

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 20, 1948

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

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

Chairman EATON. The committee will be in order, and we will proceed. Mr. Ambassador.

STATEMENT OF HON. LEWIS DOUGLAS, UNITED STATES AM- BASSADOR TO GREAT BRITAIN

Mr. DOUGLAS. Mr. Chairman and members of the committee, may I first introduce into the record, if there is no objection, a statement which discloses the compass of the proposed commodities and services from the Western Hemisphere during a period of 15 months, which we are discussing?

This, I would like to emphasize, is purely illustrative. It is no more than illustrative, for a number of different reasons. First, no calculation should prejudice the determinations of the Administrator, whoever he may be, when, as, and if he is appointed and confirmed by the Senate. Secondly, because, by the time the Administrator takes office, there may be a great many changes. I would like to emphasize that this is not and does not represent itself to be a final and definitive calculation.

Chairman EATON. Will you furnish each member of the committee with a copy?

Mr. DOUGLAS. Yes. It shows the possible sources by which these imports will be paid for; that is to say, from the resources of each individual country. It shows the other sources from which the imports might be financed, and it shows the commodities that, as an illustration only, might be financed by newly appropriated United States funds.

Together with that statement, I should like to introduce into the record a summary, or a recapitulation, of the longer document.

Chairman EATON. Without objection, it is so ordered.

(The documents referred to follow:)

EUROPEAN RECOVERY PROGRAM

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM
WESTERN HEMISPHERE, APRIL 1, 1948, THROUGH JUNE 30, 1949, AND POSSIBL
SOURCES AND DISTRIBUTION OF FINANCING

The European Cooperation Administration will have to draw up programs of United States assistance to each participating country covering the commodities and services to be purchased in the Western Hemisphere and the manner in

which these purchases will be financed. Each country program will have to be coordinated with the country's total requirements and estimated imports from areas outside the Western Hemisphere and with the amounts of financing available from sources other than new United States funds.

The programs of United States assistance for each country as they may be developed by the Administrator should not now be prejudged. Therefore, an accurate representation of a program for each country, reflecting its aggregate required imports from the Western Hemisphere and the source of funds which will in fact finance each segment of these imports cannot now be made. A continuing process of adjustment will be necessary in order to take account of such factors as the success of the production effort by the participating countries, changes in world availabilities, price movements, supply and financial arrangements with nonparticipating countries, and the decisions of such agencies as the International Bank.

An illustrative program can, however, be drawn up which will be indicative at least of the country-by-country programs as they might be determined by the Administrator after he has considered all of the relevant factors. An example of such a program is set forth in the attached tabulation.

It needs to be emphasized again that the distribution of commodities by countries and sources of funds indicated in the accompanying tables is only an approximation of the program as it would actually be developed by the Administrator. Particular emphasis should be given to the fact that the amounts shown in table 1, column 4, and in the corresponding columns of the individual country tables do not necessarily represent the amount which each country would receive in the form of direct assistance from the United States, nor do they indicate the terms on which such appropriated funds would be advanced. Rather, they indicate the dollar balance required to fill each country's total estimated required import program from the Western Hemisphere (column 1), after deducting the dollars obtained from exports of goods and services (column 2) and after deducting sources of financing other than new United States funds (column 3). This balance of a particular country's dollar needs (shown in column 4) might in some instances be obtained indirectly through another participating country rather than directly from the United States. Various arrangements for indirect financing of this character could be made and might provide a feasible way to assist the participating countries in overcoming some of the obstacles to increased trade among themselves.

For example, bizonal Germany is expected to have a substantial surplus of exports over imports in its trade with some participating countries, and the latter must settle in dollars for a large part of their debit balances with the bizone. In this way the dollar requirements of these participating countries are increased (because they must pay dollars not only for their imports from the Western Hemisphere but also to settle their German accounts). On the other hand, the bizone's need for direct dollar assistance would be correspondingly reduced (because it would receive dollars in addition to those obtained from its exports to the Western Hemisphere shown in column 2). In circumstances like these the Administrator might find it desirable to allocate funds appropriated for European recovery in such a way as to increase the direct assistance in the form of loans or grants to one participating country over the amount of its Western Hemisphere deficit and correspondingly reduce the direct assistance given to another participating country. Alternatively, the Administrator might find it desirable to purchase goods in one country for delivery to another, the transaction being recorded as additional direct assistance to the receiving country. The exporting country's need for direct dollar assistance would be correspondingly reduced. In general, adjustments of this kind would be considered by the Administrator in the light of recommendations by the participating countries as a group acting through their continuing organization. Such adjustments would not increase the total amount of assistance required but would only affect its distribution between countries.

The country tables which are appended present for each participating country an illustrative composition of its imports of goods from the Western Hemisphere and its net dollar payments, if any, for freight and other invisible items, for the period from April 5, 1948, through June 30, 1949. All values are expressed in terms of July 1, 1947, prices as the adjustment for higher prices is covered in the table on page 5. A distribution of the financing of these imports and payments among the following sources of dollar funds is shown:

Column 2: Dollars earned by each country from exports to the Western Hemisphere and net dollar receipts, if any, for shipping and other invisibles. In

the case of Portugal, the amount shown in column 1 includes an expenditure of Portuguese gold and foreign exchange holdings in an amount necessary to offset its deficit on current account.

Column 3: Dollars obtained from such sources as International Bank loans, private investment, existing credits of the Export-Import Bank, and credits extended by participating countries having net dollar earnings on current account to other participating countries. Credits or other assistance by other Western Hemisphere countries are also included in column 3.

Column 4: New United States funds for European recovery and for prevention of disease and unrest in Germany (GARIOA) for which appropriations are being requested. As pointed out above, the amounts in column 4 represent the deficit computed on July 1, 1947, prices with the Western Hemisphere which it is necessary to finance directly or indirectly with new United States funds and do not necessarily represent the direct assistance in the form of grants and loans which will be extended to individual countries. The adjustments for increased prices and savings on shipping mentioned in the table on page 5 will also have to be taken into account on a country-by-country basis.

The table following recapitulates the country tables and presents a possible distribution, by sources, of the financing of the total Western Hemisphere import program:

TABLE 1.—*Recapitulation of tables showing illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947 prices)*

[In millions of dollars]

	Total imports ¹	Possible sources of financing		
		Dollar earnings ²	Sources other than new United States funds	New United States funds ³
Austria.....	233	39	12	182
Belgium-Luxemburg.....	853	334	196	323
Denmark.....	237	45	28	164
France.....	1,931	369	128	1,434
Greece.....	262	67	9	186
Iceland.....	23	10	-----	13
Ireland.....	192	40	-----	152
Italy.....	1,160	183	108	869
Netherlands.....	1,136	271	160	705
Norway.....	253	163	56	34
Portugal.....	144	144	-----	-----
Sweden.....	499	423	43	33
Switzerland.....	535	535	-----	-----
Turkey.....	69	69	-----	-----
United Kingdom.....	4,311	2,133	418	1,760
Germany:				
Bizone.....	1,014	100	-----	914
French zone.....	93	13	-----	80
Saar.....	14	3	-----	11
Total.....	12,959	4,941	1,158	³ 6,860

¹ Including net dollar payments for freight and other invisibles.

² Including drawings of \$72,000,000 by Portugal on its gold and foreign-exchange resources.

³ This column includes funds being requested by the Department of the Army for prevention of disease and unrest in Germany. A reconciliation with the \$6,800,000,000 being requested for the European recovery program is to be found on p. 5.

Column 1 indicates that the required imports of the participating countries of goods and services from the Western Hemisphere during the 15 months, April 1, 1948, through June 30, 1949, are expected to amount to \$12,959,000,000 (in terms of July 1, 1947, prices). This total, after deducting \$1,146,000,000 of payments for net freight and net other invisibles, equals the total commodity imports of \$11,813,000,000 shown in the summary balance of payments table on page 97 of the committee print of the Outline of a European Recovery Program.

Of this total, it is estimated that the participating countries will finance \$4,941,000,000 from their dollar earnings from exports to the Western Hemi-

sphere and other dollar receipts (and, in the case of Portugal by drawing down gold and foreign-exchange holdings).¹

Sources other than new United States funds are expected to finance, in terms of July 1, 1947, prices, \$1,158,000,000 of the total.² It is proposed that the balance of \$6,860,000,000 be financed by new United States funds appropriated for European recovery and to the Department of the Army for prevention of disease and unrest in Germany (GARIOA). The following table presents a reconciliation of this balance with the authorization of \$6,800,000,000 requested for European recovery:

Goods to be purchased in Western Hemisphere with new United States funds (at July 1, 1947, prices) (column 4 of recapitulation)-----	\$6, 860
Adjustments:	
Add adjustment for price increases ¹ -----	\$482
Deduct savings on shipping ² -----	100
	382
Adjusted cost of commodities and shipping services to be purchased in Western Hemisphere with new United States funds ³ ----	7, 242
Authority to obligate funds for procurement of items to be delivered in subsequent years-----	200
Uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere ⁴ -----	200
Total being requested for European recovery program and by Department of Army for Germany (GARIOA)-----	7, 642
Deduct appropriations being requested by Department of Army for prevention of disease and unrest in Germany (GARIOA)-----	822
Total requirement for first 15 months, European recovery program-----	6, 820
Authorization requested for European recovery program (preceding line in rounded amount)-----	6, 800

¹ This figure is equivalent to the adjustment for higher prices of \$565,000,000 shown in the summary balance of payments table, page 97 of the Outline, after eliminating that portion of the increase attributable to "Sources other than new United States funds," such as the International Bank, and to Portuguese cash purchase.

² See p. 92 of the Outline. These are savings possible if additional temporary transfers of bulk-cargo carriers are made.

³ This entry and the following entries in the reconciliation are shown in the tables on pages 108 and 109 of the Outline and explained in the accompanying text, pp. 107-109.

⁴ See footnote 2, table 17.

The distribution by sources of financing in the following country tables has been made according to the following principles:

1. Financing which might be forthcoming from sources other than new United States funds has been spread over commodities for the purchase of which it is thought most likely that loans and credits might be granted. Much is assigned to the category "Other imports," which includes heavy and specialized equipment and important industrial raw materials, and additional large sums are allocated to bread and coarse grains, fats and oils, sugar, meat, and coffee, for which other Western Hemisphere countries might extend commodity credits or make other arrangements to assist the participating countries.

2. It is assumed that new United States funds will be used, in the first instance, for "selected" commodities.

3. Dollar earnings of the participating countries are assigned to the remaining Western Hemisphere requirements.

In this connection, it should be pointed out that the category "Other imports" is made up principally of important raw materials and manufactured goods, which in almost all cases are as important to economic recovery as the selected commodities. On many of these commodities studies of requirements and availabilities are being prepared, but a miscellaneous category will always

¹ See The European Recovery Program—Country Studies, Table II A. The sum of total exports to the Western Hemisphere and, where positive, of "Net freight" and "Net other invisibles" is the figure shown in column 2 of the attached country tables.

² International Bank, private investment, existing Export-Import Bank credits, dollar credits by participating countries, and credits or other assistance by other Western Hemisphere countries. These sources are expected to finance \$1,228,000,000 in current prices. This figure is equivalent to the figure of \$1,285,000,000 shown in the committee print of the Outline of European Recovery Program, p. 108, after deducting the item of \$85,000,000 representing purchases on cash basis (here included in column 2) and adding credits of \$28,000,000 by participating countries to participating countries.

be necessary, since trade between advanced industrial countries involves thousands of individual products. Preliminary indications of the values of some of the most important items in the category are given in footnotes to the tables.

It is recognized and, indeed, emphasized that the following tabulation is only illustrative and that the actual pattern determined by the Administrator might vary markedly from the one outlined here. It may, however, be useful in clarifying and delineating the problems which will be encountered in initiating the program and in adjusting it continuously to changing conditions.

TABLE 2.—*Austria—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Austrian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	36.3			36.3
Coarse grains.....	4.4			4.4
Fats and oils.....	12.5			12.5
Oil cake.....	1.6			1.6
Sugar.....	5.4			5.4
Meat.....	8.8			8.8
Dairy products.....	4.1			4.1
Dried fruit.....	1.5			1.5
Coffee.....	4.0			4.0
Other foods.....	6.3			6.3
Subtotal.....	84.9			84.9
Tobacco.....	2.9			2.9
Cotton.....	21.6		4.7	16.9
Agricultural machinery.....	1.6			1.6
Mining machinery.....	.5			.5
Iron and steel: Scrap iron.....	2.0			2.0
Trucks.....	3.8			3.8
Steel equipment.....	4.2			4.2
Timber equipment.....	4.0			4.0
Electrical equipment.....	.7			.7
Other imports ¹	67.0	39.0	7.5	20.5
Total commodity imports.....	193.2	39.0	12.2	142.0
Net freight.....	40.0			40.0
Other dollar payments.....				
Total ²	233.2	39.0	12.2	182.0

¹ Includes (in millions) copper, \$6; chemicals, \$16; hides and skins and leather, \$1; wool, \$1.

² In the case of Austria and all other countries (except Portugal), the deficit on current account with the Western Hemisphere equals column 1 minus column 2 or, alternatively, column 3 plus column 4.

TABLE 3.—*Belgium-Luxemburg and dependencies—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Belgium-Luxemburg dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	78.1		19.0	59.1
Coarse grains.....	64.9		9.5	55.4
Fats and oils.....	22.2			22.2
Oil cake.....	28.1			28.1
Sugar.....	15.3		4.8	10.5
Meat.....	13.3			13.3
Dairy products.....	26.0			26.0
Dried fruit.....	.8			.8
Rice.....	.8			.8
Coffee.....	15.3		4.8	10.5
Other foods.....	16.8			16.8
Subtotal.....	281.6		38.1	243.5
Tobacco.....	21.5			21.5
Cotton.....	46.0		27.9	18.1
Nitrogen.....	.4			.4
Phosphates.....	.4			.4
Agricultural machinery.....	5.0		5.0	
Coal.....	20.5			20.5
Mining machinery.....	2.9		2.9	
Petroleum products.....	35.2	24.3		10.9
Timber.....	23.3	23.3		
Iron and steel:				
Finished.....	19.3		15.7	3.6
Crude and semifinished.....	9.4	5.2		4.2
Trucks.....	21.8		21.8	
Steel equipment.....	9.1		9.1	
Electrical equipment.....	6.0		6.0	
Other imports ¹	293.0	223.2	69.8	
Total commodity imports.....	795.4	276.0	196.3	323.1
Net freight.....	16.0	16.0		
Other dollar payments.....	42.0	42.0		
Total.....	853.4	334.0	196.3	323.1

¹ Includes (in millions) machinery and transportation equipment and technical apparatus, \$115; chemicals, \$29; lead, \$13; zinc, \$7; wool, \$15.

TABLE 4.—*Denmark—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Danish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	0.5			0.5
Coarse grains.....	33.0			33.0
Fats and oils.....	8.8			8.8
Oil cake.....	42.2		4.8	37.4
Dried fruit.....	.4			.4
Rice.....	.2			.2
Coffee.....	20.0		4.8	15.2
Other foods.....	2.1			2.1
Subtotal.....	107.2		9.6	97.6
Tobacco.....	7.5			7.5
Cotton.....	6.9			6.9
Nitrogen.....	1.6			1.6
Potash.....				
Agricultural machinery.....	7.9		7.9	
Coal.....	10.9			10.9
Mining machinery.....				
Petroleum products.....	29.2	15.8		13.4
Timber.....	3.7			3.7
Iron and steel:				
Finished.....	15.8		6.0	9.8
Crude and semifinished.....				
Pig iron.....	.5			.5
Iron ore.....				
Trucks.....	11.2			11.2
Steel equipment.....	.5			.5
Electrical equipment.....	.5			.5
Other imports.....	13.5	8.8	4.7	
Total commodity imports.....	216.9	24.6	28.2	164.1
Net freight.....				
Other dollar payments.....	20.0	20.0		
Total.....	236.9	44.6	28.2	164.1

TABLE 5.—*France and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		French dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	115.7	-----	11.8	103.9
Coarse grains.....	66.1	-----	9.5	56.6
Fats and oils.....	76.9	-----	28.6	48.3
Oil cake.....	20.8	-----	-----	20.8
Sugar.....	19.8	-----	-----	19.8
Meat.....	.8	-----	-----	.8
Dairy products.....	26.7	-----	-----	26.7
Eggs.....	1.8	-----	-----	1.8
Dried fruit.....	2.0	-----	-----	2.0
Rice.....	4.6	-----	-----	4.6
Coffee.....	7.6	-----	-----	7.6
Other foods.....	7.4	-----	-----	7.4
Subtotal.....	350.2	-----	49.9	300.3
Tobacco.....	18.1	-----	-----	18.1
Cotton.....	165.8	-----	9.5	156.3
Nitrogen.....	11.8	-----	-----	11.8
Agricultural machinery.....	59.7	-----	-----	59.7
Coal.....	206.2	-----	-----	206.2
Mining machinery.....	10.7	-----	-----	10.7
Petroleum products.....	146.5	-----	-----	146.5
Timber.....	35.6	-----	16.0	19.6
Iron and steel:				
Finished.....	17.5	-----	-----	17.5
Crude and semifinished.....	10.0	-----	-----	10.0
Trucks.....	5.5	-----	-----	5.5
Steel equipment.....	13.8	-----	-----	13.8
Timber equipment.....	8.9	-----	-----	8.9
Electrical equipment.....	10.0	-----	-----	10.0
Other imports ¹	504.2	275.7	52.2	176.3
Total commodity imports.....	1,574.5	275.7	127.6	1,171.2
Net freight.....	263.0	-----	-----	263.0
Other dollar payments.....	93.0	93.0	-----	-----
Total.....	1,930.5	368.7	127.6	1,434.2

¹ Includes (in millions) machinery, transportation equipment, and business machines, \$173; chemicals, \$43; copper, \$19; lead, \$9; zinc, \$11; hides and skins, \$32; wool, \$26; cotton textiles, \$31.

TABLE 6.—Greece—*Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Greek dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	47.4			47.4
Coarse grains.....	4.8			4.8
Fats and oils.....	.8			.8
Oil cake.....	.6			.6
Sugar.....	16.6			16.6
Meat.....	8.8			8.8
Dairy products.....	35.4			35.4
Eggs.....	.9			.9
Rice.....	.6			.6
Coffee.....	2.7			2.7
Other foods.....	.7			.7
Subtotal.....	119.3			119.3
Cotton.....	6.5			6.5
Nitrogen.....	2.4			2.4
Agricultural machinery.....	7.9			7.9
Coal.....	.2			.2
Petroleum products.....	8.3			8.3
Timber.....	4.5			4.5
Iron and steel: Finished.....	7.0			7.0
Trucks.....	7.3			7.3
Timber equipment.....	1.0			1.0
Electrical equipment.....	1.0			1.0
Other imports ¹	47.0	37.7	9.3	
Total commodity imports.....	212.4	37.7	9.3	165.4
Net freight.....	49.9	29.4		20.5
Total.....	262.3	67.1	9.3	185.9

¹ Includes (in millions) machinery, parts, and accessories, \$13; clothing, \$12; chemicals, \$7.TABLE 7.—Iceland—*Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Icelandic dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	1.5			1.5
Coarse grains.....	.5			.5
Fats and oils.....	1.4			1.4
Sugar.....	1.2			1.2
Dried fruit.....	.2			.2
Coffee.....	.7			.7
Other foods.....	.2			.2
Subtotal.....	5.7			5.7
Tobacco.....	.1			.1
Nitrogen.....	.2			.2
Agricultural machinery.....	.8			.8
Coal.....	.9			.9
Petroleum products.....	1.7			1.7
Timber.....	1.3			1.3
Trucks.....	1.0			1.0
Other imports ¹	11.0	10.0		1.0
Total commodity imports.....	22.7	10.0		12.7

¹ Includes (in millions) fishing and industrial equipment, \$9.

TABLE 8.—Ireland—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949, (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Irish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	26.5	-----	-----	26.5
Coarse grains.....	37.2	-----	-----	37.2
Fats and oils.....	3.1	-----	-----	3.1
Oil cake.....	1.4	-----	-----	1.4
Sugar.....	7.2	-----	-----	7.2
Dried fruit.....	.7	-----	-----	.7
Coffee.....	.6	-----	-----	.6
Other foods.....	1.3	-----	-----	1.3
Subtotal.....	78.0	-----	-----	78.0
Tobacco.....	8.3	-----	-----	8.3
Cotton.....	2.0	-----	-----	2.0
Nitrogen.....	.4	-----	-----	.5
Agricultural machinery.....	1.6	-----	-----	1.6
Coal.....	11.2	-----	-----	11.2
Petroleum products.....	13.0	-----	-----	13.0
Timber.....	7.1	-----	-----	7.1
Iron and steel: Finished.....	1.6	-----	-----	1.6
Trucks.....	1.9	-----	-----	1.9
Steel equipment.....	.4	-----	-----	.4
Electrical equipment.....	1.0	-----	-----	1.0
Other imports ¹	64.1	38.8	-----	25.3
Total commodity imports.....	190.6	38.8	-----	151.8
Net freight.....	1.7	1.7	-----	-----
Total.....	192.3	40.5	-----	151.8

¹ Includes (in millions) chemicals, \$5; machinery and transportation equipment, \$12.

TABLE 9.—*Italy—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Italian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	267.1	-----	23.8	243.3
Coarse grains.....	26.7	-----	9.5	17.2
Fats and oils.....	30.2	-----	9.5	20.7
Oil cake.....	4.1	-----	-----	4.1
Sugar.....	2.8	-----	-----	2.8
Meat.....	7.0	-----	-----	7.0
Dairy products.....	7.2	-----	-----	7.2
Coffee.....	14.3	-----	4.8	9.5
Other foods.....	10.2	-----	-----	10.2
Subtotal.....	369.6	-----	47.6	322.0
Tobacco.....	4.5	-----	-----	4.5
Cotton.....	149.5	-----	-----	149.5
Nitrogen.....	1.2	-----	-----	1.2
Agricultural machinery.....	5.0	-----	-----	5.0
Coal.....	88.0	-----	-----	88.0
Petroleum products.....	61.2	-----	-----	61.2
Timber.....	13.8	-----	-----	13.8
Iron and steel:				
Finished.....	6.9	-----	-----	6.9
Crude and semifinished.....	8.0	-----	-----	8.0
Pig iron.....	.9	-----	-----	.9
Steel equipment.....	4.5	-----	-----	4.5
Electrical equipment.....	7.0	-----	-----	7.0
Other imports ¹	305.8	183.0	60.5	62.3
Total commodity imports.....	1,025.9	183.0	108.1	734.8
Net freight.....	134.0	-----	-----	134.0
Total.....	1,159.9	183.0	108.1	868.8

¹ Includes (in millions) copper, lead, and zinc, \$18; wool, \$15; hides and skins and leather, \$15; machinery, \$7; fish, \$5; naval stores, \$3.

TABLE 10.—*Netherlands and dependencies—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Dutch dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	111.0		39.2	71.8
Coarse grains.....	70.3			70.3
Fats and oils.....	40.5			40.5
Oil cake.....	31.4		9.5	21.9
Sugar.....	6.6			6.6
Meat.....	4.2			4.2
Dairy products.....	1.7			1.7
Dried fruit.....	3.3			3.3
Rice.....	.6			.6
Coffee.....	17.7			17.7
Other foods.....	14.6			14.6
Subtotal.....	301.9		48.7	253.2
Tobacco.....	23.4			23.4
Cotton.....	32.9			32.9
Nitrogen.....	6.2			6.2
Phosphates.....	.6			.6
Agricultural machinery.....	8.8			8.8
Coal.....	25.8			25.8
Mining machinery.....	2.3			2.3
Petroleum products.....	32.2			32.2
Timber.....	25.2			25.2
Iron and steel: Finished.....	53.8			53.8
Trucks.....	23.2			23.2
Steel equipment.....	4.6			4.6
Electrical equipment.....	6.3			6.3
Other imports ¹	491.3	174.1	110.7	206.5
Total commodity imports.....	1,038.5	174.1	159.4	705.0
Net freight.....	6.0	6.0		
Other dollar payments.....	91.0	91.0		
Total.....	1,135.5	271.1	159.4	705.0

¹ Includes (in millions) industrial machinery and transportation equipment, \$193; chemicals, \$26; hides and skins, \$13; copper, lead, and zinc, \$15; cotton textiles, \$54.

TABLE 11.—Norway—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Norwegian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	35.9	35.9		
Coarse grains.....	11.0	11.0		
Fats and oils.....	9.9	9.9		
Oil cake.....	3.4	3.4		
Sugar.....	9.9	5.1	4.8	
Dried fruit.....	.9	.9		
Rice.....	.6	.6		
Coffee.....	10.6	5.8	4.8	
Other foods.....	2.9	2.9		
Subtotal.....	85.1	75.5	9.6	
Tobacco.....	6.2	6.2		
Cotton.....	3.6	3.6		
Agricultural machinery.....	4.8			4.8
Mining machinery.....				
Petroleum products.....	15.0	15.0		
Iron and steel:				
Finished.....	24.5	5.6		18.9
Crude and semifinished.....	1.4			1.4
Trucks.....	2.5			2.5
Steel equipment.....	2.5			2.5
Electrical equipment.....	4.0			4.0
Other imports ¹	98.0	51.4	46.6	
Total commodity imports.....	247.6	157.3	56.2	34.1
Other dollar payments.....	6.0	6.0		
Total.....	253.6	163.3	56.2	34.1

¹ Includes (in millions) machinery and transportation equipment, \$46.

314 FOREIGN POLICY FOR A POST-WAR RECOVERY PROGRAM

TABLE 12.—*Portugal and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Portuguese dollar earnings ¹	Sources other than new United States funds	New United States funds
Bread grains.....	33.4	33.4	-----	-----
Coarse grains.....	7.3	7.3	-----	-----
Fats and oils.....	3.1	3.1	-----	-----
Oil cake.....	-----	-----	-----	-----
Sugar.....	6.1	6.1	-----	-----
Meat.....	1.9	1.9	-----	-----
Eggs.....	.6	.6	-----	-----
Coffee.....	.7	.7	-----	-----
Subtotal.....	53.1	53.1	-----	-----
Tobacco.....	4.1	4.1	-----	-----
Cotton.....	2.0	2.0	-----	-----
Nitrogen.....	3.4	3.4	-----	-----
Agricultural machinery.....	3.1	3.1	-----	-----
Coal.....	9.5	9.5	-----	-----
Petroleum products.....	10.0	10.0	-----	-----
Timber.....	4.5	4.5	-----	-----
Iron and steel: Finished.....	6.4	6.4	-----	-----
Trucks.....	7.0	7.0	-----	-----
Electrical equipment.....	2.0	2.0	-----	-----
Other imports ²	31.8	31.8	-----	-----
Total commodity imports.....	136.9	136.9	-----	-----
Net freight.....	7.4	7.4	-----	-----
Total.....	144.3	144.3	-----	-----

¹ Including drawings of \$72,000,000 on gold and foreign-exchange resources.² Includes (in millions) fish, \$6; machinery and transportation equipment, \$7; textiles and bagging, \$1.

TABLE 13.—*Sweden—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Swedish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	19.1	14.3	4.8	
Coarse grains.....	5.9	5.9		
Fats and oils.....	7.7	7.7		
Oil cake.....	11.8	11.8		
Sugar.....	7.3	2.5	4.8	
Meat.....	5.1	5.1		
Dried fruit.....	1.7	1.7		
Rice.....	1.1	1.1		
Coffee.....	30.4	16.1	14.3	
Other foods.....	11.1	11.1		
Subtotal.....	101.2	77.3	23.9	
Tobacco.....	9.6	9.6		
Cotton.....	29.4	29.4		
Nitrogen.....	1.2	1.2		
Phosphates.....	.5	.5		
Agricultural machinery.....	12.7			12.7
Petroleum products.....	58.3	58.3		
Iron and steel: Finished.....	27.1	27.1		
Trucks.....	12.2			12.2
Electrical equipment.....	8.0			8.0
Other imports ¹	238.3	219.5	18.8	
Total commodity imports.....	498.5	422.9	42.7	32.9

¹ Includes (in millions) copper, \$16; lead, \$6; chemicals, \$53; machinery and transportation equipment, \$58.

TABLE 14.—*Switzerland—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Swiss dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	55.2	55.2	-----	-----
Coarse grains.....	43.8	43.8	-----	-----
Fats and oils.....	8.5	8.5	-----	-----
Oil cake.....	2.2	2.2	-----	-----
Sugar.....	20.4	20.4	-----	-----
Meat.....	6.7	6.7	-----	-----
Eggs.....	6.1	6.1	-----	-----
Dried fruit.....	.2	.2	-----	-----
Rice.....	1.4	1.4	-----	-----
Coffee.....	11.2	11.2	-----	-----
Other foods.....	9.5	9.5	-----	-----
Subtotal.....	165.2	165.2	-----	-----
Tobacco.....	8.4	8.4	-----	-----
Cotton.....	14.0	14.0	-----	-----
Agricultural machinery.....	1.6	1.6	-----	-----
Coal.....	4.0	4.0	-----	-----
Petroleum products.....	12.0	12.0	-----	-----
Timber.....	1.6	1.6	-----	-----
Iron and steel:				
Finished.....	27.5	27.5	-----	-----
Crude and semifinished.....	1.4	1.4	-----	-----
Pig iron.....	.2	.2	-----	-----
Trucks.....	1.0	1.0	-----	-----
Electrical equipment.....	1.0	1.0	-----	-----
Other imports ¹	187.0	187.0	-----	-----
Total commodity imports.....	424.9	424.9	-----	-----
Net freight.....	110.0	110.0	-----	-----
Total ²	534.9	534.9	-----	-----

¹ Includes (in millions) machinery and transportation equipment, \$44; chemicals, \$30; copper, \$11; instruments and apparatus, \$11.

² Switzerland has net dollar earnings on current account.

TABLE 15.—*Turkey—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Turkish dollar earnings	Sources other than new United States funds	New United States funds
Coffee.....	0.3	0.3	-----	-----
Nitrogen.....	.6	.6	-----	-----
Agricultural machinery.....	7.9	7.9	-----	-----
Mining machinery.....	1.0	1.0	-----	-----
Petroleum products.....	7.5	7.5	-----	-----
Iron and steel, finished.....	5.0	5.0	-----	-----
Trucks.....	9.0	9.0	-----	-----
Timber equipment.....	.4	.4	-----	-----
Electrical equipment.....	2.0	2.0	-----	-----
Other imports ¹	25.2	25.2	-----	-----
Total commodity imports.....	58.9	58.9	-----	-----
Net freight.....	4.7	4.7	-----	-----
Other dollar payments.....	5.4	5.4	-----	-----
Total ²	69.0	69.0	-----	-----

¹ Includes (in millions) chemicals, \$6; machinery and precision instruments, \$4.² Turkey has small net dollar earnings on current account.

TABLE 16.—*United Kingdom and dependencies—illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		United Kingdom dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	436.4		238.1	198.3
Coarse grains.....	121.7		38.1	83.6
Fats and oils.....	128.3		38.1	90.2
Oil cake.....	43.1		19.0	24.1
Sugar.....	147.1		19.0	128.1
Meat.....	329.5		33.3	296.2
Dairy products.....	164.2			164.2
Eggs.....	75.9			75.9
Dried fruit.....	17.1			17.1
Rice.....	37.9			37.9
Coffee.....	18.0		4.8	13.2
Other foods.....	61.0			61.0
Subtotal.....	1,580.2		390.4	1,189.8
Tobacco.....	160.4			160.4
Cotton.....	226.6			226.6
Nitrogen.....	1.4			1.4
Phosphates.....	.5			.5
Agricultural machinery.....	20.8			20.8
Coal.....	12.1			12.1
Mining machinery.....	32.6			32.6
Petroleum products.....	190.6	190.6		
Timber.....	212.8	156.3		56.5
Iron and steel:				
Finished.....	14.3	14.3		
Crude and semifinished.....	56.0	56.0		
Iron ore.....	8.8			8.8
Steel equipment.....	8.5			8.5
Timber equipment.....	1.7			1.7
Electrical equipment.....	40.5			40.5
Other imports ¹	1,622.4	1,594.5	27.9	
Total commodity imports.....	4,190.2	2,011.7	418.3	1,760.2
Net freight.....	59.0	59.0		
Other dollar payments.....	62.0	62.0		
Total.....	4,311.2	2,132.7	418.3	1,760.2

¹ Includes (in millions) chemicals, \$109; copper, \$80; tin, \$44; lead, \$37; zinc, \$35; aluminum, \$75; wood pulp, \$48; newsprint, \$24; hides and skins and leather, \$87; machinery and equipment, \$371; fish, \$29; wool, \$33.

TABLE 17.—*Western Germany, Bizone—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Bizonal dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	284.6			284.6
Coarse grains.....	54.1			54.1
Fats and oils.....	24.5			24.5
Sugar.....	27.5			27.5
Meat.....	6.2			6.2
Dairy products.....	9.9			9.9
Dried fruit.....	5.5			5.5
Coffee.....	2.2			2.2
Other foods.....	23.9			23.9
Subtotal.....	438.4			438.4
Tobacco.....	16.1			16.1
Cotton.....	66.5			66.5
Nitrogen.....	12.0			12.0
Phosphates.....	1.1			1.1
Agricultural machinery.....	8.4			8.4
Mining machinery.....	28.0			28.0
Petroleum products.....	22.5			22.5
Trucks.....	9.4			9.4
Freight cars.....	60.0			60.0
Timber equipment.....	.3			.3
Electrical equipment.....	5.0			5.0
Other imports ¹	212.4	99.6		112.8
Total commodity imports.....	880.1	99.6		780.5
Net freight.....	134.0			134.0
Total ²	1,014.1	99.6		914.5

¹ Includes (in millions) copper, lead, and zinc, \$18; hides and skins, \$9; seeds, \$22.² In addition to its dollar requirements for imports from the Western Hemisphere, bizonal Germany will have an uncovered dollar deficit of \$200 millions with nonparticipating countries outside the Western Hemisphere. This deficit is made up of the following items (in millions): Wool, \$71; hemp, \$6.5; lead, \$10; coarse grains, \$28.5; cotton, \$16.6; other raw materials, \$26.6; freight, \$26.8.

TABLE 18.—*Germany, French zone—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		French zone dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	44.6			44.6
Sugar.....	1.6			1.6
Coffee.....	.3			.3
Subtotal.....	46.5			46.5
Tobacco.....	2.0			2.0
Cotton.....	16.7			16.7
Agricultural machinery.....	1.1			1.1
Petroleum products.....	8.7			8.7
Timber equipment.....	.7			.7
Other imports.....	16.2	11.5		4.7
Total commodity imports.....	91.9	11.5		80.4
Net freight.....	1.3	1.3		
Total.....	93.2	12.8		80.4

TABLE 19.—*Germany, Saar—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947 prices)*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Saar dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	7.0			7.0
Coarse grains.....	.6	0.6		
Sugar.....	1.0	1.0		
Meat.....	.8	.8		
Subtotal.....	9.4	2.4		7.0
Tobacco.....	.3	.3		
Mining machinery.....	3.9			3.9
Total commodity imports.....	13.6	2.7		10.9

Recapitulation table—Illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing, Apr. 1, 1948, to June 30, 1949 (at July 1, 1947, prices)

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Own resources	Sources other than United States funds	United States funds
Bread grains.....	1,600.3	138.8	336.7	1,124.8
Coarse grains.....	552.3	68.6	66.6	417.1
Fats and oils.....	378.4	29.2	76.2	273.0
Oil cake.....	190.7	17.4	33.3	140.0
Sugar.....	295.8	35.1	33.4	227.3
Meat.....	393.1	14.5	33.3	345.3
Dairy products.....	275.2			275.2
Eggs.....	85.3	6.7		78.6
Dried fruit.....	34.3	2.8		31.5
Rice.....	47.8	3.1		44.7
Coffee.....	156.6	34.1	38.3	84.2
Other foods.....	168.0	23.5		144.5
Subtotal.....	4,177.8	373.8	617.8	3,186.2
Tobacco.....	293.4	28.6		264.8
Cotton.....	790.0	49.0	42.1	698.9
Nitrogen.....	42.8	5.2		37.6
Phosphates.....	3.1	.5		2.6
Potash.....				
Agricultural machinery.....	158.7	12.6	12.9	133.2
Coal.....	389.3	13.5		375.8
Mining machinery.....	81.9	1.0	2.9	78.0
Petroleum products.....	651.9	333.5		318.4
Timber.....	333.4	185.7	16.0	131.7
Iron and steel:				
Finished.....	226.7	85.9	21.7	119.1
Crude and semifinished.....	86.2	62.6		23.6
Pig iron.....	1.6	.2		1.4
Scrap iron.....	2.0			2.0
Iron ore.....	8.8			8.8
Trucks.....	116.8	17.0	21.8	78.0
Freight cars.....	60.0			60.0
Steel equipment.....	48.1		9.1	39.0
Timber equipment.....	17.0	.4		16.6
Electrical equipment.....	95.0	5.0	6.0	84.0
Other imports.....	4,228.2	3,210.8	408.0	609.4
Total commodity imports.....	11,812.7	4,385.3	1,158.3	6,269.1
Net freight.....	827.0	235.5		591.5
Other dollar payments.....	319.4	319.4		
Total.....	12,959.1	4,940.2	1,158.3	6,860.6

Mr. DOUGLAS. At the last meeting of the committee, I think on Thursday, Congressman Javits asked whether there would be someone here this morning who would be able to answer certain questions which he might put in regard to the ITO. And, accordingly, Mr. Chairman, may I suggest that Mr. Clayton appear before the committee to answer the questions which Congressman Javits may have in mind, so that it will not be necessary to hold him before the committee throughout the entire session this morning?

