

Mr. MANSFIELD. Then the figure you gave me concerning Britain was in dead-weight tons?

Ambassador DOUGLAS. That is right.

Mr. MANSFIELD. And the latest figure you gave me for the 16 participating countries was also in dead-weight tons?

Ambassador DOUGLAS. That is right.

Mr. MANSFIELD. How could it be they would have approximately 32,000,000 tons at the present time when British shipping through a loss of 25 percent of its shipping alone suffered a loss of 15,300,000 plus?

Ambassador DOUGLAS. We sold some tonnage to Britain during the postwar period, and we have sold some to other participating countries since the war. The total I do not have in my head, but I can get it for you.

Mr. MANSFIELD. I wish you would get those and put them in the record.

Ambassador DOUGLAS. Yes, sir.

(The information requested is as follows:)

Deadweight tonnage of United States merchant ships sold since war to 16 European recovery program countries

Country	Dry cargo	Tanker	Total	Country	Dry cargo	Tanker	Total
Austria				Netherlands	709,500	100,506	810,006
Belgium	151,200	16,750	167,950	Norway	760,600	284,750	1,045,350
Denmark	224,600		224,600	Portugal	8,700		8,700
Eire				Sweden	36,900		36,900
France	830,400	301,500	1,131,900	Switzerland			
Greece	1,068,600	117,250	1,185,850	Turkey	47,800	20,939	68,739
Iceland	5,100		5,100	United Kingdom	1,469,411	830,589	2,300,000
Italy	972,000	335,000	1,307,000				
Luxemburg				Grand total	6,284,811	2,007,284	8,292,095

Source: U. S. Maritime Commission, Jan. 20, 1948. Information as of Dec. 31, 1947.

DEFINITION OF SHIPS' TONNAGES

Dead-weight tonnage

Dead-weight tonnage is the lifting capacity of the ship. It is the number of tons of 2,240 pounds of fuel, water, stores, cargo, and passengers that a vessel is designed to carry with safety. It is the basis for quotation as to cost of con-

struction, sale, and charter and as such is the measure of potential revenue capacity of vessels.

Gross tonnage

Gross tonnage is the capacity of the spaces within the hull of the vessel and of the closed in spaces above deck available for cargo stores, passengers, or crew with certain exceptions expressed in tons of 100 cubic feet. This term is an indication of size and is used primarily to designate passenger or combination passenger and cargo vessels. Gross tonnage has no fixed or exact relationship to a vessel's commercial possibilities or earning capacity.

Mr. LODGE. Will the gentleman yield for a question there?

Mr. MANSFIELD. I will be glad to.

Mr. LODGE. That objections, I understand, have been voiced in Great Britain concerning the United States proposal with respect to sales and cargo in connection with this program—in other words, that this would compel the British to reduce their shipbuilding program—can you confirm this?

Ambassador DOUGLAS. Sir Stafford Cripps made an announcement that Britain would have to reduce her shipbuilding program because of the shortage of steel, quite irrespective of any chartering proposals of the United States or proposals for the sale of presently United States controlled merchant ships.

Mr. LODGE. In other words, this proposal for the sale and charter of United States vessels will have no effect on a shipbuilding program of Great Britain?

Ambassador DOUGLAS. I cannot say it will have no effect, but I can say what Sir Stafford Cripps announced the day before yesterday.

Mr. LODGE. You believe there will be no great objections raised on the part of the British?

Ambassador DOUGLAS. I presume there would be some objections, but the announcement of Sir Stafford today—or, rather, day before yesterday—would have the effect of diminishing the volume of objections.

Mr. LODGE. You still believe that we should go ahead with that aspect of the legislation.

Ambassador DOUGLAS. Yes; I do, too, sir.

Mr. LODGE. Thank you very much.

Ambassador DOUGLAS. The fact of the matter is, it saves us a great many dollars.

Mr. MANSFIELD. Mr. Ambassador, there is a great deal of talk in this country by people opposed to the proposal now before us, that we should not do anything for governments which they look upon as socialistic, and they say funds of this kind will serve to further socialize governments. What, in your opinion, should be our opinion toward the governments in Europe who have changed their forms of government, such as Italy, and those who have leaned leftward—I believe is the term—such as England?

Ambassador DOUGLAS. The end result is the matter with which we are concerned. The recovery of western Europe and the restoration of what I have called stability is the purpose which we have in mind. If these countries, some of them, can achieve that purpose and fulfill their pledges under the mild type of socialism which exists in some of them, that is their business.

It would be, I think, too much of an invasion of the right of free people to determine the sort of economic system under which they wanted to live, provided always it is dedicated to the proposition that

men should be free—it would be too much of an invasion on our part to undertake to dictate or influence them in the matter.

Mr. MANSFIELD. It is a fact, is it not, that countries such as Italy and England, which I have mentioned, have changed their forms of government because it was the desire of the majority of the population in each to do so?

Ambassador DOUGLAS. It appeared to be at the time that the elections were held.

Mr. MANSFIELD. What they have done, in effect, is to go through the regular balloting process to achieve the types of government which they have at the present time?

Ambassador DOUGLAS. They have an equal right to modify, change, or reverse the economic policies that have been adopted by the governments which they elect to office.

Mr. MANSFIELD. There has been some talk about various kinds of coal as it affects the European economy.

I recall that American coal—and a lot of it was not very good coal—was shipped to Europe during the past year, and perhaps still is being shipped there in sizable quantities and in sizable tonnage, and that these European nations, generally speaking, had to pay anywhere from \$17 to \$23 a ton for this coal.

Now is there any possibility under this proposal whereby shipments of American coal could be decreased and greater shipments of German and British coal are used to take up the slack?

Ambassador DOUGLAS. That is the fundamental objective of the coal-production target, as set for Britain by her and for Germany; The purpose of increasing the production of coal indigenous to the participating European countries is to relieve the participating European countries of expending dollars in huge amounts for this particular source of energy. You will see that by 1952, I think, it is calculated that the deficiency in the production of coal from among the participating European countries amounts to 2,000,000 tons. Only 2,000,000 tons then would be required from the United States.

Mr. MANSFIELD. Has there been a slacking off of Polish coal shipments to other European countries in the west since the start of the consideration of the Marshall proposal?

Ambassador DOUGLAS. I think not.

Mr. MANSFIELD. Have you any idea of the prices the Poles are asking for their coal?

Ambassador DOUGLAS. The Polish price of coal is \$15 a ton at shipside or at the Polish border.

Mr. MANSFIELD. That indicates a tremendous advantage in Polish coal prices over a comparatively short period of 2 or 2½ years, does it not?

Ambassador DOUGLAS. Yes. And, of course, since prewar, the advance in price all over the world has been inordinate.

Mr. MANSFIELD. I would like to ask this question of Mr. Thorp, if I may—I have been waiting all day for this country-by-country report, because I want to study it and ask some questions about it: Will we get that report today or tomorrow?

Ambassador DOUGLAS. The country-by-country report has been submitted to the committee, Congressman.

Mr. VORYS. Would the gentleman yield? I wonder if you have any summary? I went through the 17 volumes this noon. I could not get through all of it, but I found no summary page. I wonder if you have in there, or if you are going to furnish us with, a summary page?

Ambassador DOUGLAS. There is a general introduction. It is very difficult to get up a summary because of the variations between each one of the countries.