Chairman EATON. Is it agreeable to the committee to have Mr. Clayton answer questions of Mr. Javits? All agreed, say "aye." Mr. Clayton, we are delighted to welcome you back.

Mr. William L. Clayton, Adviser to the Secretary of State: Thank you, sir.

Chairman EATON. Mr. Javits, of New York. I will present Mr. Clayton, Mr. Javits. He is now open for engagements with you.

STATEMENT OF HON. WILLIAM L. CLAYTON, ADVISER TO THE SECRETARY OF STATE

Mr. JAVITS. Mr. Clayton, you are the head of our delegation to the Habana United Nations Conference on Trade and Employment; are you not?

Mr. CLAYTON. Yes, sir.

Mr. JAVITS. Do you consider the work being done there as having any effect on our consideration of the European recovery program?

Mr. CLAYTON. Yes. I do, Mr. Javits. I think that the two programs are very complementary and very interdependent and closely related. The purpose of the European recovery program is to assist these countries of western Europe to stand on their feet until they are able to stand alone. And, at the end of that time, in order to continue to stand alone, they must, of course, increase their production greatly, and increase their international trade considerably, as compared with prewar.

It is the purpose of the ITO to bring about among the nations of the world a more liberal international trade policy than has heretofore been pursued, and in doing that, all these countries will be greatly assisted in increasing their production and in increasing their trade and making possible their own economic independence.

Mr. JAVITS. Mr. Clayton, there are certain disquiets with respect to the European recovery program, on which I think you can enlighten us considerably. One of those disquiets is that if we restore the European countries to their 1938 status, we will restore them to what was an uncertain economic life, and that, even if we restore them to their 1938 status, they are bad investments.

Can you tell us what effect the barriers to trade have on the economies of the 16 countries in question, in a general way, as you see it, and how the International Trade Organization will change the situation, assuming it comes into being?

Mr. CLAYTON. Well, obviously, barriers to international trade in the form of excessive tariffs and quotas and other restrictions on the movement of goods between countries, limit the possibility of the countries to reach a high standard of living, and to reach conditions of economic independence. The countries that we are considering in the ERP, the 16 countries of western Europe, are peculiarly in the posi-

tion where international economic relationships should be liberalized, for the reason that those countries had before the war, as this committee knows, about \$2,000,000,000 annually of invisible income, invisible exports, in the form of earnings on banking and insurance, but principally in the form of receipts of dividends and interest on foreign investments. Those foreign investments were almost used up, or disposed of, in order to fight the war, and they no longer pay dividends to the participating countries.

As you know, much of the shipping of these countries was destroyed during the war. Therefore, these countries must either have postwar a lower standard of living than they had before the war, or they must considerably increase their production, not only the production of the things that they consume themselves, like food, coal, and things of that kind, but the production of their industrial products and manufactured goods which they can export to pay for imports, which formerly were paid for by these invisible exports of which I have spoken.

It is estimated, as you know, that those invisible exports before the war paid for about one-fourth of the total imports of these 16 countries.

Now, it is highly desirable that in the years to come, those countries should follow a much more liberal policy in respect of their national economic relationships, their trade policies, their tariffs, their quotas, and all those sorts of things. And, indeed, the rest of the world should do the same, in order to put them in position to get back to their prewar standard of living as soon as possible, which can only be done by greatly increasing their production and distribution of goods as compared with prewar.

Mr. JAVITS. Mr. Chairman, may I invite any member who desires to do so, to join in the discussion?

Chairman EATON. The chairman would like to ask Mr. Clayton one question. Is the ultimate objective of the great institution which you represent here this morning, universal free trade?

Mr. CLAYTON. Well, Mr. Chairman, if we ever have free trade in the world, and probably we will, it is a long time in the future. The way the present world is set up, I do not think any of us would expect that we would have free trade soon.

What we are seeking, Mr. Chairman, is freer trade, not free trade. We are not trying to put the world on a free-trade basis in the foreseeable future. What we are trying to do is to liberalize the rules of international trade, and obtain freer trade, in order that we may have an increase in the production, the distribution, and the consumption of goods around the world, so as to increase the standard of living, raise the standard of living.

Mr. JAVITS. Mr. Clayton, could you give us some specific differences between the barriers to international trade as they stood in 1938, and the situation which you expect will succeed the European recovery program period, if we go through with the ITO?

Mr. CLAYTON. Well, Mr. Javits, that would bring us into a description of the great change that took place in the world trade pattern between the two world wars, as compared with pre-World War I, and, as you all know, that was a radical change.

The countries of the world during World War I learned many bad tricks in international trade. They learned to use quotas. They learned to use embargoes. They learned to discriminate between

nations. They learned so many and indulged in so many practices having to do with a limitation and restriction on the production and the movement of goods in the world that I think that had a great deal to do, certainly, with deepening and widening and prolonging the depression which started in 1930. We ourselves took, as I think we all recognize, our full part in that changed pattern, and contributed a good deal, I think, to what happened.

It is our hope that through the ITO, not immediately, but gradually, we will be able to get the world back to a multilateral form of trade, pretty much on the basis of pre-World War 1. And, if we can do that, we think that the world will go forward much quicker in getting back to economic order and stability, and in raising the standard of living around the world, than if it were allowed to proceed on the basis of the pattern that existed between the two world wars.

Indeed, there are only two roads we can take. If we do not go forward with the objectives of the ITO, we are almost certain to go backward to the development of nationalism, such as we saw carried to extreme lengths in the First World War and between the two world wars, and then carried much farther, of course, during the Second World War.

I am not saying those things are not necessary during wartime, and it is true that they are. Nearly everything has to be controlled in a modern war, and it is difficult to turn loose and to get back to liberal methods and liberal terms of international relationships, but that is what we are trying to do in the ITO. I think it is highly important, as I said a moment ago, in connection with the ERP, because what the ERP attempts to do is a short-range program for one part of the world. And, if that program is successful, and those countries are enabled, by their own self-help and mutual help to get back on their feet, they will certainly be greatly helped in that policy, and in that direction, not only to get on their feet, but stay on their feet by the adoption of the policies that we are trying to get adopted in the ITO.

Mr. VORYS. If I may interpose, you mentioned that the ERP is a short-range program. Where do you get that idea? Is that what it is supposed to be?

Mr. CLAYTON. It is supposed to end, as I understand it, in the summer of 1952. I call that short range, and the object is, as I have said, as I understand it, to help these countries help themselves stand on their feet until they are able to stand alone without any special outside assistance.

Mr. VORYS. Are all of the 16 nations which are under consideration in the ERP, members of the ITO?

Mr. CLAYTON. I believe that every one of them is at Havana, yes.

Mr. VORYS. Is ITO a short range, as well as a long range program?

Mr. CLAYTON. Yes. It is a program that is supposed to become effective in many respects as soon as adopted, and to last from this time on out.

Mr. VORYS. What is the quickest time that ITO could go into effect?

Mr. CLAYTON. Of course, it has to be approved by our Congress and the legislatures of the other countries. This would probably take until the end of 1949.

Mr. VORYS. How does the International Bank tie in with this program?

Mr. CLAYTON. It has made some loans. As you know, the United States Government is committed for something over \$3,000,000,000, but not much of that was furnished in cash. And, as I think we all understand, the International Bank has to get its cash with which it operates by selling debentures to the investing public in the United States.

Obviously, under conditions as we see them in Europe today, the investing public, in my opinion, will not buy those debentures in very large amounts at present, under conditions as we see them in Europe. If through the enactment of ERP, a firm economic foundation is placed under Europe, then I think the directors of the International Bank will have courage to go forward with credits for reconstruction and development, as it was intended they should do. And I think also that the investing public in the United States will buy the bonds. But under present conditions I do not believe the bank can operate to any very substantial extent.

Now, answering your question about tying in the ITO with this program, it is automatically tied in. The ITO deals with questions of trade barriers, tariffs, quotas, subsidies. It deals with the question of cartels. It has a very important chapter on cartels, the object of which is to do away with international cartels, which are a form of private restriction on trade between nations. It would obviously not be of much purpose to prevent governmental restrictions on trade, if you are going to allow private people to do it. So they have a very important chapter on cartels.

They have an important chapter on international commodity agreements, or arrangements. And in matters of that kind, the charter is a very comprehensive document, and in many respects the provisions of the charter would come into force immediately upon the charter being adopted and the organization set up and starting to function.

There are chapters on technical matters, on administration of customs laws, and matters of that kind, that would come into effect at once.

There was a trade agreement made between the 23 nations there represented, while they were working on this charter, as the result of which restrictions on trade and impediments to international trade were greatly lowered, or were withdrawn, as, for example, in many cases, discriminations, preferences, and things of that kind.

So that I think I can assure you that the ITO when it is adopted and set up will begin to function immediately in the direction which I have mentioned before. Obviously, it cannot come into full bloom until its member nations reach a condition where they can stand on their own feet economically, and they cannot do that today. That is the reason for ERP. As soon as they are assisted to stand on their own feet alone, without special outside assistance, then the ITO will come into full bloom and operation.

Mr. JAVITS. Mr. Clayton, I would like to revert to the question asked by the chairman, and ask you whether it is not fair to characterize the present status of ITO as follows: That what it seeks to do is to reduce barriers to international trade now, or proximate to now, like quantitative restrictions, preferential arrangements, discriminatory practices, discriminatory treatment of imports as against domestic production; cartels, which you referred to, inter-governmental commodity arrangements, and so forth, leaving intact, however, the struc-

ture of tariffs as a means for trade protection, except for the obligation to negotiate for their progressive reduction. Is that a fair statement, looking at the matter from an over-all viewpoint?

Mr. CLAYTON. Mr. Javits, that is not only a fair statement, but, if I may say so, a very intelligent and brief summary of what the ITO seeks to do.

Mr. JAVITS. So that there is no peril to our tariff system in the ITO?

Mr. CLAYTON. There is no peril. There is not. We have, of course, as we all know, the Trade Agreement Act, under which we operate, and all that the ITO has to say on that subject is that the members are obligated to negotiate for the reduction of tariffs, and the elimination of preferences and discriminations. And, negotiate, as we, of course, all know, means sitting across a table from somebody, and, if you can agree, that you get a quid pro quo for what you give, perhaps you reach an agreement, but that is all the ITO involves in the matter of tariffs, to negotiate for lower tariffs and for the elimination of restrictions.

Mr. JAVITS. Could you give us an idea of the magnitude in which the exports of the western European countries participating in the ERP must be increased before they can be said to be standing on their own feet?

Mr. CLAYTON. I cannot give you that in exact figures, but I do want to emphasize that the production of these countries and their exports must be raised in volume—I am not talking about dollars—but in actual volume, considerably above prewar, for the reason to which I have referred, that they have lost so much of their means of payment of imports because of the destruction of these foreign investments, and so on.

Mr. JAVITS. Is it a fact that these nations cannot stand on their own feet unless they realize a material increase in export volume?

Mr. CLAYTON. That is my judgment. Yes, sir.

Mr. JAVITS. Foreign trade, therefore, is essential to any permanent European recovery?

Mr. CLAYTON. Absolutely. It is much more essential to these particular countries than it is to most other parts of the world, because they are older, and they are more highly industrialized, more highly specialized in their countries, and they have built up on the basis of industrialization, in many cases. Take Belgium, for example, it has the highest density of population of any country in the world, five or six hundred to the square mile. Obviously, they cannot produce their food. They produce almost no raw materials, except coal. They have to import, and they manufacture and export in order to pay for those things.

Mr. JAVITS. It is argued, Mr. Clayton, that if we create conditions of high production in the 16 western European countries, and give them machinery, and give them technical help, that we are creating a Frankenstein which in turn will push us out of the competitive markets of the world. What do you say to that argument?

Mr. CLAYTON. Oh, Mr. Javits, I do not believe that that argument has any merit. We have recognized for a long time in the United States that it is in our interest to see the rest of the world develop as long as it can do so on sound lines. We do not want to see any unsound development. We have assisted, by loans, Latin-American countries in the development of their resources, and other countries, and the history of our foreign trade shows that we have always had

the largest trade with the highly developed countries. That is perfectly natural, because they have a higher standard of living, they have greater buying power, they have greater wants.

Take Canada, for example, the UK, and so on. Our greatest trade in exports has always been to those countries, and it will always be, for the reasons I have named. By helping these countries to get on their feet and increase their production, I think we not only do not hurt ourselves in the markets of the world, we help ourselves in the markets of the world.

Mr. VORYS. Right on that point, as I understand it, it is about a two-billion-dollar increase in dollar requirements for these 16 countries that is involved in this 25-percent loss of invisible exports. That is a rough estimate.

Mr. CLAYTON. That is the figure, roughly, that we have been furnished, and I believe it to be approximately correct.

Mr. VORYS. I mean, roughly speaking.

Mr. CLAYTON. That is right. Yes, sir.

Mr. VORYS. That would mean that the western European countries, just to get on their feet, should be exporting, primarily to the United States, \$2,000,000,000 more in materials than they did before, or should be exporting it some place else, so that \$2,000,000,000 more of imports coming into the United States would create the dollar resources to take up the deficit. That is approximately right, is it not?

Mr. CLAYTON. I do not think it is quite right, Mr. Vorys, because that assumes that all those \$2,000,000,000 of imports into these countries would come from the United States. I do not think that is right. It would come from many other parts of the world. And, also, there is an element there which I think you do not take into account, and that is, in the way you have stated the question, you assume that the standard of living in these countries would immediately, or very soon, be up to prewar, and I do not know, I just do not know, whether that would be the case or not.

It may be that they would have to make this adjustment for this loss of 2 billions of invisible exports by two processes, one, for a few years having the standard in certain respects not quite up to prewar, and, on the other hand, increase of production.

Mr. VORYS. That is true, but, in general, this long-term picture, it seems to me, involves the bringing into the United States of at least \$2,000,000,000 more in imports than we ever had before. I was going to ask you if you could give us some examples of the type of imports that we could bring in in such very large quantities which would be helpful, and not harmful, to our economy, which, of course, is the goal we are seeking.

Mr. CLAYTON. Well, Mr. Vorys, I do not believe it means anything like 2 billions of imports coming into the United States from these particular countries. I do not think so. But, I will say that I do think that we have to contemplate in the future a very substantial increase in imports into the United States, and I think we can do so with value to our standard of life, and to our whole economy.

The wants of our people are increasing all the time. Their buying power is increasing. Their standard of life is rising, and there are any quantity of things that we can import that will contribute to that, that should not materially affect our own producers.

Of course, in that connection, as you know, we are in the position of having to import many more things than we did before the war,

to sustain our own economy, principally metals and minerals, copper, lead, zinc, and all kinds of things, our resources of which we depleted during the war, and which have to come in now in much larger quantities.

Also, I should like to mention in that connection that in the last 10 years, we have had a substantial increase in population, we have had a substantial increase in the needs and desires of our people, a rising standard of life, a greater buying power. And, during that same period, we have increased in the United States our facilities for production of consumer goods comparatively little. We have the market here, we have the demand here, and we can absorb in this country a good deal of consumer goods of one kind and another, without any serious injury to our own producers. In other words, our own producers can continue to have, perhaps, a greater market than they had before the war.

Mr. BLOOM. May I ask a question?

Mr. VORYS. Before we get off of this, I am quite familiar with the general situation as you describe it, but I was wondering if you could give us some more specific examples of the materials we could bring in in quantities of billions of dollars excess in imports over what we ever had before, which would benefit our economy. You mention certain strategic materials, such as minerals, and that is one which I think we all appreciate. I wondered if it would be possible for you to give us a somewhat specific list of such imports.

Mr. CLAYTON. I do not think that I could, Mr. Vorys. There are a variety of things.

Mr. BLOOM. Woolen cloth.

Mr. CLAYTON. Well, we know, Mr. Bloom, that for the last 2½ years since the war ended, we are still unable to get as much as we need, consumers are still unable to get as much as they want.

Mr. BLOOM. That would be manufactured goods. Of course, you are just mentioning raw materials. Of course, Mr. Vorys spoke of manufactured goods. Woolen material would be one.

Mr. CLAYTON. That is right.

Mrs. BOLTON. May I interpose at that point?

Mr. CLAYTON. Textiles of different kinds could be brought in.

Mr. BLOOM. Without any serious damage to our own manufacturers?

Mr. CLAYTON. I think so.

Mrs. BOLTON. Would the gentleman yield?

Mr. BLOOM. I yield to Mrs. Bolton.

Mrs. BOLTON. Do we not have a considerable supply of raw wool stored away?

Mr. CLAYTON. Yes. The Commodity Credit Corporation has a large supply, which they purchased during and just after the war in order to hold prices.

Mrs. BOLTON. Does that not deteriorate if it is kept in the raw form?

Mr. CLAYTON. I do not know, Mrs. Bolton. But we are, of course, consuming wool in this country—the last figure I saw, at the rate of about 900,000,000,000 pounds a year. It would be very easy to work off that wool and keep it rotating, in order to prevent any deterioration. I do not think that that is a problem.

Mrs. BOLTON. Is anything being done with that? I have been told nothing was done. That is why I asked the question.

Mr. CLAYTON. I am not currently informed on it, because I have not discussed it with the Department of Agriculture, but I understand that was the purpose, and that that was being done during the war, and it is easy to do. I don't believe they would have any difficulty with that. As a matter of fact, under the bill passed by Congress in June, the Department of Agriculture now has, as I remember it—I think I am right in saying that the Department of Agriculture now has full authority to dispose of that wool in the market. So that there is no reason why they cannot work it off.

Mr. BLOOM. May I ask, Mr. Clayton—have you finished, Mrs. Bolton?

Mrs. BOLTON. On that subject. I will wait until later for any more questions I may have.

Mr. BLOOM. Is it not a fact that we cannot expect to keep on selling export goods to these countries without purchasing something from them? It is a question of buying and selling. But if we expect to export to these countries, our goods and not buy goods from them, of course they will not be able to get the dollars to pay.

Mr. CLAYTON. That is right.

Mr. BLOOM. Is it not a matter of business all the way through?

Mr. CLAYTON. That is right. We have three things we can do. One is to lop off the exports, bring them down to the volume of imports. The other is to give away the surplus every year, and then we could buy more goods to take payment for those surplus exports, by taking goods.

Mr. BLOOM. Is it not a further fact that if we do not have an export trade, so as to keep our manufacturing up to the peak load, that the manufactured goods in this country would cost us more, because we would not be manufacturing to peak load?

Mr. CLAYTON. That is right.

Mr. BLOOM. It is the idea of being able to export a certain amount of goods to X country that allows us to manufacture the goods at a price, on account of running to capacity. If we did not do that, and if we only manufactured up to 75 or 80 percent of capacity, then that 75 or 80 percent would cost us more money in this country to manufacture?

Mr. CLAYTON. Yes, sir. it would. And there is certainly that factor in it which you mention, and then there is the other factor that has to do with our raw materials, agricultural products, principal among them being wheat, tobacco and cotton, those three. We export a substantial part of our production of those commodities, and if we had to curtail very substantially those exports, we would have to do something with the surplus, or we would have to make arrangements with the producers to produce less, and divert their energies into other activities.

Mr. BLOOM. Following up Mrs. Bolton's question as to wool, Mrs. Bolton mentioned the stock pile we have here. Was that not imported from other countries, Argentina and other countries, at the time?

Mr. CLAYTON. No, sir. I think that has been disposed of. I think the stock pile, which we bought in largely from Australia, has been sold. What Mrs. Bolton refers to is domestically produced wool, purchased by the Department of Agriculture during and following the war. They now have congressional authority to dispose of it at the market.

Mrs. BOLTON. And I had in mind also, Mr. Secretary, the wool bought from other countries, if we had bought it in the raw stage.

Mr. CLAYTON. That was all disposed of, Mrs. Bolton. I think perhaps the United Kingdom still has considerable wool in storage in the United States, but it belongs to them, and the wool we bought from Australia, which was 300,000,000 pounds, if I remember correctly, has all been sold.

Mr. JAVITS. Mr. Chairman, I have a few other questions.

Chairman EATON. The chairman understands that at our last meeting, it was agreed that Mr. Javits and Mr. Lodge should finish up the questions that they wanted to ask at that meeting. Mr. Javits, how much more have you?

Mr. JAVITS. I have a very few questions, but Mr. Lodge has one. I will be glad to yield to him.

Mr. LODGE. I was going to ask Mr. Clayton this. In answering Mr. Bloom's question, am I correct in understanding you to say that these exports contribute to lower prices in this country?

Mr. CLAYTON. I do not know whether they do to lower prices or not, but they certainly do to lower costs of production, which in turn contributes to lower prices. For example, take agricultural implements. We export in normal times, as you know, 20 to 25 percent of our production of agricultural implements, 20 percent, I think, of trucks and automobiles. Now, obviously, if you can continue that large a volume as against only the domestically sold and distributed goods, if you were confined to that, that would contribute to a lower unit cost of production of those particular things. I think that is what Mr. Bloom meant.

Mr. LODGE. But is it not possible that the producers of such articles in this country would, nevertheless, produce the same amount, in order to keep on satisfying an increasing demand in the United States and that that would contribute to lower prices, on the basic theory of supply and demand?

Mr. CLAYTON. If we lose our exports, Mr. Lodge, you will have less demand in the United States for those things.

Mr. LODGE. I am talking about today, not the long-range future. Would you say that these demands are being more than satisfied in this country as of today? That is the point I am trying to get at.

Mr. CLAYTON. The demand for those two things I have mentioned is certainly not satisfied at present in this country.

Mr. LODGE. That is what I was thinking of.

Mr. CLAYTON. That is certainly true.

Mr. LODGE. In other words, as of today, what Mr. Bloom says would not be true. It would be true in the long-range future.

Mr. BLOOM. Everything Mr. Bloom says is true.

Mr. LODGE. Mr. Bloom can always be sure of one good opinion.

Mr. CLAYTON. As of today, we have very little exports of agricultural implements and automobiles, the two things of which I have spoken, because of the fact of the shortages here in this country. We have had a greater demand for those two things than the manufacturers can supply.

Mr. LODGE. That is what I was trying to get at.

Mr. CLAYTON. In normal times, we would export around 20 percent of the production of each of those things.

Mr. LODGE. I have no quarrel with the principle you have advanced, but as of today, we might as well face the facts, and not pretend that

this is going to be a painless matter. Although as of today, we may be justified in doing these things, are we in fact contributing to lower prices and lower costs in a market which is far from being satisfied?

Mr. CLAYTON. I would think not in those particular cases. However, I think the most serious aspect of what would happen if we lost our exports, or had to reduce them materially, lies in the agricultural field, and that is where you would have to make the most radical adjustment. We produced last year a billion, four hundred million bushels of wheat. The human beings in this country cannot use over half of that, to save their lives, they do not eat over half of that. Of course, we feed a certain amount to animals, which is unfortunate, and you have a lot of wheat you have to export.

Mr. LODGE. Yet the price of wheat goes up.

Mr. CLAYTON. And yet the price of wheat goes up, because there is such an enormous demand over the world for it. The production of wheat in other countries has declined so much that they have to have our wheat.

Mr. LODGE. It is true that this demand from outside this country has had quite an effect on raising the price of wheat for Americans. I do not mean to question the desirability or necessity of it, but I think it is well not to hoodwink people as to what the results will be.

Mr. CLAYTON. I do not want any of us to hoodwink anybody. But, if you suddenly lost all your exports of wheat, you would have deflation to deal with, and not inflation.

Mr. JAVITS. The other side of the medallion is that certain imports into the United States will have a very material impact on the cost of living in the United States, without interfering with our basic economy, will they not?

Mr. CLAYTON. Indeed, yes.

Mr. JAVITS. And would reduce scarcities?

Mr. CLAYTON. Indeed, yes.

Mr. JAVITS. And keep prices down?

Mr. CLAYTON. That is right.

Mr. VORYS. Would the gentlemen permit an interruption?

Mr. JAVITS. Certainly.

Mr. VORYS. I wonder if there is anybody in the Government who can give me a list of increased imports that would obviously be increased to the United States. I had thought that of all the people connected with the Government, you would be the one who could just reel off the answer immediately, that we need so many million or billion pounds of this or that mineral, and so forth. I hope somebody is thinking profoundly on that, because, otherwise, we are building toward a long-term policy where we merely suffer imports. I do not think that is the case. I think there are a lot of things we want to increase in quantity, and I would like to get hold of the list. Can you tell me where I can get such a list?

Mr. CLAYTON. I do not believe it is possible for anyone to give it. It is constantly changing, with changing prices and changing demands, and I do not believe it is possible to furnish such a list. As you know, in our tariff policy, under the Trade Agreements Act, we have an escape clause, which protects any producer in this country who is injured, or is threatened with serious injury by reason of reduction in the tariffs and an extraordinary increase in imports. That is a protective clause that is to protect them in case we should go too far in reducing this protection.

I think all we have to do is to look at the figures and know that with \$15,000,000,000 of exports and five or six billions of imports, that that is a situation that cannot go on very long. You are either going to have to cut way down on exports, or build up your imports, one or the other.

Mr. JAVITS. Mr. Clayton, one of the arguments made against the ERP is that by our efforts to create a leveling of customs barriers within Europe, or even a customs union of the 16 nations, or many of them, we are erecting a closed Europe, in which we will not be able to trade adequately. What effect upon that danger does the ITO have, as you see it?

Mr. CLAYTON. Well, I just cannot see the basis for the argument, Mr. Javits. That assumes it is not in our interest to see other parts of the world make customs unions. I think every intelligent person who will examine into the question is bound to see that it is in our interest.

As a matter of fact, when the union was formed between Belgium, Luxemburg, and the Netherlands, so far as you could tell, it met with almost universal approval in the United States. Everybody thought it was a step in the right direction. I certainly think so.

Why? Just take our own history in the United States. The Constitutional Convention had to decide whether it would have tariffs between our States, as is the case in some countries, or whether we would have free trade between our States. I do not believe anybody would deny that in having made the latter decision, that we made a fundamental decision that contributed perhaps more than any other single thing to the great expansion that took place in the United States, and the development that took place here, and we made a great market here.

Now, you have customs unions which eliminate the barriers of trade between the countries that are involved, and make the same tariffs on the periphery of all other countries. What do you do? You set up a situation there that increases the production and consumption of goods, raises the standard of living in those areas, just as we did in our country, and you make a greater market for other people's goods, because they cannot produce everything they need.

Mr. JAVITS. Is it not a fact that the ITO will protect us against that larger area enforcing new barriers to trade?

Mr. CLAYTON. Indeed yes.

Mr. JAVITS. So it is valuable to us from that point of view?

Mr. CLAYTON. Yes and it is logical. That set-up should not only eliminate the barriers to trade within the areas, but also lower the barriers to trade with the countries outside the areas.

Mr. JAVITS. Mr. Clayton, do you believe there is any necessity for conditioning the ERP upon the nations benefited joining in the International Trade Organization?

Mr. CLAYTON. I am just reacting to that. I have not heard that suggestion before. My reaction is that I would very much dislike to see that done. I would like to see us arrive at agreement in Havana, and set up the ITO on its own merits, without any compulsion on the part of any country, and I believe we are going to be able to do it.

Mr. JAVITS. I might say I join with you in that. One final question sir: Do you consider the solvency of the European recovery program, that is, its hope for success, being materially influenced by the consummation of the International Trade Organization effort?

Mr. CLAYTON. I do indeed. The two things are highly complementary and interdependent, and it is a little difficult for me to conceive how these countries in western Europe could attain economic independence again—that is, could reach it and maintain it—if they did not adopt the liberal principles of international trade which the International Trade Organization is seeking to establish.

Mr. RICHARDS. Mr. Clayton, I was interested in your reference to the ITO seeking to solve the situation brought about on account of preferences. Are you referring to both unilateral preferences and Empire preferences?

Mr. CLAYTON. Well, I am not aware of the creation of unilateral preferences.

Mr. RICHARDS. I meant bilateral preferences.

Mr. CLAYTON. Certainly. That is right. Yes, I am referring to those.

Mr. RICHARDS. You are referring to both?

Mr. CLAYTON. Yes.

Mr. RICHARDS. In that connection, I believe ITO is going to run head-on with ERP.

You take Great Britain, for instance. She is one of the prime movers in this new organization of the 16 nations in Europe. Yet, at the same time, she continues to insist upon certain Empire preferences in trade. If she continues to hold that position the natural result is going to be that some nations in the 16-nation group, in self defense, are going to have to combine among themselves, and the seed of discord is right there in regard to trade.

What do you think about that?

Mr. CLAYTON. The ITO provides that no existing preferences shall be increased or added to. It does not seek immediately, or provide immediately, that all existing preferences shall be abolished. You cannot suddenly reform the world. It has to be done a little at a time, and it recognizes that there are certain preferences in existence which it hopes and believes will be traded out and eliminated, but it provides very clearly that additional preferences, or preference area assistance, shall not be established.

As you know, I am sure, at Geneva in our trade agreement with the United Kingdom, many of the United Kingdom preferences were eliminated and many others were reduced.

We hope, in time—and I do not know how long it will take—but we hope that that whole system will give way to a much more liberal one.

Mr. RICHARDS. It is a long-range objective, just as it is to gradually do away with the customs difficulties.

Mr. CLAYTON. It is a long-range objective; that is right. One of the prime obligations that a member of the ITO takes is that he is to be willing to negotiate with his fellow members for the reduction of tariffs and the elimination of preferences.

Mr. RICHARDS. I fully recognize that Great Britain's economy, for instance, is built up on trade preferences with the dominions. That is what I understand it has been throughout for years. It will take them a long time to get away from that. I see the Ambassador shaking his head.

Ambassador DOUGLAS. It is a fairly recent development.

Mr. CLAYTON. Most of it was adopted at the Ottawa Conference in 1932. The British have always said it was a result of our high-tariff policy in the United States which culminated in the Smoot-Hawley bill in 1930 and which was followed by retaliatory action on the part of over 30 nations in the world in raising their tariffs and putting on embargoes and quotas.

So we tied the international trade situation, in that period, in a pretty tight knot, and the British built a tight Empire of their own by using preferences. But I am optimistic that if we get the ITO and the ERP one of the things we will do will be to further reduce and, in time, eliminate that preference.

Mr. RICHARDS. The British were traditionally free traders?

Mr. CLAYTON. Yes.

Mr. JAVITS. I just want to clarify this: The British have agreed, have they not, to a step-by-step reduction of these preferences?

Mr. CLAYTON. They have agreed to negotiate the matter, Mr. Javits, and they have negotiated at Geneva. We achieved a certain measurable success in getting some of the preferences eliminated and others reduced.

Mr. JAVITS. By the acceptance of the ITO charter the members have accepted the British situation as it is?

Mr. CLAYTON. That is right.

Mr. JAVITS. There will be no situation of coalition. So if it is not going to be increased, and they accept it as it is, they are satisfied with freezing it and going down from there.

Mr. CLAYTON. That is right.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. You brought out the fact that at the present time there is a great preponderance of exports from this country over imports from other countries, and you also stated that if the situation was not clarified the net result in this country would be deflation because these countries which are now importing into the United States are doing so for the purpose of acquiring dollars to buy our goods. Is that correct?

Mr. CLAYTON. Did you say importing into the United States?

Mr. MANSFIELD. Yes.

Mr. CLAYTON. We furnish a market for them and for those particular goods, and, obviously, whatever dollars they get from that are available for payment for our exports.

Mr. MANSFIELD. And is that not one of the reasons why Europe is being unable to rehabilitate itself, from an economic point of view, at the present time, due to the fact that there is an extreme shortage of dollars which they have to conserve but which they would like to spend, if they had more of them, to buy goods in this country?

Mr. CLAYTON. Yes.

Mr. MANSFIELD. It would appear to me that one of the basic elements in the consideration of the European recovery program would be the fact that over the long term we would benefit tremendously, from an economic point of view; and if we don't we will have deflation in this country. We will have surpluses. Nobody will have anything to buy our goods with, and then where will we be?

Mr. CLAYTON. Mr. Mansfield, I think that is exactly right. We cannot, in the United States, be the only prosperous country in the world. We cannot be the only free enterprise country in the world.

If we want to keep free and prosperous we had better have some company.

If we leave these countries of western Europe to shift for themselves and say "We are sorry; we can't help you any more," I think conditions will quickly ensue there which will, in effect, bring about a substantial blackout of that market for our goods and for goods of the rest of the world—for Latin America, for example. If Latin America loses its markets in Western Europe we lose ours in Latin America, and the thing is a change that goes around the circle.

I think that it is highly important that we do what we reasonably can to help these countries to get again to a position where they can stand alone, because if we do not we are going to have to make such radical changes, I am afraid, in our own economy in this country that it would be very difficult for a democratic, free-enterprise system to make.

Mr. MANSFIELD. Would it be safe to assume that if a proposal somewhat along the lines of ERP is not adopted we will see an emphasizing of state-controlled economies in all of Europe?

Mr. CLAYTON. Undoubtedly. And, as I said a moment ago, we cannot expect, in this country, to be the only free-enterprise country in the world if the rest of the world substantially goes on a state-enterprise or state-controlled basis. I think you will see the drift in that direction here very strongly.

Mr. MANSFIELD. Now, coming from an area which is the raw material production area of the United States—and, as such, vitally interested in the tariff question—I would like to make some statements and you can either refute or corroborate them on the basis of three of our outstanding products.

One is wool. Is it not true that in this country the American wool producer, under the most favorable circumstances, cannot produce more than 50 percent of the wool needed for domestic consumption?

Mr. CLAYTON. That is right. It is about 35 or 40 percent, now, of what we are consuming.

Mr. MANSFIELD. And you say the stock piles which we brought in from Australia during the war are gradually diminishing, and, as far as the domestic crop is concerned, the Agriculture Department now has the right to buy and sell it on the market?

Mr. CLAYTON. That is right.

Mr. MANSFIELD. Now, in the matter of minerals, copper is very important out there. We passed a bill last year lifting the excise tax on copper of 4 cents a pound, or \$80 a ton, for a 3-year period. We did that because of the fact that we were suffering from an extreme shortage of copper and other minerals, and we have to have copper for our industrial machinery to function and manufacture the goods which we need.

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. So that takes care of two or three of the main products.

The other one is cattle. There is always a great deal of fear in my country about the effect of the importation of cattle from abroad. But is it not a fact, is it not true that, aside from the feeder cows coming in from Mexico and Canada today, that there is no possibility for cattle coming in from, say, the Argentine because of the Sanitary Embargo Act of 1917?

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. And is it not true, also, that, as far as future competition from Argentina cattle is concerned, the answer to that is the restoration, in part at least, of the European markets which used to take a large part of the Argentine supply and perhaps spread it—have a meat economy throughout Latin America to replace the cereal economy which is in operation throughout that area?

Mr. CLAYTON. I think that is right. Of course, as Europe gets back on its feet it would import, I would think, more beef from Argentina. England, as you know, takes the bulk of her exports now, and as Europe gets back on her feet other countries, I would think, would take a share also.

Mr. MANSFIELD. Those are the historical markets of Argentina.

Mr. CLAYTON. That is correct.

Mr. MANSFIELD. The sooner we get Europe back on its feet, the sooner we will allay any idea—I say “idea”—of a threat from Argentina or that part of the world insofar as our American cattlemen are concerned.

Mr. CLAYTON. I would think it ought to be a very substantial aspect of it.

Mr. MANSFIELD. Thank you, Mr. Clayton.

Mr. LODGE. Mr. Clayton, I was interested in the parallel which you drew between this country and Europe in connection with the free trade areas which existed in America because of the lack of trade barriers between the States.

I assume that you agree that one of the chief factors in that situation is the fact that we have a reasonably stable currency which is uniform all over the country.

Mr. CLAYTON. Oh, yes.

Mr. LODGE. And, therefore, that you would feel perhaps that one of the reasons that the French, for instance, are not selling more to us is because their currency is overvalued and we cannot afford to buy.

Mr. CLAYTON. That is right.

Mr. LODGE. Under those circumstances, I was wondering how you would feel about the position which Great Britain is reported to have taken this morning in the paper as opposing the devaluation of the French franc because of her fears with respect to the devaluation of the pound.

Does not that seem to you to be in contravention to what we are trying to do with the recovery program?

Mr. CLAYTON. I am not informed. I just saw the headlines, Mr. Lodge, of that statement, and I do not know how true it is or just what the particulars are of it.

I think that if the ERP is adopted as we have in mind, that one of the conditions, of course, that will be asked of these countries will be with respect to the measures that they should take to put their financial and monetary houses in order, and restore confidence in their money. That is one of the most important things in connection with the restoration of production in Europe.