There is a document that has not been submitted to this committee which is purely an estimate of the deficits on current account of the participating countries, and I would be very glad indeed to offer that to the committee. That may be helpful to the members of the committee, or it may be a relief program to the members of the committee.

Mr. CHIPERFIELD. I think the committee would like to have that. (The information requested is as follows:)

ESTIMATED DEFICITS ON CURRENT ACCOUNT OF EUROPEAN COUNTRIES PARTICIPATING IN THE PROPOSED EUROPEAN RECOVERY PROGRAM

The proposed United States support for a European recovery program, as presented by the executive branch to the Congress, is based substantially on the estimated balance of payments positions of the participating countries with the Western Hemisphere for the period of the proposed program. The estimated deficit and surplus balances on current account which have been prepared by the executive branch for each participating country are presented in the attached tables.

The executive branch concludes that approximately 15 percent of the combined deficits with the Western Hemisphere for the period April 1948 through June 1949 can be financed from sources other than new United States Treasury funds, although the percentage of the deficits of individual participating countries that can thus be financed will vary greatly from country to country.

The attached tables also show the estimated deficits and surpluses of the participating countries with nonparticipating countries outside the Western Hemisphere. The executive branch has not requested any authorization to cover the participating countries' deficits with this area except for a certain portion in the case of bizonia Germany.

The nature of a deficit balance on current account can be briefly stated in the following terms. Transactions between a particular country and other countries such as imports and exports of merchandise and services, earnings of interest, amortization, dividends and profits, and transfers of remittances, are customarily regarded as "on current account." These transactions result in payments and receipts. If a particular country's receipts from foreign countries are smaller than its payments to foreign countries within a certain period, it has incurred a deficit on current account. It can only incur such a deficit if it has reserves of gold, foreign exchange or other foreign assets which are used to settle the deficit, or if it receives credits or grants, or if foreigners make new investments within that country.

An estimate of a deficit in a particular country's balance of payments for a future period should not be regarded primarily as a forecast. Rather, it is a measure of the country's need for outside assistance to supplement use of its own resources in achieving certain levels of consumption and investment. The deficits in the balances of payments of countries participating in the proposed European recovery program, as estimated by the executive branch, are the measures of their external needs for maintenance of tolerable living standards and achievement of self-supporting economies.

NOTE.—Attention is directed to the fact that the individual country balances in the attached tables have not been adjusted for changes in export and import prices, and in freight rates, that may occur during the period. Such adjustments have been confined to the combined balances of all the participating countries.

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Estimated surplus (+) or deficit (-) of ERP countries on current account with total Western Hemisphere, by country and by period, 1948-52

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-43	-151	-194	-200	-167	-152	-713
2. Belgium-Luxemburg.....	-106	-439	-545	-372	-311	-246	-1,474
3. Belgian dependencies.....	+5	+21	+26	+11	+7	+11	+55
4. Denmark.....	-30	-162	-192	-143	-128	-119	-582
5. Ireland.....	-30	-121	-151	-122	-117	-107	-497
6. France.....	-310	-1,090	-1,400	-778	-493	-253	-2,924
7. French dependencies.....	-29	-134	-163	-111	-90	-50	-414
8. Greece.....	-37	-157	-194	-115	-87	-77	-473
9. Iceland.....	-2	-10	-12	-9	-9	-8	-38
10. Italy.....	-197	-780	-977	-759	-615	-562	-2,913
11. Netherlands.....	-155	-659	-814	-616	-583	-499	-2,512
12. Dutch dependencies.....	-6	-45	-51	+33	+39	+55	+76
13. Norway.....	-14	-76	-90	-68	-49	-27	-234
14. Portugal.....	-19	-55	-74	-38	-32	-24	-168
15. Portuguese dependencies.....	-----	+3	+3	+2	+8	+5	+18
16. Sweden.....	-10	-65	-75	+13	+60	+78	+76
17. Switzerland.....	+6	+20	+26	+23	+29	+22	+100
18. Turkey.....	+7	-5	+2	-10	-6	-4	-18
19. United Kingdom.....	-567	-1,923	-2,490	-1,559	-1,341	-1,265	-6,655
20. British dependencies.....	+50	+260	+310	+284	+333	+380	+1,307
Germany:							
21. Bizone.....	-165	-750	-915	-708	-486	-390	-2,499
22. French zone.....	-15	-66	-81	-78	-74	-77	-310
23. Saar.....	-2	-9	-11	-14	-14	-14	-53
24. Combined balance on current account (at July 1, 1947, prices).....	-1,669	-6,393	-8,062	-5,334	-4,126	-3,323	-20,845
25. Adjustment for savings in dollar shipping services ^b	+10	+90	+100	+134	+86	+30	+350
26. Total adjusted for savings on shipping.....	-1,659	-6,303	-7,962	-5,200	-4,040	-3,293	-20,495
27. Adjustment for higher prices ^c	(-115)	(-450)	-565	-395	-339	-291	-1,590
28. Adjusted balance (upper level).....	-1,774	-6,753	-8,527	-5,595	-4,379	-3,584	-22,085
29. Adjustment for lower prices and lower freight rates.....	^e -115	^e -150	^e -565	^d +142	^e -578	^f +916	+1,071
30. Adjusted balance (lower level).....	-1,774	-6,753	-8,527	-5,058	-3,462	-2,377	-19,424
31. Range of adjusted estimates (in billions of dollars).....	{ -1.8 to -1.8	{ -6.8 to -6.8	{ -8.6 to -8.6	{ -5.1 to -5.6	{ -3.5 to -4.4	{ -2.4 to -3.6	{ -19.4 to -22.1

Estimated surplus (+) or deficit (-) of ERP countries on current account with United States, by country and by period

[In millions of dollars]

Country	April to June 1948	1948-49	Total, April 1948 to June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-33	-107	-140	-144	-116	-99	-499
2. Belgium-Luxemburg.....	-80	-318	-398	-238	-167	-131	-934
3. Belgian dependencies.....	+5	+22	+27	+16	+12	+15	+70
4. Denmark.....	-18	-74	-92	-57	-45	-43	-237
5. Ireland.....	-10	-46	-56	-35	-22	-14	-127
6. France.....	-255	-903	-1,158	-673	-500	-324	-2,655
7. French dependencies.....	-20	-74	-94	-50	-37	-2	-183
8. Greece.....	-31	-100	-131	-76	-57	-48	-312
9. Iceland.....	-1	-7	-8	-7	-6	-5	-26
10. Italy.....	-149	-584	-733	-566	-480	-483	-2,262
11. Netherlands.....	-96	-382	-478	-321	-283	-248	-1,330
12. Dutch dependencies.....	+12	+51	+63	+232	+231	+242	+708
13. Norway.....	-7	-52	-59	-46	-27	-7	-139
14. Portugal.....	-10	-33	-43	-18	-12	-3	-76
15. Portuguese dependencies.....	-----	+5	+5	+6	+11	+8	+30
16. Sweden.....	-7	-39	-46	-7	+26	+45	+18
17. Switzerland.....	+3	+9	+12	+10	+19	+20	+61
18. Turkey.....	+3	-2	+1	-4	-2	-2	-7

For footnotes referred to by letter symbols in above table, see page headed "Notes."