Mr. LODGE. But surely if we want to stabilize these currencies and devalue them. It could be said that a great part of the Marshall plan is an attempt to fill in the gap between the legal and the real value of money in Europe. Could it not?

Mr. CLAYTON. One of the principal objects, I would think, of the Marshall plan, is to restore confidence in the moneys of these countries, and they of course would have to take the necessary steps to do that.

I believe they would only be able to take it with our assistance such as is provided in ERP.

Mr. LODGE. Would you agree, sir, that it would diminish the load on the American taxpayers if these currencies were to go closer to their real values?

Mr. CLAYTON. Certainly, if they go closer to their real value it should serve to make more attractive the exports of these countries.

Mr. LODGE. And therefore diminish their dollar needs?

Mr. CLAYTON. That is right.

Mr. LODGE. Therefore would it not be desirable for us to have some agreements with, let's say, the British, that we are interested in diminishing the load on the American taxpayer and adding to the economical effectiveness of ERP, by somehow persuading these countries to devalue their currencies.

Mr. CLAYTON. Well, Mr. Lodge, I am sure that that matter will all be taken care of in the agreements that would be made. The plan, as you know, contemplates a multilateral agreement between these countries and that contemplates a bilateral agreement between the United States and each recipient country, the two to be tied in together, and I am sure that it is contemplated that what you are just now saying should be fully covered in those two agreements.

Mr. LODGE. You would agree that it would be very desirable, in fact, it would be essential, for us and these participating countries to agree on an over-all policy in this connection especially since it constitutes a burden on the American taxpayer?

Mr. CLAYTON. Indeed.

Mr. LODGE. Thank you very much.

I assume in connection with the point which Mr. Vorys brought out with respect to tying in the ERP with ITO that you would feel that until the ITO gets going it would be desirable to implement the purposes of ITO within the framework of the ERP?

Mr. CLAYTON. Yes. I think that is being done or would be done in the condition relating to the lowering of trade barriers and taking other steps to liberalize trade and increase trade between these countries and between them and other parts of the world.

Mr. LODGE. That would necessarily mean attempting to bring about a situation where there would be uniformity in currency exchange value reforms in the tax structures of these participating countries, and also devaluation of currencies?

Mr. CLAYTON. I do not know about uniformity in their tax structures, Mr. Lodge, but certainly one of the most important elements, as of course you know, in any reform relating to money and budgets and that sort of thing, is the tax structure of a country.

Mr. LODGE. That is right.

Mr. CLAYTON. That would certainly be involved in the condition relating to the taking of the necessary measures to put their financial and monetary house in order.

The tax structure would certainly be a large part of that.

Mr. LODGE. Do you feel, sir, that it is desirable that the price-control structure within these various countries be kept intact, or be increased, or be diminished?

Mr. CLAYTON. That is something that I have thought about very little and I think that so far as the contract or agreement with these countries is concerned, that we should be careful not to go into details as to how they are to do things or what particular steps they are to take.

I think it should be phrased in terms of the end result of what is expected to be done, where you are going to arrive, rather than in saying how it has to be done.

Mr. LODGE. Do you think they will do these things without even a suggestion from us?

Mr. CLAYTON. I think, Mr. Lodge, it is going to be highly desirable that when the program gets under way and after these agreements are made, that we have a very competent organization sitting in Europe and working with these countries almost from day to day to be of any assistance to them that we can, with administrative assistance, technical assistance, and follow the performance under the agreement.

Mr. LODGE. Do you think it would be desirable for any of these countries to change their price-control structure?

Mr. CLAYTON. I would not be able to express an opinion on that at the present time.

I am not sufficiently familiar with that. That is something that is pretty hard for us to say in the United States. There is a great deal of difference of opinion on what we should do.

Mr. LODGE. It seems to me that that is a very vital matter on which I personally would like to obtain the views of some member of the Government, because after all, it has a direct bearing on the reciprocal self-help contemplated under this program.

Mr. CLAYTON. Yes.

Mr. LODGE. The reasons will probably be more obvious to you than me.

Mr. CLAYTON. I am sorry, I would not be able to express an opinion on that.

Mr. JONKMAN. Mr. Chairman, I think Mr. Lodge has laid his finger right on the crux of this whole situation, when he spoke about the managed currency.

I would like to see if I can illustrate that. What is the legal exchange rate of the franc in France today?

Mr. CLAYTON. Around 119 francs to the dollar.

Mr. JONKMAN. What is the free-market rate or black-market rate?

Mr. CLAYTON. I have not heard recently. During the summer and early fall when I was there it was around 250.

Mr. JONKMAN. That is at least twice the legal rate, is it not?

Mr. CLAYTON. Yes.

Mr. JONKMAN. Now, if you have a double standard of that kind is it not true that it is going to double the cost of their exports so that the producer will seek a local market over the price of a foreign market? Is that true or is it not true?

Mr. CLAYTON. It is generally true.

Mr. JONKMAN. That is all I wanted to know.

Now, in the second place, they are halving the cost of their imports.

Mr. CLAYTON. I beg your pardon?

Mr. JONKMAN. They are halving the cost of their imports?

Mr. CLAYTON. When they can import, yes. That is cutting in half the cost to the private buyer in France. Imports are purchased at world market prices, usually in dollars.

Mr. JONKMAN. Absolutely.

Mr. CLAYTON. Not to the Government.

Mr. JONKMAN. The only way the Government can stop it is by restriction on imports?

Mr. CLAYTON. That is right. That is the way they do stop it.

Mr. JONKMAN. So the inevitable result of that double standard of currency is to discourage exports and encourage imports.

Mr. CLAYTON. It does not encourage imports because the existence of the double standard forces the Government to take measures to prevent imports and they do that.

Mr. JONKMAN. You are in the free market but in the free market that is the inevitable result.

Mr. CLAYTON. There is no free market in a country like that.

Mr. JONKMAN. But you would have the same results. You are simply trying to get imports and you are not exporting.

Mr. CLAYTON. That is right.

Mr. JONKMAN. If we furnish them the money to buy imports, we are increasing the malady or disease, are we not?

Mr. CLAYTON. I do not think so.

Mr. JONKMAN. Let me ask you this: We say, for instance here, in the bill, "Accordingly it is declared to be the policy of the United States that assistance be given to those countries of Europe participating, not which promise to participate," but "participating in a joint European recovery program based on self-help and mutual cooperation."

You, for instance, objected to making the joining in the ITO a condition precedent to our help. Are we going to make any conditions precedent before we give this money?

Mr. CLAYTON. Of course I am not making the conditions and I do not know, but I would think that the bilateral agreement of which I have spoken, between the United States and these participating or recipient countries should be very precise in stating certain conditions under which the help would be extended.

Mr. JONKMAN. You mean conditions precedent or conditions that they are to work up to sometime?

Mr. CLAYTON. They would have to be of both kinds, because obviously there are many conditions that they cannot perform under before they get the aid, as for example restoration of production of coal and food. They cannot do all that before they get the money.

But they can do it concurrently with receiving the aid.

Mr. JONKMAN. But some countries have done that, have they not?

Mr. CLAYTON. What?

Mr. JONKMAN. Restored their currency at considerable difficulty.

Mr. CLAYTON. Yes. They have. They had an easier situation than some of the countries.

Some of the countries have restored their currency situation.

Mr. LODGE. Italy?

Mr. CLAYTON. Well, Italy has practically abolished the control; practically, and has restored the free market. As I understand it, that is about what has taken place in Italy.

Mr. JONKMAN. The point I am making is, that we can go forever pouring money in there and until they get their house in order as far as currency and price control is concerned, you are not going to get the production that you say they need in order to recover.

It is a good deal like a blood transfusion without stopping the hemorrhage or the cause of the loss of blood in the recipient.

You can keep it up forever until both are dead.

Mr. CLAYTON. You are not going to do it, of course, Mr. Jonkman, until you get the money thing in order. There is no question about that. But there are different ways of getting the money thing in order.

I do not know that you would want to make a condition that immediately or as a condition precedent to giving aid that a country "X" had to turn its money loose absolutely and restore a free market.

Mr. JONKMAN. It would probably be done too drastically, but it should be done within a 6 months' period or a year.

Mr. CLAYTON. I think each country should agree that they are going to do certain things. As to how they are going to do them I think would be inadvisable to place it in every case in the agreement.

That is something that I think would have to be worked out by the organization or by the administrator or the ambassador, whoever he is, in Europe, who is handling this matter with them, work that matter out as they go along, in many cases.

In some cases you can be precise and specific, but in this question of money, and taxes, budgets, fiscal policy and all that sort of thing, as we know in this country it is a highly technical and difficult problem.

I do not think you can sit down and write a prescription for them. It is a little difficult to do for ourselves. I do not think you can sit down and write out a detailed prescription of exactly when they are going to take this and that step. It is something, I think, we would have to work along with them and try to help them work out as they went along.

They must agree that they will do it, that they will put the money matter in order.

Mr. JONKMAN. Now, you take the objective as stated in the Paris Committee report. It is in these 4 years to restore production, or to create production, I presume the real situation is, in Europe, comparably to what we did in 1941-44, which we call good for ourselves.

Now, do you think that they can ever accomplish anything like that as long as they have over there price control, a double standard of currency, quotas, nationalization of industry, and all these things? Do you think that they are going to be able to increase their production under those conditions?

Mr. CLAYTON. Price control might be done. It might be done under price control. I do not think it could be done under a double standard of currency. On quotas I think they will have to continue. I do not think they can do otherwise.

Otherwise, it will open the gates wide and let everything come in. I think you would agree that they would not want to let every man that was able to buy dollars with the local currency that he had, buy a Cadillac automobile or something of that kind.

Mr. JONKMAN. I think you would agree to that?

Mr. CLAYTON. I say I would, and I have an idea you would.

Mr. JONKMAN. I certainly would.

Mr. CLAYTON. I think you have got to exercise some quota control so that I believe it is a little difficult to put down in the agreement

that you would have with these countries all the things in detail that they have to do.

I think you have got to leave something to the administration of it.

Mr. JONKMAN. Have they done anything along the lines of this program up to the present time?

Mr. CLAYTON. Yes, sir; they have done a good deal. In France, after taking five votes in Parliament, they adopted a taxation program on capital, with the right of the taxpayer to take bonds if he preferred to do so, amounting to 125,000,000,000 francs.

They have taken certain steps with reference, so I understand, to re-forming their tax system.

They have taken certain steps to reduce the cost of the Government, to reduce the number of employees, and matters of that kind, and I believe Italy has taken some steps in that direction too.

But mind you, Mr. Jonkman, they have done these things or are attempting to do these things under the most difficult conditions they have ever seen in peacetime.

Mr. JONKMAN. I realize that. Of course, there are governments struggling for power under that. But after all, all you have mentioned right now was only the first objective and the first step to balance the budget.

That is what France took all these measures for, revising the tax structure, capital levy, and so forth, to balance the budget.

That is an absolute first essential.

Mr. CLAYTON. It is, of course, essential.

Mr. JONKMAN. You claim that step has been taken in France. That first step you claim has been taken in France and Italy?

Mr. CLAYTON. They are taking it. They have not gone all the way, I am sure, but they are working in that direction so far as I can tell, very earnestly and very seriously.

Mr. JONKMAN. That is all, Mr. Clayton.

Mr. LODGE. May I ask one more question?

I am very much in sympathy with the great difficulties they are having in all these countries and with the principle involved in the European recovery program.

I simply think it is just as well to face the brutal realities and I assume you will agree with me, sir, that if one country has an excise tax on an article on which it has made a customs union agreement with another country, such a customs union would be almost impossible to implement. For instance, let's assume, under the Benelux Agreement, that Belgium and Holland agree that beer should be a free-trade article, but in Belgium there is an excise tax on beer. In Holland there is not. Quite obviously there would have to be uniformity of tax structure. I assume you would agree to that, sir.

Mr. CLAYTON. Yes, sir; if the tax applied only to imported beer.

Mr. LODGE. Furthermore, let's assume that they achieve that and then Holland decides to inflate its currency. Then either Belgium would have to inflate its currency to the same level or the customs union would be impossible.

Mr. CLAYTON. For a while anyhow.

Mr. LODGE. The very principles of ITO we want to have implemented under ERP would be almost an impossibility unless there is some economic federation, some uniformity with respect to fiscal and tax matters, within these countries.

Mr. CLAYTON. Mr. Lodge, I could not fully agree with that. The principles of the ITO are the reduction of trade barriers between countries, and elimination of the quotas system in trade between countries, elimination in time of the preferential system, and things of that kind, and those things can be done, I think.

Mr. LODGE. Without those internal changes?

Mr. CLAYTON. Yes. I think they can. They can substantially be done. Of course, I think that an economic federation is highly desirable in Western Europe.

Mr. LODGE. I am glad to hear you say that.

Mr. CLAYTON. I agree fully with that. That is a big order.

Mr. LODGE. I realize that.

Mr. CLAYTON. It takes some time to work it out. You cannot expect that to come quickly. That it will come in time I fully believe. But it will take time to work it out.

Mr. LODGE. We have variations in the tax structures of our several States. I do not believe complete uniformity is necessary.

But certainly in the instance which I gave, an enlargement of the free trade area in that particular commodity would be an impossibility, would it not?

Mr. CLAYTON. It would be, unless the countries worked very closely together in respect of these other matters.

Of course, to have a real customs union you almost have to have a uniform currency. You almost have to have the same system, as you say, of an economic federation which involves the same currency, tax system, and so forth.

To have a real customs union you almost have to have that. We have practically that in the United States.

Mrs. BOLTON. But there are other unions in addition to customs unions, and is there not a very real need for the joining together of the western powers of Europe in order to be any force against the intrusion of the Eastern pressures?

Mr. CLAYTON. That gets into the political field which is out of my general knowledge and experience. But I believe that, too, Mrs. Bolton. But that is something, perhaps, a long time in the future.

Mrs. BOLTON. But Mr. Clayton, the point is that unless they get strength now there would not be any future.

Mr. CLAYTON. Well, I think this on that point—

Mrs. BOLTON. I will put it this way: there may not be any future.

Mr. CLAYTON. I think that the thing that we are all concerned about now is the preservation of the integrity and the independence of these countries, and if we help them get on their feet economically, it is my belief for whatever it may be worth, that they will be able to do that, to preserve their integrity and their independence.

Chairman EATON. Thank you, Mr. Clayton. We are delighted to have you back.

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

Chairman EATON. Now, we will return to our distinguished friend and visitor, the Ambassador. We would like to finish with the Ambassador by 12 o'clock, if it is possible.

Mr. LODGE, you may proceed.

Mr. LODGE. Am I limited to 20 minutes?

Chairman EATON. I think so. Could you contain yourself within that time?

Mr. LODGE. If you request me to limit myself to 20 minutes, I shall do so.

Chairman EATON. Yes. We will ask the Ambassador to use one word instead of 12, if possible.

Mr. JAVITS. I have had no opportunity to question the Ambassador. I am perfectly willing to forego that.

Chairman EATON. I thought you were requesting Mr. Clayton in lieu of Mr. Lodge.

Mr. JAVITS. I will yield to Mr. Lodge.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Ambassador, since it is obvious that unless every section of the United States is functioning at its highest efficiency the country cannot meet the great demands which are going to be imposed upon us by conditions abroad.

It is important that enough petroleum be set aside to care for our vital needs. I understand the Middle East will not be in mass production prior to 1951 when the program expires, and therefore I should like to ask you this, sir: Will the plan contain agreements providing for repayment to the United States in subsequent years of whatever petroleum is necessary to reimburse us for our outlay between now and then?

Ambassador DOUGLAS. The plan, of course, contemplates a very substantial increase in the production of petroleum products in the Middle East, and in other areas outside of the continental limits of the United States.

I am not quite clear as to what you mean by "repayment."

Mr. LODGE. I mean that since these oil fields will not be in large production, as I understand it, until 1951, in view of our dwindling petroleum supplies and the extremely acute shortage we are now suffering in certain regions, notably in New England, I would like assurance that when this area in the Middle East is in large production we will be reimbursed.

Ambassador DOUGLAS. You mean by making available to us a larger supply of oil from that area?

Mr. LODGE. Yes; because we are spending more than our income. we are spending our capital.

Ambassador DOUGLAS. I understand that.

Mr. LODGE. My question is simply an expression of my concern over our dwindling oil resources and the hope that we can do this job provided these agreements look forward to repayment in kind.

Ambassador DOUGLAS. Certainly, Congressman, it would be contemplated that a larger volume of petroleum products be made available in these areas for the United States, as they came more and more into production.

On that particular point I would like to point out that if any adverse development should occur in western Europe, and the sort of difficulty developed there which some of us have envisaged as possibilities, should the United States fail to come to the support of the western European countries, then that source of supply of petroleum products might very well be cut off from us entirely, so that in order to achieve the very admirable purpose, which you have in mind, we must be assured of fundamental recovery in western Europe.

Mr. LODGE. I think that is a very important point to bring out. I take it, then, that the answer to my question is that these agreements will contain provisions looking toward the situation I have cited.

Ambassador DOUGLAS. The making available of additional petroleum products to the United States.

Mr. LODGE. Now, Mr. Ambassador, the 16 nations, as I understand it, largely ignored western Germany's potential contribution to the Marshall plan. It was drawn up before the break-down of the London conference, when it was still necessary for the western nations to assume that the Allied reparations agreement including the dismantling program would be carried out.

Is that not correct?

Ambassador DOUGLAS. Well, I do not have the figures in front of me on reparations, but no plants in Germany, as I understand it, have been dismantled in addition to the plants contemplated and indicated for dismantling under the agreement of August 1947.

The deliveries under them have been very substantially smaller than the dismantling that has been undertaken.

Mr. LODGE. My point is that since the 16-nation report was made prior to the London conference, it was based on certain assumptions in connection with western Germany and the Allied reparations agreement in particular, which assumptions can be said no longer to prevail because of the intervening circumstances and that by thus reducing the steel products which could be produced in Germany the 16 nations were compelled to make demands for United States steel, which it would be impossible for us to meet without increasing inflation and bottlenecks in vital areas of American production, such as freight cars, automobiles, and farm machinery.

Ambassador DOUGLAS. Well, I think the contributions possible to be made by Germany to European recovery were calculated by bizonal authorities and submitted to the Paris Conference.

Mr. LODGE. But they were calculated on the basis of dismantling?

Ambassador DOUGLAS. They were calculated upon the level of industry to which the commanders-in-chief of the bizonal area in August 1947 had agreed.

That level of industry, as I recollect it, provided for retaining in the bizonal area of Germany enough in steel productive capacity to produce 10,700,000 ingot tons of steel a year.

Mr. LODGE. Was not that based, sir, on the assumption of dismantling in accordance with the Allied reparations agreement?

Ambassador DOUGLAS. No. You see, the original level of industry in Germany contemplated the retention of productive capacity in the amount of some 7,000,000 tons, and the actual production of that retained production capacity of about 5,800,000 ingot tons a year.

Mr. LODGE. In other words, not a full capacity?

Ambassador DOUGLAS. Well, there always is, or very frequently is, a difference between total absolute productive capacity and the actual production.

Now, the new level of industry that was agreed to between the British and United States authorities in August 1947 raised very substantially the amount of productive capacity that would be retained in Germany in order that the production of steel in the western zone might rise to a level of 10,700,000 tons, as compared with the 5,800,000 ingot tons we agreed to in 1946.

Mr. LODGE. Would you say it could rise still higher if the dismantling were to stop as of today?

Ambassador DOUGLAS. Now, I am not thoroughly acquainted with all of the details of dismantling, Congressman. Under certain conditions, of course I assume the production of steel in Germany could be increased.

Whether it would be economic is another question.

Mr. LODGE. I think your point of view on this is particularly important, because of your familiarity with the coal situation: If Europe required less steel from us, we could manufacture more freight cars to permit increased transportation and export of coal to produce more steel in France and Germany. Therefore a moratorium on dismantling plus a slight increase in coal imports might have very beneficial results.

Ambassador DOUGLAS. I doubt very much, Congressman, whether that would be the result within the course of the next several years.

The actual production of steel in western Germany today is running at the rate of somewhere in the vicinity of 3,600,000 tons.

There is then a very great margin between the actual production of steel in western Germany today, and the amount of steel that can be produced under the retained productive facilities.

It would take several years.

Mr. LODGE. Was not that due principally to lack of coal?

Ambassador DOUGLAS. It was due to a variety of things—lack of coal among other things, the dilapidated state of their plants, disruption of transportation, and a variety of factors of that order.

So that even if, to assume an exaggerated situation, if the productive facilities were retained in Germany to the extent of, let us say, 17,000,000 tons of steel, it would not affect in any way the production of steel within Germany during the course of the next 15 months, the course of the next 24 months, the course of the next 36 months.

Mr. LODGE. You mean that even if we allowed them to do it they could not do it?

Ambassador DOUGLAS. It could not be done. The Paris report indicates that even if the productive capacity in Germany to be retained were very much higher than that contemplated in the new level of industry, no effect would be felt upon the demand for steel from the United States.

Mr. LODGE. It would be on paper and would not be accurate?

Ambassador DOUGLAS. That is right.

Mr. LODGE. Would it be proper for me to ask you if you could furnish this committee with a written statement to the effect that if the dismantling were to cease completely it would not relieve the demand on United States steel, in order that we may have that in the record?

Ambassador DOUGLAS. Yes, sir.

(The information referred to is as follows:)

RELATION BETWEEN SELECTIVE DISMANTLING OF A PART OF THE STEEL CAPACITY IN THE BIZONAL AREA OF GERMANY AND POSSIBLE INCREASED STEEL PRODUCTION

The cessation of the dismantling of that part of the steel capacity scheduled for removal from the bizonal area of Germany would not provide a basis for a significant increase in steel output during the period of the European recovery

program. The basic problem of raising steel production in the bizonal area from the present level of 3.6 million tons a year to a level of approximately 10 million tons in the 1951-52 fiscal year concerns the effective utilization of retained capacity of about 12 million ingot tons. The provision of larger quantities of coal in the area, however, would not in itself be sufficient at this time to induce a significant increase in production.

The problems of reactivating the steel industry in the bizonal area involve determined and carefully coordinated actions to break a long succession of bottlenecks which will arise as steel output gradually increases. In the final analysis the problem of increasing steel production in the bizonal area is intimately related to the larger and more complex tasks of restoring a balanced and orderly expansion of industrial activity throughout all the important sectors of the economy of that area.

In recent months the provision of metallurgical coke to the steel plants in the bizonal area has not been a factor limiting production, although coke shortages might again reappear when steel output reaches a higher level, or, of course, if coal production in the Ruhr should decline from present levels. At this time inadequate transport impedes the movement of available supplies of coal and coke from the mine pitheads to the steel mills. Other factors which will probably retard the rate of expansion of bizonal steel production are electric power supplies, housing, adequacy of food supplies for the steel workers, provision of other incentives to reward increased labor productivity, effectiveness of management, the maintenance of a steady flow of scrap, iron ore and alloying materials to the steel mills, and the availability of replacement parts and materials for the repair of equipment.

In view of the many factors involved in the expansion of steel production together with the fact that they ramify throughout the economy which the bizonal steel industry serves and on which it is based, the problem of raising steel production to the target levels cannot be solved by adopting a single expedient such as the provision of larger quantities of coal.

Progress is being made toward the realization of steel production targets in the bizonal area. It is probable, moreover, that steel production in the bizonal area can be raised this year to levels above those forecast in the CEEC report for 1948. If the present favorable trends in bizonal steel production can be maintained, output might reach a level of about 5 million ingot tons. Achievement of this production goal, however, would not diminish the requirements of the participating countries for steel from the United States. It is anticipated that the economy of the bizonal area will utilize the full amount of steel which might be realized from production in excess of target estimates.

Since the economy of the bizonal area will not be capable in the next 4 years of supporting and maintaining steel production in excess of 10 million tons a year, consideration should be given to the ability of other countries to utilize the steel capacity scheduled for dismantling and removal from the bizonal area. The estimates of the executive branch regarding steel production in the participating countries are based on the assumption that a part of the steel capacity scheduled for removal from the bizonal area will in fact be utilized and that the removed capacity will contribute toward the achievement of the steel production targets of the participating countries. It is to be expected therefore that the steel requirements of the participating countries from the United States will be increased if the dismantling of German steel plants scheduled for removal were terminated, and also the steel making equipment requirements of the participating countries from the United States will be increased.

Mr. LODGE. As I understand it, coal is \$10 per ton and steel \$100 a ton f. o. b.; and if we could diminish the demand on United States steel by exporting a little coal and stop the dismantling, we would be reducing the over-all cost of the ERP program over a 4-year period by a very substantial figure.

Ambassador DOUGLAS. I will be very glad to furnish you a detailed or complete statement confirming what I have said this morning.

Mr. LODGE. Thank you very much, sir.

Now I would like to ask you this: Is one of the main hopes of the FRP that as Europe produces surplus capital goods through the surplus of British coal, or by any other means and by a concatenation of other circumstances we can reasonably expect that the agricultural

surpluses in eastern Europe will come and get those capital goods, iron curtain or no iron curtain?

Ambassador DOUGLAS. The calculations that were made at the Paris Conference and those that have been made here presuppose a restoration of reasonably normal trade relations between eastern Europe and western Europe during the period of which we are speaking.

I think it is an objective, certainly, which is admirable.

Mr. LODGE. In other words, the reason there is not much trade now is not so much the iron curtain as it is the lack of agricultural surpluses in eastern Europe and the lack of capital surpluses in western Europe?

Ambassador DOUGLAS. Well, it may be a combination of both, sir, at the moment.

Mr. LODGE. But do you have faith that the sheer trade momentum to be set up by surpluses in both those areas will to some extent break down the iron curtain and contribute to the recovery of Europe?

Ambassador DOUGLAS. I think I indicated if the western European countries recover stability in their productive capacity that the draw of certain of the eastern countries to western countries, will be irresistible.

Mr. LODGE. I think that is very important. Mr. Ambassador, one of the interesting things you stated to us was that the population of Europe had increased by 20,000,000.

Ambassador DOUGLAS. Yes.

Mr. LODGE. That is the western and eastern Europe?

Ambassador DOUGLAS. No. That increase in population occurred only in the 16 western countries, plus western Germany.

Mr. LODGE. In the 16 western countries. Well, now, does this program look forward to attempting to find some solution for the overpopulation of Europe, such as attempting to induce people in areas that are particularly overpopulated to move elsewhere and try to precipitate a situation where some relief can be found for that particular distress?

Ambassador DOUGLAS. There are two respects in which the ERP would operate to relieve the distribution of population. In the first place, the 16 European countries committed themselves progressively to remove barriers to the movement of people.

In the second place, the European countries have independent territories overseas.

They do contemplate development within those colonial possessions, with the result that insofar as this particular group of countries is concerned there would be a draw from the colonial areas upon the population of these 16 countries.

Mr. LODGE. Am I to understand, with respect to the first part of your answer, which is very interesting to me, that under the terms of that part of your answer the surplus population in Italy, for instance, would be allowed freely to move to France, where there is a lack of manpower?

Ambassador DOUGLAS. That is right, sir; and the French and the Italians are now—if they have not already concluded—discussing an agreement.

Mr. LODGE. That could create a very healthy situation.

Ambassador DOUGLAS. Yes.

Mr. LODGE. For both countries?

Ambassador DOUGLAS. For the entire area.

Mr. LODGE. Would that also apply to Turkey, for instance, where I believe the population is only about 18,000,000 people, and Turkey is definitely an underpopulated rather than an overpopulated country?

Ambassador DOUGLAS. Turkey is a participating country, and they participate therefore in the undertakings.

Mr. LODGE. Now, Mr. Ambassador, I return to this question of strategic materials.

One of the main thoughts I get from you is that your objection to strengthening that clause is that then these countries will not be able to export these strategic materials for additional dollars, and that seems to me to presuppose that if we do not get strategic materials in sufficient quantities under this program, we will therefore spend additional sums getting them on our own.

Do you believe that to be the case?

Ambassador DOUGLAS. Well, the calculations of the exports for which these countries will receive dollars was based upon their exporting strategic raw materials to the United States.

Mr. LODGE. I was talking about the long-term future, sir.

Ambassador DOUGLAS. Yes. You mean after the 4½ years, or whatever the period may be?

Mr. LODGE. Yes; when we may no longer have this acute situation.

Ambassador DOUGLAS. Your question is, I take it, whether they should commit themselves to repay us, x years in advance, with strategic raw materials for which we pay nothing; was that the question?

Mr. LODGE. I would not say we paid nothing, since we have been asked to appropriate \$6,800,000,000.

Ambassador DOUGLAS. Then I am sorry; I am not quite clear.

Mr. LODGE. My point is that it seemed to me that your objection both to the handing over of strategic materials in the immediate future and to the long-term handling of strategic materials was based on the assumption that if they were not handed over as a quid pro quo under this program, we would nevertheless buy them, thereby adding to the dollars these countries would hold; it does not seem to me that it necessarily follows that we would be in a position to purchase all of the strategic materials we might need unless we get them under this program, on a long-term basis.

Ambassador DOUGLAS. Oh, well, the program does not contemplate that at the expiration of 4½ years conditions in regard to strategic materials, would terminate. Indeed, it is expressly provided that the agreements in regard to the undertakings in regard to strategic materials will continue for such term as may be agreed upon in the bilateral arrangements which this country makes with the participating countries, and those agreements may stand for a period of 20 or 25 years.

Mr. LODGE. In that case we will be paying for those strategic materials only what we are paying under the program, and not additional sums.

Ambassador DOUGLAS. We will pay whatever the prevailing price might be. It would depend upon the terms of the contract.

Mr. LODGE. In other words, you would agree that we could accept delivery of strategic materials in the long-term future in reimbursement for what we make available under this program?

Ambassador DOUGLAS. I think that is a question that no one can now answer, Congressman

Mr. LODGE. Suppose it was provided?

Ambassador DOUGLAS. Nobody can now foresee what the ability of any one of these countries may be to forego dollar earnings 7, 8, 9, or 10 years from now.

Mr. LODGE. Suppose it were provided that if there were a dollar deficit they would be allowed to sell these strategic materials; and if not, then we would get them by way of a quid pro quo for part of what we have turned over under the Marshall plan.

Ambassador DOUGLAS. Let me make this point clear in this discussion we are having: We are not presumably referring to the repayment, by delivery to us of strategic materials, of any loan to be made. We are referring now only to the grant.

Mr. LODGE. Of course, in that sense it would constitute a loan, since there would be repayment. But I think I understand what you mean.

Ambassador DOUGLAS. You see, there is very express provision for the extension of loans to be repaid in terms of strategic raw materials.

Mr. LODGE. Yes. I think this would be a loan in that sense, Mr. Ambassador. After all, it would be repayment, and if we prefer to obtain repayment in strategic materials rather than in dollars, that, after all, is all right.

Ambassador DOUGLAS. Express provision is made for an arrangement of that kind.

Mr. LODGE. The question is whether enough provision was made and as whether the contemplated amount is sufficient or whether we could not raise that figure a bit.

Ambassador DOUGLAS. Perhaps you can, Congressman. I do not believe that anybody can foresee the future with sufficient clarity to make any categorical statement on that particular subject.

Mr. LODGE. I didn't believe that there should be a categorical provision. I thought it should be a provision which would depend upon certain circumstances which would be outlined in any agreement that was made with any interested countries so that we would not be defeating the purposes of the plan. We would be perhaps helping the plan and also helping to fill serious shortages which we suffer from.

Ambassador DOUGLAS. It might conceivably be done. I am not giving you a satisfactory answer, I know, but I repeat that it is my honest belief that one cannot now foresee what the situation may be in each one of the 16 countries.

Mr. LODGE. You would not want to alter section 5, on page 18, where it simply states that these countries shall facilitate the sale? You do not want to make that clause any stronger than it now is?

Ambassador DOUGLAS. I would be very doubtful about the wisdom of doing it, Congressman. I think it might be done, and your purpose might be achieved, by increasing the amount of loans that could be repaid in terms of strategic raw materials; but I should be reluctant to state that that could wisely and prudently be done in our own interests.

Mr. LODGE. However, if the clause was so written that it would not operate against our interests, don't you believe that it might safely be done?

Ambassador DOUGLAS. Well, our interests, Congressman, as you are so well aware, are vitally concerned with the restoration of stability in this area and the maintenance of that stability.

Mr. LODGE. I agree with that 100 percent.

Ambassador DOUGLAS. To the extent to which we exact a condition which increases the risks implicit in the venture, to the same extent we may be damaging our own long-term national interests.

Mr. LODGE. How do you believe that increases the risk?

Ambassador DOUGLAS. If we exact a condition which drains them of dollars to a greater extent than they would otherwise be drained of dollars—

Mr. LODGE. I do not assume that they are draining vitally needed dollars. No, Mr. Ambassador, I do not see how it would be draining necessary dollars, if it were based on a long-term future, when we make the assumption that if there is a dollar deficit they can sell the strategic materials, and if there is not, then we get them by way of a quid pro quo. I do not see how that would drain them of necessary dollars on a long-term basis.

Ambassador DOUGLAS. Well, it might not.

Mr. LODGE. I would contemplate such a clause. I have not yet completed my thinking on this, but I wanted to get the benefit of your view because it would seem to me that that clause is a very weak clause in respect to strategic materials in which we are of such great need.

Ambassador DOUGLAS. Well, of course, this particular clause was written precisely for the purpose of requiring the appropriate participating countries—and I say “appropriate” because I mean by that those who have overseas possessions or have, within the areas in which they have jurisdiction, the strategic raw materials or the possibility of developing such raw materials—that clause was inserted for the purpose of doing just what it says: facilitating the sale to us of raw materials that are strategic, on which these countries rely for dollars.

Mr. LODGE. That would be a sale which would have nothing to do with the program, particularly. I mean, they agreed to facilitate it; is that not right?

Ambassador DOUGLAS. Yes. Of course there are doubtless better words. Each person has his own vocabulary. I do not know what better words to use.

You know the provisions in the act and the intentions in respect of the administration of the act in regard to the development of the strategic raw materials and the purchase by us. You know that some of the local currency counterpart may be used for the purpose of exploration for and development of strategic raw materials. Loans may be extended which may be repaid, if not in dollars in some other way, including, among the other ways, strategic raw materials. But, in addition to those measures, there is the provision that they must facilitate the sale of strategic raw materials.

Mr. LODGE. You are satisfied, then, Mr. Ambassador, that the act contains everything that it can reasonably contain with respect to strategic materials?

Ambassador DOUGLAS. Without looking too far into the future.

Chairman EATON. The time of the gentleman has expired.

Ambassador DOUGLAS. There were a number of questions you raised this morning.

Chairman EATON. I wonder if the Ambassador would not submit a brief to us covering this very important, controversial question of

strategic materials? I have been listening with what little intelligence I have and I cannot find out yet why we put billions of dollars over there and cannot get some of their strategic materials back, when we need them, in payment of our investment.

If you can clear that up you will perform a miracle.

(The information is as follows:)

EUROPEAN RECOVERY PROGRAM COMMITTEE STATEMENT ON STRATEGIC MATERIALS

The primary consideration in connection with obtaining strategic materials is an increase in their production, since production at current levels is generally not adequate to meet existing needs. It is the considered judgment of the executive branch that the method of obtaining strategic materials proposed in connection with European recovery program legislation is more likely to result in our obtaining a larger quantity of such materials than alternative plans which have been suggested.

Under the proposed legislation it is contemplated that, (1) part of the funds appropriated may be used by the Administrator of ECA to finance development of increased sources of supply (sec. 8 (c) (2) technical information and assistance may be provided to aid in increasing production (sec. 7 (a) (3)), (3) under the bilateral agreements with participating countries, local currency proceeds may be used to foster exploration development for production (sec. 10 (b) (5)), and (4) the bilateral agreements will provide for the recipient countries' facilitating the sale to us in quantities, on terms, and for time periods to be agreed, of strategic materials beyond their requirements for domestic use and commercial export (sec. 10 (b) (5)). The time period may extend for a considerable number of years.

Furthermore the legislation authorizes the Administrator under certain circumstances to require the repayment of loans under the program in the form of delivery of strategic materials. Ordinarily, however, it is contemplated that such materials will be purchased by us with dollars separately appropriated. It is believed that the incentive furnished by our purchasing such materials for dollars will result in a greater production and a larger procurement by us than would be the case if the countries were required to furnish such materials without dollar payment as a condition of our assistance. Moreover, this procedure will permit the transactions to be handled directly with private producers and distributors rather than confining them to Government channels.

For the reasons stated above the Munitions Board representative on the Interdepartmental Subcommittee which prepared the policy recommendations on strategic materials summarized in the Outline of the European Recovery Program strongly favored the proposal in the form presented to the Congress.

The ultimate monetary cost to us should be approximately the same regardless of whether we pay for such commodities in the future or whether we require the countries to furnish them to us without dollar payment. This may be explained as follows:

It is contemplated in any case that assistance under the European recovery program should be in the form of loans rather than grants up to the estimated capacity of each participating country to repay without jeopardizing the objective of sustained economic stability. In calculating the capacity of a country to repay, its receipts from future exports of all types including strategic materials which might be sold to us, would be taken into consideration. If we require the delivery of strategic materials as a consideration for a "grant" the capacity of the country to repay any loans would correspondingly be diminished. We would to that extent have to reduce the amount of any loan which might otherwise have been made to the country and to increase the amount of our grant. Any "grant" furnished on such terms would in fact become a loan.

It makes little difference to us financially therefore whether (a) we make a smaller percentage of our assistance in the form of loans and a larger percentage in form of grants requiring repayment of part of the grant in strategic materials (the grant thereby in fact becoming a loan), or (b) make a larger percentage of our assistance in the form of loans getting repayment of them normally in dollars (part of which would be supplied by our purchases of strategic materials) or in special cases in the form of strategic materials.

The suggestion that grants might be repaid by delivery of strategic materials by any country which at any time in the future might have a dollar surplus con-

templates the making of contingent loans. It involves for many years a constant scrutiny of the ability of any country to repay. Such loans would decrease the incentive of the European countries to set their financial houses in order and achieve balance in their external accounts. Such loans would add to the uncertainty of private and other lending institutions and thereby tend to postpone the achievement of the objectives of the program. What is more important this procedure might not encourage to the fullest extent the exploration for and development of increased production of strategic material.

In view of the great importance to the United States of increasing its supplies of strategic materials, we believe that the program which has been recommended by the executive branch offers the greatest prospect of obtaining them in the largest quantities.

Ambassador DOUGLAS. Well, I can't walk upon the waters.

Chairman EATON. If you keep on you will be able to walk on most anything.

Ambassador DOUGLAS. There is a matter that I think should be cleared up in the record.

Mr. LODGE. That question I asked of Mr. Clayton—I would be glad if the chairman would permit you to comment on it.

Ambassador DOUGLAS. That is about the report in the newspapers that the British had resisted the French proposal for the devaluation of the franc?

In the first place, the French proposals for the devaluation of the franc were not made public. Devaluation of a currency, particularly in a complex situation like the one in western Europe, can be undertaken in a complicated way but create a whole series of adverse effects upon other countries.

The question is not only the relationship of a particular currency to the dollar. It is a much more complicated one than that. The question also involves the relationship of that particular currency to the cross rates; for example, to the Belgium franc, to the pound sterling, to the lira. And, while I think that no one opposes the devaluation of the franc vis-à-vis the dollar and vis-à-vis the other currencies, the question of how the devaluation shall be undertaken in relation to all the currencies is a very, very complicated one.

Mr. LODGE. I think that is very interesting, and I would like to ask you, there, whether the devaluation effected in Italy by Finance Minister Einaudi did have repercussions because it was not properly synchronized with the devaluation in other countries.

Ambassador DOUGLAS. That proposal in Italy was not submitted to the International Monetary Fund.

Mr. LODGE. Did that have bad effects?

Ambassador DOUGLAS. I cannot answer your question. It was a relatively recent development.

It was a mixture of free rate and fixed rate.

Mr. LODGE. It was devalued down to a certain level, but not completely devalued?

Ambassador DOUGLAS. Yes. There were certain dollars received on account of exports that were blocked and a certain proportion were free.

Even though the Italian action may not have had any adverse effects upon other currencies, one might not be able to have the same view about a proposed devaluation of another currency.

Mr. LODGE. It is a matter of detail?

Ambassador DOUGLAS. Yes.

Mr. LODGE. Would you say that it would be preferable if all the 16 nations were to get together and devalue their currency at the same rate, simultaneously instead of separately, as now?

Ambassador DOUGLAS. Whether that is practically possible, I do not know.

Mr. LODGE. Would that involve the devaluation of the pound sterling?

Ambassador DOUGLAS. I would like to talk to you about that at another time, for reasons that you can understand. I did want to get in the record about the French.

Mr. LODGE. I would like, if I might, to thank the Ambassador for his answers to my questions and for the intelligent, courteous way in which he has conducted himself throughout this gruelling ordeal.

Chairman EATON. Mr. Ambassador, you were asked a question. You have not answered it and you have wandered all over God's half acre.

The question was: Did England object to the devaluation of the franc—yes or no?

Ambassador DOUGLAS. I do not think that was the question.

Chairman EATON. As I understand the English language, that was the question.

Mr. LODGE. I thought the British had objected to it, judging by the papers. I was interested in precipitating a coordination of intentions under the ERP because the witnesses we have had, including yourself, sir, have testified to the fact that the devaluation of currencies is vital, and that, to a considerable extent, the American taxpayer is going to carry the load of the gap between the legal and real value of currencies in Europe.

I simply wanted to make sure that our friends in Britain were going to go along with us on this and it was not a question of going off in different directions.

Ambassador DOUGLAS. I think there is no question of the British going along in principle. I think you have to examine each proposal for devaluation in terms of its details.

Chairman EATON. Before we penetrate further into the fog, the meeting of the Committee will be recessed until 2 o'clock, when Secretary Royall will appear before us.

We want to express our thanks and gratitude for the very remarkable contribution that our friend the Ambassador has made.

I hope he will stay within reach.

Speaking simply as a citizen, and viewing the discussions here as a revelation of civilization, I have personally decided to seek a lodge in some vast wilderness as soon as possible.

Ambassador DOUGLAS. Retaining me?

Chairman EATON. I will ask the members of the committee to remain for just a moment in executive session, which will take just a moment, on a very interesting and personal matter.

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

AFTERNOON SESSION

Chairman EATON. We will proceed.

We have our distinguished Secretary of the Army, Mr. Royall, who will proceed to make his statement.

STATEMENT OF HON. KENNETH C. ROYALL, SECRETARY OF THE ARMY

Secretary ROYALL. Mr. Chairman, I am glad to respond to the request of your committee and to outline the position of the Department of the Army on the ERP, particularly to discuss the relation of the plan to the American and British occupation zones of Germany which are at this time our responsibility.

Last Wednesday and Thursday, in response to a similar request from the Senate Foreign Relations Committee, I stated to that committee rather fully the views of our Department, as well as my personal views, on the same subject.

I would like to file with your committee, if I might, a copy of my statement prepared for the Senate committee, and then make a somewhat shorter initial statement here today.

Chairman EATON. We would like very much to have you do that, sir. (The statement referred to is as follows:)

STATEMENT BY SECRETARY OF THE ARMY KENNETH C. ROYALL BEFORE THE SENATE FOREIGN RELATIONS COMMITTEE

Mr. Chairman, The major responsibility of the Army is the defense of the Nation. When there is economic difficulty, shortage of food and general unrest in the world and an economic and political situation which is unstable, that responsibility becomes acute and the cost to the Nation increases. When the essential elements for economic stability and for peaceful development exist among nations, the Army's immediate responsibility becomes correspondingly lessened. I firmly believe that enlightened cooperative economic endeavor as visualized in the European recovery program can go a long way toward reducing the necessity for large scale national armaments, and that without some such effort the Army and its budget should be immediately and measurably increased.

Germany, occupied by four major powers, two of which are participating nations in the proposed European recovery program, presents a special problem in this cooperative endeavor. The importance of Germany was clearly emphasized by Secretary Marshall in an address delivered in Chicago on November 18, in which he said: "The problem of restoring the European community inevitably raises in acute form the problem of Germany. The restoration of Europe involves the restoration of Germany. Without a revival of German production there can be no revival of Europe's economy. But we must be very careful to see that a revived Germany could not again threaten the European community."

For more than 2½ years the Army has been responsible for the occupation and government of one zone of Germany and for the prevention of disease and unrest in that zone. During this period the economic rehabilitation of Germany has become increasingly important both because it will contribute to the political stability of Germany and also because it offers the only reasonable opportunity of relieving the United States of the financial burden of food and other necessities.

The extension of economic aid to other countries of western Europe economy is of particular interest to the Department of the Army because of the relation of German economy to that of the rest of Europe.

Conversely we recognize that the rehabilitation of Europe would be difficult to achieve without increased German production of coal, steel, and other items.

For many years prior to World War II, Germany was the industrial hub of the European economy. Around her the industry and trade of European states were geared. And the physical and moral collapse of Germany during and after World War II created an industrial vacuum within the European Continent which helped render the entire economic machine inoperative.

The report of the Committee of European Economic Cooperation prepared as a result of the Paris conference of 16 European nations last summer, states that the German "economy has been, in the past, and by the nature of things will remain, closely tied up with the economic system of other European countries * * *. Other western European countries cannot be prosperous as long as the economy of the western zone is paralyzed, and a substantial increase of output there will be required if Europe is to become independent of outside support."

To date German recovery has lagged so far behind that of the other countries of Europe as to retard the whole effort for European recovery. One important—perhaps the most important—factor has been the food situation.

For the last half a century Germany as a whole has had a substantial food deficit. This condition is now accentuated in the United States and United Kingdom zones of occupation by the fact that the part of Germany allotted to Russia and placed under Polish administration comprised 25 percent of prewar Germany's food-producing areas. Other factors are the loss of large numbers of the producing age groups and an increased population in the western zone of about 6,000,000 people, many of which are nonproducers.

The German situation differs in many respects from that of the 16 countries which participated in the Paris Conference. It is an occupied country, under control of four powers that have not been—and are not now—in agreement as to the basic principles under the Potsdam Agreement to be applied in the administration of the country. The Soviets have prevented economic and political unity with the western zones and in their zones they have imposed a radically different and highly centralized organization of the economy with all basic industries under public or direct Soviet ownership.

The main fact about the German economy at present is that it is not yet quite a going concern. In addition to the lack of food there is a coal shortage, an inadequate transportation system and insufficient supply of raw materials. The discrepancy between the volume of currency and the quantity of available goods is so great that purchasing power and the incentive of money earnings are extremely low.

The economy of the merged United States and United Kingdom zones, is characterized by a low level of production but, on the other hand, a surprisingly high level of employment. Total employment is less than 10 percent below the prewar level and unemployment is less than 5 percent of the registered labor force.

Yet industrial production in November 1947 in the bizonal area as a whole was estimated roughly at 44 percent of the 1936 level, with the index standing at 56 in the United States zone and 40 in the industrially more important United Kingdom zone.

This anomalous situation is largely accounted for by high rates of absenteeism and low productivity per man-hour. Plants often carry a full working force on their pay rolls in order to keep the labor force intact and to permit the workers to qualify for supplementary rations.

This over-all decline in hours and effectiveness of work is due to several factors, including: the larger proportion of older men in the work force, a smaller proportion of skilled labor, and inadequate and varying nourishment. Other contributing factors are the interruptions—as well as the industrial inefficiency—arising from under maintenance of plant equipment, shortages, and uneven flows of raw materials and transportation and fuel difficulties.

The food and housing shortages are the greatest factors. These shortages have led employees to supplement their inadequate rations by black-market purchases from farmers and this in turn has resulted not only in absenteeism but in widespread labor unrest.

In the matter of housing, the war damage, especially in the larger western cities and towns, is well known to members of this committee.

Next to the shortage of food, the lack of coal has been the most serious obstacle to recovery. Daily production of hard coal in the Ruhr, which was around 400,000 metric tons in 1936, has risen from a low of less than 100,000 tons at the time of surrender to a high of 284,398 tons per day on November 29, 1947. Coal production has varied up and down as food availability varied during this postwar period. The coal consumption situation is greatly aggravated by the current seriously reduced efficiency of coal utilization.

Finally, industrial production has suffered seriously from the lack of a completely satisfactory currency, which means a lack of normal economic incentives. The reichsmark has, it is true, retained most of its value for the purchase of rationed items, especially food, and for such other items as rents, services, and transportation. On the other hand, the value of the reichsmark for the purchase of nonrationed products has been greatly impaired, and there is general uncertainty with respect to its future value. Under the circumstances, the normal incentives to labor to increase its take-home pay and to management to produce for profit are far too weak to provide a basis for sustained effort on the part of either labor or management.

But for bomb damage the war would have left bizonal Germany in most industries with a potentially operable industrial plant greater than that of 1936.

However, there was great bomb damage to industrial plants—a large part of which are still unrepaired, and some equipment has deteriorated further since VE-day.

The railway system suffered much heavier war damage than industry in general. The most immediate essential repairs to right-of-way have been made. Nevertheless, the general disorganization and the existence of zonal boundaries have caused an increase in the average length of haul and in the turn-around time of railroad cars. Furthermore, the condition of the rolling stock has deteriorated in spite of a well developed repair program.

Industrial construction in Germany has been negligible since VE-day. It has been confined to essential repairs to transport and a minimum of repair and maintenance of plants.

The volume of currency and bank deposits in Germany has been estimated at more than six times the prewar level. This expansion in the face of greatly reduced supplies of goods, seriously threatens the stability of the price and wage structure. And no foreign exchange rate for the mark has been or can soon be established. Instead, exports are priced at world-market prices in dollars.

Although within Germany there is formal compliance with the official prices, which are substantially identical with the 1936 and wartime prices, inflationary pressures continue. Official prices and wages have risen only moderately, but money has to a considerable extent lost its functions as the medium of exchange and store of value. Owners and producers of goods and services increasingly exchange them only for other goods rather than for money.

This affects labor and agriculture as well as industry. Workers are apt to stay on the job only long enough to earn money needed to purchase their authorized rations at legal prices because money has negligible value for other purchases. The remainder of their time is often spent in scouring the countryside for additional goods obtained in exchange for personal belongings or for labor services. This tempts the farmers to hold grain from collection, to feed it to livestock, or to barter it outside official channels of distribution. Only increased production together with financial reform to reduce the amount of money in circulation can remedy this situation.

These, in brief, are the difficulties and complexities with which the German economy has been and is faced. Both the Military Governor of Germany, General Clay, and the Department of the Army—and formerly the War Department—have exerted every effort to meet and remedy this situation. I share the general admiration for General Clay and for the splendid work that he and his staff have done under most unfavorable circumstances. I will outline to you some of the steps that have been taken.

The pooling of the economic activities of the British and American zones was an organizational step in the interest of improving the general economy. This bizonal economy merger was effective on January 1, 1947, and has, we believe, resulted in considerable progress. This arrangement has been continued into 1948 under an agreement signed last month, and the fact that a large part of the British contribution for relief funds has been necessarily eliminated does not affect the administrative arrangement, although it gives to the United States greater financial and economic control.

The United States-United Kingdom bizonal organization includes the Bipartite Board. The German bizonal agencies, established by United States-United Kingdom proclamation, include an Economic Council which has been given broad powers to direct the economic reconstruction of the combined area, subject to the approval of the United States-United Kingdom Bipartite Board.

The American and British Military Governors are currently discussing with bizonal German leaders proposals to double the size of the economic council to make it more representative and to establish a second economic body with two direct representatives from each of the eight land governments.

At the beginning of the occupation the foreign exchange and trade of the United States and United Kingdom zones were conducted entirely by and for the account of the occupation authorities. Since that time there has been a progressive relaxation of trade controls to prepare for the reestablishment of private trade. Foreign trade operations have been partially decentralized and returned to German hands, to the extent considered compatible with the requirement to maintain full supervision and control over German imports and exports financed by the United States and United Kingdom Governments.

In the first 9 months of 1947, the combined United States and British zones imports consisted of approximately 95 percent category A goods, financed by England and ourselves and mainly consisting of foodstuffs, fertilizer, and petroleum. Only about 5 percent were category B goods, including various consumer goods and raw materials, which were principally financed by proceeds of exports.

For the reasons previously stated, imports of foodstuffs are greater in volume and in value than before the war. Coal exports are about one-third of prewar in terms of volume, but the average of all other exports is estimated as 5 percent of their prewar levels. The exportation of finished industrial goods, which before the war formed the backbone of German foreign trade, has hardly been resumed.

Under the new bizonal agreement it is estimated that the 1948 United States relief expenditures in Germany will be in the vicinity of \$700,000,000, an increase of about \$300,000,000 due to the British dollar shortage. The United Kingdom undertook to provide a contribution in value of some 8½ million pounds (approximately 34 million) in 1947. They also undertook to provide goods and services in 1948 from sterling area sources valued at 17½ million pounds sterling (approximately 70 to 87 million dollars).

The agreement does not relate to expenditures by either Government for the maintenance of forces of occupation and control staffs in Germany. Those remain the responsibility of each Government.

In an effort to demilitarize Germany and also to provide reparations for the Allies, a program for dismantling certain German plants began shortly after occupation. The reparations program for removal of capital equipment was decided upon in the Potsdam agreement on August 2, 1945.

In March 1946 a level of industry was established. This level was based upon treating Germany as a single economic unit, but Russia failed to agree to those terms of the Potsdam agreement. In August, 1947, a new and higher level of industry was fixed which resulted in greater productive capacity in the critical industries such as metals, machinery, and chemicals. There was a corresponding decrease in the plants available for reparations.

Prior to the establishment of the new levels, shipment had been made of a few plants obviously excess to any normal German peacetime requirements plus some general-purpose equipment from war plants. In the case of war plants, I want to emphasize that only the general-purpose equipment has been made available. No entire war plants have been allocated to any nation, and the special-purpose war machinery has been destroyed.

Under the original quadripartite allocation of plants from all zones, 75 percent was to go to the western nations and 25 percent to the U. S. S. R. and Poland. But, when it became apparent in 1946 that Russia was preventing economic unification of Germany, deliveries of new plants—nonwar plants—to the Soviet Union were stopped pending further developments. The only shipments, therefore, now going to the U. S. S. R. are the tag ends of early allocations consisting principally of machinery.

It should be made clear that, because of shortage of fuel, transportation, raw materials and inefficient labor, the plants now declared excess could probably not be placed in operation in Germany within the next 4 or 5 years, even with aid from the recovery program.

If left in place, and unused this equipment will deteriorate and lose its value. At the same time much of it is needed and desired by the western nations who participate in the inter-Allied reparations program and to whom it has been promised. They can use it where Germany cannot, and its use by them can help economic recovery and reduce the demands on the United States for dollar aid.

It is evident that if possible financial reform should be carried out on a German-wide basis. Negotiations have been in progress for some time in an effort to reach quadripartite agreement on a currency and financial reform for Germany as a whole. The major problems to be solved in such a program have to do with the printing of the currency, the terms on which the old currency will be withdrawn and new issued, price adjustments, organization, and similar questions.

Faced with the possible failure of currency negotiations on a quadripartite basis, the problem of alternative action is being studied. Numerous technical and policy problems are bound to face any program for currency reform—particularly for bizonal or trizonal. But, the basic economic fact is simple. The gap between supply of money and supply of goods must be closed if incentives to work and produce are to be restored.

I have tried to make clear the present situation and the existing obstacles to economic rehabilitation in Germany. The present low levels of production constitute a drag not only upon German recovery but also upon the recovery of the rest of Europe. I am convinced that no plan for economic aid to Europe can be a success unless it fully comprehends such assistance to Germany as will permit that country not only to help herself but also to be of assistance to the other participants in that aid program.

The relationship of bizonal Germany to the European recovery program rests upon a reasonable restoration of the prewar German trade pattern with recogni-

tion of and opportunity for a greater freedom of intercountry exchange of goods and services by reduction of trade barriers and exchange of local currencies.

German economic improvement—and the raw materials and incentive goods needed therefor—have heretofore come almost entirely from the limited German exports. Food has been sent to Germany, but there has been no contribution to building up German industry—no “pump priming.” So the progress has been slow, much slower than in other nations. To attain full economic recovery Germany needs more outside help than any country of western Europe.

In anticipation of a possible European recovery program, the bizonal military government officials first prepared a 4-year economic recovery program based upon an immediate rise in total imports and a change in their composition. The program was an attempt to get away from the present relief program, the disease and unrest formula on which Army appropriations have been based, and to present a reasonable economic rehabilitation effort. It was proposed on the theory that our taxpayers are entitled to relief from the German economic burdens as rapidly as possible.

This program, if accepted in total, would have necessitated large appropriations in the early years, and would have required a priority for special type imports of items in critical world supply. These demands would doubtless have subjected this country to criticism that we were attempting to rehabilitate Germany ahead of the recovery of our World War allies.

The requirements of bizonal Germany had, of course, to be fitted into the 16-nation European economic recovery program. Our original estimates had to be reduced. For the world availabilities of supply did not permit the allocation to bizonal Germany of the total of the estimated requirements. In many cases, too, the sources of imports had to be changed, because Germany is expected under the new program to receive considerably more of her requirements from other European countries than the bizonal authorities had considered possible under their previous plans.

After figures and requirements for the bizonal area had been screened and a reasonably accurate total obtained, it was decided that the Army would request appropriations for that portion of the total German requirements which represents the Army's responsibility under the disease and unrest formula, the so-called GARIOA funds (government and relief in occupied areas). This leaves only the German rehabilitation requirements in the European recovery budget.

This plan recognizes those Army responsibilities which existed prior to the development of the European recovery program, and at the same time provides the necessary flexibility for the operation of the purely rehabilitation phases of the new program. This will permit the recovery activities for bizonal Germany to be handled in relation to those of the other European countries.

Germany will become a partner in the European recovery program. The military government authorities will receive and handle the recovery funds or commodities allocated to it as well as the relief funds, and the administration of the German recovery funds will be subject to a general supervision by the Recovery Administration similar to that in other European nations—although less supervision would doubtless be required because the American Government will already be largely controlling the economic program in Germany.

The administration of the European recovery program in Germany should be relatively simple. United States military government authorities, in consultation with those of Britain and with German economic agencies, will prepare and submit the bizonal requirements to the Department of the Army until that Department is relieved of occupation responsibility. When the United States military government receives its allocation of recovery funds, it will then carry out instructions it receives through the Department of the Army in connection with the importation of raw materials, their manufacture and distribution, and other related matters.

The military government authorities will, like any other European country, designate a representative of bizonal Germany on the continuing European recovery organization. In the United States, the Department of the Army will represent bizonal Germany in its contact with the Recovery Administrator. It will receive the German recovery requirements, assist in screening them, and then present them to—and defend them before—the Administrator.

Of course, when the State Department assumes the responsibility for civil and economic administration in the occupied area of Germany, the Army will be relieved of the above duties. But even then the Army's military staff here and in Germany will be available to assist the Administrator in other phases of his work, particularly where it can be of service as a procurement and shipping agency for supplies.

While Germany will be a partner in the European program, it must not be assumed that, because of her prewar economic strength in Europe, she will be able to lead the way out of Europe's present difficulties. The war left German industry too prostrate, and after more than two postwar years of bare existence her people are too weak to become such leaders.

The current level of industrial production is too low and the obstacles of inadequate power, transportation, and raw materials and low labor productivity are too great to be immediately overcome. The Army believes, however, that bizonal Germany is ready to respond if given assistance.

The successful execution of the entire program, of course, depends on many assumptions. One assumption is a substantial increase in labor productivity by 1952, as a result of the improved standard of living and the morale of the German worker. Another is that requisite financial and administrative reforms will be vigorously pursued and that policies providing an incentive to exports will be adopted and implemented.

Much will depend on the efforts of the German people themselves. The effect on production of the feeling of hopelessness of the German population has been profound. It is reasonable to expect that the recovery program by holding out the prospect of relieving the existing physical misery and of permitting the German people to stand once more on their own feet, will act as a far-reaching psychological incentive for labor, management and the German administration.

The recovery of German foreign trade is, of course, closely linked to the success of the European recovery program as a whole. Germany must be able to turn to the other European countries as a market for her growing production and as a source of her imports. An increase in the production and purchasing power of these countries is, therefore, vital to Germany, just as German recovery is vital to the rest of Europe.

Under favorable conditions, the trade deficit of Germany should be reduced to a manageable figure by 1952. While some deficit may still be evident at that time, Germany's economic prospects may well have improved to such an extent that private capital will again be attracted to Germany and assist measurably in balancing Germany's international accounts.

In my opinion the United States is now faced with three alternatives with respect to Germany:

1. The most drastic course would be to stop all economic assistance and withdraw our limited armed forces and military government personnel from the occupation of Germany. This course, seems to me unthinkable and absolutely counter to our national objectives.

2. Continue the present program of sustaining the German people on the basis of prevention of disease and unrest, and let Germany's meager exports gradually build up the country's rehabilitation. This approach presages a long, difficult struggle to raise the economic levels, and would require continuing very substantial annual relief appropriations. This course will be hard on the American taxpayers.

3. Provide financial assistance to western Germany, as a participant with the 16 other European nations as proposed by this cooperative endeavor, in an attempt to raise her economic level towards self-support in the shortest possible time. This is the alternative that I most earnestly recommend.

While no one can say with certainty what the results of the proposed recovery program will be, I am convinced that without adequate economic assistance to the nations of western Europe, including western Germany, we may well expect at least political aggression by totalitarian nations with ideas diametrically opposed to those of a free democracy.

Germany has become the focal point of the two divergent economic and political ideologies of the postwar period. Our interest lies in encouraging Germany and the other nations of Europe to have systems of free, competitive enterprise which recognizes the dignity of the individual—and to show them that such systems point the way to prosperity and peace.

The European cooperative recovery program now before you, I believe, is the blueprint for an enduring structure. I therefore strongly recommend approval of the program proposed by the President and so sincerely presented for your consideration by Secretary Marshall and the others who have preceded me.

Secretary ROYALL. All of us, I am sure, feel that the United States Government must do everything within its reasonable power to preserve peace for our country.

Under the uncertain conditions which prevail in the world today we must preserve an adequate national defense, which will convince any potential enemy that an attack on us would be unsuccessful, and that the disruption of the peace of the world on the part of any nation would be an unwise step.

We must continue our support of the UN with diligence and with fairness and in the most critical overseas areas we must seek to prevent the fundamental causes of war, hunger, cold, economic dislocation, national unrest and instability, and discouragement.

These are three separate efforts for peace, and all three of them in my opinion and the opinion of my Department, can be and should be pursued simultaneously.

While I believe that today strong military preparedness is the most effective of the three, I also recognize that it is at the same time the most expensive in dollars and in men and the national effort.

I assure you that as for myself, the time cannot come too soon when the strength of the UN or the improvement in world conditions can justify a radical reduction in the military men and matériel needed for national security.

I believe that the ERP is a definite step in that direction, and the plan has a reasonable chance of accomplishing its end.

The Army, together with the rest of the National Military Establishment, can properly give weight to the probability of some successful plan to reestablish the European economy.

It therefore can recognize and has already recognized that expenditures for recovery purposes justify lower expenditures for national defense than would be required if there were no effort for the European recovery.

The occupation of conquered countries has up to this time been the responsibility of the Department of the Army.

Among the most cogent reasons for such occupation are the prevention of unrest and disorder and the building of free and self-supporting states.

These two purposes, particularly as applied to Germany, closely parallel the purposes of the ERP as applied to Europe.

So our Department feels keenly the need of the broader program, and also realizes the necessity of closely integrating the rebuilding and reestablishment of Germany, with the rebuilding and reestablishment of the economy of western Europe as a whole.

Unless in this entire area of western Europe, including Germany, there can be an economy which is sound enough to preserve and rebuild the nations devastated by war, it is almost certain, it seems to me, that these nations will be an easy prey to political aggression of our totalitarian neighbors, aggression which must inevitably, in my opinion, threaten the peace of the world.

In Germany, the Army's task has been complicated by a factor which does not arise in the other countries of western Europe.

With the end of World War II, the people of our country, and that undoubtedly includes all of us here today, were determined that Germany would never again have the military ability to bring a world war on as she did twice in a decade, and three times in two decades.

Therefore, certain of her heavy industries had to be destroyed, and their rebuilding prevented.

It has been necessary to reconcile this destructive process with the obvious fact that for Germany to survive, her general industrial level must be raised, that the nation cannot be self-supporting, either as an agricultural nation or a nation of small shopkeepers, or artists.

Historically, Germany as a whole does not have sufficient native food for her own support. And this situation has been greatly aggravated since VE-day by the fact that the area ceded to Russia and the territory placed under Polish administration has taken away 25 percent of Germany's prewar food-producing areas and has done so at a time when the population of the United States and United Kingdom zones has been increased by 8,000,000 people.

It was increased by infiltration from other zones and otherwise. So the present population of the American and British zones is now a total of about 41,000,000.

These facts, and the resulting fact of our country pouring hundreds of millions of dollars each year into Germany for relief purposes, have emphasized the necessity of rebuilding German production as soon as possible, and expanding German exports with a view both to making the United States and United Kingdom zones self-supporting, and capable of preserving a free and democratic form of government, as determined against the spread of totalitarianism and also with a view to enabling those countries to pay their way as soon as possible and relieve us of the financial burden of relief funds.

The situation in Germany under which these purposes have to be accomplished has been complicated by a number of factors.

One of the principal factors is the division of the country into four zones of occupation—four zones with a political and economic concept in one of the zones differing radically from that of the other zones, and with the serious interference to the free flow of finished goods or raw materials between these zones as well as interference with the free flow of communications and personnel.

When it became apparent that the four occupying powers could not agree upon treating Germany as one economic unit, and that was sufficiently clear to General Clay and to the Department of the Army and the War Department, we offered economic integration of our zones.

Great Britain accepted and an economic merger was effected between the British and American zones on January 1, 1947.

That was over a year ago. Now, as of January 1 this year, the British dollar shortage made it necessary to amend this agreement by transferring to the United States the major part of the costs for food, fertilizer and fuel and other relief necessities, while at the same time increasing the United States authority over economic and financial matters.

The estimated 1948 cost to the United States for relief in Germany, relief expenditures, will be about \$700,000,000 for the calendar year as compared with an equivalent of from \$70,000,000 to \$87,000,000 to be contributed by Britain, that differential depending upon how much sterling they can reasonably spend and goods they can buy with sterling for relief.

They will furnish \$70,000,000 as a minimum, and \$87,000,000 as a maximum.

Of course, that is relief expenditures. Britain will support their occupation forces and their military government staff, the cost of which they estimate in excess of \$300,000,000.

Through necessity, our zones of Germany, the British and American zones, have up to this time been operated almost entirely on the limited theory of what we call disease and unrest.

We have had to spend hundreds of millions of dollars to import food and the bare exigencies of existence, and even after this importation, the German minimum ration for the normal consumer has averaged well below the 1,550-calorie theoretical ration, and has been lower than the minimum ration of any other European nation.

As I said recently, in making a talk, 1,550 calories is not much more than a good North Carolina breakfast.

While food is of course an absolute prerequisite for the ability to work, and therefore a prerequisite for production, yet such production also requires raw materials and the rehabilitation of plants and the repair and restoration of transportation facilities and other material aids.

No direct help along these lines has been given to Germany in American funds.

Since that has been the case and because of the terrific war damage that occurred there, as many of you gentlemen have seen, the progress toward recovery in Germany has been slow.

That is economic recovery. We have just given them the food. We have not contributed anything to the upbuilding of their industry and they have moved slowly.

The average production in neighboring nations has reached 90 percent of prewar and some of them have gone up above 100 percent; such production in Germany stands at only about 44 percent of the basic figure which is taken as 1936.

One of the important contributing factors, in addition to those I have already named for this condition, is lack of confidence in the value of money in Germany.

That lessens the incentive of both labor and management, and also of farmers to produce the maximum.

Labor and agriculture further suffer because workers leave their work to trade personal possessions for food. This in turn causes the farmer to withhold his produce from the legal markets so that he can barter it for labor or other articles.

After all, while we tend to think in terms of a nation as a whole, we are dealing in the last analysis with individuals and the incentive to produce of the particular individual is an important factor in any sort of recovery.

Another phase of our occupation problem is that of reparation. There has been a lot of talk about it in conjunction with the plan to demilitarize Germany; it was also initially provided and in the Potsdam agreement, that Germany should pay for some part of the damage she had done to other nations by giving up to them plants and equipment which were determined by the four powers to be in excess of her peacetime needs.

Eighteen nations were promised, in an agreement signed in Paris in 1946, that they would receive 75 percent of such industrial reparations from the western zone.

Under the Potsdam agreement Russia was to receive 25 percent of the plants and equipment, partly for compensation and partly as an exchange, rather than pure reparation.

To fix this level above which plants would be dismantled and paid in reparations, what was called a level of industry was set in March

1946. The excess at that time was estimated on the basis that Germany would be treated as an economic unit. Since Russia was to receive for herself 25 percent of the excess from the three western zones, 10 percent without repayment and 15 percent for which she would pay principally in raw materials, and from which she was to satisfy all Polish claims, she was allocated in 1945 as advance delivery, that was the term used for it, a few obviously excess plants and later some items of general purpose equipment from war plants.

Let me make it clear that the special purpose or war machinery from those plants were destroyed and not delivered to anybody.

In May 1946 when it became increasingly and finally clearly apparent that Russia would not treat Germany as an economic unit, General Clay announced that he would make no further deliveries to Russia of additional plants unless and until the Soviet Union accepted her full responsibilities under the Potsdam agreement.

Accordingly, the only shipments now going from the United States zone to Russia are the remnants or tag ends of one industrial plant, most of which had previously been delivered, and some general-purpose machinery from two war plants which would not have been retained in Germany under any circumstances because they were to be destroyed.

With the continued failure of Russia to agree to economic unity, and with the necessity for general industrial recovery in Germany becoming more and more apparent, the United States and United Kingdom military governors recommended that the level of industry fixed in 1946 for the merged zones be increased, and the number of industrial plants available for reparations be reduced.

One of the first acts I took as then Secretary of War, in August 1947 was to fix the new bizonal level of industry, and to approve the recommendations that had been made from the governors there, with the concurrence of the other necessary government departments.

It was agreed in August 1947 and announced that the plants to be dismantled were to be reduced to 682, leaving therefore a greater productive capacity in the critical industries of metals, machinery, and chemicals. Under the first level established 1,218 plants were listed by name and location but some 600 or slightly more were to be listed when definite selections had been made. These additional were not named before the new level was determined. The new list of 682, therefore, is about one-third of the original estimate.

Of these 682 plants, 186 are in the American zone, and 486 are in the British zone.

It is not believed—and I think this is a factor that sometimes is not fully recognized—it is not believed that the dismantling of these plants would adversely affect the German industrial recovery.

The reason is that the remaining plants will require all the fuel and raw materials that are likely to be available now or in the reasonably near future.

Because of the shortage of fuels and raw materials and labor, and transportation, these reparation plants could not be effectively utilized for Germany, in our opinion, within 4 or 5 years under any circumstances.

During this time the plants would depreciate, deteriorate, be subject to sabotage and theft, and would lose much of their value.

In the meantime allied nations of the West—and I am speaking now of nations in the West principally—are asking for these plants

which we have agreed to give them to use in increasing their own production.

In spite of the many adverse factors in Germany—I do not want to paint too blue a picture—some progress is being made.

The current 44 percent production of the 1936 level compares with a low of 20 percent at the beginning of the occupation period. It is a little over double.

Coal production, an essential for industrial recovery, has increased from a low of something less than 100,000 tons per day to a high of 285,000 tons.

Steel is about 25 percent of the prewar level; lumber is above the prewar level; transportation systems have been partially rehabilitated and a large number of cars repaired.

In the question of financial reform, there has been an earnest effort to effect that on a quadripartite basis.

Germany has had a single currency. It is all-important to us that every effort be made to do that in the new currency.

Now, alternative action is being studied, for the gap between the supply of money and the supply of goods must be closed if incentive to work is to be restored.

The joining of the two zones has resulted in a more efficient operation of the economic activities with more and more responsibility being given to the Germans who are encouraged and required to work for their own salvation.

Foreign trade has been decentralized and returned to Germans under Allied supervision, and these steps have produced some results.

Much more remains to bring Germany up to even the current level of Europe, and the European recovery program, as far as Germany is concerned, contemplates exactly the kind of assistance that Germany requires in order to speed her economic recovery.

But German recovery is not only important to Germany. The other nations of Europe need German industry and exports for their own rehabilitation and progress. Historically it was the central and principal industrial nation of Europe.

Their economies were to a considerable extent built around German production.

The 16 European nations who would participate in the proposed recovery program stated in their Paris meeting, and I will quote:

The German economy has been in the past and by the nature of things will remain closely tied up with the economic system of other European countries.

A substantial increase of output there will be required if Europe is to become independent of outside support.

Secretary Marshall in his recent Chicago speech stated that without a revival of German production there can be no revival of Europe's economy. But at the same time he also warned against any revival which would be a threat to peace by permitting Germany to become such a threat.

There is one means of assuring against Germany becoming such a threat. You will recall that the United States has suggested to European nations for their consideration a joint treaty to extend for as long as 45 years, to prevent Germany from again becoming an aggressor nation.

Since the Army still has the responsibility for the military and nonmilitary phases of the operation, we are at this time asking appropriations, as in the past, for the sums required for disease and unrest.

That is purely a relief fund. We are again asking for that in our budget. Included in the European recovery budget would be the additional funds needed for German economic rehabilitation.

This additional amount is estimated at around \$318,000,000 for 15 months, as a part of the recovery program.

This system, asking for the relief money and recovery budget, including the recovery money, would permit the rehabilitation activities for bizonal Germany to be handled by the military government authorities.

We handle both funds. The recovery money would be handled in relation to those of the other European countries.