Estimated surplus (+) or deficit (—) of ERP countries on current account with United States, by country and by period—Continued

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
19. United Kingdom.....	-241	-891	-1,132	-692	-551	-510	-2,885
20. British dependencies.....	+70	+300	+370	+323	+373	+421	+1,487
Germany:							
21. Bizone.....	-134	-585	-719	-535	-373	-322	-1,949
22. French zone.....	-13	-33	-46	-68	-59	-65	-238
23. Saar.....	-2	-7	-9	-15	-14	-15	-53
24. Combined balance on current account (at July 1, 1947, prices).....	-1,014	-3,850	-4,864	-2,965	-2,079	-1,570	-11,478
25. Adjustment for saving in dollar shipping services ^b	+10	+90	+100	+134	+86	+30	+350
26. Total adjusted for savings on shipping.....	-1,004	-3,760	-4,764	-2,831	-1,993	-1,540	-11,128
27. Adjustment for higher prices ^c	-84	-328	-412	-284	-241	-207	-114
28. Adjusted balance (upper level).....	-1,088	-4,088	-5,176	-3,115	-2,234	-1,747	-1,227
29. Adjustment for lower prices and lower freight rates.....	(^c -84)	(^c -328)	^c -412	^d +28	^e +257	^f +422	+29
30. Adjusted balance (lower level).....	-1,088	-4,088	-5,176	-2,803	-1,736	-1,118	-1,083
31. Range of adjusted estimates.....	{ -1.1 to -1.1	{ -4.1 to -4.1	{ -5.2 to -5.2	{ -2.8 to -3.1	{ -1.7 to -2.3	{ -1.1 to -1.7	{ -10.8 to -12.3

Estimated surplus (+) or deficit (—) of ERP countries on current account with other western hemisphere, by country and by period

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria.....	-10	-44	-54	-56	-51	-53	-214
2. Belgium-Luxemburg.....	-26	-121	-147	-134	-144	-115	-540
3. Belgian dependencies.....		-1	-1	-5	-5	-4	-15
4. Denmark.....	-12	-88	-100	-86	-83	-76	-345
5. Ireland.....	-20	-75	-95	-87	-95	-93	-370
6. France.....	-55	-187	-242	-105	+7	+71	-269
7. French dependencies.....	-9	-60	-69	-61	-53	-48	-231
8. Greece.....	-6	-57	-63	-39	-30	-29	-161
9. Iceland.....	-1	-3	-4	-2	-3	-3	-12
10. Italy.....	-48	-196	-244	-193	-135	-79	-651
11. Netherlands.....	-59	-277	-336	-295	-300	-251	-1,182
12. Dutch dependencies.....	-18	-96	-114	-199	-192	-187	-692
13. Norway.....	-7	-24	-31	-22	-22	-20	-95
14. Portugal.....	-9	-22	-31	-20	-20	-21	-92
15. Portuguese dependencies.....		-2	-2	-4	-3	-3	-12
16. Sweden.....	-3	-26	-29	+20	+34	+33	+58
17. Switzerland.....	+3	+11	+14	+13	+10	+2	+39
18. Turkey.....	+4	-3	+1	-6	-4	-2	-11
19. United Kingdom.....	-326	-1,032	-1,358	-867	-790	-755	-3,770
20. British dependencies.....	-20	-40	-60	-39	-40	-41	-180
Germany:							
21. Bizone.....	-31	-165	-196	-173	-113	-68	-550
22. French zone.....	-2	-33	-35	-10	-15	-12	-72
23. Saar.....		-2	-2	+1		+1	
24. Combined balance on current account (at July 1, 1947, prices).....	-655	-2,543	-3,198	-2,369	-2,047	-1,753	-9,367
25. Adjustment for higher prices.....	-31	-122	-153	-111	-98	-84	-446
26. Adjusted balance (upper level).....	-686	-2,665	-3,351	-2,480	-2,145	-1,837	-9,813
27. Adjustment for lower prices and lower freight rates ^e	(^c -31)	(^c -122)	^c -153	^d +114	^e +321	^f +494	+776
28. Adjusted balance (lower level).....	-686	-2,665	-3,351	-2,255	-1,726	-1,259	-8,591
29. Range of adjusted estimates.....	{ -0.7 to -0.7	{ -2.6 to -2.6	{ 3.3 to 3.3	{ -2.3 to -2.5	{ -1.7 to -2.1	{ -1.3 to -1.8	{ -8.6 to -9.8

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (-) of ERP countries on current account with other nonparticipating areas, by country and by period

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria	-17	-84	-101	-55	-32	+5	-183
2. Belgium-Luxembourg	-16	-82	-98	-75	-59	-53	-285
3. Belgian dependencies				-1	+2	+1	+2
4. Denmark	-18	-54	-72	-28	+5	+23	-72
5. Ireland	-8	-34	-42	-41	-39	-40	-162
6. France	-95	-236	-331	-266	-272	-160	-1,029
7. French dependencies	-5	-27	-32	-35	-33	-43	-143
8. Greece	-7	-59	-66	-42	-33	-36	-177
9. Iceland	-1	-2	-3	-2			-5
10. Italy	-8	-45	-53	+67	+115	+227	+356
11. Netherlands	-24	-106	-130	-62	-46	-24	-262
12. Dutch dependencies	-11	-44	-55	-44	+26	+19	-54
13. Norway	-14	-48	-62	-44	-29	-27	-162
14. Portugal	-4	-19	-23	-12	-17	-20	-72
15. Portuguese dependencies	+7	+33	+40	+32	+28	+29	+129
16. Sweden	-17	-68	-85	-43	-21	-5	-154
17. Switzerland	+19	+33	+52	+41	+50	+76	+219
18. Turkey	+4	+63	+67	+30	+31	+28	+156
19. United Kingdom	+172	+816	+988	+937	+946	+963	+3,834
20. British dependencies	-50	-204	-254	-207	-225	-223	-909
Germany:							
21. Bizone	-41	-267	-308	-222	-277	-265	-1,072
22. French zone	-3	-13	-16	-22	-24	-20	-82
23. Saar	-1	-5	-6	-8	-8	-9	-31
24. Combined balance on current account (at July 1, 1947 prices)	-138	-452	-590	-102	+88	+446	-158
25. Adjusted for higher prices	-42	-179	-221	-180	-183	-172	-756
26. Adjusted balance (upper level)	-180	-631	-811	-282	-95	+274	-914
27. Adjustment for lower prices and lower freight rates ^c	(^c -42)	(^c -179)	(^c -221)	^d -46	^e +167	^f +327	+257
28. Adjusted balance (lower level)	-180	-631	-811	-118	+255	+773	+99
29. Range of adjusted estimates	-0.2 to -0.2	-0.6 to -0.6	-0.8 to -0.8	-0.1 to -0.3	+0.3 to -0.1	+0.8 to +0.3	+0.1 to -0.9

Total estimated surplus (+) or deficit (-) of ERP countries on current accounts ^a by country and by period 1948-1952

[In millions of dollars]

Country	April-June 1948	1948-49	Total, April 1948-June 1949	1949-50	1950-51	1951-52	Grand total
1. Austria	-60	-235	-295	-255	-199	-147	-896
2. Belgium-Luxembourg	-122	-521	-643	-447	-370	-299	-1,759
3. Belgian dependencies	+5	+21	+26	+10	+9	+12	+57
4. Denmark	-48	-216	-264	-171	-123	-96	-654
5. Ireland	-38	-155	-193	-163	-156	-147	-659
6. France	-405	-1,326	-1,731	-1,044	-765	-413	-3,953
7. French dependencies	-34	-161	-195	-146	-123	-93	-557
8. Greece	-44	-216	-260	-157	-120	-113	-650
9. Iceland	-3	-12	-15	-11	-9	-8	-43
10. Italy	-205	-825	-1,030	-692	-500	-335	-2,557
11. Netherlands	-179	-765	-944	-678	-629	-523	-2,774
12. Dutch dependencies	-17	-89	-106	-11	+65	+74	+22
13. Norway	-28	-124	-152	-112	-78	-54	-396
14. Portugal	-23	-74	-97	-50	-49	-44	-240
15. Portuguese dependencies	+7	+36	+43	+34	+36	+34	+147
16. Sweden	-27	-133	-160	-30	+39	+73	-78
17. Switzerland	+25	+53	+78	+64	+79	+98	+319
18. Turkey	+11	+58	+69	+20	+25	+24	+138

For footnotes referred to by letter symbols in above table, see page headed "Notes".