We would handle the funds; if commodities were furnished in lieu of funds, as the plan would permit, we would handle those; but we would handle the rehabilitation part of the funds under the general supervision of the recovery administration, somewhat like other countries would handle it under that supervision.

In America the Department of the Army would represent the bizonal authorities, to receive the requests from Germany, and would defend those requests before the Recovery Administrator.

I am speaking of the Army handling that. You have seen an announcement that the State Department is going to take over occupation. We have been urging them for several years to take over the nonmilitary phases of occupation, which is principally what we are talking about.

They would take it over on June 30 or July 1. The State Department would relieve the Army for the responsibility of the nonmilitary activities in Germany. We hope the date will be the date named.

The Army's facilities in Germany will again be available to assist the Administrator wherever it can be of service. We would keep our troops there in the purely military form even if the State Department took over the occupation functions.

The problems confronting the United States today in relation to Germany must be approached realistically. We have three courses that we can follow, as I see it.

We will ask ourselves, "Should we withdraw all our forces from Germany and thereby abandon all our objectives of occupation?" The second question is, "Shall we continue to send into the bizonal area hundreds of millions of dollars for maintenance of law and order, and only for that, with hope indefinitely deferred to a German economy sufficiently rehabilitated to relieve us of the occupation costs; or shall we expend aid for recovery to Germany and to those European nations who have volunteered to cooperate with us to accomplish the rehabilitation of the European economy as a whole, as a foundation for peace and prosperity throughout the world."

In my judgment, the third alternative is to be desired above the others.

I feel confident that if followed it will extend its influence far beyond the borders of the participating nations; that it will eventually substitute, at least in part, the defensive armament, and that it will offer a prospect for lasting peace.

That concludes my statement, Mr. Chairman.

Chairman EATON. We have had a question based upon newspaper reports today that a strike in the Ruhr mines is imminent. How would our military authorities handle such a strike?

Secretary ROYALL. That happens to be in the British zone, but the military authorities would, of course, take all steps—all feasible steps—to prevent disorders.

Chairman EATON. How about preventing the absence of workers from work?

Secretary ROYALL. I think we would not go as far as enforced work or conscription, but we would make every effort, as we have had to do sporadically before, to render assistance under any justified situations, try to remove the causes, one of which is usually lack of food, which leads to the strike, and provide incentives for work, if they are justified, and negotiate with the workers for their return to work.

As I say, that is the British zone. But the situation would be handled, I think, substantially the same way in either zone.

The great difficulty there, of course, is the lack of incentive, as well as lack of food.

A man gets paid in currency which he can really use for the purpose of purchasing rationed articles.

When he gets an amount, with the maximum he can buy, his money is of very little value.

Chairman EATON. Are they interested in restoring the country?

Secretary ROYALL. I think a great many Germans are. But, as would be true even in America, you are dealing there with individuals who vary in their patriotism and in their understanding of the situation, and many of them look at it purely from a selfish, personal interest: "How much am I myself going to get out of it?"

We cannot hope to avoid that sort of personal approach in a great many cases.

Chairman EATON. The method furnished by Mr. Hitler and certain autocratic forces was a bayonet.

Secretary ROYALL. That is right, sir.

Chairman EATON. Are we going to furnish a little pious observation on the theory of the work because of that contrition, or what are we going to do? Most people do not know anything apparently but brute force.

Secretary ROYALL. I am sure some do not. We hope they are growing out of that attitude. Certainly we cannot afford to have slave labor in Germany.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Would you yield there for a question?

Chairman EATON. Yes.

Mr. LODGE. I was interested, Mr. Secretary, in your statement that you thought it perhaps was the lack of incentive goods.

I was wondering whether this protocol might not have something to do with the strikes and whether there might not be a concerted attempt on the part of the Cominform to bring about economic disruption, and in that case how much good will it do for us to provide the incentive?

Secretary ROYALL. I am sorry I am not quite up to date enough to answer how far the Communists' inspiration has been responsible for this strike. General Clay will be here tomorrow night and that is one of the important matters we will discuss with him.

I have seen conflicting newspaper reports. Some say it is Communist-inspired entirely and some say it is partially Communist-inspired, and some say it is merely lack of food and incentive.

I do not think I am in position to give you that opinion.

General Clay will, of course, give us his diagnosis of the situation. My guess would be, and it is purely a guess, that all of those elements may in part enter into it, because communism and Communist agitators, faced with a condition of unrest, may possibly capitalize on it.

There are some Communists in the Ruhr.

Chairman EATON. The thing I would like to know, if I could, is whether the German people in our zones, for instance, have as an incentive the desire to rebuild a whole nation and make it a part again of the world.

Secretary ROYALL. I think a very substantial part of them do.

Chairman EATON. What are they doing about it?

Secretary ROYALL. Well, it varies. Some of them are working very hard. Some of them are producing the maximum they can. And some of them are loafing on the job.

Chairman EATON. I was wondering if we were not substituting the eleemosynary motive for patriotism. We are locating the incentive from the brain and the conscience to the alimentary canal.

Secretary ROYALL. Well, sir, I suppose we are running a slight risk on substituting aid for necessity but I think we have got to take that risk with our eyes open. The alternative is the starving or semi-starving nation, and that would certainly create more unrest and more danger to us and to the world than it would maybe in some individual instances to err on the side of generosity. You cannot draw a straight line, I do not think, either way.

Chairman EATON. I cannot find myself deeply moved with sympathy or anxiety for these people who have wrecked the world. Let them go to work and help rehabilitate, without being waited on by a wet nurse all the time and fed like a lot of stalled cattle. Let them take their own medicine now a little.

Secretary ROYALL. Well, sir, I have great sympathy with your feeling that Germany or the German people deserve almost any fate that should come to them. But I do not think we have to place this on grounds of humanitarianism entirely—or at all, if you do not wish to. The truth is that a semistarving Germany would be a menace to our own security. Of course, we do have some obligations under international law to look after occupied countries. But I base the principal reason on the fact that we do not want chaos in Germany.

Chairman EATON. Mr. Kee.

Mr. KEE. I have no questions.

Chairman EATON. Mr. Vorys.

Mr. VORYS. Mr. Secretary, I am reading question 11 from a resolution of inquiry directed to the Secretary of Defense, among others, and no doubt you would be speaking for him. This resolution was directed on December 18. I am reading question 11:

Has the Government of the United States taken appropriate steps to delay temporarily the further dismantling of plants in western Germany so as to permit further study by the appropriate committees of Congress in order to determine whether such transfers are prejudicial to any general recovery program for western Europe?

Secretary ROYALL. No, sir; we have not stopped the dismantling of plants. We are continuing the dismantling down to the level of industry which was prescribed in August 1947. As I stated a few moments ago, it is the opinion of the military government authorities

in Europe—and we see no reason to differ with that opinion, and they have approved it—that the plants which we are dismantling down to this level will not be usable in Germany for a period of 5 years. That is our best estimate. And that, therefore, their dismantling does not either affect the present or the immediate prospects of Germany to recover and rehabilitate, nor to those prospects of the reasonably near future. We have done this: We have stopped the delivery to Russia and to Poland of any additional plants, except a small percentage of one plant, most of which has already been delivered, and some general-purpose machinery from two war plants which had to be destroyed anyhow to prevent Germany's war-making powers from being feasible in the future.

Incidentally, I have not seen these questions, but I think I can answer some of them anyhow.

Mr. VORYS. As you see, the questions arose because the committees of Congress and individual Members of Congress in studying the thing did not agree with the conclusions that you just stated, as to the dismantling of these plants. Going back to your text here:

It is not believed that the dismantling of these plants will adversely affect German industrial recovery, since the remaining plant will require all available coal and raw material—

there was considerable evidence that the further dismantling of these plants would adversely affect German industrial recovery, and a number of us were informed in Germany by both German and American officials that the dismantling was not merely to furnish plants to Russia, not merely as a matter of reparations, not merely to remove Germany's war potential, but to reduce Germany's competitive peace potential, and in view of the fact that since the dismantling order was made, 13 of the 18 nations have been directly or indirectly involved in the Marshall plan, three are now Soviet satellites, and two, India and Egypt, account for only 3.10 percent of the proposed reparations, it seemed to the House of Representatives that dismantling might be held up until they could get a little more information about it.

Secretary ROYALL. Yes. I realize that that was a question about which there could be and was some difference of opinion. At the hearings, principally, I believe, at the appropriation hearings, this question was raised and we did not at that time say that we would suspend the dismantling, but after the hearings we considered whether we should. Of course, if we were going by strict rules of administration, we had to make a decision to the best of our ability, but we respected the opinions expressed in Congress, and, therefore, on the 24th of December I addressed a letter to this committee, to the House Appropriations Committee, and the corresponding committees of the Senate, in which we stated that we were not stopping the dismantling. I did that because I did not want anybody to be under the impression from the discussion that we thought it advisable to do so. This letter was marked "Confidential," but I see no reason now, in view of the wide discussion that has been had in the press since that time, that it be any further confidential.

Chairman EATON. Did it not appear in the newspapers the next day?

Secretary ROYALL. I did not give it to the newspapers. I do not know who would be responsible. It was written by one person and sent to four. There are five possibilities. I will eliminate one of them

personally. I do not know whether it is in the paper or not. I would like to put this in the record, and strike out the confidential classification, if I might.

We said substantially in this letter what we said before and what I said today. General Clay thought it unwise not to dismantle these plants. We do not think they are necessary for German production, and as for the countries who are sharing or designated for sharing in the recovery plan approved by Congress, as you say, 13 countries are included in our reparations agreement.

At least a substantial number of these countries are taking the position that that machinery in those plants, since it would be useful to them in their recovery programs, if that is a fact, it would tend to speed recovery in those countries.

Now, certainly there is no economic way in moving an operating plant from one place to another, and the recipient does not get the value that the plant in place would have. But if the plant in place cannot be used for a considerable period of time, then, the chances are that there is not an over-all economic waste, but an economic value to the recipient. That fact, in addition to the fact that these were promised to these nations, has led General Clay to continue the dismantling.

(The letter referred to is as follows:)

DECEMBER 24, 1947.

HON. CHARLES A. EATON,
*Chairman, Committee on Foreign Affairs,
House of Representatives.*

DEAR MR. EATON: In view of the discussion concerning the dismantling of German plants for reparations, we wish to advise you of the present status of this problem.

General Clay has just cabled us that in order to carry out the program announced to the Landerrat at its meeting on the 4th of November of completing the dismantling of reparations plants in the American zone by next spring and so to dispose of this troublesome problem once and for all, he had given instructions last month to the reparations section to proceed as quickly as possible with the dismantling of all the reparations plants on the new list.

The Inter-Allied Reparations Agency in Brussels has been provided lists of the plants and has been invited to send in inspection teams of representatives of interested nations to view the equipment even before allocation by the Allied Control Council.

This program is now under way and General Clay states that he would consider it extremely unwise to defer dismantling in the American Zone during the proposed congressional hearings and investigation as it would be come a serious political problem, particularly if dismantlings were subsequently carried out. I assume that by the political problem he means unrest and dissatisfaction which would arise in Germany, although his cable does not specifically so state.

You are doubtless familiar with the press release given out by the State Department a few days ago, which read as follows: "The State Department confirmed that it is seeking adequate arrangements with the British regarding any further shipment of dismantled plants to the East. The Secretary of State had a preliminary talk on this subject with Mr. Bevin before leaving London."

We have discussed this matter with representatives of the State Department who have advised us that they are considering this whole question in the light of the present circumstances.

While the dismantling program announced to the Landerrat early in November was a matter of public record and appeared in the press at the time, I would ask that this letter be considered as confidential in view of the policy questions now under consideration by the State Department.

Sincerely yours,

KENNETH C. ROYALL,
Secretary of the Army.

Mr. VORYS. Mr. Secretary, this series of questions I called to your attention was not from any committee but was a resolution of inquiry passed by the House of Representatives over a month ago, and the House has had no answers to the questions and since they are very important in our consideration of the recovery program, I was hoping that we might get some answers to them.

Secretary ROYALL. I think I can answer a good many of them, but whether they are answered today or not, the information will be in soon. Both the State and Army have been working together on answers to these.

Mr. VORYS. I do not intend to go through the list of the questions, but I was particularly interested in the last one, which is in some ways the \$64 question. You have now answered that, showing that there is apparently no intention to delay temporarily the dismantling so that the appropriate committees of Congress may study it.

Let me call this to your attention: This recovery program is a cooperative one, and cooperation is a two-way street that works not only between the Congress and the administrative agencies both ways, but between the nations which may be the recipients of billions of dollars of American commodities. I must confess my great disappointment if it has already been found out that it is impossible to hold this up until we can get a look at it. Meanwhile we are supposed to speed action on making the money available over there.

Secretary ROYALL. I agree with your general sentiments entirely but I want to say this, sir: That this matter of stopping reparations, as you may or may not know, was proposed in connection with the appropriation bill in December, and was stricken from the bill during its progress through Congress, and there has been no formal action by Congress on the matter, that being the only indication. There has been no formal action by resolution or otherwise, except by inquiry. I mean there has been no formal action requesting that this be done or directing this be done. The only action that would be definitive that was taken, if that is definitive, is that it was proposed to Congress the provision that it not be done and that was stricken out.

Mr. VORYS. Let me remind you that a resolution of inquiry by the House is about the most formal and peremptory action that the House can take, and the answer to such an inquiry is supposed, under our rules, to come through in a short time. Therefore, you are in error if you think there has been no formal action on this matter taken by the House.

Secretary ROYALL. I did not mean that, sir, if I left that impression. I said there had been no formal action requesting us to stop dismantling, and there has been none as far as I know. Now, I do not personally know just why there has been so much delay, and I think it has been a pretty long time, with this exception: Some of this information perhaps had to come from the theater, and the other factor is that this is a matter of policy as to dismantling which has to be determined by, primarily, the State Department, but in practice jointly by the Department of the Army and the State Department, and determined after the full facts are obtained. I suppose that is the explanation for the fact that the two departments have not yet answered this inquiry.

I agree entirely that it should be answered promptly, and if it has been unduly delayed, that it should not have been unduly delayed.

But I repeat that there has been no action by Congress directing or requesting the Department of the Army or the State Department to stop dismantling these plants. If such action were taken, I assure you it would certainly carry great weight and might well be entirely determinative of the course we would follow.

Mr. VORYS. I wonder if you could give us a break-down of the \$822,000,000, as to how much of it is for military occupation and how much of it is for military government? I found out over in Germany that by "military government," they did not mean military government, they meant just the opposite. One official said, "It is not very military and not much government." I think that was exaggeration, but certainly, as far as the military is concerned, it is a civilian government. How much of it is for civil affairs?

Secretary ROYALL. Well, first let me say I think it is pretty military over there. I have watched those boys and I think they are pretty good. I think they are remarkably military, considering all the circumstances. And I further think that General Clay has done an exceptionally fine job in government of Germany under very difficult circumstances.

Mr. VORYS. Understand, I do, too. I am not raising any criticism, but on this terminology, when you say "military government," you do not mean military government.

All I wanted to know is what part is military occupation for security troops, I forget the initials they headed that up with, but they had it at Frankfurt, and what is the civilian end of it?

Secretary ROYALL. The \$882,000,000 includes none of the military expenses. It is solely what is called category A items, which are principally food, fuel, and fertilizer. That is all that is included in that.

Mr. VORYS. What is the expense of the military?

Secretary ROYALL. That is for a 15-month period, as you know.

Mr. VORYS. Yes. What is the expense for the military occupation, and by "military" in this question I mean military.

Secretary ROYALL. I would say, sir, that that question I do not think can be dogmatically answered because it includes the pay of troops, supply of troops, housing, their dependents' allotments, their quarters, and the personnel in the United States that is engaged in their supply and management, and there has never been any absolute break-down.

Mr. VORYS. That was what I want to get.

Secretary ROYALL. To give you our best estimate, I must qualify by saying it cannot be with exactness, but it is our estimate that occupation is roughly responsible for \$2,000,000,000 of the Army's \$2,900,000,000 expenditures. That of that \$2,000,000,000, approximately one-half, or \$1,000,000,000, would have to be spent on those troops wherever they were located, and that, therefore, the net cost of operation for military in all areas, which would include Germany, Japan, and Korea, would be a billion dollars for the extra cost of being over there, the organization, civil personnel and other personnel that would not otherwise be required, and for supply lines, and so forth.

Now, that billion dollars must be divided between Japan and Korea, on the one hand, and Germany, on the other.

I would say the German part of it would be a little less than one-half perhaps. That, again, is an estimate. They have more troops in Japan and Korea jointly than Germany, but that is offset to some extent by the fact that we have a more complicated situation in Germany than in Japan and Korea. I would say roughly one-half. The best you can say—and this is purely an approximation—is that military and occupation and the governmental functions we perform in Germany, exclusive of the relief funds, is something under a half billion dollars.

Mr. VORYS. Then, to find out what the total costs of our activities in Germany would be, you would add, for instance, \$822,000,000 and let us say \$400,000,000?

Secretary ROYALL. Let us say \$450,000,000 if we have to guess.

Mr. VORYS. All right, \$450,000,000. Then, there was an uncovered deficit of \$200,000,000 that was presented to us. Where would that come in?

Secretary ROYALL. You would be duplicating if you put that in. The \$822,000,000 is for a 15-month period.

Mr. VORYS. Yes.

Secretary ROYALL. There is something around \$700,000,000 for a year, and if you add the \$450,000,000, it would be \$1,150,000,000. That is for relief and occupation and military functions over there on an annual basis.

That does not include the recovery part of the program, which would be under the plan you are now considering, which is about \$320,000,000 for a 15-month period, or about \$250,000,000 for a 12-month period.

Now, the deficit is part of that. This is an inclusive figure for everything.

Mr. VORYS. I always get mixed up on this deficit. Is that a deficit in the \$822,000,000, or in the Marshall plan figures?

Secretary ROYALL. Which deficit are you talking about?

Mr. VORYS. The so-called uncovered deficit.

Secretary ROYALL. That is part of the \$322,000,000. That is in the Marshall plan.

Mr. VORYS. Part of the \$322,000,000?

Secretary ROYALL. Yes. Which is the 15-month period. If you just throw the deficit out, which would be, as I said, a duplication of figures, you have, for a 1-year period, the best we can estimate, \$700,000,000, plus \$450,000,000 plus \$250,000,000, which makes about \$1,400,000,000 for all purposes in Germany for a 12-month period if the European recovery program is adopted.

Mr. VORYS. Thank you.

Chairman EATON. Mr. Richards.

Mr. RICHARDS. Mr. Secretary, you mentioned about the British zone and American zone being brought together in one economic unit. As I understand it, the French zone is still operating separately. Would it be in your opinion any economic advantage for the French zone to be incorporated with these three now? That is, economically?

Secretary ROYALL. It depends on the terms under which that is done. It could have certain advantages. It would, of course, have additional administrative difficulties. It always would, when you have three people to do it instead of two. That is a matter which is receiving and will receive active consideration.

Mr. RICHARDS. Some have taken the position that it would be better to let the French Zone remain connected with the French economic set-up because it would work advantageously to both, as is. I did not know whether it would save the United States money or not to bring the French Zone in with the other two zones.

Secretary ROYALL. There have been conflicting opinions on it. I think the dogmatic answer is difficult. The matter has been considered to see if arrangements can be made on a sufficiently fair basis under our terms of what is right to make it advantageous to both the French and ourselves. I do not believe I can be any more specific in that because the matter is now under consideration. On balance, we are committed to try to get that done on a fair basis.

Mr. RICHARDS. You mentioned that the United States Government had taken over certain financial obligations in the merger of the American Zone with the British Zone.

Secretary ROYALL. Yes. Well, we originally had a 50-50 agreement with the British on the relief supplies. They notified us during the fall that on account of the dollar shortage, and the dollar is the only thing that will buy much outside of some of the British areas, on account of the dollar shortage they would be unable to continue that 50-50 agreement, and that they might be unable to continue any participation either during the year 1948 or for part of the remaining period of 1947, whereupon we arranged a series of meetings with the British over here in which the matter was fully discussed. The State Department and the Department of the Army, General Draper representing the Department of the Army, made the best agreement we could make. The Treasury Department was also in on the conferences. Under that new agreement, for the year 1948, Britain will contribute to the relief funds, as I said in my manuscript, somewhere between 70 and 80 million dollars. We will contribute the \$700,000,000, which I previously mentioned. In other words, it will be 8 or 10 to 1.

In compensation for that, in a way, or recognition, it would be better to say, the authority on economic and financial matters is in somewhat the same proportion as the contribution which gives us, in effect, control over the economic and financial dealings in Germany.

Chairman EATON. That is, both zones?

Secretary ROYALL. Yes, sir. We have some qualifications. We would be glad to furnish you a copy of the agreement. That, in general, is an accurate statement.

Mr. RICHARDS. In addition to that, we have also taken over some of the military responsibility?

Secretary ROYALL. No, sir, we have taken over none of that and none of the responsibility for the actual governmental operations. England is still paying its people and we are paying ours.

Mr. RICHARDS. Has the British military force been reduced in the British Zone?

Secretary ROYAL. It has been reduced in both zones. As a matter of fact, the British have considerably more civilian personnel over there than we do.

Mr. LODGE. Will the gentleman yield?

Mr. RICHARDS. Yes.

Mr. LODGE. Since we have this 10 to 1 authority in both zones, Mr. Secretary, do we propose to do anything to stop the dismantling of

plants in the British Zone and sending those plants to Russia, as I understand is now being done?

Secretary ROYALL. This agreement does not specifically give us any authority over the reparations program, and we have not any right today to tell the English to stop delivering plants to Russia. That matter will be discussed and is being discussed with the British. I would prefer not to say anything more about that, if I might. I understand your problem. We understand it thoroughly.

Mr. RICHARDS. In the final analysis, Mr. Secretary, to what extent is the United States able to make decisions when it comes to the administration of the British Zone?

Secretary ROYALL. Political administration at the present time, we have no authority in. It is in the export and the economic side and the financial side.

Chairman EATON. Where it requires American money, in other words?

Secretary ROYALL. That is the best way to put it, where American money is actually involved.

Now, as you have seen from the press, there has been some discussion and some form of action—I will have to leave it that way—as to the political unity of the two zones. But that has not become entirely finalized at this time.

Mr. RICHARDS. Let me go back to the question that our chairman brought up just now about the German people working. Now, Germany is a conquered country. No peace treaty has been signed with Germany. Germany is occupied by our forces, or at least certain parts of Germany are occupied by our forces. We are obligated under international law to see that the German people do not starve. And we are fulfilling that obligation as we always have. But the German people are obligated to work. Now, I know of no obligation on our part by treaty or international law or anything else not to compel the German people to work to get their daily bread. I think they should be made to work at the point of a bayonet, provided we provide them with food to work. Why is it not the policy of the United States to make them work?

Secretary ROYALL. No, we do not make that policy, and maybe I do not have to state my view, but I would like to state my view.

Chairman EATON. Yes.

Secretary ROYALL. I do not think that the American Government wants to make anybody work at the point of a bayonet, after actual hostilities are over.

Mr. RICHARDS. Even though they are the conquered enemy and we are feeding them?

Secretary ROYALL. Well, we might accomplish the same result by prescribing certain conditions to their being fed, and there might be other things we could do. I am sure that General Clay thinks that feasible, and I am not sure that anything has been suggested, but I would not, under any circumstances, myself, feel we should make them work at the point of a bayonet. We might exert other forms of compulsion by withholding food.

As a matter of fact, the principal interest in Germany from my standpoint is to prevent Germany from becoming a disorganized or totally disorganized country seething with unrest and starvation and disease, which would be a prey to any sort of ideology. I think if

that should happen that it would be prejudicial to the interests of the United States.

Mr. RICHARDS. But if that is not going to come about, there are two things that must come about, one is that the German people must be fed and the other is that the German people must work.

Secretary ROYALL. I agree with both of those objectives. You deal with an individual, though, and you cannot generalize too greatly. Just as in any nation there are citizens whom no one can compel to look at a matter other than selfishly. I think this is repetition.

We have got to have, short of force with a bayonet, incentive for them to work. A great many individuals will work only from the standpoint of force.

Chairman EATON. You would not preclude the United States from acting selfishly on that basis?

Secretary ROYALL. I certainly would not. That is right. I would not preclude it. I agree with you.

Mrs. BOLTON. You just commented that eating might be an incentive, that if one did not work, one did not eat. That has been on the docket of a good many nations for a good many thousands of years, has it not?

Secretary ROYALL. Yes.

Mr. RICHARDS. Some people want to eat and not work.

Mrs. BOLTON. Are we not doing a great deal of that in our country?

Mr. RICHARDS. We are not under military government and we are not a conquered enemy. That is the difference.

I have one other question.

You mentioned as one of the alternatives, if we do not go ahead and feed these people and help to restore the economy of Europe, to get out. What do you think would happen if we took our military forces out of Germany today?

Secretary ROYALL. If we took our military forces out of Germany and stopped our relief expenditures to them, my own guess is that they would go communistic promptly.

Mr. RICHARDS. If we keep our military forces in Germany and appropriate money to keep them there and do not do something to restore the economy of Europe behind those forces, what do you think will happen?

Secretary ROYALL. Unless the European nations can have a stable and self-supporting economy they too, would—in varying degrees, of course—be most susceptible to the same fate that I outlined in Germany.

Mr. RICHARDS. So, in the final analysis, it is: Get in there and spend more money or get out entirely with your armed forces.

Secretary ROYALL. I think this: I think there are three courses. Either get out or let it run along like it is now, which is not improving much. We are just spending more and more. Or you can put some more money in to build up the recovery and hope that in a reasonably short time we can make the nation self-supporting.

Within the 4- or 5-year portion of this plan we can make the nations self-supporting.

Mr. RICHARDS. And, whatever course we follow, we had better keep our powder dry at home?

Secretary ROYALL. I think we should.

Chairman EATON. And plenty of it?

Secretary ROYALL. I think we should.

Chairman EATON. Mr. Mundt.

Mr. MUNDT. Mr. Secretary, this committee is considering not only this particular legislation but the whole world picture, from the standpoint of what Congress and the country can do to facilitate peace.

Up to now we have had a very fine galaxy of distinguished visitors, including the gentleman I am addressing, and one of the features of the whole testimony has been that the effort is behind one particular approach to the world problem: And that is the expenditure of American money and American materials in an effort to win or buy or secure peace and security abroad.

I think we are going to have to do something along that line. I do not think we are ever going to get the job done however if we simply go out hunting with a single-barreled shotgun with one shell, no matter how expensive or how far we reach.

I am gratified by a statement you made on page 2:

I assure you that as for myself the time cannot come too soon when the strength of the United Nations or the improvement in world conditions can justify a radical reduction in the military men and material needed for our national security.

I want to address myself to the first part of that, to the strengthening of the UN, which, I think, must be done.

It must be done by American leadership, and I think it should be done concurrently with this program, if not ahead of it.

I wonder if you would dilate on that aspect of the question a little bit?

Secretary ROYALL. I think it ought to be concurrent. We have to do two or three things at the same time. We have to push the UN with every iota of our leadership and make it successful, and we have to rehabilitate the European Continent to the extent that we are capable of doing. And we have got to keep an armed force that will convince the rest of the world that we can take care of ourselves.

Now, those are three large orders, and we are faced with the situation that of course we know that there is a dollar limit beyond which this country cannot go. Everybody has to realize that. We have to weigh these things.

The UN costs the least of the three. And I think that our conduct in the UN, while it is not at all within my jurisdiction, has been remarkably fine.

The difficulty that has been met is the recalcitrance of one nation and that of its satellites. I think, in view of the difficulty of that situation, that to hold the UN organization together and to accomplish even the limited things that it has accomplished is well worth while. And I think the greatest mistake—perhaps as great a mistake as we could make—would be to either lose faith or confidence in the UN or diminish our efforts to make it succeed.

Mr. MUNDT. I agree 100 percent.

Now, having met this road block which you have so aptly described it seems mandatory to us to do something about removing it. Now do not let the fact that you are Secretary of the Army deter you from talking about the UN because everything is getting balled up these days.

The Army is busy mining coal over in Germany, and the State Department wants to become the economic administrator of a program which some people think should be done by financial people.

The Department of Commerce is over telling Congress how to write a tax law, and Congress is supposed to be an authority on spending the people's money to feed the people abroad. We are all balled up.

Secretary ROYALL. Please get back to the money and let us run the military side.

Mr. MUNDT. That is the trouble with the hearings up to now. We have been getting an overdose of evidence on one aspect of a program which we must meet with a concerted front.

You have come out very hopefully with a recognition of the UN segment of that. I want to congratulate you for that and urge that you bring supporters from the citadel down here to talk to us in those terms. It is not enough to say that we are going to spend X billions of dollars and then hope, after a while, that we are going to face up to the fact that the UN is not functioning to help freedom because some recalcitrant nation has got us blocked. We have got to do something about that. I am happy to hear you say it should be done concurrently and not in the sweet afterwhile.

Secretary ROYALL. That is right.

Mr. MUNDT. Now, to get back to your bailiwick, on page 6 you speak about the excess plants. Who determines whether a plant is excess? The British, the Russians, the French, the Americans, or one of the four, with one able to veto the decision?

Secretary ROYALL. This particular determination was made in August 1947, the last level of the instrument, and was determined by the British and Americans for their two zones after a careful study and expert advice as to what the probable needs of German industry were at the present and over the reasonably near future. And they identified specifically those plants which by name and description could be removed and dismantled without an adverse effect upon the German economy.

Mr. MUNDT. When you refer to "general-purpose equipment" being taken out of war plants for shipment to Russia and say "this special-purpose war machinery from these plants was destroyed," can you be sure, sir, that the general-purpose equipment removed from the plants in Germany and transplanted in some other country cannot also become a war potential?

Secretary ROYALL. No, sir. If we expanded the term "war potential" to its ultimate meaning, as we know so well in our country, and we were going to destroy every plant with a war potential, we would have destroyed almost everything they had in Germany.

It is a question of degree, and we have to draw what we consider a reasonable line between those plants that are so plainly and clearly and readily adaptable to war that we should not permit them—like aircraft plants, for instance and the other plants not so adaptable to war. But there is a question of degree there, and in everything that is dismantled and moved out of Germany—or almost everything—and it is hard to think of something that would not contribute, possibly, to war.

Mr. MUNDT. I remember one day on the floor of the House when most of the members of the committee took the opportunity to disassociate themselves with my good friend from Columbus, Ohio, and I would like to associate myself with him this afternoon on the point that he makes on the dismantling of plants.

Now, going to page 7 of your testimony:

It is not believed that the dismantling of these plants will adversely affect German industrial recovery.

I join him in his skepticism about that, but I would like to pursue that a little further to know what happens to the material when the plant has been dismantled. What happens to the dynamos and machine tools?

Secretary ROYALL. They are supposed to be paid in reparations. Seventy-five percent of them go to the western nations as a whole, generally, while some are not western. Equipment is included. And 25 percent goes to Russia, and Poland.

Mr. MUNDT. Is that 25 percent still being shipped behind the iron curtain?

Secretary ROYALL. The only thing we are shipping from the American zone now is the small remnants of one plant, most of which we had already sent, and the general purpose tools from two war plants. Those are items we had marked for advance reparations and which were definitely agreed to be delivered, and we are just completing the small end of a job.

From the British zone, as I said a moment ago, I think the probability is—and maybe we know that—but I think the probability is that they are continuing to make shipments.

That matter, as I said a moment ago, is under discussion.

Mr. MUNDT. I do not know what the War Department feels, but I know that a lot of members feel—and most of us who were abroad last summer feel—that it is a doubtful maneuver for securing the peace if we dismantle the war potential of a defeated enemy and use it to increase the war potential of a possible enemy in the future, whoever it is.

Secretary ROYALL. Well, sir, I am not going to say no to you.

Mr. MUNDT. That is adequate.

Could you translate your figures on page 7, when you talk about coal, into the same category when you talk about steel? You say you have restored steel to about 25 percent of the prewar level and you have restored coal to 285,000 tons.

What percentage of the prewar coal production is represented by 285,000 tons?

Secretary ROYALL. I will have to get that for you.

Mr. MUNDT. Then we can have some basis for comparison.

Secretary ROYALL. If I gave you the figures, strike it out because I really do not know. They tell me that it is between 60 and 70 percent of the prewar.

Mr. MUNDT. There is that much—60 to 70 percent?

Secretary ROYALL. That is about right.

(Secretary Royall has since varified this figure of 70 percent.)

Mr. MUNDT. I have one other question which I am sure you cannot answer today, unless one of these gentlemen have the answer. It is something I want for another purpose.

I observed in Austria and in Germany a very extensive and enlarged and rather successful information program being administered under the direction of General Clay in the War Department. I wish you would supply information on the record in answer to a question we asked there and failed to get: How much, this year, are you spend-

ing for purposes of dissemination of American information in Germany and how much in your information service in Austria?

Secretary ROYALL. We will get that for you. We do not handle it in Austria any more.

Mr. MUNDT. It has been turned over to the State Department?

Secretary ROYALL. I have been told we did not have it in Austria. I will have to check that, too. There are certain functions we handle in Austria, but not nearly as wide as Germany. We will give you those figures.

Mr. MUNDT. Thank you.

(The information is as follows:)

In the fiscal year 1948 the reorientation and reeducation program appropriations were as follows: Germany, \$3,944,437; Austria, \$1,000,520.

Of these amounts, the following is specifically for public information and reorientation: Germany, \$2,222,394; Austria, \$788,135.

The figures include costs only of contractual services, purchase of supplies and materials, interchange of persons and rental of facilities.

The estimates for fiscal year 1949 are still confidential and will be released when presented to the appropriate congressional committees. However, the program is considered essential and funds are designed to support an accelerated information program necessary to expose and counter the all-out communistic propaganda campaign directed against United States foreign policy. This program is not a phase of the one conducted by the State Department, which does not administer this type of activity within the occupied areas, except to use available installations for the beaming of radio broadcasts to European nations to the east of Germany.

Mr. JARMAN. Mr. Secretary, I was very much pleased to hear your expression of confidence in the UN. On the day the San Francisco conference commenced, and, I believe, on the day the UN first met, I expressed the opinion on the floor—and I have expressed it repeatedly at other times—that with the progress of science—and that was before the atomic bomb—since all intelligent people must know that civilization cannot survive another war, that the leadership of the world would finally do whatever is necessary to prevent another war and that the UN would be the instrument through which that would occur.

Regardless of the gloomy outlook from time to time since then, I still believe that and I am glad to hear you are in agreement with that opinion.

I believe the UN will succeed.

Mr. RICHARDS. Will the gentleman yield right there just for an observation?

Mr. JARMAN. Yes.

Mr. RICHARDS. From the crack made by my friend from South Dakota one would come to the conclusion that the idea of the League of Nations and the UN was born in the Republican Party.

Mr. JARMAN. I am mighty glad that the United States is participating in the UN and not sitting on the side lines. I have always believed that had we participated in the League of Nations we might have at least largely contributed towards avoiding this last war.

Mr. MUNDT. Would the gentleman yield so that I can reply to my friend from South Carolina so that we can keep this discussion strictly bipartisan?

One would conclude, by the way the UN was fumbling along and missing the bus, that it was administered exclusively by New Dealers.

Mr. JARMAN. Now, I want to get back to this business which the chairman brought up and my friend Mr. Richards pursued.

As I recall, it was initiated with some such statement as "It is a matter of them working or us paying dollars," or something to that effect.

Mr. Secretary, take the American and British zones combined—are they self-sustaining, from a food standpoint?

Secretary ROYALL. Oh, no. Nowhere near it.

Mr. JARMAN. Is there much prospect of food flowing into that zone from neighboring countries?

Secretary ROYALL. Not until we have exports to buy it with and exports in Germany to pay for it. Even then there can't come enough from neighboring countries.

Mr. JARMAN. That is, over and above the demand from the neighboring countries?

Secretary ROYALL. That is right.

Mr. JARMAN. In other words, it would take dollars to get food in there?

Secretary ROYALL. That is right; dollars or something which is worth dollars.

Mr. JARMAN. And since there is no food available anywhere around without dollars, what difference, after all, does it really make, as far as whether the German people will starve or not, and as far as the dollar situation is concerned, how much they work?

Secretary ROYALL. Well, it does make a difference whether they work.

Mr. JARMAN. I am talking about in relation to American dollars. Of course it makes a difference. We want them to work. But where would they get the food with the proceeds of their labor?

Secretary ROYALL. Well, of course maybe I am not following you, but we are feeding the Germans because they have not the food in Germany and they have not the dollars or exportable commodities to buy it with. The sooner Germany does have exportable surpluses that they can send to other countries, then the sooner we will be relieved, in part or in whole, of our financial responsibility of feeding them.

They cannot reach the productive capacity to have exports unless they work. Furthermore, their working is important because the more they raise on the farms in Germany, the less we will have to supply them. So the work of the German people is a really material factor and an important factor. We want to do everything we can to get them to work, short of actual force.

Mr. JARMAN. I thoroughly agree with that, but I cannot understand why no food is available except in the United States. And they do not produce to export to the United States, so I do not see that how much they work makes any difference.