Total estimated surplus (+) or deficit (−) of ERP countries on current account ^a
by country and by period 1948–1952—Continued

[In millions of dollars]

Country	April-June 1948	1948–49	Total, April 1948–June 1949	1949–50	1950–51	1951–52	Grand total
19. United Kingdom	−395	−1,107	−1,502	−622	−395	−302	−2,821
20. British dependencies		+56	+56	+77	+108	+157	+398
Germany:							
21. Bizone	−206	−1,017	−1,223	−930	−763	−655	−3,571
22. French zone	−18	−79	−97	−100	−98	−97	−392
23. Saar	−3	−14	−17	−22	−22	−23	−84
24. Combined balance on current account (at July 1, 1947 prices) ^b	−1,807	−6,845	−8,652	−5,436	−4,038	−2,877	−2,100
25. Adjustment for savings in dollar shipping service	+10	+90	+100	+134	+86	+30	+350
26. Total adjusted for saving on shipping	−1,797	−6,755	−8,552	−5,302	−3,952	−2,847	−2,065
27. Adjustment for higher prices ^c	−157	−629	−786	−575	−522	−462	−2,346
28. Adjusted balance (upper level)	−1,954	−7,384	−9,338	−5,877	−4,474	−3,310	−2,299
29. Adjustment for lower prices and lower freight rates	(^e −157)	(^e −629)	(^e −786)	^d +126	^e +745	^f +1,243	+1,328
30. Adjusted balance (lower level)	−1,954	−7,384	−9,338	−5,176	−3,207	−1,604	−1,932
31. Range of adjusted estimates (in billions of dollars)	{ −2.0 to −2.0	{ −7.4 to −7.4	{ −9.3 to −9.3	{ −5.2 to −5.9	{ −3.2 to −4.5	{ −1.6 to −3.3	{ −19.3 to −23.0

Estimated surplus (+) or deficit (−) on current account of ERP countries, by country and area, April–June 1948

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria	−60	−43	−33	−10	−17
2. Belgium-Luxembourg	−122	−106	−80	−26	−16
3. Belgian dependencies	+5	+5	+5		
4. Denmark	−48	−30	−18	−12	−18
5. Ireland	−38	−30	−10	−20	−8
6. France	−405	−310	−255	−55	−95
7. French dependencies	−34	−29	−20	−9	−5
8. Greece	−44	−37	−31	−6	−7
9. Iceland	−3	−2	−1	−1	−1
10. Italy	−205	−197	−149	−48	−8
11. Netherlands	−179	−155	−96	−59	−24
12. Dutch dependencies	−17	−6	+12	−18	−11
13. Norway	−28	−14	−7	−7	−14
14. Portugal	−23	−19	−10	−9	−4
15. Portuguese dependencies	+7				+7
16. Sweden	−27	−10	−7	−3	−17
17. Switzerland	+25	+6	+3	+3	+19
18. Turkey	+11	+7	+3	+4	+4
19. United Kingdom	−395	−567	−241	−326	+172
20. British dependencies		+50	+70	−20	−50
Germany:					
21. Bizone	−206	−165	−134	−31	−41
22. French zone	−18	−15	−13	−2	−3
23. Saar	−3	−2	−2		−1
24. Combined balance on current account (at July 1, 1947 prices)	−1,807	−1,669	−1,014	−655	−138
25. Adjustment for savings in dollar shipping services ^b	+10	+10	+10		
26. Total adjusted for savings on shipping	−1,797	−1,659	−1,004	−655	−138
27. Adjustment for higher prices ^c	−157	−115	−84	−31	−42
28. Adjusted balance	−1,954	−1,774	−1,008	−686	−180

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, fiscal year 1948-49

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-235	-151	-107	-44	-84
2. Belgium-Luxemburg.....	-521	-439	-318	-121	-82
3. Belgian dependencies.....	+21	+21	+22	-1	-----
4. Denmark.....	-216	-162	-74	-88	-54
5. Ireland.....	-155	-121	-46	-75	-34
6. France.....	-1,326	-1,090	-903	-187	-236
7. French dependencies.....	-161	-134	-74	-60	-27
8. Greece.....	-216	-157	-100	-57	-59
9. Iceland.....	-12	-10	-7	-3	-2
10. Italy.....	-825	-780	-584	-196	-45
11. Netherlands.....	-765	-659	-382	-277	-106
12. Dutch dependencies.....	-89	-45	+51	-96	-44
13. Norway.....	-124	-76	-52	-24	-48
14. Portugal.....	-74	-55	-33	-22	-19
15. Portuguese dependencies.....	+36	+3	+5	-2	+33
16. Sweden.....	-133	-65	-39	-26	-68
17. Switzerland.....	+53	+20	+9	+11	+33
18. Turkey.....	+58	-5	-2	-3	+63
19. United Kingdom.....	-1,107	-1,923	-891	-1,032	+816
20. British dependencies.....	+56	+260	+300	-40	-204
Germany:					
21. Bizone.....	-1,017	-750	-585	-165	-267
22. French zone.....	-79	-66	-33	-33	-13
23. Saar.....	-14	-9	-7	-2	-5
24. Combined balance on current account (at July 1, 1947 prices).....	-6,845	-6,393	-3,850	-2,543	-452
25. Adjustment for savings in dollar shipping services ^b	+90	+90	+90	-----	-----
26. Total adjusted for savings on shipping.....	-6,755	-6,303	-3,760	-2,543	-452
27. Adjustment for higher prices ^c	-629	-450	-328	-122	-179
28. Adjusted balance.....	-7,384	-6,753	-4,088	-2,665	-631

Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, fiscal year 1949-50

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-255	-200	-144	-56	-55
2. Belgium-Luxemburg.....	-447	-372	-238	-134	-75
3. Belgian dependencies.....	+10	+11	+16	-5	-1
4. Denmark.....	-171	-143	-57	-86	-28
5. Ireland.....	-163	-122	-35	-87	-41
6. France.....	-1,044	-778	-673	-105	-266
7. French dependencies.....	-146	-111	-50	-61	-35
8. Greece.....	-157	-115	-76	-39	-42
9. Iceland.....	-11	-9	-7	-2	-2
10. Italy.....	-692	-759	-566	-193	+67
11. Netherlands.....	-678	-616	-321	-295	-62
12. Dutch dependencies.....	-11	+33	+232	-199	-44
13. Norway.....	-112	-68	-46	-22	-44
14. Portugal.....	-50	-38	-18	-20	-12
15. Portuguese dependencies.....	+34	+2	+6	-4	+32
16. Sweden.....	-30	+13	-7	+20	-43
17. Switzerland.....	+64	+23	+10	+13	+41
18. Turkey.....	+20	-10	-4	-6	+30
19. United Kingdom.....	-622	-1,559	-692	-867	+937
20. British dependencies.....	+77	+284	+323	-39	-207
Germany:					
21. Bi-Zone.....	-930	-708	-535	-173	-222

For footnotes referred to by letter symbols in above table, see page headed "Notes."

Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, fiscal year 1949–50—Continued

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
Germany—Continued.					
22. French Zone.....	-100	-78	-68	-10	-22
23. Saar.....	-22	-14	-15	+1	-8
24. Combined balance on current account (at July 1, 1947 prices).....	-5,436	-5,334	-2,965	-2,369	-102
25. Adjustment for savings in dollar shipping service ^b	+134	+134	+134		
26. Total adjusted for savings on shipping.....	-5,302	-5,200	-2,831	-2,369	-102
27. Adjustment for higher prices ^c	-575	-395	-284	-111	-180
28. Adjusted balance (upper level).....	-5,877	-5,595	-3,115	-2,480	-282
29. Adjustment for lower prices and lower freight rates ^d	+126	+142	+28	+114	-16
30. Adjusted balance (lower level).....	-5,176	-5,058	-2,803	-2,255	-118
31. Range of adjusted estimates (in billions of dollars).....	-5.2 to -5.9	-5.1 to -5.6	-2.8 to -3.1	-2.3 to -2.5	-0.1 to -0.3

Estimated surplus (+) or deficit (—) on current account of ERP countries, by country and area, fiscal year 1950–51

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating areas
1. Austria.....	-199	-167	-116	-51	-32
2. Belgium-Luxemburg.....	-370	-311	-167	-144	-59
3. Belgian dependencies.....	+9	+7	+12	-5	+2
4. Denmark.....	-123	-128	-45	-83	+5
5. Ireland.....	-156	-117	-22	-95	-39
6. France.....	-765	-493	-500	+7	-272
7. French dependencies.....	-123	-90	-37	-53	-33
8. Greece.....	-120	-87	-57	-30	-33
9. Iceland.....	-9	-9	-6	-3	
10. Italy.....	-500	-615	-480	-135	+115
11. Netherlands.....	-629	-583	-283	-300	-46
12. Dutch dependencies.....	+65	+39	+231	-192	+26
13. Norway.....	-78	-49	-27	-22	-29
14. Portugal.....	-49	-32	-12	-20	-17
15. Portuguese dependencies.....	+36	+8	+11	-3	+28
16. Sweden.....	+39	+60	+26	+34	-21
17. Switzerland.....	+79	+29	+19	+10	+50
18. Turkey.....	+25	-6	-2	-4	+31
19. United Kingdom.....	-395	-1,341	-551	-790	+946
20. British dependencies.....	+108	+333	+373	-40	-225
Germany:					
21. Bizone.....	-763	-486	-373	-113	-277
22. French zone.....	-98	-74	-59	-15	-24
23. Saar.....	-22	-14	-14		-8
24. Combined balance on current account (at July 1, 1947 prices).....	-4,038	-4,126	-2,079	-2,047	+88
25. Adjustment for savings in dollar shipping services ^b	+86	+86	+86		
26. Total adjusted for savings on shipping.....	-3,952	-4,040	-1,993	-2,047	+88
27. Adjustment for higher prices ^c	-522	-339	-241	-98	-183
28. Adjusted balance (upper level).....	-4,474	-4,379	-2,234	-2,145	-95
29. Adjustment for lower prices and lower freight rates ^d	+745	+578	+257	+321	+167
30. Adjusted balance (lower level).....	-3,207	-3,462	-1,736	-1,726	+255
31. Range of adjusted estimates (in billions of dollars).....	-3.2 to -4.5	-3.5 to -4.4	-1.7 to -2.2	-1.7 to -2.1	+0.3 to -0.1

For footnotes referred to by letter symbols in above table, see page headed "Notes."

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Estimated surplus (+) or deficit (−) on current account of ERP countries, by country and area, fiscal year 1951–52

[In millions of dollars]

Country	Total ^a	Total Western Hemisphere	United States	Other Western Hemisphere	Other nonparticipating
1. Austria	−147	−152	−99	−53	+5
2. Belgium-Luxemburg	−299	−246	−131	−115	−53
3. Belgian dependencies	+12	+11	+15	−4	+1
4. Denmark	−96	−119	−43	−76	+23
5. Ireland	−147	−107	−14	−93	−40
6. France	−413	−253	−324	+71	−160
7. French dependencies	−93	−50	−2	−48	−43
8. Greece	−113	−77	−48	−29	−36
9. Iceland	−8	−8	−5	−3	—
10. Italy	−335	−562	−483	−79	+227
11. Netherlands	−523	−499	−248	−251	−24
12. Dutch dependencies	+74	+55	+242	−187	+19
13. Norway	−54	−27	−7	−20	−27
14. Portugal	−44	−24	−3	−21	−20
15. Portuguese dependencies	+34	+5	+8	−3	+29
16. Sweden	+73	+78	+45	+33	−5
17. Switzerland	+98	+22	+20	+2	+76
18. Turkey	+24	−4	−2	−2	+28
19. United Kingdom	−302	−1,265	−510	−755	+963
20. British dependencies	+157	+380	+421	−41	−223
Germany:					
21. Bizone	−655	−390	−322	−68	−265
22. French zone	−97	−77	−65	−12	−20
23. Saar	−23	−14	−15	+1	−9
24. Combined balance on current account (at July 1, 1947, prices)	−2,877	−3,323	−1,570	−1,753	+446
25. Adjustment for savings in dollar shipping services ^b	+30	+30	+30	—	—
26. Total adjusted for savings on shipping	−2,847	−3,293	−1,540	−1,753	+446
27. Adjustment for higher prices ^c	−463	−291	−207	−84	−172
28. Adjusted balance (upper level)	−3,310	−3,584	−1,747	−1,837	+274
29. Adjustment for lower prices and lower freight rates ^d	+1,243	+916	+422	+494	+327
30. Adjusted balance (lower level)	−1,604	−2,377	−1,118	−1,259	+773
31. Range of adjusted estimates (in billions of dollars)	−1.6 to −3.3	−2.4 to −3.6	−1.1 to −1.7	−1.3 to −1.8	+0.8 to +0.3

For footnotes referred to by letter symbols in above table, see page headed "Notes."

NOTES

EXPLANATORY NOTES FOR TABLES SHOWING ESTIMATED SURPLUS (+) OR DEFICIT (−) OF ERP COUNTRIES ON CURRENT ACCOUNT

^a Total equals balance with "Total Western Hemisphere" plus balance with "Other nonparticipating areas"; excludes balance with other participating countries and balance between participating country and its dependencies.

^b Estimated dollar savings resulting mainly from recommended temporary transfer of up to 300 additional bulk cargo carriers on bare-boat charter basis.