Secretary ROYALL. You can buy it from some place else. They sell coal, for example, for dollars or equivalent of dollars. They have some exportable steel. They have some exportable cotton goods, and there are a number of other items which they can use, eventually, to pay for their food.

At present they are not doing it because they are using that money to build up their economy, and the more they build it up the sooner we will reach the end of the road.

Mr. JARMAN. Could they sell coal right now for dollars, no matter how much they had?

Secretary ROYALL. Well, they can sell coal to France.

Mr. JARMAN. For dollars?

Secretary ROYALL. For dollars; yes. There is something they could sell and get dollars for. They could realize on their exports. All that they have they could realize on.

They do get a little food from adjoining countries, but it is not enough to support them.

Mr. JARMAN. I would like the clerk, Mr. Chairman, or somebody else, to read the resolution passed by the House—that paragraph of it which was referred to a while ago. It was paragraph 11, I believe.

Mr. CRAWFORD (reading):

Has the Government of the United States taken appropriate steps to delay temporarily the further dismantling of plants in western Germany so as to permit further study by the appropriate Committees of Congress in order to determine whether such transfers are prejudicial to any general recovery program for western Europe?

Mr. JARMAN. I thoroughly agree with you, Mr. Secretary, that that merely asked a question and issued no directive to your Department.

Secretary ROYALL. Yes.

Mr. JARMAN. Now, as to that question of dismantling of these plants, did you say the British and Americans decided which would be dismantled?

Secretary ROYALL. Well, the British and Americans decided in August 1947, in fixing the level of industry—which meant the plants that would be left—that they would fix those that would be taken away. You understand that these questions of dismantling of plants are not matters solely decided by the Department of the Army. These matters are decided jointly by the State and Army Departments, with the foreign policy aspects of it and the diplomatic aspects of it controlled naturally by the State Department, and properly so. But we are very cooperative, and we are working on all these matters jointly. There is the best of spirits between us.

Mr. JARMAN. That was my next question. The decision rests jointly with the State Department and with, I suppose, the commander in chief of the Army on the ground? Is that right?

Secretary ROYALL. Of course, we get the opinion of General Clay but the Department of the Army with the State Department here in Washington make the ultimate decision on these matters. It is the Department of State, after consultation with us, that makes the decision.

Mr. JARMAN. I imagine both the State Department and you pay a good deal of attention to your senior representative on the ground.

Secretary ROYALL. We do. Both of us have the greatest confidence in the ability of General Clay, and his recommendations carry the greatest of weight and are almost always followed.

Mr. JARMAN. How long has he been there?

Secretary ROYALL. May I volunteer an addition to the answer?

Mr. JARMAN. Yes.

Secretary ROYALL. Here is what General Clay says about these plants that are marked for reparations over and above the level of industry:

It is my sincere conviction that we have left to western Germany all of the industrial capacity it can use. Of course, cases can be made for specific plants, and we are prepared to consider recommendations from the Germans for transfers

and other placements to save specific plants when it can be shown that such plants are essential to German industry.

Mr. JARMAN. He has been there about how long?

Secretary ROYALL. He has been there something like over $2\frac{1}{2}$ —it will be nearly 3 years in April.

Mr. JARMAN. My recollection is that Ambassador Murphy has been there approximately the same time.

Secretary ROYALL. He came a little before General Clay.

Mr. JARMAN. I thoroughly share your confidence in General Clay, and I entertain similar confidence in Ambassador Murphy. Furthermore, I believe they are very responsible officers of this Government.

I was in Berlin a couple of days in 1945 and a couple of days last year. Some of my colleagues, no doubt, stayed longer. But even those who stayed 4 or 5 days, or a week, are not in my opinion quite as competent as General Clay or Ambassador Murphy to know which of these plants should be dismantled, and, for my part, I give them credit for being good American officers.

Now, getting back to this legislation more directly, as Secretary of the Army what do you think would be the result in your immediate Department in the Army? First, I will say the immediate result of the failure of passage of this legislation?

Secretary ROYALL. As related to Germany, which is really what I should confine myself to in that opinion, if we did not furnish any relief in recovery funds for Germany we would proceed as we have been, slowly rebuilding German industry. If we did not get recovery funds we would move along like we have, providing relief funds with German economic recovery and moving very slowly and therefore the period of time within which we would have to continue relief, unless we would have them starve, would be considerably extended.

If we would get money to stimulate industrial recovery we would shorten the period of time within which the present expenditures of money for relief must be made.

Mr. JARMAN. That is very pertinent and confirms my opinion that a parsimonious attitude in this program would probably in the final analysis prove quite expensive. However, what I had in mind more directly was the defense of this country. You expressed the opinion that Germany would shortly, if we pulled out, fall victim to communism.

Secretary ROYALL. I do not think there is any serious doubt about that.

Mr. JARMAN. I not only thoroughly agree with that, but I think that is equally true of the rest of western Europe in a short while and the rest of Asia. Should that happen by failure of passage of this legislation and the course of other events, what would be our situation from a defense standpoint? Would there not be a great change in the necessity for your organization?

Secretary ROYALL. It would at least move the political frontier from eastern Europe to the eastern coast of the United States or somewhere in the Atlantic Ocean.

Mr. JARMAN. Under those conditions, would not your set-up—the Army side of it—have to be a great deal more expensive than it is now?

Secretary ROYALL. I am sure that that is true for an adequate defense.

Mr. JARMAN. That is all, Mr. Chairman.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. I do not want to pursue my questions very far into Germany as I think we have had quite a good deal on the matter of Germany this afternoon. But I do want to ask you to put in the record whether in making the decision as to the war plants that would be dismantled, it was done on the basis of what Germany herself could consume or on the basis of Germany is playing a part in the rehabilitation of Europe.

Secretary ROYALL. It was on the basis of what Germany could produce.

Mrs. BOLTON. For herself?

Secretary ROYALL. No, not that—what she could produce for herself and export.

Mrs. BOLTON. I would like very much to ask something that will perhaps seem a little more general. You have had, first in your capacity in the War Department and in the Army, a chance to study the general situation in your organization as to its defense against any possible aggression from the East. I assume that is right.

Secretary ROYALL. Well, I have some knowledge of what the possibilities would be; yes.

Mrs. BOLTON. Is it your feeling, as a result of those studies, that western Europe is an important factor in the defense of America?

Secretary ROYALL. I think the strength of western Europe is important first as a deterrent to political aggression from the outside, and when the nations are sufficiently strengthened to become self-supporting in every way they would, of course, be in a better position to resist anyone who should resort to military measures, if anyone should resort to them.

Mrs. BOLTON. That being the case—that you have become convinced that there is a need of western Europe in the general protection of western civilization against the aggression of the nation which set up the Cominform—would it not appear, then, that the U. S. S. R. is finding that the reestablishment of strength in western Europe is very definitely a force against her aggression?

Secretary ROYALL. I would say that the reestablishment of sound and self-supporting governments in the European countries would certainly slow down, and possibly and probably prevent, political aggression by communism or any system of totalitarianism.

Mrs. BOLTON. Only political?

Secretary ROYALL. I say eventually, as the nations become stronger, their military protection would also increase. Of course, I am not indicating, by that, that I think that there is any immediate prospect of anything other than political aggression in Europe. I do not mean to indicate that I think there is immediate prospect of military aggression in Europe.

Mrs. BOLTON. You do not give credit then to what we hear—that the directives issued from Moscow now in such countries as France are military directives?

Secretary ROYALL. I have seen a lot of rumors in the papers, but my own opinion—and it can be nothing but an opinion—is that there is no imminence of military aggression into western Europe from any source.

Mrs. BOLTON. In the matter of the strengthening of western Europe, do you feel that there would be an increase of strength if the

countries of western Europe joined together as much as possible economically and quite definitely in a self-preservation method?

Secretary ROYALL. Certainly. Anything that would tend to increase the freer flow of goods, a more cohesive economy of western Europe would, in my opinion, tend to improve their condition of stability. I am getting a little beyond the field in which I feel that I am competent, but I can express an opinion.

Mrs. BOLTON. May I ask a little further afield, perhaps, Mr. Secretary: On the other hand, in your present capacity, you would of course have to take all phases of European strength and weaknesses into consideration.

Secretary ROYALL. That is right.

Mrs. BOLTON. You may not want to answer this question because there is always a hush-hush attitude connected with any suggestion of Spain.

With Spain in her very strategic position, as far as the Mediterranean is concerned, would you have anything to say as to the benefits that might be derived if Spain were included in the general union of western Europe, inasmuch as she was responsible for the lives of some, I think, 4,000 of our aviators, whom she not only did not intern but whom she sent back to their jobs, and so on? Would you feel that it would be profitable to the future of western Europe to have Spain included in whatever categories were developed?

Secretary ROYALL. The Spanish question is so far out of my field and has so many ramifications that I do not care to discuss it, if you don't mind.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, I believe you were asked in the Senate by the Senate Foreign Relations Committee what would be the alternative if the Marshall proposal did not pass.

I am not certain in my own mind what your answer was. But as I recall it, you felt that you would have to ask for universal military training at once and increase our armed forces at home; is that correct?

Secretary ROYALL. Whether or not the ERP passes, we need universal military training to adequately defend this Nation.

The idea that we can send machines and not men to fight a war does not appeal to me.

We have had scientific research and development for many years. We had more men in this past war than we have ever had in a war or probably any two wars in history, and if we want to fight the war in our own backyard over here in America, we can get along with fewer men.

But if you want to carry the war, if it comes, and fight it in the other man's country, which is what I want to do, we have got to have bases.

We have to man those bases. We have to hold those bases in the face of an enemy, and we have to transport the men to hold them and supply them and we have got to have people to supply them.

So nothing that I said before the Senate indicated that there were any circumstances in sight, in the immediate future, that would dispense with the necessity of universal military training.

What I did say was this: I said if we did not have, and I am not seeking to quote it, but I will tell you the substance of it, if we did

not have a recovery program in Europe, and if it seemed to me there would be disorder and unrest in those countries, dissension, discouragement, that I was sure that if that happened we would need a larger defense force than we would otherwise need.

In response to a question from one of the Senators, he asked me how we would get a larger defense force in view of the fact that the services were unable today by voluntary recruitment to recruit up to the strength they desired, I told him we would seek to make enlistments more attractive. He said, "If that should fail, if you were not able to do that, then what is the alternative? Is the only alternative to resort to selective service"?

I said, "Yes, the only two ways to get the necessary men are those voluntary recruiting or selective service; that is not universal military training."

There is all the difference in the world. I did not mean to intimate we did not need universal military service under any circumstances because I think we do.

Mr. MANSFIELD. Do you think that this country is capable of appropriating the money to carry out this program over the next 4-year period, and at the same time appropriate enough money for universal military training?

Secretary ROYALL. I think so, yes. There again the judgment of Congress must be conclusive, and your economic and financial advisers would be consulted. The information that comes to me is that we could do that and should do it.

Mr. MANSFIELD. Mr. Secretary, at the present time we are still using paper currency in Germany.

It seems to me that there was some sort of an investigation carried on not so many months ago which indicated that in the Russian sector they had plates which we had furnished to them and with which they were turning out currency which was being distributed in our zone. Was that correct?

Secretary ROYALL. That testimony was given and before I knew or had any responsibility for military government. I say that only because it explains my lack of knowledge; I do not think the matter was handled improperly.

I think it was a circumstance that could not have been avoided and I do not think anybody was to blame.

I have investigated those facts since I did come in as Secretary and as I recall them they are: In the early stages of occupation there was a great deal of Russian currency printed. The Russian soldiers were paid in it. They bought from American soldiers principally, sometimes from the people who had bought from American soldiers; large amounts of personal property; watches, and things of that kind.

That money therefore got into the American zone and created an extra supply of money over and above that which we had put into the zones.

The principal beneficiary of that was the American soldier who sold his watch, or other property, because he could take that money and redeem it and a lot of these boys who started home after the war, made something out of that.

It was a violation of regulations, but it is pretty tempting, I suppose, for a young fellow, if he has a watch when he can get a thousand dollars for it. A lot of them did get it. That was the principal cause for

that. The second step was where an American had sold to somebody else and he sold to the Russians.

I believe it is a fact that that surplus is being gradually liquidated by purchases locally and other means. It was testified to by, I believe Assistant Secretary Petersen at that time, that it was expected there would be no financial loss to the United States forces.

Mr. MANSFIELD. But until that counterfeit money—because I think that is what it should be called—is liquidated, the Government of the United States stands the loss?

Secretary ROYALL. It will stand to lose if that is not liquidated through the German economy or some other means. It was not counterfeit. It was money from the Russian zone that came into ours principally.

Mr. MANSFIELD. But the German people in the long run are the ones who are going to have to pay for what the Russians gained in this exchange with the American soldiers?

Secretary ROYALL. If they ever pay that currency out they will. There is a great area of doubt to the extent they will pay their currency out.

Mr. MANSFIELD. Have we changed our currency since that time?

Secretary ROYALL. We have not changed it out of the German currency. But we have put in a military currency, sort of a scrip, in our zone, which is used by American personnel and it has obviated that difficulty for the future.

Mr. MANSFIELD. Am I correct in assuming, then, that the money which the Russians counterfeited or made was not military currency, but German marks?

Secretary ROYALL. It was Allied occupation currency, but in the form of marks, as distinguished from our military scrip that they issue.

Mr. MANSFIELD. I wonder if it would not be possible, and I certainly do not speak from a provincial point of view, to substitute hard money, say silver, for the paper money in our different zones because there would be very little possibility of duplication and if they did duplicate dollars as good as silver dollars no one would be the loser.

Secretary ROYALL. This currency problem is an immensely complicated one. As I said in my prepared statement, the matter is now receiving very careful study. It has received very careful study. I believe it would be unwise and I do not know that I am fully qualified to discuss all the features of a currency reform on currency exchange. The Treasury Department and the State Department and Department of the Army are all studying the matter.

It would be preferable, as I said, if we could have a currency throughout all the zones of Germany, even though there was an economic and political division, because the people are used to it.

It would facilitate trade. That could be done with soundness and controls in a responsible manner. That is preferable.

We have been trying to do that because that would be better for Germany.

Now, we are working on studying an alternative method and I believe that is about all I had better say about it now.

Mr. MANSFIELD. I think, Mr. Secretary, it might be a good idea to give some consideration to the use of silver.

Secretary ROYALL. I will be glad to transmit to the people who know more about the technical details than I do, the suggestion you made. I think it occurs to me offhand that that might present some difficulty.

From my very limited knowledge of the national currency situation, I do know that hard money has had a tendency to disappear in the zone and leave the country without sufficient currency to operate on.

I do not know whether that would be true here or not. I know that was true throughout the Middle East at one time.

Mr. MANSFIELD. It does retain its value though, and I think that is important in eastern Europe. I did not mean to imply—and I want to state for the record that you did not have anything to do with this currency.

Secretary ROYALL. I do not believe I could do any better. I think the people that handled it did a very good job under a difficult situation. You see, in those cases we were four strong allies, that had just defeated the great German Nation. It is right hard now to reconstruct your mind back to that period, in view of the changes that have occurred.

Mr. MANSFIELD. In the paper yesterday or today appeared a statement to the effect that the Russians had upped the price of the oil they were taking out of the fields at Zistesdorf in Austria and selling at twice the price we were selling our oil for in that country. Do you know anything about that?

Secretary ROYALL. I do not. I have not even seen that in the paper. But I would be glad to look into it and give you any facts you would find on it.

(The information is as follows:)

The New York Times of January 19, 1948, carried a story to the effect that Russia had doubled the price of oil she supplied Austria "from fields in the Soviet occupation zone." No mention was made of Dusseldorf and since that city is not in a Russian occupation zone, it is assumed that it is in error to refer to that location.

Under date of January 21, 1948, a cable was received by the State Department from the United States Ambassador in Vienna which confirmed the news report and indicated that the Austrian Government was opposing the price increase.

On January 22, another cable to the State Department advised that the Austrian Government would probably have to accept the price rise since it had no other source of petroleum products; appeal, however, would be made to the Allied Council. This latter fact was reported in news dispatches from Austria on January 23.

On January 23 it was further reported by cable that Austria had again protested to the Soviet military government and when faced with practically an ultimatum, had announced to the public that it had been forced to accept price increase. However, that same day the Soviet dramatically announced that there would be no price increase.

On January 27, the State Department received a cable stating that the Russians had been using the Tass news agency to explain the reversal of position. The argument advanced was that while negotiations with the Austrian Government were proceeding, the latter suddenly announced the price increase, thus confronting the Soviet with a fait accompli. United States officials stated that the Tass statement was completely at variance with facts and indicate, as confirmed in a New York Herald Tribune dispatch from Vienna dated January 23, that strong resistance by the Austrian Government, backed by United States authorities, caused Russians to decide that the move was not a good political weapon.

Mr. MANSFIELD. I would appreciate that.

You mentioned the fact that General Clay was due in tomorrow night. Do you know if Col. Lawrence Wilkinson will be with him?

Secretary ROYALL. I do not know whether he will come or not. The notice we have received did not name anybody but Ambassador Murphy. That does not necessarily mean that others will not be with him. Mr. Wilkinson was over here during December when he testified on our deficiency appropriation, and I do not know whether he will return now or not.

Mr. MANSFIELD. The reason I asked, Mr. Secretary, was because of the fact that he also testified before this committee on dismantling the plants.

I thought he would have up-to-date information on it.

Secretary ROYALL. I am sure General Clay will have up-to-date information on it.

Mr. MANSFIELD. It was brought up by one of my colleagues that it might be a good idea to make the Germans work through the use of bayonets. We know, of course, the industrial unrest in Germany at the present time is primarily in the Ruhr area and we know, furthermore, that it is impossible to mine coal with bayonets.

I think that the only thing we can do is, as you have already suggested, and I am in full-hearted accord with what you have to say that we will have to offer incentives to the Germans.

We will have to give them some hope. The next thing they will do will not only be to help themselves and take the burden off us, but will help in the rehabilitation of western Europe because so many people are dependent on the German economy.

Secretary ROYALL. I agree entirely.

I have used the figures 320,000,000 and 318,000,000, as the figure that would be spent over a period of 15 months in Germany for the recovery part of the program.

Please understand that figure is not frozen. There have been discussions back and forth of amounts ranging from somewhat below that up to as high as 340,000,000 or 350,000,000, and even up to 400,000,000.

That was the latest figure that we had. I have had some suggestion since then that maybe it might be raised. That depends on the relative needs of the country. They are supposed to be left flexible. I am sure the committee understood that when I stated it.

Chairman EATON. Are you through, Mr. Mansfield?

Mr. MANSFIELD. Yes.

Chairman EATON. Mr. Javits.

Mr. JAVITS. I will just take a very few minutes. Mr. Secretary, can western Germany stand alone as an economic unit in your opinion?

Secretary ROYALL. Stand alone?

Mr. JAVITS. Yes. Will we always have to pour money into it or can it somehow support itself, in your opinion?

Secretary ROYALL. I think with fair progress and recovery and some assistance it can stand alone and pay its way with its own exports.

Mr. JAVITS. They will always have a food deficiency and a very material one?

Secretary ROYALL. Yes.

Mr. JAVITS. You believe it can be made up by the increased industrial production?

Secretary ROYALL. I do, sir.

Mr. JAVITS. Now, the Secretary of State, according to your statement, said that we must be careful, in rebuilding Germany, to avoid a future—and I quote his words—"threat to the peace."

Now, in your calculations as to what would constitute a threat to the peace on the part of an industrially rebuilt Germany, do you think of Germany alone or have you calculated Germany in combination, let us say, with another power or powers, say the Soviet Union?

Secretary ROYALL. Well, of course these calculations were made and these decisions were made as to the war-making machinery to be eliminated when we were considering Germany alone as a threat. It is impossible to be either dogmatic or entirely inflexible in the matter of when a nation should be a threat.

Anything that you let Germany manufacture may contribute to a war potential, but we must let them manufacture something because they cannot support themselves as shopkeepers and farmers.

Furthermore, the potential in the war-making ability of any country would be enhanced by an alliance with any other country of any strength.

We have looked at it from the standpoint of Germany alone as a threat.

Mr. JAVITS. Does the Secretary feel that it would be advisable also to consider in one's calculations Germany in combination with another power or powers as a threat?

Secretary ROYALL. Well, I do not know what useful purpose would be served by that analysis because if we assume that Germany and the Soviet would join up and some other nations would join them, our condition in Europe would be pretty bad.

I think that looking at the danger of a war threat you would probably still have to have the hope that we are going to save at least western Germany from communism.

Mr. JAVITS. The Secretary has stated that we face a very difficult situation, of course, in leaving any industrial potential in a former enemy country.

Is it not a fact, therefore, that what we can do to keep western Germany from being a threat to the peace, is largely a political question?

Secretary ROYALL. I do not know how broadly you use the term "political" but you cannot have political stability without a stable economy. You cannot have it long.

Mr. JAVITS. What I mean is that in order to avoid western Germany being a threat to the peace, is it not a fact that we have to have some political solution for western Germany?

Secretary ROYALL. Eventually we do.

Mr. JAVITS. We have to have some solution.

Secretary ROYALL. Certainly.

Mr. JAVITS. There are alternatives in that solution; either Germany can be united and operate under the guaranty of a 40-year treaty such as Secretary Byrnes proposed, or of four-power guaranties, or Germany can somehow or other adhere to the other western European nations?

Secretary ROYALL. That is correct. There are a number of alternatives you can follow.

Mr. JAVITS. But a political solution is to be essential if we are to prevent Germany from becoming an aggressor?

Secretary ROYALL. One solution is a bizonal Germany as a separate nation, and one is to continue to strive, as we are continuing to strive still, for some chance of a reunited Germany.

And someone suggested today that maybe a trizonal arrangement would work. There are a lot of variations which you cannot give an answer to now.

Mr. JAVITS. The question now is one of rehabilitating German industry so that it is not a threat to the peace.

Secretary ROYALL. Yes; it is some threat. Any development of any kind is some threat to the peace.

Mr. JAVITS. It is a question of the degree of rehabilitation, first and second, the degree of rehabilitation with respect to the territory under consideration?

Secretary ROYALL. That is right.

Mr. JAVITS. Do I get the intimation of your testimony to lead to this, that under the circumstances in view of the conclusions upon which we both agree, for the present you have to sit it out in western Germany because you are nowhere near a political solution and you have not yet determined the degree of economic rehabilitation as it fits into the ERP and which minimizes the threat to the peace. Is that not a fact?

Secretary ROYALL. I do not think you have to sit it out in the sense that you do not want to have the economy rapidly improved.

As soon as the economy is rapidly improved, then is the time that we could have a political solution. I do not think we have to wait until we get the political solution before we improve the economy. They must work side by side.

As a matter of fact, we will never have a satisfactory political solution in Germany without a stable and self-supporting nation.

Mr. JAVITS. Mr. Secretary, I use the term "sit it out" in the term we have to stay there.

We have to supervise the job.

Secretary ROYALL. That is right. I see no basis even to make an estimate as to how long the occupation would have to last.

Mr. JAVITS. Therefore, as we work up to this degree we have to maintain our position and implement that by trying to bring back the economy so far as we reasonably can and as it fits into the economy of the other western European nations and always bearing in mind the degree, so that it is not a real threat to the peace.

Secretary ROYALL. That is right, sir. I made a talk the other day, I believe it was in Denver, in which I said that the industrial rehabilitation of Germany on the one hand, and the prevention of rearmament in Germany on the other, present continuing dilemmas in which practical decisions have to be made and the line has to be drawn.

Nobody can ever be sure whether they have gone a little too far one way or the other on the line. Those two considerations must be balanced.

Mr. JAVITS. And it is dilemma which we cannot resolve except with a political solution?

Secretary ROYALL. We must have a political solution. We must do that sometimes with trial and error on this.

Chairman EATON. Mr. Lodge. Last but not least.

Mr. LODGE. Mr. Secretary, with respect to the question of dismantling and aside from the lack of sufficient fuel or raw materials,

would you say that we have the right to end the dismantling, regardless of past agreements?

Secretary ROYALL. I do not know. I doubt seriously that we could in good faith and consistent with our agreements stop all dismantling, as far as the 75 percent is concerned, that goes principally to the western nations.

Mr. LODGE. Well now, dismantling was for the purpose of upholding the reparations program, and it was dependent upon the economic unification of Germany.

That was the context of the agreement?

Secretary ROYALL. That is right.

Mr. LODGE. That most certainly has not been accomplished?

Secretary ROYALL. That is right.

Mr. LODGE. I have heard this theory advanced before by eminent members of the administration, and is it your theory, that even if one party to a contract commits substantial breaches of it we are nevertheless bound. Would that be your theory?

Secretary ROYALL. I do not subscribe to that theory. However, the western nations who are the beneficiaries in large part of the 75 percent have not breached anything.

Mr. LODGE. Russia has breached in not allowing an economic unification of Germany which was made a part of the reparations agreement?

Secretary ROYALL. We have suspended deliveries to Russia with minor exceptions.

Mr. LODGE. In other words, the agreement would be principally with Great Britain and France?

Secretary ROYALL. Well, the 18 countries that get 75 percent of it.

Mr. LODGE. These countries being interested in the economic recovery program would doubtless also be interested in helping us to achieve that objective, if it were pointed out to them that the conversion recovery of western Germany was an important part of that program. So it would seem to me that you could not base the continuing dismantling on any question of past agreements.

Secretary ROYALL. I am not certain about that. I think a good argument might well be made that these 18 countries have a right to our carrying out the reparations agreement. I do not base my position on that, certainly not entirely, because I think the possibility of utilization by Germany and the benefit for the recovery program are the most important elements.

If General Clay is right, and I have no reason to doubt it, these plants would be of no value to Germany within 5 years.

Mr. LODGE. I have the highest regard for General Clay; I happen to know him and I think he is a very distinguished soldier, but as I understood you, the argument is based largely on two points: First, that there would be inadequate labor to run these plants, and, second, that there would be inadequate coal.

Secretary ROYALL. Inadequate transportation, inadequate raw materials.

Mr. LODGE. Let us take the first two first: As far as labor is concerned, Ambassador Douglas showed us today that part of the ERP would be a free movement of people across frontiers.

Now, there are places in Europe where there is an excess of population, where there are large numbers of unemployed—in Italy, for

instance—so that the population and labor problem would therefore be solved by the program itself.

Now, on the question of coal, surely it would be more advantageous to us and cheaper to ship coal to western Germany than to ship steel under the Marshall plan, would it not?

Why would it not be a good idea, then, to stop the dismantling at least of a large part of these plants, the steel mills, for instance, steel rolling mills, in view of the great lack of steel? We cannot produce enough for demand, and we have an excess amount of coal. Why should we not ship some coal to assist these French and German steel plants to function, and thereby save ourselves the shipment of a great deal of steel and use that steel to manufacture freight cars to carry the coal in this country where it is intended to be shipped?

Secretary ROYALL. You see, we are continually examining the industrial capacity of the dismantling, equivalent to what that industrial capacity was in 1936, approximately, not in every commodity, but over-all. There is not quite that much in steel. But over-all, we are returning the equivalent of their prewar industrial capacity.

Mr. LODGE. That does not quite answer my question.

Secretary ROYALL. No; but the point is this: To pick out a single factor or even one or two factors, General Clay's judgment is that under favorable conditions it will be at least 4 or 5 years before German labor, German raw materials, German transportation, German plant rehabilitation of the damaged plants and repairs, and the other factors will be able to raise the productive level of Germany above its prewar level. It is now 44 percent of it. It has 56 percent more to run.

Mr. LODGE. Is that not due in large measure to lack of an adequate supply of labor, to lack of coal, and to lack of adequate incentives?

Secretary ROYALL. Well, it is due to all those factors, but assuming a favorable solution of those, the judgment of General Clay is that still it will be at least 4 or 5 years before we can reach the prewar level. In the case of steel, to give you a good illustration, today they are producing about 3,000,000 tons annually of steel in Germany. This level of industry that we have prescribed is the stuff that will be left after dismantling, and 10½ million tons is authorized. Therefore, we can increase the present steel capacity by 200 and more percent or threefold or more under our present plan without utilizing any of the plants that are being dismantled. It is his opinion that within a 4- or 5-year period we cannot increase under even favorable conditions steel production in Germany more than threefold.

Mr. LODGE. Nevertheless there is a shortage of steel.

Secretary ROYALL. Yes; there is.

Mr. LODGE. I would like to point out to you that the Herter committee, with which you are perhaps familiar, made certain recommendations. I would like to ask you if you will be so kind as to give me your comment on the recommendations. The Herter committee recommended, among other things, (a) added production of German ingot steel.

Secretary ROYALL. We urge that, too. But taking the steel as a whole we have produced only 3 million. We want to raise it to 10½.

Mr. LODGE. There are steel plants marked in it by zone earmarked for dismantling. The steel-producing plants are 5 in the United

States zone, 49 in the British zone, and the steel-rolling mills are 31 in the British zone.

If you agree with that recommendation, would you also agree that these plants that I have mentioned should be dismantled?

Secretary ROYALL. Yes, sir. I have not got in mind the figures of those that would be dismantled, but those that are marked for dismantling still leaves enough to increase the steel production threefold.

Mr. LODGE. It also increases the drain on the United States steel.

Secretary ROYALL. Well, it would if Germany were capable of increasing its steel production more than threefold. But it does not increase it.

Mr. LODGE. You say General Clay has taken into consideration the possibility of getting more coal into Germany from us, and the possibility of getting additional labor into Germany.

Secretary ROYALL. I do not think he has taken into consideration getting additional labor and I do not know whether he has specifically considered importing coal from this country. But there are a lot of limiting factors. I do not know how much labor you could get.

Mr. LODGE. You have a tremendous excess of labor from many parts of Europe. As the Ambassador told us, the population has increased in western Europe by 20,000,000 in the 16 countries.

Secretary ROYALL. I suppose part of that surplus will disappear if the economic recovery in the different countries moves forward.

Mr. LODGE. That might be one way.

The second recommendation of the Herter committee was—

Some diversion of European semifinished steel from presently planned use to increase sheet production in idle or underutilized German sheet or strip mills.

Would you agree to that?

Secretary ROYALL. I do not know enough technically about that to know, sir. It sounds reasonable, and I think that could be done under the dismantling plan.

Mr. LODGE. Would it be possible to have an answer on that?

Secretary ROYALL. I do not know if we have anybody here on that. We would be glad to furnish it.

(The information referred to is as follows:)

Under the bizonal level of industry a total production of 10.7 million ingot tons of steel per annum was agreed upon. This is almost twice as much as under the old level of 5.8 million tons per year for all Potsdam Germany. In order to obtain this production an actual steel production capacity of almost 13,000,000 tons has been retained in the bizonal area.

Production in the bizonal area at the present time is running at about $3\frac{1}{2}$ to 4 million tons per year or at approximately one-third of the permitted production. It has also been estimated that about one-third of the retained sheet and strip mills are being utilized at the present time.

One of the bottlenecks that would be difficult to overcome in carrying out a diversion program would be in the transportation field. All available transportation is now being utilized for taking care of the essential requirements of the German economy, such as transport requirements for steel mills, power and gas works, fertilizer, food, lumber, etc., and while top priority has been given to the locomotive and car repair program it will be the end of the year before any appreciable improvement can be expected. Therefore, semi-finished steel diversion should not take place until the transport situation can be improved.

Labor and the housing of labor is another bottleneck and another problem that must be considered carefully before a change or diversion can be made effectively and in the interest of the European economy. It must be recognized that housing in the Ruhr area and in other industrial centers is at a premium. With the exception of miners housing little attempt has been made to improve the present housing situation due to the dire need for the same materials in essential industries.

Also, during the period subsequent to the capitulation there has been no appreciable increase in the supply of skilled labor. Efforts are being made to train skilled labor to meet the anticipated increase in production. In this connection female labor is being encouraged and an effort made to integrate it into the industrial organization wherever practicable.

In conclusion, therefore, it is our considered opinion that under existing conditions, no useful purpose would be accomplished by diverting semi-finished steel from other European countries to the idle or under-utilized German sheet and strip mills.

Mr. LODGE. The third recommendation is—

Suspension of all plants to dismantle or otherwise render inoperable such utilities until it is known that they will be unable to relieve the pinch in sheet and strip.

Would you agree to that?

Secretary ROYALL. I would think that might be correct in general. I think you have to weigh that against other production.

Mr. LODGE. Then, to what extent, if you think that correct?

Secretary ROYALL. I am not sure whether that would require a change in dismantling, because naturally if you paramount one particular item of production, you might have to reduce others, which could move ahead more economically, so I would not want to express an opinion as to any particular industry with my lack of technical knowledge.

Mr. LODGE. Could we have an answer on that?

Secretary ROYALL. Yes; we can. I think we will have to get these answers from General Clay probably.

(The information referred to is as follows:)

The bizonal level of industry as established was designed as a balanced industrial effort. It provides for a level of industry that was designed to leave those plants required for internal needs and to make the best contribution to Europe as a whole. We are advised that ample facilities will still be available for this purpose within the retained level and, therefore, there would not seem to be any necessity to suspend dismantling. In arriving at this level for the bizonal area it was realized that in the other two zones of Germany it was probable that much capital equipment was being removed and that conceivable, in some industries, the level was approaching the level of industry agreed upon quadripartitely in March 1946. This situation, therefore, was taken into consideration as well as questions involving export of finished products, the unusual repair and maintenance requirements for the industrial recovery and the problem of meeting a minimum standard of living for Germany.

Mr. LODGE. Then (d)—

Stoppage of any reduction in German capacity for pipe production and instead supplying adequate amounts of large tube rounds and wide plates for the pipe mills proper.

In that connection, I would like to call your attention to the fact that—

Among the doomed pipe-producing plants are some of the most modern and most efficient units in Europe; that is, four large units of Mannesmann, in Gelsenkirchen, Duisberg, Dusseldorf, and Witten. These plants are specially equipped for the welding of large-diameter pipe.

That was given top priority by the Herter committee as essential to eliminate the delivery of essential oil and gas in the United States as well as to provide Europe with critical oil products from the Middle East. I can hardly point out what a vital matter that is. We are threatened with a serious oil shortage not only now but in the long-term future. Offhand it seems very hard to understand that we

should be demolishing this plant. I wonder if you would comment on that.

Secretary ROYALL. I can only say, sir, I am sure the report of the Herter committee has been sent to General Clay. We will be glad to get you an answer to any of those questions, but unfortunately information on those must come from General Clay. I do not think anyone here is familiar with them. The Under Secretary is directly responsible for military government. I do not think he would know the detailed answers to those.

Mr. LODGE. I should like to get answers on an authoritative basis.

Secretary ROYALL. Yes.

(The information referred to is as follows:)

We are advised that during the past summer American interests were in Germany for the express purpose of investigating the manufacture of pipe. It is understood that production facilities in the capacity of these plants were not sufficient to warrant considering this industry supplying the needs of the Middle East. From an over-all balanced industry point of view it is not considered that the removal of these plants will have a serious effect on the German economy. It is interesting to note also in this connection that in the case of the Mannesmann plants while 4 units are being taken there are two of this firm's plants being retained at Huchingen and Grossenbaum located in the British zone. All of this type of industry scheduled for removal is located within the British zone and if it can be shown that a shift in the type of plant left in Germany would materially assist a European recovery program we would not anticipate any difficulty getting the British to exchange plants now on the list for others of a less critical type.

Mr. LODGE. I would like to touch on the question of nitrogen. I need hardly point out the vast importance of nitrogen. Under average weather conditions, it is my understanding that 1 ton of nitrogen produces 600 bushels of additional grain crop. Therefore 500,000 tons of nitrogen production in Germany lost in the consequence of dismantling and red tape in each of the years of 1946 and 1947 correspond to an approximate loss of 300,000,000 bushels a year in western Europe's food production, which, incidentally, is three times the amount the American consumer was called upon to save in the Luckman food-conservation program.

Secretary ROYALL. I understand we are not dismantling any plants that produce fertilizer.

Mr. LODGE. In the French zone, sir? In the French zone I am informed that the dismantling of Europe's largest nitrogen-producing plant is contemplated.

Secretary ROYALL. We did not do that.

Mr. LODGE. You do not believe that under the European recovery program we should make recommendations to the French with respect to the dismantling of a plant which could relieve the shortage of wheat in the world?

Secretary ROYALL. No. I would think, based on our experience in Germany, that everything in the world should be done to foster the production of fertilizer. We have done that in the American and British zone.

Mr. LODGE. Do you think it would be appropriate to look into this matter with the appropriate authorities in order to find out if something could not be done?

Secretary ROYALL. I would think someone should look into that, yes; not the Army, but I think it should be looked into. I do not know the facts about it.

Mr. LODGE. Both the Herter and Harriman reports stress the importance of nitrogen and that coal and industrial equipment shipments for nitrogen industrial use should be given high priority. That is why I think that we cannot simply say, "This thing is happening in the French zone; we will not do anything about it. We are going to have to ship wheat into France." I strongly believe that we should; but if what we are after is kind of an economic federation, if what we are after is reciprocity among these nations—and General Marshall has said that is essential to the success of his plan—we cannot very well take such a formal view as that, it seems to me.