^c Calculated for "United States" and "Other nonparticipating areas" on basis of 7.5 percent price rise of imports (5 percent for "Other Western Hemisphere") as against 5 percent price rise of exports since July 1, 1947.

^d Calculated for "United States" and "Other nonparticipating areas" on basis of July 1, 1947, price for imports and exports, and a 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 2.5 percent price decline for imports, July 1, 1947, price for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947.

^e Calculated for "United States" and "Other nonparticipating areas" on basis of 7.5 percent price decline for imports, 5 percent price decline for exports, and 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 10 percent price decline for imports, 5 percent price decline for exports, and 10 percent decrease in ocean freight rates since July 1, 1947.

^f Calculated for "United States" and "Other nonparticipating areas" on basis of 15 percent price decline for imports and 10 percent decline for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947; for "Other Western Hemisphere" on basis of 17.5 percent price decline for imports, 10 percent price decline for exports, and a 10 percent decrease in ocean freight rates since July 1, 1947.

NOTE.—Figures showing range of adjusted estimates to the nearest hundred million dollars for fiscal years 1949–50, 1950–51, and 1951–52 (line 31 in the attached tables) will not necessarily add across to totals because of rounding. Differences in rounding also account for discrepancies between the range estimates in the attached tables and those contained in the pamphlet Outline of a European Recovery Program. The unrounded data in millions of dollars in the attached tables correspond with those in the Outline of a European Recovery Program.

Mr. JONKMAN. If the State Department under bill H. R. 4840 is going to meet the CEEC requests in full or practically so, will we not be allowing Europe to build up by separate nations, an unbalanced export program as against an integrated Western European program?

Ambassador DOUGLAS. I would not think so, Congressman.

Mr. JONKMAN. For instance, I brought out on Monday five nations, the United Kingdom, Norway, Sweden, France and Denmark who had already recovered their 1938 industrial output schedule. The answer is that might not be enough because for instance the United Kingdom has lost an invisible income of a not inconsiderable amount. I think it must run in the neighborhood of \$1,500,000,000 or \$2,000,000,000 because I heard you say this morning that that is what is allowed for the United Kingdom in 1947-48 schedule.

If the United Kingdom is going to be permitted to make that up by exports, at whose expense is it going to be done and what correlation is there going to be between the development of other countries?

Ambassador DOUGLAS. Obviously the only way in which the United Kingdom can make up the losses which she has suffered during the war is by the restoration of a productive area in southeast Asia, and by an increase in her productive capacity.

The mere fact that her industrial production has increased, in order to compensate the loss does not mean there necessarily need be any great impact of that industrial production on other nations because there is a constant shifting of the area of production and the types of things that are being produced.

For example, Britain is one of the leaders today in the production of certain types of high precision instruments. After all, Congressman, the market place in which I place a great deal of confidence is one of the most automatic adjustments that the mind of man has yet been able to develop.

Mr. JONKMAN. Who programs all the exports under bill H. R. 4840?

Ambassador DOUGLAS. From where?

Mr. JONKMAN. From here, under the Marshall plan, who programs them?

Ambassador DOUGLAS. First of all, there is the problem of determining in respect to foodstuffs, that amount which will be available for export, and that amount which will be retained for domestic consumption. That function is discharged by the Department of Agriculture.

Mr. JONKMAN. I understand that you, with our help, are going to let the law of supply and demand or the market price decide who is going to progress most under this program of the 16 European countries?

Ambassador DOUGLAS. I am saying, Congressman, that these participating European countries have to submit themselves to the market price, so far as their exports are concerned.

Mr. JONKMAN. I repeat, if you are going to make up the deficit that the United Kingdom has lost, by loss of its invisible income, that she had far more than any other country of that, are not things going to get out of balance, and will we not get the blame for it? Also, are you not getting right back to the 1938 situation and the struggle for trade supremacy and all its consequences?

Ambassador DOUGLAS. I doubt it very much. The alternatives, Congressman, must be viewed too. What happens to the United Kingdom if she does not develop?

Mr. JONKMAN. Of course, the answer to that might be in the question, What has she done up to this time? Has she done any worse since the exhaustion of her \$3,000,000,000 loan?

Ambassador DOUGLAS. It has not been exhausted yet, but there has certainly been a reduction in the ration in Britain since the crisis began to develop in August.

Mr. JONKMAN. Well, she has improved her coal output, has she not, since this spring?

Ambassador DOUGLAS. She has.

Mr. JONKMAN. And she has been very leery about using any of the \$3,750,000,000 since that time, has she not?

Ambassador DOUGLAS. She has.

Mr. JONKMAN. What is the difference?

Ambassador DOUGLAS. She has been compelled to reduce the food ration, and she has drawn down on her reserves at an extraordinarily rapid rate. Now there comes a time when those reserves are completely exhausted and then, Congressman, what happens?

Mr. JONKMAN. My point is what occurs because of certain influences or what cause brings what effect. Now the United Kingdom began to feel that her credit was running out under this \$3,000,000,000 loan, so she has reduced her luxury imports, has she not?

Ambassador DOUGLAS. Yes. She has imposed a very, very heavy tax on movie imports, but, Mr. Congressman, the total net drain in dollars on account of American movies displayed in England is approximately \$60,000,000 a year. I do not say that is not worth saving to the United Kingdom but it is a mere drop in the bucket. If you are talking about exhaustion of the British loan, I can give you some figures of a different order of magnitude.

Mr. JONKMAN. Do you not think we should have an independent administrator to carry out this program?

Ambassador DOUGLAS. I agree completely with the bill which is before you, in that it contemplates the setting up of an independent administrator, but it does not contemplate that the administrator will have the authority to allocate that amount of foodstuffs that will be made available for exports and that amount which will be maintained in the United States. It does not contemplate that each of the Secretaries have the power to issue export licenses. Those authorities are now in other agencies of the Government and it does contemplate that insofar as foreign policy is concerned he takes his guidance and direction from the Secretary of State. However, this is an independent administration that is being established and the administration has to be fitted into the established agencies of government, with the authorities which they possess, unless of course it would be the desire of Congress to repose in the administration charged with the responsibility of the European recovery program all the powers that have to do with the internal economy of the United States.

Mr. JONKMAN. After all, does it not require sound business sagacity and management as opposed to good fellow and good neighbor policies?

Ambassador DOUGLAS. Congressman, it requires a man of extraordinary ability, broad business experience, wisdom, prudence, and courage. This has to be done in a businesslike way that will com-

mand the confidence of the Congress and of the people of the United States.

Mr. JONKMAN. Except in rare occasions where a vital foreign policy of the Government might be involved, he should be permitted to go ahead on his own.

Ambassador DOUGLAS. He should be permitted to conduct his operations except insofar as the internal economy of the United States and all of the authorities possessed by other agencies that have to do with it are concerned, and except insofar as questions of foreign policy are concerned.

Mr. JONKMAN. That does not permit the administrator even to program the European needs?

Ambassador DOUGLAS. It is contemplated under the bill that the administrator shall review the requests received from abroad, shall review and determine them.

Mr. JONKMAN. Is his the final determination?

Ambassador DOUGLAS. Yes. It is always subject to the other agencies of Government having to do with the internal economy of the United States and always subject to the foreign policy of the United States.

Mr. JONKMAN. It comes back to the State Department?

Ambassador DOUGLAS. As far as foreign policy is concerned, but I would point out to the Congressman that the Administrator has no authority over the internal economy of the United States and that amount which shall be made available for export. He has to take the allocations made for that purpose by another agency of the Government that is charged with that responsibility.

Mr. JONKMAN. Assuming that is true, we also have to take the advice and instruction of the State Department as to where he puts it, and what country he favors.

Ambassador DOUGLAS. No, he does not, not necessarily. If the Secretary of State felt that a certain act should be taken which was beneficial to the foreign policy he would so inform the administrator. Or the Secretary of State might feel that a certain program contemplated was contrary to the interests of the foreign policy of the United States, and the Secretary would under the language of the act be in a position to intervene and to prevent that act from being taken unless of course the administrator would disagree with the Secretary of State, in which event if he were a strong man and the kind of man who has to be selected to administer this program, he appealed to the President of the United States.

Mr. VORYS. Would the gentleman yield?

Mr. JONKMAN. I will be glad to yield.

Mr. VORYS. I think it would be a splendid thing just as a suggestion if this Administrator had the background for instance, of having been budget director, president of a foreign university, president of a great insurance company, and having had some familiarity with the inception of this plan, and Ambassador to the Court of St. James.

Mr. BLOOM. Are you talking about Ambassador Douglas?

Mr. VORYS. I was speaking purely theoretically about someone who had that particular set of qualifications.

Ambassador DOUGLAS. It is a hypothetical personality unknown to anybody in this room.

Mr. VORYS. Any resemblance to any living person is purely coincidental.

Ambassador DOUGLAS. I am delighted that he is a hypothetical person, because if he was not a hypothetical person he would have some remarks to make in rebuttal.

Mr. JONKMAN. I would have liked to have had this break-down country by country earlier. Perhaps I should defer it until a time when Mr. Thorp again takes the stand but because of your intimate and broad knowledge of European affairs, I would like to question you on it somewhat.

On Monday it was agreed that of the 16 countries, 7 countries at least could be eliminated, as far as grants were concerned. Those seven countries were Ireland, Iceland, Portugal, Switzerland, Turkey, Sweden and France.

Ambassador DOUGLAS. France I think was not one. I was not here, Mr. Congressman, at the time.

Mr. JONKMAN. I did not intend to mention France. I will repeat them: Ireland, Iceland, Portugal, Switzerland, Turkey, Norway, and Sweden.

Anyway, that does not concern you particularly because you say you were not there. Mr. Thorp admitted that he felt they should be eliminated as far as grants are concerned. We then came to the question of Denmark.

Ambassador DOUGLAS. May I ask Mr. Thorp if he would like to say something just on that point?

Mr. THORP. I just would like to say, Mr. Jonkman, I think if we checked the record we would find there was no firm and flat admission, because I do not think one can make an absolute judgment on these matters, but I did state that it was in my judgment a very real possibility.

Mr. JONKMAN. I think with reference to one or two, you said "Probably they should be excluded from any grants."

However, when we came to Denmark I called attention to the fact that Denmark had reached its prewar industrial production—that is for 1938—and also its prewar agricultural production, I believe. I was not so sure about that. The opinion at that time was that Denmark should not be excluded as the other seven had been.

Now I am reliably informed by an official of the United States Government who talked with a high official of the Danish Government last fall in Denmark, and when that Danish official was asked "Well, do you expect to come in under the Marshall program," the answer was "Well, we did not expect to. We are in sound financial condition, our credit is good and we did expect to float a private loan in the United States which we think we can do. However, all the others are coming in and we might as well get our share."

Have you had any knowledge of the conditions in Denmark as to whether Denmark should be favored with grants-in-aid?

Ambassador DOUGLAS. I am sorry I will have to beg off on that question because I do not know about the internal economic and financial position of Denmark.

These country-by-country reports were prepared by technical committees and have just been published. I have not had an opportunity to examine each one of them. The only one that I have taken a hasty look at was the one covering the United Kingdom.

Might I just make this observation: You referred to the fact that the industrial production in the United Kingdom was now above the prewar level.

I presume you were referring to the total index of production, and in that connection it is significant and important to point out that agricultural production in the United Kingdom—and of course agricultural products are not exported—is approximately 30 to 33 percent higher than before the war. When one lifts the agricultural production out of the total index of production in the United Kingdom, one gets a very much smaller index of industrial production than the figures on their face would indicate to be the case.

Mr. JONKMAN. I think my statistics came from the CEEC report, and I think the United Kingdom was about 2 percent above.

Ambassador DOUGLAS. However, not 114 percent which one figure indicates which I have just seen.

Mr. JONKMAN. That is wrong, the 114 percent.

Ambassador DOUGLAS. Insofar as industrial production is concerned.

Mr. JONKMAN. If that supposition is true, do you think you ought to extend aid to those countries under those conditions?

Ambassador DOUGLAS. I think, Mr. Jonkman, to the fullest extent possible, the extension of credit to some countries, and to concerns within countries, should be made either through the private investment channels or by the International Bank which was established for that purpose.

Mr. JONKMAN. Then the answer is "No"?

Ambassador DOUGLAS. My answer is "No."

Mr. JONKMAN. What do you think of the stability of a loan that is made under the first stated condition? It is a matter where we have an invitation here, come one, come all, and while we do not need it, we could float the private loan and we are going to take advantage of it. Do you think it offers a good basis for repayment, and a feeling of obligation to repay?

Ambassador DOUGLAS. I think it is a matter that has to be very carefully and industriously reviewed and screened by whoever is in charge of the administration of this program.

Mr. JONKMAN. Without casting any reflection on any of the 16 countries, our past experience with foreign loans has not been so good. There is one little country who has had a sound concept of its obligations and that is not one of the 16 at the present time.

Ambassador DOUGLAS. That raises a very complicated question. Some defaulted not because they wanted to but because they had no choice.

Mr. JONKMAN. Is it not also true that if you take this plan in its general aspect, these participating countries can be said to have been given a certain consideration for coming in, and might they not at a later date feel that that was sufficient consideration for what they received?

In other words, if these seven countries as I have mentioned are just coming in to help the other countries, and not because we would help them on their own, are they not giving a consideration for whatever they get?

Ambassador DOUGLAS. I am not clear as to whether the 7 countries to which you have referred should be placed in that category, but these 16 participating countries met to do certain things, and even though

some of them did not require credits—some of them can pay, apparently, on the barrelhead and some of them can meet their requirements through the normal investment channels—they are nevertheless a part of this community and as you suggest, as recovery in the other countries proceeds general recovery and stability of the whole area advances.

More than that there have to be certain undertakings of a joint and cooperative nature, such as a hydroelectric development in which several of them—one perhaps can pay on the barrelhead—have an interest in development.

Mr. JONKMAN. What do you know about the three countries, Belgium, Luxemburg, and the Netherlands, as to whether or not we should loan to them at the present time?

Before you answer that will you answer this question: Should they receive grants in aid which are not expected to be repaid?

Ambassador DOUGLAS. I confess I have not examined the internal condition of these individual countries country by country with sufficient care to give an answer to your question which would be a considered one. More than that, in these matters, the question of whether a country should receive a grant or whether it should receive a credit is a matter that must be determined, it seems to me, in the light of the evidence, and all the evidence, and the time the program of that particular country comes to the United States for final and definitive action.