Secretary ROYALL. Of course, that is beyond my field; but I would not suggest that that view be taken. We have even gone up to Austria to get fertilizer plants restored. We think we must produce as much fertilizer as possible. I do not know anything about that plant, sir.

Mr. LODGE. Would it be possible to have something on that?

Secretary ROYALL. We will get that information from some source. (The information referred to is as follows:)

The above comment referred not only to the broad problem of fertilizer requirements in western Germany, but also to the specific statement made earlier by Mr. Lodge that "in the French zone the dismantling of Europe's largest nitrogen-producing plant took place."

In the first place, no nitrogen fertilizer plant has been dismantled in the United States or United Kingdom zones of Germany, nor is it intended that any will be dismantled.

In regard to the French zone, the Department of the Army has been advised by General Clay's office in reply to a direct question that on January 30, 1948, "the French today categorically repeat denial of any removals" from their zone. This, of course, is a denial of the removal of the plant "at Oppau" which has so frequently been mentioned. OMGUS further stated, "We repeat that no nitrogen fertilizer capacity has been removed from western Germany."

This Department has been informed that the French Embassy has made inquiries of the French Government on this point because of the frequency of the statement that the large "plant at Oppau" has been dismantled.

In considering the fertilizer production capacity in Germany in relation to the European recovery program, the capacity of the Oppau plant was included as available for use. However, information received from OMGUS is to the effect that one part of the plant cannot be repaired and placed in operation in less than 6 months, while another section will require 18 months to repair and place in operation.

Mr. DRAPER. I would say that for a period of 2 years we made every possible effort to get ammonia water, which is the basis of fertilizer, from the French zone, made special allocations of coal, and did get some, but it has never worked out to a large degree.

Mr. LODGE. It does not seem to me it would be advantageous to the French to destroy a nitrogen plant.

Mr. DRAPER. I would agree with you and would be glad to give attention to it. I would also say that we have made every effort over the period of the 2 years, sometimes more and sometimes less, to give a very high priority in the allocation of coal to the nitrogen plant for just that purpose.

Mr. LODGE. I am very glad to hear that.

Mr. DRAPER. That has had more success in the recent months when the coal shortage was terrific.

Mr. LODGE. Thank you very much.

Mr. DRAPER. I could add one other thought, which is not conclusive at all, on your other question about the rolled products and the pipe. So far as the rolled products go, my own experience, which is now 6 months old, and also the comment that we got back when this question was being considered sometime ago from the theater, was that there was sufficient rolling capacity to take care of any volume of ingot that was being rolled that could be expected. However, we will go into the matter further.

Mr. LODGE. Does that apply to pipe?

Mr. DRAPER. I believe there is very little pipe capacity in our own zone. It is largely in the British zone. I do not have that before me. But we were stressing pipe to the extent possible and were not in a position 6 months ago, or maybe 9 months ago, when I last got into the pipe question over there, of producing anything like the amount of pipe that either we needed or that seemed to be possible under the steel and coal allocations. That does not fully answer your question.

Mr. LODGE. It would be better than nothing. I also would like to point out this view that, according to the information I have, the value of a plant after dismantling is roughly 8 percent of the value of the plant prior to dismantling. Therefore, it would seem to me that it might be discrete to postpone it until the matter can be fully explored because, after all, we take great care of our investments and we should take an equal amount of care in our divestments. The total value of these plants had been estimated, as I understand it, to be one billion dollars, which even today seems like a lot of money.

Mr. DRAPER. I am sure you are not speaking of the American zone because the remaining plants in the American zone are comparatively small both in number and in average size and do not approximate that.

Mr. LODGE. Of course, the European recovery program is not confined to the American zone.

Mr. DRAPER. Yes.

Mr. VORYS. As I understand it, under the January 1 new bizonal agreement, we furnish about 10 to 1.

Secretary ROYALL. Eight to ten to one.

Mr. VORYS. Eight to ten to one of the dollar needs of the two zones. That is about correct, is it not?

Secretary ROYALL. That is correct. That is for relief funds.

Mr. VORYS. But the relief funds are category A, and so forth. That is all for the civilian economy of Germany.

Secretary ROYALL. That is right. There is civilian feeding, too.

Mr. VORYS. Do I understand you correctly that we have reserved no voice at all as to what the British do with the plants in their zones so that we have no right under the new agreement even to raise the question of dismantling?

Secretary ROYALL. No. We can raise the question, but not control it.

Mr. VORYS. In other matters, we have a new degree of authority or of management somewhat approximating our contribution. That is true, is it not?

Secretary ROYALL. That is right. You see we agreed on this level of industry last August, with the British, on the basis that that would restore or enable us to restore German industrial production from an over-all standpoint of approximately its 1936 level. General Clay

thinks that that is a sound decision. Now, the difference between us and the British in the question is not in dismantling. We have continued to dismantle, but the difference is in the delivery to Russia, if it is a difference. That is now under discussion with them. That is by the State Department. That is a matter we do not handle. The State Department is discussing that with them. Of course, I do not want to get into a lot of details on this, but some supplies do come in from the Russian zone.

Mr. LODGE. Mr. Secretary, in that connection, and in connection with the Herter committee recommendations, I understand from certain sources that—

According to reports from German papers, the doomed rolling mills represent 55 percent of the total capacity for strip and tinsplate and as much as 65 percent of the capacity for medium and heavier sheet. There can be no doubt that the dismantling of these factories will defeat the constructive proposals of the Herter committee to increase sheet production in idle or under-utilized German sheet or strip mills. It will, therefore, create an unnecessarily inflationary impact on the Marshall plan on the American economy by aggravating and prolonging our scarcity of steel products.

I would like in addition to have those figures verified as to whether that is true, and, if not, if those figures are not right, if the correct percentages could be submitted to the committee.

Mr. MANSFIELD. Will the gentleman yield?

Secretary ROYALL. That will be done.

(The information referred to is as follows:)

Comparative list of plants available for reparations under old and new level of industry by category of industry in each of the three western zones of occupation:

	United States zone	United Kingdom zone	French zone	Total
Number of plants listed for reparations under new level of industry established August 1947				
War plants.....	104	198	33	335
Ferrous metals.....	5	87	2	94
Nonferrous metals.....	5	6	10	21
Chemicals.....	18	24	26	68
Mechanical engineering.....	¹ 49	175	104	332
Electrical engineering.....		4		
Shipbuilding.....	1	2		3
Power plants.....	4			4
Cement plants.....			1	1
Total.....	186	496	176	858
Number of plants estimated surplus under old level of industry established March 1946				
War plants.....	² 86	² 239		
Ferrous plants.....	5	³ 93		
Nonferrous plants.....	15			
Chemicals.....	33	41		
Mechanical engineering.....	182	455		
Electrical engineering.....				
Shipbuilding.....	3	29		
Power plants.....	4			
Building materials.....	8	24		
Unspecified.....	142	271	322	
Total.....	478	1,152	4322	1,952

¹ Consolidated figure for mechanical and electrical engineering.

² This is a consolidated figure of plants listed under aircraft and armament under the old level of industry.

³ British computation gives a consolidated figure for ferrous and nonferrous industries.

⁴ No category break-down available.

Mr. MANSFIELD. Mr. Secretary, do I understand you correctly when I say that you estimate the cost of American occupation of our zone at roughly \$1,000,000 a year?

Secretary ROYALL. Well, no. I estimate that the occupation costs, exclusive of relief feeding, exclusive of any contribution under the European recovery program—I say it is hard to estimate—is about \$450,000,000. The relief program is about \$700,000,000. The European recovery program would involve a 12-month expenditure in Germany of approximately \$250,000,000.

Mr. MANSFIELD. Exclusive of the European recovery program, and taking in the cost of occupation and the relief program, it would be roughly \$1,150,000,000?

Secretary ROYALL. Yes.

Mr. MANSFIELD. Now, if there is no European recovery program, are we to assume that in the next 4-year period, which is the life of this plan, if it goes through, that it will cost you roughly \$1,000,000,000 a year to take care of the occupation and the relief costs of Germany?

Secretary ROYALL. We think that will gradually come down, but very gradually.

Mr. MANSFIELD. I am saying a billion dollars a year.

Secretary ROYALL. I do not know whether it will overreach that.

Mr. MANSFIELD. Then, it is safe to assume that \$4,000,000,000 will go into Germany during the next 4 years?

Secretary ROYALL. No, the European recovery program will bring a more rapid recovery.

Mr. MANSFIELD. Without the European recovery program?

Secretary ROYALL. I think that is a pretty good estimate.

Mr. MANSFIELD. The point is that under this \$17,000,000,000 proposal, the total is done away with, but no matter what the total is, you say that \$4,000,000,000 approximately would have to go into our occupation costs from Germany, anyway, so that would knock down the total from, let us say, \$15,000,000,000 down to \$11,000,000,000 for the rest of Europe?

Secretary ROYALL. I do not think that is quite right. You see even if you have the European recovery program, there will be some contribution to Germany, and, therefore, the duplication should be eliminated, and you cannot say that we would have to spend the four billion under that. In other words, under the recovery program, you would have to spend something. I have not figured it out. Without the recovery program, on your figures, we would spend \$4,000,000,000. The saving is only part of the four billion.

Mr. JAVITS. Will the gentleman yield to me?

Mr. LODGE. If I can go beyond 5 o'clock.

Chairman EATON. I hope you do not go beyond 5 o'clock.

Mr. JAVITS. Would you include in the information you are going to give Mr. Lodge an analysis of what it means to take these plants and rebuild them in one of the countries getting reparations and the economic effect of that as counterbalancing the economic deduction from Germany?

Secretary ROYALL. I am not sure how accurate that would be.

Mr. JAVITS. They are not being destroyed, they are being rebuilt.

Chairman EATON. Do you want to go on beyond 5 o'clock?

Mr. LODGE. I am afraid my questions will take longer than that.

Chairman EATON. Then, I will have to ask Mr. Vorys to take the chair. I would like to announce that we will meet tomorrow at 10

o'clock with Secretary Snyder and at 2 o'clock in the afternoon in this room.

Before I go, I want to thank the distinguished Secretary for a very, very competent and exhaustive statement.

Secretary ROYALL. Thank you, Mr. Chairman. I want to thank the committee before you leave for their very intelligent and courteous treatment.

Chairman EATON. We have a very intelligent committee and we are just anxious to find some way to lay a foundation for the toughest job that has ever faced us.

Secretary ROYALL. It is a very tough job.

Chairman EATON. Mr. Vorys is the chairman now.

Mr. LODGE. Mr. Secretary, to leave this question of dismantling, I heard a rumor that we have purchased some rather obsolete British planes and given them to the Greek Government under the Greco-Turkish bill, whereas we had acres of 1945 undamaged planes lying wing to wing and nose to tail in Nuremburg and other places in the heads of which we had placed charges of dynamite and exploded them. I wonder if you would care to comment on that.

Secretary ROYALL. I did not hear the rumor. I do know that shortly after the war, there was destruction of some planes, but I do not know much about it because I did not have anything to do with it at that time. I know some planes were destroyed.

Mr. LODGE. Would it be possible to get the information?

Secretary ROYALL. I can get you the information.

(The information referred to is as follows:)

British Spitfire aircraft are being purchased for the Government of Greece using American dollars appropriated by Congress for aid to Greece. Informal information received from the RAF delegation at Athens indicates that the total cost, delivered, for 20 Spitfire planes with accessories and 1-year supply of spares amounts to \$281,335. Negotiations with the British for the purchase of the aircraft are being handled by the Department of the Army. At this writing none of the aircraft have yet been delivered.

The decision to utilize Spitfires was based on several considerations. For one thing, the Greek Air Force already had Spitfires obtained from the British and the additional aircraft were to supplement those already in use. Secondly, the introduction of a different type of aircraft into the Greek Air Force would complicate problems of supply, maintenance, and training. Thirdly, the British were willing to sell Spitfires plus a year's supply of maintenance parts for a fraction of the original purchase price. The United States could furnish a comparable fighter (P-51) but only at a higher cost, and spares could not be furnished for the most part without procurement.

With reference to the destruction of United States planes in Germany, it is true that aircraft were destroyed by use of demolition charges.

At the end of the war we had a vast quantity of aircraft surplus to foreseeable peacetime requirements and the maintenance or storage of all of these surplus aircraft, a great number of which were B-17 bombers, was neither feasible nor desirable.

The cost of preparing aircraft for storage is appreciable, and storage life is not indefinite. The number of aircraft which could be economically and practically stored was carefully calculated on the basis of foreseeable requirements and available funds, and only the newer and improved types were marked for storage. With certain exceptions, the types of aircraft destroyed were obsolescent, and storage of these could be accomplished only at the expense of development of improved types.

The surplus aircraft could not be economically returned to the United States for disposal, neither funds nor manpower were available at the time for orderly salvage, and it was essential that the aircraft be made unfit for use as combat aircraft. The only recourse was the action taken—sufficient demolition to render them inoperable and unrepairable.

Mr. LODGE. As a matter of fact, I asked the Secretary of National Defense this question. He had no aides when he appeared before us, and I know that he has a lot of other things to think about. I was wondering if it would be possible to get some information on that. It does seem that it would be better to give the Greeks 1945 American planes instead of demolishing them as in excess of current needs.

Secretary ROYALL. I have never heard of any demolition of planes after the Greek program came along. I never heard that. I would be very surprised if any planes had been demolished since the Greek program.

Mr. LODGE. If we could have the information on that I would appreciate it.

Secretary ROYALL. I will not say it is not true. Of course, we demolished war equipment in a number of places immediately after the war.

Mrs. BOLTON. The ATC does not have any spare parts.

Secretary ROYALL. These planes were not transport planes. They would not have done any good on ATC spare parts.

Mrs. BOLTON. Some of them were fighter planes.

Secretary ROYALL. If we had kept all the fighter planes and all the bombing planes and all the other planes we had at the end of the war, we would have spent billions of dollars keeping them.

Mr. LODGE. However, I think you will agree with me that we can be certain of two things: that push-button warfare is not here today, and, secondly, that it will be with us some day, and since it is not with us today, we might keep some obsolete planes until it is with us.

Secretary ROYALL. I do not know, sir. I would say there is no doubt about the fact that the Army and the Air Force, and I imagine the Navy, I am sure the Navy, has had to abandon equipment for which they had neither the men nor the money even to guard.

Mr. LODGE. Of course, the Navy has been able to mothball a lot of it.

Secretary ROYALL. I also know that the hysterical demand for return of men from overseas caused an enormous financial loss in the abandonment of items that should have been saved.

Mr. LODGE. That is right.

Mr. Secretary, in your opinion even with the European recovery program, should we have an Air Force composed of less than 70 air groups?

Secretary ROYALL. I have no opinion on that. I am not qualified to give you an answer.

Mr. LODGE. I would be glad if I could have an answer on that.

Secretary ROYALL. I do not know that I can become qualified to give you an answer on that. It is not in my scope of duties, and I think the answer should probably come from someone else.

Mr. LODGE. All right, sir.

Now, Mr. Baruch is reported in the papers to have testified that it would be a good idea to have some military alliances with all the 16 participating nations. How do you feel about that, Mr. Secretary?

Secretary ROYALL. Well, I have not given any consideration to it and I have not read Mr. Baruch's statement. I believe in the UN.

Mr. LODGE. But this program is not being done through the UN. This program is not being implemented through the UN.

Secretary ROYALL. I would not want to take any step that is inconsistent with either the theory or announced principles of the UN.

Mr. LODGE. May I suggest, that under article 51, it would not be inconsistent.

Secretary ROYALL. It could and could not. It depends on what it does and what the scope of the alliance is. I am not an authority on the UN, but I am sure that the purposes and the extent of the alliance and what it involves in obligation is a consideration of that. I did not mean to say that some form of alliance could not be had.

Mr. LODGE. I will put the question differently. I assume—and I realize I am treading on delicate ground here, and I shall quite understand if you refuse to answer—but there is no question that the military establishments of the several countries constitute a burden on these countries, a necessary burden; but a burden. Now, to the same extent that a quasi economic federation will diminish the economic burdens, to the same extent, it seems to me, a sort of military alliance would diminish the military burden and thereby diminish the necessities of these countries under their military programs. In other words, if you were to look at the map of western Europe, strategically, and I take it that you agree with me that this measure is at least to a considerable extent a strategical measure, you would be bound to consider the disposition of forces over that part of the world, and if you considered it as an entity rather than as a conglomeration of nations, it might result not only in a much more strategical disposition of these forces, but in considerable savings to the American taxpayer. Would you care to comment on that approach to the problem?

Secretary ROYALL. I do not believe I would, largely because of the fact that the question of alliances and agreements with other nations is primarily the scope of the State Department, and I, of course, realize that the military aspects are considerations. There are so many other considerations that I believe it would be unwise for me to discuss it.

Mr. LODGE. I quite understand that. However, I would like to get your assurance that your Department is doing a lot of heavy thinking on that problem.

Secretary ROYALL. Well, we have considered every possible military aspect of it, I think.

Mr. LODGE. Would you care to comment on this, Mr. Secretary: It is my understanding—and I gained this understanding from conversations with the highest military authorities in France and Italy—that there is absolutely no liaison at all, at this time, between the French and Italian armed forces.

Does that seem to you to be realistic, or does that seem to you to be proper at this particular juncture in human affairs?

Secretary ROYALL. Well, I do not know enough about the facts on that. I do not believe I know enough about the facts and considerations—to comment on that.

I have seen some items in the press about it, but I do not care to comment. If I get into the discussion of alliances and agreements and covenants and treaties, not only in which we are involved but in which other nations are involved, I am way beyond my jurisdiction, and you know the poor old defense forces are accused of trying to run the country. I do not want to add any additional evidence.

Mr. LODGE. May I say as to that, Mr. Secretary, that I am in the position of having to consider those matters because, insofar as the

ERP is a strategical measure, it is but one aspect of strategy, as doubtless you realize. We have other aspects. At the moment we have the interim-aid bill. We have the cultural and information program and we have the disposition of forces as they may affect our position throughout the world.

Therefore, naturally, in thinking of this as a strategical measure I think of it as a component part of the larger picture and not simply as piece-meal legislation. Accordingly I am attempting to document myself as much as possible on the full picture and the full implications of the picture.

Secretary ROYALL. It is not military strategy but a strategy in the broader sense, I am sure. That involves a lot of things, in which the military certainly cannot speak alone, and probably should not prejudice any other department by their discussion.

Mr. LODGE. It is my belief, Mr. Secretary, that the immediate threat is not war but internal force, particularly in France and Italy. I believe that the anti-American and anti-freedom campaign by the Communists has gone out of the realm of attempts to capture governments by constitutional means and into the second stage, which is the attempt to capture them by internal force—the third stage being war.

Do you believe that the ERP, if it is passed, as General Marshall requested it, promptly, adequately and effectively and cooperatively, will be sufficient to protect the governments of France and Italy from seizure by internal force?

Secretary ROYALL. From the information that I have, which involves statements of General Marshall and others, I am inclined to think that that is the more probable result. I do not think any one can say dogmatically or with certainty exactly what the ERP will produce. I think all we can do is to give our best judgment, with the full realization that no one can really know completely.

It is the same thing with the UN. It is the same thing, to some extent, with the defense establishment. Absolute security is a non-existent thing, with certainty. A combination of absolute security and certainty is not existent. Everything is dependent upon so many imponderables and uncertainties in the future that we cannot tell. But my best judgment is that, first, the only real chance of preventing just what you say is a danger—and which may well be a danger—is to rehabilitate the economic life of the European countries.

My second point is that my best judgment is that it will have that effect.

Mr. LODGE. Well, Mr. Secretary, insofar as it militates against that danger, it is because it diminishes the popularity of communism by alleviating starvation and misery; is that not right?

Secretary ROYALL. I do not think you can put it solely on popularity. It also would tend to decrease starvation, disease, and unrest, discouragement, which are the breeding grounds for any radical change of thought. I do not think the term "popularity" is quite inclusive.

Mr. LODGE. Let us say that it would tend, in mitigating those circumstances, to diminish the spread of the disease of communism among the people.

Secretary ROYALL. I think it would; yes.

Mr. LODGE. Well, I would like to point out to you, there, that in Poland there are only 3 percent Communists. There are 30 percent in France. There are fewer Communists in the eastern European countries behind the "iron curtain" than there are, percentagewise, in the western European countries outside the "iron curtain." And from that I would deduce that combating the spread of the disease is not enough because of the Communists' resort to internal force when constitutional means do not succeed.

Now, my question—and I would like to put it to you again—is: Is there anything in the administration's thinking about the problem of making the fractional effort that would be required to assist these western European countries to meet the threat of internal force until the European recovery program can so bolster and strengthen these governments that they no longer need any assistance to meet that threat?

Secretary ROYALL. I do not know exactly what you have in mind. I am sure that we are lending encouragement to the constituted authorities of these countries, and the most encouragement that we can render, it seems to me, is the holding out, at least, of the hope that we may assist their economic condition.

Mr. LODGE. I have in mind, Mr. Secretary, attempts by violence to seize the Government of Italy before this can take hold.

Secretary ROYALL. Yes.

Mr. LODGE. I spent some 3 weeks there this fall, and the Communist forces in Italy are very well armed and very strong. Now, that is a very difficult weapon for us to cope with because we are a legally minded people. But surely we must recognize, as realistic people, that there are attempts, and there are likely to be further attempts, to capture these legally constituted governments by extra-legal means.

Secretary ROYALL. I certainly would not dismiss that as a possibility—that that attempt will be made. But I do not know how; I do not know enough to know how. You have been there more recently than I have, Mr. Lodge, and your judgment on it should be very good.

I do not know how real the danger is of an internal coup by force in those countries. I know it is certainly a possibility.

Mr. LODGE. In Italy it is the most dangerous, and I was anxious to receive assurance that that danger was recognized in the high places in the administration and that something was being done to assist these countries to meet that danger.

Surely if the ERP program has significance we must examine all the strategical elements that are involved in its success.

Secretary ROYALL. I am sure that all the defense departments are constantly alert to the internal as well as the external conditions and all the countries of the world, as far as they can get that information.

Mr. LODGE. Thank you very much, Mr. Secretary.

Mr. VORYS. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 5:15 p. m., the committee adjourned to 10 a. m., Wednesday, January 21, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 21, 1948

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

The committee met, pursuant to adjournment, the Honorable Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will be in order.

We have with us this morning the Secretary of the Treasury, Mr. Snyder.

Mr. Secretary, we are glad to have you with us this morning, and we will be glad to have you proceed in your own way.

Secretary SNYDER. Mr. Chairman, it is a pleasure for me to be before your committee.

I have a prepared statement which I would like to read first.

Chairman EATON. Very well. You may proceed in your own way.

STATEMENT OF HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. The President, in his message to the Congress, recommended that 6.8 billion dollars be appropriated to finance the European recovery program for the 15-month period ending June 30, 1949.

The National Advisory Council on International Monetary and Financial Problems has carefully considered all the financial aspects of the program.

The following statement, which was approved by the Council for submission to the committees of the Congress, summarizes the conclusions reached by the Council on the principal financial aspects of the program.

First, as to the over-all figure recommended by the President to be appropriated for the first 15 months, the Council has carefully reviewed the procedures which have been used by the interdepartmental committees of experts in arriving at this figure.

These procedures involved a critical examination of European needs and of availabilities in the United States and in other major supplying areas, and careful estimates of European dollar income and resources. The National Advisory Council believes that this approach is sound and has concluded that the recommended amount is needed to achieve the objectives of the program.

The first matter of detail which I wish to take up is the question of the form in which aid should be extended to Europe. This assistance should be provided as a combination of grants-in-aid and loans.

The criterion for selecting one or the other form should be the capacity of the participating countries to earn, in the years to come, the dollars which would be needed to pay interest and principal.

We must keep in mind that these countries have already incurred an obligation for large annual payments of interest and amortization arising from the dollar loans extended to them over a period of years by the United States Government or the United States private capital market.

We should take care not to insist that these countries contract additional dollar debts which will absorb so much of their dollar earnings as to operate to the disadvantage of future trade and private investment.

If the entire aid for European countries were to be on a loan basis, it would be practically impossible for them to meet the additional annual charges from their earnings of dollars, even after trade and investment return to normal.

The proportion of total aid which can prudently be provided on a loan basis must depend on the estimate of the borrowing country's capacity to repay in dollars and also on the degree of flexibility which can be introduced into the terms of repayment.

The International Bank may be expected to finance part of the capital requirements of the European countries, particularly where they require the financing of permanent additions to their equipment.

It does not seem likely, however, that the bank will be able to carry the whole, or even the major, part of the program, which properly ought to be put on a loan basis.

We propose, therefore, that when the Administrator for Economic Cooperation decides, after consulting the National Advisory Council, that it is desirable to extend aid on a credit basis, he will allocate the funds to the Export-Import Bank of Washington, which will then make the loan as directed and on terms specified by the Administrator in consultation with the National Advisory Council.

This procedure will enable the Administrator to draw upon the broad experience of the Export-Import Bank in the making of foreign loans.

Incidentally, this is one example of the manner in which the National Advisory Council would perform its customary role of coordination of United States foreign financial policy.

I shall be glad to describe this role in greater detail if the members of the committee wish me to do so.

It is also important that the American business enterprises be given opportunity to participate in the recovery program by making new investments abroad, or by expanding existing facilities where the program calls for additional capital equipment.

In this way, they will contribute to the restoration of Europe, while at the same time they will be carrying out their own programs for expansion abroad.

But we must recognize that new investments would be made at a time of great uncertainty and that investors may anticipate encountering difficulty in converting their earnings or their original principal into dollars.

To facilitate private investment, therefore, it will probably be necessary for the Government to guarantee the convertibility into dollars of local currency earned by the investment or available for the repatriation of the original investment.

While we may expect that the participating countries will try to make dollars available, it is possible that they will not have adequate dollars to permit conversion.

The Economic Cooperation Administration should not be expected to guarantee American companies making these investments against normal risks but merely to give them a transfer guaranty.

We propose that not more than 5 percent of the funds appropriated by Congress for the program should be obligated for these guaranties and that the guaranties themselves should not exceed the amount of the original investment and should not be extended more than 10 years from the termination of the 4-year program.

Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States and by liquidating the American investments of their own citizens.

I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952.

It should be kept in mind that the European recovery program is not intended to cover the entire import requirements of these countries.

It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate smoothly through ordinary commercial and financial channels.

By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems.

As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to, or below, the amount which would normally be regarded as safe.

When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences.

These investments annually earn a dollar income, which will be used to cover part of the cost of the program and which be used in the future to meet part of the cost of imports after the program ends.

Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to require European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

Even if these countries could liquidate all of the property owned by their citizens in the United States, they could not pay for more than a small part of the program.

We estimate that as of last June 30 the long-term dollar assets held by persons in the participating countries amounted to about 4.9 billion dollars.

Of this amount 1.5 billion dollars consisted of direct investments, and a considerable part of the remainder also consists of holdings which would be difficult to liquidate.

Some of these assets are already pledged for loans, while for many of the countries involved the amounts held here are negligible.

Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports.

In practice, this may be an alternative to borrowing from the United States.

We certainly will not object to the governments using these funds. The question of policy for us to decide is the extent to which we can help these countries in obtaining control of these assets.

In the case of unblocked assets, the only way the European governments can get control of them under present circumstances is through the compliance of their citizens with local laws.

In fact, a considerable portion of the assets formerly blocked in the United States has been unfrozen as a result of such action. While we do not have exact data on unblocked assets, we believe the amount is comparatively small.

A large part of the blocked assets are still blocked because their owners have not obtained from their own governments a certification that there is no enemy interest in their assets, which is required by the United States Treasury before the assets are unblocked.

The National Advisory Council and the executive departments concerned with this matter are giving very careful study to this problem. We hope to reach a final view as to the most satisfactory solution of this problem very shortly.

It will not be possible to obtain all the goods needed for the recovery program in the United States, nor would it be desirable to attempt to do so.

Some commodities are in short supply here, and purchasing abroad would leave more available for our own population and would in many instances reduce the net cost of the program. The needed amounts of food cannot be obtained in the United States.

A large percentage of the requirements of grain, fats and oils, meat, and other agricultural products can be procured only in other countries of the Western Hemisphere.

In this manner we can make it possible for countries in the Western Hemisphere to supply larger amounts of foods and materials to Europe and at the same time maintain essential imports from the United States.

It is the opinion, therefore, of the National Advisory Council that the Economic Cooperation Administrator should be authorized to expend funds for the procurement of supplies for the recovery program outside of the United States.

This would relieve pressure upon goods and services in short supply in the United States and would in some instances have further effect of assisting third countries in maintaining needed imports from the United States.

We definitely would not permit the use of dollars to buy goods abroad where the supplies available in the United States at reasonable prices are adequate for our needs as well as for the requirements of foreign countries.

In any case, all purchases would be made according to an agreed program, and the administering agency would control the use of the funds appropriated by Congress.

In addition to purchases in the Western Hemisphere, there are special instances where it may be in our interest to procure certain essential products in one participating country for delivery to another, making payment in dollars.

For example, we might buy steel or coal in one participating country for delivery to another. The dollars which are received would then

be used by the supplying country to pay for imports from the United States, thus reducing the need for direct expenditures by the United States for aid to the supplying country.

If the recovery program is to be successful, adequate measures for monetary stabilization must be taken promptly and with vigor by the European countries.

At the Paris meeting the 16 participating countries undertook—

to apply any necessary measures leading to the rapid achievement of internal financial, monetary, and economic stability while maintaining in each country a high level of employment.

They have recognized that recovery is not possible as long as inflation continues and unless production is increased.

The measures which should be taken must vary somewhat from country to country, but the general outline is clear.

Budgets should be brought into balance rapidly, so that the necessary expenses of government can be met without increasing the public debt and without increasing direct inflationary pressures.

In most countries modifications in tax structures and control of expenditures will be needed. As determined steps are taken, the trend toward budgetary balances, increased production, and steadying prices will all interact upon one another to facilitate stabilization.

The Administration proposes that each country receiving aid from the United States shall enter into a separate agreement with this Government which will cover the terms on which aid will be given.

The European signatories will undertake to adopt the financial and monetary measures which are necessary to stabilize their currencies and to maintain and establish proper rates of exchange. These agreements will also cover such matters as cooperation with other countries, the proper use of the goods supplied, and the establishment of a separate account for the local currency equivalent to the aid supplied in the form of grants.

Moreover, each country would agree to supply the United States Government with full information about any pertinent aspect of the recovery program and to give a report on the program to its own people, on the basis of the information which the cooperating countries will give us, and also from the reports of our own missions in these countries, we can be informed about the situation, and so be in a position to discuss with the country the measures which it has taken, or ought to take, to contribute to the recovery of Europe and its own stability.

We have a direct interest in assuring that the aid we provide to Europe makes a maximum contribution to the reduction of inflationary pressures and the restoration of stability.

To this end we propose that each participating country will deposit in a special account the local currency equivalent to an agreed rate of exchange, to the dollar cost to this Government of the goods supplied through grants-in-aid.

These accounts should be drawn upon only for constructive, stabilizing purposes. In many instances it will probably be best either to let the accounts remain idle or to authorize the use of this local currency to effect a net reduction in the government's debt.

These accounts, of course, will be available to finance some of our administrative expenses in connection with this program.

There may be instances in which they might also be used for reconstruction or development, or other purposes which would contribute to the increase of production in the country. In the view of the National Advisory Council, such expenditures should be undertaken only in agreement with this Government.

I wish to make it clear that the National Advisory Council, in considering the financial measures which the European countries should take, had very much in mind the necessity of preserving the spirit of free and friendly cooperation between this Government and the European governments.

I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

The adjustment of some exchange rates may be expected in the course of European recovery.

Inflation in Europe in certain instances has given rise to exchange rates which result in an overvaluation of the currencies in relation to the dollar.

This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency.

In some cases countries have resorted to export subsidies, by means of special exchange rates, or have used other measures in conflict with our own long-range international economic program.

The determination of an appropriate exchange rate is a very complex matter, involving the widest range considerations relating to prices, costs, and balances of payments.

The difficulties in settling exchange rates under present conditions are such that, although the rates of some of the participating countries will certainly have to be adjusted, the timing of these adjustments will vary from country to country.

Accordingly it would not be good policy for us to insist upon an across-the-board modification of exchange rates before we extend aid.

The revision of rates of individual countries should instead be considered as a part of a developing program of internal and external stabilization in conjunction with United States assistance.

To ensure that these revisions will be undertaken where necessary, the recipient countries will be asked to agree that when, in the opinion of the United States Government, their exchange rates are imposing an unjustifiable burden on their balances of payments, they will consult with the International Monetary Fund about revision.

Countries which are not members of the fund would be expected to consult directly with the United States Government. The National Advisory Council is making continual studies of the exchange rate problem and is the agency directed by Congress to coordinate policy in this matter.

After progress has been made toward internal stabilization in the European countries by balancing budgets, increasing production, and expanding trade, the time will arrive when it may be appropriate to make stabilization loans which would give greater assurance to the people of the participating countries that the stabilization will be permanent.

There is greater confidence in the stability of money if there is gold or dollars in the hands of the central bank.

At the appropriate point in the program it would be well worth while to give countries this additional assurance by extending a loan to provide monetary reserves.

If the loan is given prematurely, the reserves might be dissipated through balance-of-payments deficits.

A stabilization loan to be effective should come when there is reasonable assurance that the internal situation of the country concerned is satisfactory, and that it will be able to maintain its exchange rate at a stable level for a considerable period of time.

It is not likely that this situation will be reached immediately, but it is possible that in the course of 1948, and probably in 1949, some countries will be in a position to use stabilization loans effectively.

At the appropriate time Congress may then be requested to appropriate additional funds to be used by the United States Stabilization Fund to make these loans.

Finally, I should like to make a brief comment concerning the financing of the program. It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopted methods which might accentuate inflation in the United States or upset our own economic stability.

It is my firm opinion that we should finance the European recovery program within a balanced budget. I am confident that, so long as we pursue a sound fiscal policy, we shall be able to cover the cost of the European recovery program out of current revenues.

Chairman EATON. Thank you, Mr. Secretary.

We appreciate your very informative statement, and the last statement you made raises a question which I have in mind, as to the impact of this program upon our own economy.

You indicate that in addition to all that is proposed under this measure, there would be further loans made. How is the Treasury? Does it have a bottom to it?

Secretary SNYDER. Those loans would be purely stabilization loans such as we have made, Mr. Chairman, from time to time in the past. It was provided a few years ago that we should have a stabilization fund to help stabilize the relationship between United States and foreign currencies.

That fund is of such nature that the money comes back. It is really a revolving fund, so that when a country has a temporary imbalance, in its balance-of-payments situation, they can borrow some money for their reserve and as soon as the imbalance is made up it is paid back.

Stabilization is a question that would come up. I just mentioned that here because I thought it was important and that it should be given consideration.

It is part of the consideration that we have to give to the matter of getting the European countries stabilized.

Chairman EATON. As the financial agent of the Government is it your view that this great expenditure will not have a serious reaction upon our own economy, and possibly dislocate it?

Secretary SNYDER. From the studies that have been made by the various groups, we have been pretty well assured that we can do it without any serious impact on this country.

The expenditure would certainly be nothing comparable to what might happen to it if we did not make the effort.

Chairman EATON. It would have an effect upon prices here?

Secretary SNYDER. It could have. I do not think that it should necessarily have such an effect, and that is why the provision is suggested for off-shore purposes, so as to keep in mind, if we get short supply articles, and purchases here might force prices up, that we might look for those articles in other countries.

Chairman EATON. Now, we have a great problem of how to handle this tremendous transaction; its organization, and so forth.

Why can we not turn it over to the Secretary of the Treasury to handle?

Secretary SNYDER. Well, I appreciate that suggestion.

Chairman EATON. Are you responsive to that suggestion?

Secretary SNYDER. I think the suggestion made in the proposal is workable, Mr. Chairman. The crux of the whole program is the administrator. We must get able men to handle this program. We have studied the proposed organization very carefully, and we believe it is workable under the direction of an able administrator.

Chairman EATON. Of course, the general impression among us ordinary citizens is that the Treasury Department handles the funds of our country, which we supply, and that it is the most competent to do so of any section of the Government, including the State Department and others.

But you decline to accept that job, do you?

Secretary SNYDER. Well, Mr. Chairman, I think that this is so tied in with our foreign policy that we must have the administrator working very closely with the State Department. We could get off into some pretty difficult areas if we started out with two different Cabinet members operating in the foreign policy field.

Chairman EATON. They might not agree?

Secretary SNYDER. They might reach times when they would not agree on certain matters; while I am quite sure that General Marshall and I would always agree, there might come a time when a disagreement might arise, and we could not risk the development of two separate foreign policies.

We must have one foreign policy, with the financial aspect and the political aspect working hand in hand.

Chairman EATON. All I had in mind was the question that our foreign policy, present and future, will have at the masthead, a dollar mark, is that not right?

Secretary SNYDER. For a while, it will definitely have to, because we are certainly going to be extending aid to these countries, which is dollar-wise aid.

Chairman EATON. Thank you.

Mr. Jarman.