Mr. JONKMAN. I have not discussed the United Kingdom to any great extent or France, but that leaves, with those and those I have already mentioned, Austria, Italy, and Greece. I would have liked to have seen that break-down but is it not true that the bulk of the grants will be to the five members; the United Kingdom, France, Austria, Italy, and Greece?

Ambassador DOUGLAS. To give an ill-considered answer; yes.

Mr. JONKMAN. Of course you would have 20 percent to 40 percent loans, so the bulk will be grants in aid.

Ambassador DOUGLAS. That was the calculation made by the National Advisory Council.

Mr. JONKMAN. What effect do you think that is going to have on these smaller countries? They are going to feel that all they did is receive a loan which had to be repaid while the bulk of the money is given to the larger countries in the nature of grants in aid. What is that going to do to the status of the loan?

Ambassador DOUGLAS. There are some smaller countries in apparently very sound financial condition. I cannot imagine there would be any particular resentment in a smaller country that is on a solid and sound position merely because it did not receive a grant, whereas another country, though it might be larger that was in a dilapidated and tattered state, did receive a grant. Indeed the smaller country might have a very great interest in the recovery of the larger country because the larger country might provide a broader market for the smaller country which it could not enjoy with the larger country remaining in a depressed state.

Mr. JONKMAN. Let me remind you of a local relief experience that we have had right in this country when, for instance, people who had been frugal and had saved and had a home—which they could not eat—were refused relief when that was all they had, while people

who had been spending and who had been wasting received the best of everything.

Do you remember the discontent that was caused by that, and would not it be human nature to have that same thing in Europe if we are going to give loans to some countries and grants to other countries?

Ambassador DOUGLAS. I cannot prophesy, Congressman, how these respective countries may respond. They have all joined the CEEC. They have all entered upon this cooperative undertaking, limited though some may believe it to be, they are all concerned with the recovery and stability of the general area. Their national security, too, rests in large measure upon the restoration of stability.

Mr. JONKMAN. I do not want to get argumentative, but I do not think we have to prophesy, we only have to go by experience and human nature. You know we are talking about calculated risks, but there is a risk in calculations too, that we should not have trouble with if we have past experience to guide us. I think we should look ahead and see where we will be 4 years from now.

There is another question that bothers me, for instance, In those three countries, Austria, Italy, and Greece, has anybody any reason to think that if the present Communist turbulence or interference continues that we will be any further at the end of 4 years with those countries than we are now at the end of 3 years? In other words, that interference there is the sabotage of all effort and discourages all initiative because the people in those countries just do not know where they will be a year from now.

Have we any reasonable expectation in those three countries of establishing the 1938 equilibrium, if they had it then?

Ambassador DOUGLAS. Restoring at least stability in the area, and not necessarily the 1938 level?

Mr. JONKMAN. Yes.

Ambassador DOUGLAS. I will make this observation, Congressman, and it is a considered one that I have no doubt that the interim-aid bill which the Congress passed, and the prospects that the Congress will approve a European recovery program, contributed incalculably to the determined resistance of the French Government against the recent endeavor on the part of the Communists to interfere with the industrial and economic life of France through a series of strikes and thus perhaps to achieve power.

Mr. JONKMAN. I am glad to hear that come from you. You have been on the ground and you know what is going on there.

Ambassador DOUGLAS. I think that is a fair observation to make;

Mr. JONKMAN. I think the American people want some reasonable assurance of the probable success of their efforts.

I have one more question, brought up at that discussion, this morning about the effect of our exports on the domestic price situation. It has been said in the past by the highest authority, for instance, that the high prices are caused by the higher living of the American people, and in the same statement, an attempt has been made to ascribe high prices to our foreign-aid program, but this statement is not borne out by the past. I would like to quote that from this angle: Supposing in our grain reduction we had 1 or 2 percent surplus, there would be no high prices merely because of scarcity, would

there, if we had 1 or 2 percent surplus? To make clear what I ask, let me ask this question:

The moment we ship abroad 5 percent, and we have a shortage of 3 or 4 percent, there would immediately be a scramble, not to be caught in that shortage of 4 percent, or to catch those who have been caught short and sell them goods at increased prices. Would that be true?

Ambassador DOUGLAS. A surplus presupposes that which is consumed and that for which there is no demand. Now that which is consumed, and that for which there is a demand that is satisfied, is contingent on price.

It is very much like a study I saw 14 or 15 years ago upon the capacity to produce in the United States. It was a fine tabulation and calculation but it completely ignored the price at which commodities could be produced, so that the determination of surplus is related to the prices.

Mr. JONKMAN. You do not answer my question. I would like to have an answer to the question now: As long as there is a 1 or 2 percent surplus, we would have no increased prices because of threatened scarcity, except you could speculate that it might be wrong, but assuming that figure, you would not have that.

Ambassador DOUGLAS. Except as a surplus itself, if any, might be an incident of price mechanism.

Mr. JONKMAN. Under that condition if you exported 5 percent of your production in commodities, say wheat, you would immediately have a shortage, would you not, and that would cause a scramble for purchases, and, of course, raise prices; is that not true?

Ambassador DOUGLAS. It might have that effect.

Mr. JONKMAN. Would it not inevitably have that effect?

Ambassador DOUGLAS. It probably would have that effect; yes.

Mr. JONKMAN. Would it not inevitably have that effect?

Ambassador DOUGLAS. If the prices were such that people wanted to buy.

Mr. JONKMAN. I am not an economist, and I do not know much about the grain market—I am glad to say—but I have heard men who understood the grain market say that as much as 100,000 bushels shortage in one year in wheat or corn would have 9 or 10 times the impact such a thing should have in prices merely because there was an estimated shortage. Would you agree to that?

Ambassador DOUGLAS. I should think I would, Congressman, yes.

Mr. JONKMAN. So after all our export program is the fly in the ointment and is a serious impact on high prices, is it not?

Ambassador DOUGLAS. I do not think it is by any manner of means the only factor. There are a whole variety of other factors. There is a tremendous amount of credit being built up or accumulated in the United States largely as a product of the war and other policies.

There are other things that have occurred in the United States which have had their impact upon prices. The recovery program for 1948-49 contemplates a smaller volume of exports than the volume of exports in 1947; a smaller volume of wheat, a smaller volume of almost all commodities. Therefore, under the European recovery program for the 15 months there should be some relief as compared with the preceding year.

Mr. JONKMAN. I think that would be true, but we had high prices last year also and if instead of shipping 400,000,000 bushels of wheat to Europe, you kept them here and had a surplus, what would it do to your \$3 wheat, if you could not dispose of it?

Ambassador DOUGLAS. I would imagine that there would be a complete depression of the market.

Mr. JONKMAN. You would not buy long?

Ambassador DOUGLAS. That is right. I would suggest, Congressman, that possibly Secretary Anderson will testify before this committee. If it is not contemplated that he do so, I refer you to his testimony before the Senate committee yesterday.

Mr. CHIPERFIELD. Mr. Ambassador, Dr. Eaton suggests we stop at 4 o'clock. If you can come back tomorrow afternoon at 2 o'clock we will then have an opportunity to cross-examine you and finish up with the cross-examination. We will hear from Secretary Forrestal, I think, at 10 o'clock.

Ambassador DOUGLAS. Thank you very much, Mr. Chairman.

(Whereupon, at 4:05 p. m., the committee recessed to reconvene at 10 a. m., Thursday, January 15, 1948.)