Mr. JARMAN. Mr. Secretary, speaking of the possibility of disagreement of Cabinet officers and of two foreign policies—we tried that, did we not? We tried two foreign policies, or two foreign policies were attempted about 18 months ago, and that did not work so very well, did it?

Secretary SNYDER. Well, I think we need one foreign policy, Mr. Congressman.

Mr. JARMAN. I am thoroughly in agreement with you, Mr. Secretary. Perhaps I should know this, but refresh my memory, Mr. Secretary, as to this National Advisory Council.

Secretary SNYDER. The National Advisory Council is composed of the Secretary of the Treasury as Chairman, and has as its members the Secretary of Commerce, the Secretary of State, the Chairman of the Export-Import Bank, and the Chairman of the Board of Governors of the Federal Reserve System.

Any Government financing, foreign financing, is channeled through that council, and it is that council which instructs our director on the International Monetary Fund and our director on the International Bank, as to his policy. It is determined within this council and they are instructed as to the positions to be taken in matters coming before those two international financial institutions.

It also forms the general lending policy of the Export-Import Bank.

Chairman EATON. Will the gentleman yield?

Mr. JARMAN. Yes, sir.

Chairman EATON. If we effectuate this legislation, would that National Advisory Council still have authority over the Administrator?

Secretary SNYDER. It is provided that the Administrator would perform all of his policies in consultation with the National Advisory Council just as the Export-Import Bank does. Through that council we are able to avoid duplication of effort and to measure what is done in one field as it affects another field and our operations have been very effective to date.

Mr. JARMAN. The National Advisory Council is entirely separate, is it not, from the Harriman committee?

Secretary SNYDER. Entirely.

Mr. JARMAN. I imagine it cooperated with it, perhaps, but it is a separate organization.

Secretary SNYDER. Yes, Mr. Harriman is a member of this council, but the Harriman committee was an entirely different organization, outside of the scope of the National Advisory Council, although we did consult with them from time to time and carefully read their report, when it was made.

Mr. JARMAN. Mr. Secretary, you spoke——

Secretary SNYDER. You know, Mr. Congressman, that the National Advisory Council is established by statute.

Mr. JARMAN. That is the reason I said I should know about it.

Secretary SNYDER. That is all right. You deal with a great many problems, and I was glad to refresh your memory.

Mr. JARMAN. You spoke of the dollar loans extended to these other countries over a period of years by the United States Government or the private capital market.

Do you have any rough estimate of the amount of those loans outstanding?

Secretary SNYDER. We can supply that for you. I do not think we have the figure offhand. You would like to know how many United States Government loans are outstanding in these 16 countries, and how many private loans?

Mr. JARMAN. Yes.

Secretary SNYDER. We will supply that for you.

Mr. JARMAN. I would appreciate that, Mr. Secretary.

(The information referred to is as follows:)

Outstanding indebtedness of ERP countries to U. S. Government and unutilized balances of United States loan and credit commitments as of Sept. 30, 1947¹

[Millions of dollars]

Countries ²	Amount disbursed (outstanding) ³	Unutilized balance ³	Total ³	Unpaid principal of World War I debt ⁴
Austria	2.3	21.1	23.4	
Belgium	145.5		145.5	400.7
Denmark	15.2	14.8	30.0	
Eire				
France	1,692.6	211.0	1,903.6	3,863.7
Greece	86.7	32.0	118.7	31.5
Germany	36.7	27.0	63.7	5,749.5
Iceland				
Italy	238.9	102.6	341.5	2,004.9
Luxemburg				
Netherlands	327.5	173.0	500.5	
Norway	19.3	59.8	79.1	
Portugal	(⁶)		(⁶)	
Sweden				
Switzerland				
Turkey	8.8	34.7	43.5	
United Kingdom	4,184.7	435.0	4,619.7	4,368.0
Total	6,758.2	1,111.0	7,869.2	11,418.3

¹ Exclusive of cash advances on procurement programs, which are predominantly short-term. All figures with the exception of those for the Export-Import Bank and World War I debts begin with July 1, 1940. The Export-Import Bank figures begin with Feb. 12, 1934. Loans represent cash loans to foreign governments and private entities in foreign countries which result in a debtor-creditor relationship. Credit commitments represent property credits extended in connection with the disposal of surplus property, ships, or other property; the sale or disposition of or the settlement for lend-lease articles and services; the settlement for civilian supplies and relief and rehabilitation items; and commodity credits resulting from commodity advances by the U. S. Government to the military governments for Germany and Japan.

² Includes dependent areas of Belgium, France, Netherlands, Portugal, and United Kingdom.

³ Foreign transactions of U. S. Government, as of Sept. 30, 1947, U. S. Department of Commerce, Clearing Office for Foreign Transactions, Jan. 20, 1948, table 1, pp. 6 and 7.

⁴ As of July 1, 1947, excluding interest. Source: Table 7, p. 4 and table 10, p. 15, of Foreign Assets and Liabilities of the United States and Its Balance of International Transactions, a report to the Senate Committee on Finance by the National Advisory Council.

⁵ Includes \$26 million Austrian indebtedness and \$723.5 million for U. S. Army costs and mixed claims arising out of World War I and covering the indebtedness of Germany to the United States and its nationals.

⁶ \$35,481.

Estimated private United States loans to specified foreign governments outstanding as of June 30, 1947

[In millions of dollars]

	Dollar bonds ¹		Bank loans ²	Total
	National, municipal, and provincial	Government-guaranteed		
Austria	2.0	0.4		2.4
Belgium	4.2			4.2
Denmark	25.5	.6		26.1
Eire	.3			.3
France	.4			.4
Germany	64.7	22.5		87.2
Greece	6.1			6.1
Iceland				
Italy	16.3	.6		16.9
Luxemburg				
Netherlands	12.0		³ 85.0	97.0
Norway	17.3	.3	⁴ 16.0	33.6
Portugal				
Sweden				
Switzerland				
Turkey				
United Kingdom				
Total	148.8	24.4	101.0	274.2

¹ Par value.

² Not including loans guaranteed by the Export-Import Bank.

³ Approximate net disbursements by commercial banks participating in an Export-Import Bank \$200,000,000 loan, but not at the risk of the Export-Import Bank.

⁴ 3-year revolving credit to the Norges Bank by commercial banks.

Mr. JARMAN. In conclusion, I have no other questions but I want to thank you for your very interesting statement which I have not only listened to with keen interest but which I am going to read very carefully again, because it has a lot of meat in it.

Secretary SNYDER. Thank you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, I also wish to compliment you on your very fine statement. It has a lot of candor in it, which I have been looking for. Along the line mentioned by the chairman as to the difference between a financial agent and a foreign policy agent, do you not feel sometime that this program, running into the billions—in 1 year it calls for \$6,800,000,000, which is about the average of the Federal budget for the 1930's—that we should have more business in this organization?

Secretary SNYDER. I have no doubt but what we should have a good business administration of the program. There is no question about it.

I think we are all agreed on that.

Mr. JONKMAN. Our foreign aid began with UNRRA. I do not know how Mr. Allen is doing over there now, but it has made a rather sorry mess of things in the past.

You will find for instance, one item of waste—a loan, which was \$75,000,000 which was lost, embezzled, or whatever you want to call it. That is a very serious reflection on the whole program.

After the First World War the Treasury Department handled the foreign aid program, did it not? Under the Dawes plan?

Secretary SNYDER. Well, there was a Dawes plan, and of course in connection with it private capital was brought in play to a very considerable extent.

Mr. JONKMAN. Well, public loans went into the program too?

Secretary SNYDER. United States public funds were not involved in the Dawes plan and the Treasury made no European loans after the termination of the World War I loan activities shortly after the end of the war.

Mr. JONKMAN. After we dissipated some seven thousand million dollars in public and private loans and found that it did not get us anywhere, I think the Treasury Department went in there with less than a half billion dollars and in a few years put those countries on their feet?

Secretary SNYDER. I think we should profit by past experience, certainly, and aim at a sound program, and a sound administration.

Mr. JONKMAN. Which do you think preponderates there, the need of a business administration, or a good fellow, good neighbor policy?

Secretary SNYDER. I think they are closely knit. If we are going to do this job, we certainly want to put it on a friendly, cooperative basis, or else we will probably have missed entirely the goal at which we are aiming.

But I still think that helping the participating countries to help themselves will be the best and most effective way. We should see that they exert their efforts along that line, and then supplement their efforts if we can.

Mr. JONKMAN. The point I am making is that if we have a sound business administration, right from the top down, that the correlation that we need for foreign policy could easily be established without any violence being done to our foreign policy.

But our past experience has shown that when the State Department enters into it, handles it, much as I regret to say it, we have not a business administration.

I am going to lead up to that in a moment. One statement you made very candidly, for instance, is the difficulty that we have in this respect. You say on page 3:

By insisting that participating countries exhaust gold or dollar balances we will merely add further instability to their monetary system. As a matter of fact all of the participating countries, except Switzerland, Turkey, Portugal, have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

Do you not think you could add other countries to that, besides those three?

Secretary SNYDER. No, sir; we have looked at that pretty carefully, and from the requirements of the countries it appears to us that their reserves in dollar balances are pretty low for the purpose of carrying on a stabilization or recovery program.

Mr. JONKMAN. For instance, Norway has already floated a private loan at New York, with the New York banks.

Secretary SNYDER. Yes.

Mr. JONKMAN. Does not that show that they are in pretty good condition?

Secretary SNYDER. Well, I would not want to comment on the bank's credit, but Norway has \$77,000,000 in gold. I would not want to comment on the bank's credit. The loan was a small one; I understand about \$12,000,000.

Mr. JONKMAN. The point I am making is this: I realize, of course, that we are changing from a relief program to a recovery program.

There is quite a difference, that is true.

Secretary SNYDER. Yes.

Mr. JONKMAN. But it is also true that under our relief program we have in the residual relief bill six countries—residual-aid bill, six countries; and in the interim-aid bill, three countries; and now we are back to 16 countries.

We are taking on quite a load. It seems to me that about 13 of these countries could do pretty well by themselves if it were not for the other three.

Is the purpose of the recovery program to establish joint action?

Secretary SNYDER. I think that is the aim of it, to get those 16 countries working in a unified program.

I think it is most important that we do that, and it is most heartening to see 16 European countries get together on something, and come up with a program to which they all subscribe, aimed at the recovery of the whole of Europe.

I was pleased to see that we could accomplish that first very forward-looking step.

I think each country's needs have been very carefully studied by this group to which I referred awhile ago, the technicians, who went back into the program—they did not accept just what was said in the presentation to us in the form of the original program, but they re-screened it, they changed some of those allocations of items, and tried to put it on the basis of just what they thought was absolutely necessary.

The whole program, I have satisfied myself, is aimed at trying to bring out the fullest possible self-help, and the part in this bill that is

provided for Congress to supply funds for, is for that extra amount needed to bring the participating countries to a beginning of a recovery and stabilization, and not to establish a better situation than that existing prior to the war, but to bring them to a point approaching that so that they will have an opportunity to move forward in the way of stabilization and economic recovery.

Mr. JONKMAN. Then are we seeking to secure the cooperation of the 13 countries, which I think could perhaps raise themselves by their own efforts, with the Marshall plan, or with loans and grants, in order to get their cooperation for cooperative effort?

Secretary SNYDER. I do not think that entered into it by itself. It might have been given consideration somewhere along the way. But I do not think any country is offered or will be offered aid and assistance under this program unless it needs it over and above what it can do for themselves.

Mr. JONKMAN. Well now, it came to me on very reliable authority that a high official of this Government had talked with a high official of the Danish Government. He said, "You don't intend to come in under the Marshall plan, do you?" The answer was, "Well, we hadn't intended to. We figured we could float a loan with the private banks, but everybody else is coming in so we might as well come in too."

Secretary SNYDER. Well, I do not know anything about that, Mr. Jonkman.

Mr. JONKMAN. Is there room for that spirit?

Secretary SNYDER. I do not think so. Mr. Block, our director on the International Bank, just advised me that Denmark has met with no success in trying to float a loan, although they have tried at considerable length to do so.

Mr. JONKMAN. Is the Committee for European Cooperation doing anything at the time? Have they held any sessions for the carrying out of the program since the Paris Conference?

Secretary SNYDER. Yes; I think they have had some meetings. Mr. Ness of the State Department can answer that question.

Mr. NESS. Since the time of the Paris meeting there has been no reconvening of the Committee for Economic Cooperation as a committee.

However, in the interval since the Paris Conference, subgroups of the committee have been meeting regularly, such, for instance, as those on the problem of payments within Europe. That subgroup has held meetings. But there have been no meetings of the entire committee.

Mr. JONKMAN. From the results we have had from the Marshall speech at Harvard and the Paris Conference, we have had a little more than a get-together of 16 nations who have said "We want \$22,000,000,000," and we have agreed that something should be done.

Secretary SNYDER. I think we have done much more than that. We find that they are actually trying to re-form their governments and are endeavoring to work out plans within their own governments for stabilization and for tightening up on their economic situation. We see marked evidence of that in practically every one of these countries.

So I can see a great deal more than just a request having been sent over here. They are conscientiously and honestly trying to help themselves.

Mr. JONKMAN. You have in mind there, I take it, the efforts on the part of the countries of France and Italy to revise their tax structure and consolidate their governments?

Secretary SNYDER. Yes; and Holland is doing the same thing.

Mr. JONKMAN. But Holland is not doing it on account of the Marshall plan?

Secretary SNYDER. But they are doing it. As long as they are working toward that objective, it does not mean so much to me whether it is on account of the Marshall plan or account of their own idea, because that is the goal we are aiming at, the reestablishment of economic stability.

Mr. JONKMAN. I know, but the administration by which we have before us states expressly that the aid to be extended is to be extended to countries parties—participating in self-help and mutual help. “Participating”—do you not think that after the offer was made, there should be a greater cooperative effort on the part of those nations, to form, let us say, a customs union, at least?

Secretary SNYDER. I think they probably have got to have some notion about just how we are going to approach this problem.

I do not know of a single country which is not making some effort to measure just what its internal situation is, so that whatever further steps it takes should be in conformity with whatever we set up under this program and it should not go off in one direction, when we might come along and find that it should have gone in another direction, at the time that we start the program rolling.

But I agree with you that they should be continually working for their own salvation.

Mr. JONKMAN. Of course our trouble is, as we say, that we always won a war, and never won a peace. We may not even win this program, merely because of that reason.

Secretary SNYDER. That brings us up to the crux of the thing, which is the agreement we work out with each country. That is going to be the Administrator’s responsibility, to sit down with each country, and not take exactly what is said here, but to actually sit down and review conditions as they are at the time he is working out the agreement, and work out the best possible arrangement with that country which will insure that they get to work on their own salvation and their internal recovery.

The Administrator will be charged with watching that program, and unless the countries are moving along, he can always hold up on further advances—if they are laggard about carrying out the terms of the individual agreements which are arranged with each country.

Mr. JONKMAN. All right, but assuming that you make bilateral agreements, are you not missing the boat by not having also a multi-lateral agreement, to create a cooperative action?

Secretary SNYDER. That gets over under the State Department’s political angle—how far we want to go in tying matters together. We want to encourage cooperation between nations, but I would be getting out of my field entirely if I got into too much of a discussion along that line.

Mr. JONKMAN. Well, here is a statement of yours, and there are others like it, which I like very much.

It is candid and straightforward. On page 6 of your statement, you say;

The adjustment of some exchange rates may be expected in the course of European recovery. Inflation in Europe in certain instances has given rise to exchange rates which result in an over-valuation of the currencies in relation to the dollar. This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency.

That is a fair statement. I had no difficulty in getting that from those who have handled our foreign policies. That just shows the difference between our foreign-policy view and our financial-policy view.

There is no use denying it. For instance, yesterday I called attention to the fact that the legal exchange value of the French franc is 119 to the dollar, while the free-market, or the black-market value, if you want to call it that, is at least twice that amount, perhaps 250 to 300. And I asked: Does not that tend, just as you say there—to retard exports, because the exporter, or the exports are doubled in price? In other words, the exporter who has a piece of lace or a bottle of perfume in France, for which he would get \$5 in the United States, must get \$10 for it. That is true, is it not? He must get just twice as many dollars, as the market rate?

Secretary SNYDER. To get the equivalent number of francs; yes, sir.

Mr. JONKMAN. Yes. So you discourage exports. And I have not any doubt that France has goods which she could export, if the currency situation were so favorable that she could increase her exchange.

On the other hand, by that doubled value, you cut the cost of imports in two, if the rate is 2 to 1. Is that not so?

Secretary SNYDER. I believe you are exactly right, Mr. Congressman, and I want to say that whatever statement I have made is not in conflict with the basic theory of those who have preceded me. It just happens to have fallen even more definitely under the financial end, and that has been left to me.

Mr. JONKMAN. Well, I have to go by what each of you say, and that is for me to judge, whether there is conflict.

Secretary SNYDER. I want to assure you that there is no conflict. I think the greatest problem, in solving all of these exchange matters, is a matter of timing. We must watch that very carefully and then move toward adjustment at the proper time, without upsetting everything.

Mr. JONKMAN. I agree to that. You could not do it in 24 hours, all over the European continent?

Secretary SNYDER. That is right. And one step leads to another.

Mr. JONKMAN. But if we are going to furnish dollars, are we not encouraging that very fault that I just explained?

In other words, we are taking the bottom out of the barrel, and letting them retard their exports and encourage imports, and we are giving them exchange with which to do it.

Secretary SNYDER. That is one of the objectives, to try to bring about a situation so that they can properly make changes in their exchange rates.

But they have to have some hope of assistance, in some direction, or else then they can never stabilize and conditions would grow steadily worse.

One of the whole objectives of the aid we are going to give them is to help them get into a position where they can make those rate adjustments.

Mr. JONKMAN. Have you reasonable assumption, reasonable confidence, to assume that they will accomplish that before they use up the first \$6,800,000,000?

Secretary SNYDER. I think they will make great progress in that direction. I cannot say that they will undertake finally to accomplish it. It is a very complicated situation.

Mr. JONKMAN. The difficulty is this: Take the British loan. They got $3\frac{3}{4}$ billion, and it was not until they found that they were scraping bottom of the barrel on that almost \$4,000,000,000 loan, that the United Kingdom finally woke up and said, "We are getting into a bad situation. We have to cut out some of these imports"—and they cut out movies, tobacco, oil, and things of that sort.

The point I am making, Mr. Secretary, is that by giving these loans we are absolutely encouraging the very thing we seek to eliminate and what sense is there in it?

Secretary SNYDER. On the British loan, up until July, they had maintained themselves well within the estimates which they had furnished in the preparation for the loan.

Up until July—we can furnish you tables to show it—they had stayed pretty well within their estimates.

They ran into some difficulties later, and from then on their real problems started. They had greater demands for convertibility than they anticipated they would get, and there was some real difficulty there.

Also they have had some other troubles of which you are well aware—the weather, the crop situation, and so forth. But I have to be perfectly frank with you—I spent a harrowing month over there, talking to the representatives of every section of Europe, and also to some of the nationals of those countries, and I think we can expect, with the conditions over there as they are, if we do not give friendly aid at this time, that the cost to us will be so great that we will regret it.

Mr. JONKMAN. What sort of analysis have you to indicate that it cannot be done with half the amount?

Secretary SNYDER. This was arrived at with a very careful, studious approach.

If we start to say a billion less or 2 billion less, or a billion more or 2 billion more, it will be a much more arbitrary approach than the one which has already been made, because there has been a tremendous amount of careful study in arriving at those figures.

Mr. JONKMAN. The other day I asked the State Department, I said, "I am still using the CEEC figures."

They call for \$5,900,000,000.

And I checked back on the CEEC figures. They begin with \$452,000,000 for feed or fertilizer, \$340,000,000 for solid fuel, \$520,000,000 for iron and supplies, and so on down the line.

I said, "You arrived at that \$5,900,000,000, as a total, from certain items and I would like to have the items, for each country, to make up that total."

Well, they said they are going to get the information for me, but I assume, Mr. Secretary, that if you arrive at a total, your total would be the amounts needed by each country, so you would have those at your fingertips.

Secretary SNYDER. Just for the record, those CEEC figures were for a 12-month period; those in this program are for 15 months. So there is a difference there.

Mr. JONKMAN. It does not make any material difference.

Secretary SNYDER. It makes a difference between the 5.9 and the comparable Executive branch figure.

Mr. JONKMAN. Naturally.

Secretary SNYDER. I just want to make that clear, that we were talking about a different period of time.

Mr. JONKMAN. On the other hand, it is equally clear, Mr. Secretary, that if I say to you, "Here are 16 countries which together need \$5,900,000,000," I should be able to say what each country needs, because I am assuming that that is my total arrived at by individual items. Is that not so?

Mr. NESS. I understand, Mr. Congressman, that the material which you requested previously was supplied on a commodity-by-country basis.

Mr. JONKMAN. But the point I am making is that apparently it was something that had to be figured out from other figures instead of just saying, "Here is how we arrived at the total."

Secretary SNYDER. I think they had approached the problem on the basis of commodity needs for each country and then arrived at the total commodity needs for the whole program. They had taken the requirements of each country and had arrived at so many bushels of wheat, for instance, against the whole program.

Mr. SOUTHARD. The estimates were made by commodities, in the first instance, and at the same time a break-down by country was made, that is, breaking that total down by countries.

Mr. JONKMAN. Is it not true that you have difficulty in getting analytical figures—and I do not want to be too critical?

Secretary SNYDER. Of course, you have a difficult problem. You do not want to say a country is going to get so much of this and so much of that, because you are going to handicap your Administrator. He wants to go in and find out, through a recheck, that those are actually the needs. The estimate appears in the background as to what will be required, but when you start making too precise an appraisal, by items, you are almost setting a pattern as to exactly what each country will want. You cannot handicap your Administrator if you want him to do a bang-up job for you.

Mr. JONKMAN. Well, I do at least want general figures.

Secretary SNYDER. Well, I think you agree with me that we would not want to set too precise a pattern, because we want our Administrator to do a good job and not to be handicapped.

Mr. JONKMAN. Yes; but take the wheat situation alone. I want to know how much of that, \$1,452,000,000 worth goes into the various countries. The interim aid—we found, for instance, that Italy had a great deal more wheat than was estimated in arriving at those figures. And that is a serious error.

Secretary SNYDER. Well, we will get those figures for you.

Mr. JONKMAN. That is all for the present, Mr. Chairman.

(The information referred to is as follows:)

DEPARTMENT OF STATE

(January 20, 1947)

EUROPEAN RECOVERY PROGRAM

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM WESTERN HEMISPHERE, APRIL 1, 1948, THROUGH JUNE 30, 1949, AND POSSIBLE SOURCES AND DISTRIBUTION OF FINANCING

The European Cooperation Administration will have to draw up programs of United States assistance to each participating country covering the commodities and services to be purchased in the Western Hemisphere and the manner in which these purchases will be financed. Each country program will have to be coordinated with the country's total requirements and estimated imports from areas outside the Western Hemisphere and with the amounts of financing available from sources other than new United States funds.

The programs of United States assistance for each country as they may be developed by the Administrator should not now be prejudged. Therefore, an accurate representation of a program for each country, reflecting its aggregate required imports from the Western Hemisphere and the source of funds which will in fact finance each segment of these imports cannot now be made. A continuing process of adjustment will be necessary in order to take account of such factors as the success of the production effort by the participating countries, changes in world availabilities, price movements, supply and financial arrangements with nonparticipating countries, and the decisions of such agencies as the International Bank.

An illustrative program can, however, be drawn up which will be indicative at least of the country by country programs as they might be determined by the Administrator after he has considered all of the relevant factors. An example of such a program is set forth in the attached tabulation.

It needs to be emphasized again that the distribution of commodities by countries and sources of funds indicated in the accompanying tables is only an approximation of the program as it would actually be developed by the Administrator. Particular emphasis should be given to the fact that the amounts shown in table 1, column 4, and in the corresponding columns of the individual country tables do not necessarily represent the amount which each country would receive in the form of direct assistance from the United States, nor do they indicate the terms on which such appropriated funds would be advanced. Rather, they indicate the dollar balance required to fill each country's total estimated required import program from the Western Hemisphere (column 1), after deducting the dollars obtained from exports of goods and services (column 2) and after deducting sources of financing other than new United States funds (column 3). This balance of a particular country's dollar needs (shown in column 4) might in some instances be obtained indirectly through another participating country rather than directly from the United States. Various arrangements for indirect financing of this character could be made and might provide a feasible way to assist the participating countries in overcoming some of the obstacles to increased trade among themselves.

For example, bizonal Germany is expected to have a substantial surplus of exports over imports in its trade with some participating countries, and the latter must settle in dollars for a large part of their debit balances with the bizone. In this way the dollar requirements of these participating countries are increased (because they must pay dollars not only for their imports from the Western Hemisphere but also to settle their German accounts). On the other hand, the bizone's need for direct dollar assistance would be correspondingly reduced (because it would receive dollars in addition to those obtained from its exports to the Western Hemisphere shown in column 2). In circumstances like these the Administrator might find it desirable to allocate funds appropriated for European recovery in such a way as to increase the direct assistance in the form of loans or grants to one participating country over the amount of its Western Hemisphere deficit and correspondingly reduce the direct assistance given to another participating country. Alternatively, the administrator might find it desirable to purchase goods in one country for delivery to another, the transaction being recorded as additional direct assistance to the receiving country. The exporting country's need for direct dollar assistance would be correspondingly reduced. In

general, adjustments of this kind would be considered by the Administrator in the light of recommendations by the participating countries as a group acting through their continuing organization. Such adjustments would not increase the total amount of assistance required but would only affect its distribution between countries.

The country tables which are appended present for each participating country an illustrative composition of its imports of goods from the Western Hemisphere and its net dollar payments, if any, for freight and other invisible items, for the period from April 1, 1948, through June 30, 1949. All values are expressed in terms of July 1, 1947, prices as the adjustment for higher prices is covered in the table on page 5. A distribution of the financing of these imports and payments among the following sources of dollar funds is shown:

Column 2. Dollars earned by each country from exports to the Western Hemisphere and net dollar receipts, if any, for shipping and other invisibles. In the case of Portugal, the amount shown in column 1 includes an expenditure of Portuguese gold and foreign exchange holdings in an amount necessary to offset its deficit on current account.

Column 3. Dollars obtained from such sources as International Bank loans, private investment, existing credits of the Export-Import Bank, and credits extended by participating countries having net dollar earnings on current account to other participating countries. Credits or other assistance by other Western Hemisphere countries are also included in column 3.

Column 4. New United States funds for European recovery and for prevention of disease and unrest in Germany (GARIOA) for which appropriations are being requested. As pointed out above, the amounts in column 4 represent the deficit computed on July 1, 1947, prices with the Western Hemisphere which it is necessary to finance directly or indirectly with new United States funds and do not necessarily represent the direct assistance in the form of grants and loans which will be extended to individual countries. The adjustments for increased prices and savings on shipping mentioned in the table on page 5 will also have to be taken into account on a country by country basis.

The table on the following page recapitulates the country tables and presents a possible distribution, by sources, of the financing of the total Western Hemisphere import program.

TABLE 1.—Recapitulation of tables showing illustrative composition of imports of commodities and services from Western Hemisphere and possible sources and distribution of financing: Apr. 1, 1948–June 30, 1949—(at July 1, 1947 prices)

	Total imports ¹	Possible sources of financing		
		Dollar earnings ²	Sources other than new United States funds	New United States funds ³
Austria.....	233	39	12	182
Belgium-Luxemburg.....	853	334	196	323
Denmark.....	237	45	28	164
France.....	1,931	369	128	1,434
Greece.....	262	67	9	186
Iceland.....	23	10	-----	13
Ireland.....	192	40	-----	152
Italy.....	1,160	183	108	869
Netherlands.....	1,136	271	160	705
Norway.....	253	163	56	34
Portugal.....	144	144	-----	-----
Sweden.....	499	423	43	33
Switzerland.....	535	535	-----	-----
Turkey.....	69	69	-----	-----
United Kingdom.....	4,311	2,133	418	1,760
Germany:				
Bizone.....	1,014	100	-----	914
French zone.....	93	13	-----	80
Saar.....	14	3	-----	11
Total.....	12,959	4,941	1,158	³ 6,860

¹ Including net dollar payments for freight and other invisibles.

² Including drawings of \$72 million by Portugal on its gold and foreign exchange resources.

³ This column includes funds being requested by the Department of the Army for prevention of disease and unrest in Germany. A reconciliation with the \$6,800 million being requested for the European recovery program is to be found on p. 5.

Column 1 indicates that the required imports of the participating countries of goods and services from the Western Hemisphere during the 15 months, April 1, 1948, through June 30, 1949, are expected to amount to \$12,959 million (in terms of July 1, 1947, prices). This total, after deducting \$1,146 million of payments for net freight and net other invisibles, equals the total commodity imports of \$11,813 million shown in the summary balance of payments table on page 97 of the committee print of the Outline of a European Recovery Program.

Of this total, it is estimated that the participating countries will finance \$4,941 from their dollar earnings from exports to the Western Hemisphere and other dollar receipts (and, in the case of Portugal by drawing down gold and foreign exchange holdings).¹

Sources other than new United States funds are expected to finance, in terms of July 1, 1947, prices, \$1,158 million of the total.² It is proposed that the balance of \$6,860 million be financed by new United States funds appropriated for European recovery and to the Department of the Army for prevention of disease and unrest in Germany (GARIOA). The following table presents a reconciliation of this balance with the authorization of \$6,800 million requested for European recovery.

Goods to be purchased in Western Hemisphere with new United States funds (at July 1, 1947, prices)—column 4 of recapitulation	\$6, 860
Adjustments:	
Add: Adjustment for price increases ¹	\$482
Deduct: Savings on shipping ²	100
	382
Adjusted cost of commodities and shipping services to be purchased in Western Hemisphere with new United States funds ³	7, 242
Authority to obligate funds for procurement of items to be delivered in subsequent years	200
Uncovered deficit of bizonal Germany with nonparticipating countries outside the Western Hemisphere ⁴	200
Total being requested for European recovery program and by Department of Army for Germany (GARIOA)	7, 642
Deduct: Appropriations being requested by Department of Army for prevention of disease and unrest in Germany (GARIOA)	822
Total requirement for first 15 months, European recovery program	6, 820
Authorization requested for European recovery program (preceding line in rounded amount)	6, 800

¹ This figure is equivalent to the adjustment for higher prices of \$565 million shown in the summary balance of payments table, page 97 of the Outline, after eliminating that portion of the increase attributable to "Sources other than new United States funds," such as the International Bank, and to Portuguese cash purchase.

² See page 92 of the Outline. These are savings possible if additional temporary transfers of bulk-cargo carriers are made.

³ This entry and the following entries in the reconciliation are shown in the tables on pages 108 and 109 of the Outline and explained in the accompanying text, pp. 107-109.

⁴ See footnote 2, table 17.

The distribution by sources of financing in the following country tables has been made according to the following principles:

1. Financing which might be forthcoming from sources other than new United States funds has been spread over commodities for the purchase of which it is thought most likely that loans and credits might be granted. Much is assigned to the category "other imports," which includes heavy and specialized equipment and important industrial raw materials, and additional large sums are allocated to bread and coarse grains, fats and oils, sugar, meat, and coffee, for which other Western Hemisphere countries might extend commodity credits or make other arrangements to assist the participating countries.

2. It is assumed that new United States funds will be used, in the first instance, for "selected" commodities.

¹ See The European Recovery Program—Country Studies, table II A. The sum of total exports to the Western Hemisphere and, where positive, of "Net freight" and "Net other invisibles" is the figure shown in column 2 of the attached country tables.

² International Bank, private investment, existing Export-Import Bank credits, dollar credits by participating countries, and credits or other assistance by other Western Hemisphere countries. These sources are expected to finance \$1,228 million in current prices. This figure is equivalent to the figure of \$1,285 million shown in the committee print of the Outline of European Recovery Program, p. 108, after deducting the item of \$85 million representing purchases on cash basis (here included in column 2) and adding credits of \$28 million by participating countries to participating countries.

3. Dollar earnings of the participating countries are assigned to the remaining Western Hemisphere requirements.

In this connection, it should be pointed out that the category "other imports" is made up principally of important raw materials and manufactured goods, which in almost all cases are as important to economic recovery as the selected commodities. On many of these commodities studies of requirements and availabilities are being prepared, but a miscellaneous category will always be necessary since trade between advanced industrial countries involves thousands of individual products. Preliminary indications of the values of some of the most important items in the category are given in footnotes to the tables.

It is recognized and, indeed, emphasized that the following tabulation is only illustrative and that the actual pattern determined by the Administrator might vary markedly from the one outlined here. It may, however, be useful in clarifying and delineating the problems which will be encountered in initiating the program and in adjusting its continuously to changing conditions.

TABLE 2.—*Austria*

ILLUSTRATIVE COMPOSITION OF IMPORTS OF COMMODITIES AND SERVICES FROM WESTERN HEMISPHERE AND POSSIBLE SOURCES AND DISTRIBUTION OF FINANCING: APR. 1, 1948 TO JUNE 30, 1949 (AT JULY 1, 1947 PRICES)

Import	Total imports	Possible sources and distribution of financing		
		Austrian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	36.3			36.3
Coarse grains.....	4.4			4.4
Fats and oils.....	12.5			12.5
Oil cake.....	1.6			1.6
Sugar.....	5.4			5.4
Meat.....	8.8			8.8
Dairy products.....	4.1			4.1
Eggs.....				
Dried fruit.....	1.5			1.5
Rice.....				
Coffee.....	4.0			4.0
Other foods.....	6.3			6.3
Subtotal.....	84.9			84.9
Tobacco.....	2.9			2.9
Cotton.....	21.6		4.7	16.9
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.6			1.6
Coal.....				
Mining machinery.....	.5			.5
Petroleum products.....				
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....	2.0			2.0
Iron ore.....				
Trucks.....	3.8			3.8
Freight cars.....				
Steel equipment.....	4.2			4.2
Timber equipment.....	4.0			4.0
Electrical equipment.....	.7			.7
Other imports ¹	67.0	39.0	7.5	20.5
Total commodity imports.....	193.2	39.0	12.2	142.0
Net freight.....	40.0			40.0
Other dollar payments.....				
Total ²	233.2	39.0	12.2	182.0

¹ Includes (in millions): Copper, \$6; chemicals, \$16; hides and skins and leather, \$1; wool, \$1.

² In the case of Austria and all other countries (except Portugal), the deficit on current account with the Western Hemisphere equals column 1 minus column 2 or alternatively, column 3 plus column 4.

TABLE 3.—*Belgium-Luxemburg and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Belgium-Luxemburg dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	78.1		19.0	59.1
Coarse grains.....	64.9		9.5	55.4
Fats and oils.....	22.2			22.2
Oil cake.....	28.1			28.5
Sugar.....	15.3		4.8	10.1
Meat.....	13.3			13.3
Dairy products.....	26.0			26.0
Eggs.....				
Dried fruit.....	.8			.8
Rice.....	.8			.8
Coffee.....	15.3		4.8	10.5
Other foods.....	16.8			16.8
Subtotal.....	281.6		38.1	243.5
Tobacco.....	21.5			21.5
Cotton.....	46.0		27.9	18.1
Nitrogen.....	.4			.4
Phosphates.....	.4			.4
Potash.....				
Agricultural machinery.....	5.0		5.0	
Coal.....	20.5			20.5
Mining machinery.....	2.9		2.9	
Petroleum products.....	35.2	24.3		10.9
Timber.....	23.3	23.3		
Iron and steel:				
Finished.....	19.3		15.7	3.6
Crude and semifinished.....	9.4	5.2		4.2
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	21.8		21.8	
Freight cars.....				
Steel equipment.....	9.1		9.1	
Timber equipment.....				
Electrical equipment.....	6.0		6.0	
Other imports ¹	293.0	223.2	69.8	
Total commodity imports.....	795.4	276.0	196.3	323.1
Net freight.....	16.0	16.0		
Other dollar payments.....	42.0	42.0		
Total.....	853.4	334.0	196.3	323.1

¹ Includes (in millions): Machinery and transportation equipment and technical apparatus, \$115; chemicals, \$29; lead, \$13; zinc, \$7; wool, \$15.

TABLE 4.—*Denmark*

Import	Total imports	Possible sources and distribution of financing		
		Danish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	0.5			0.5
Coarse grains.....	33.0			33.0
Fats and oils.....	8.8			8.8
Oil cake.....	42.2		4.8	37.4
Sugar.....				
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.4			.4
Rice.....	.2			.2
Coffee.....	20.0		4.8	15.2
Other foods.....	2.1			2.1
Subtotal.....	107.2		9.6	97.6
Tobacco.....	7.5			7.5
Cotton.....	6.9			6.9
Nitrogen.....	1.6			1.6
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9		7.9	
Coal.....	10.9			10.9
Mining machinery.....				
Petroleum products.....	29.2	15.8		13.4
Timber.....	3.7			3.7
Iron and steel:				
Finished.....	15.8		6.0	9.8
Crude and semifinished.....				
Pig iron.....	.5			.5
Scrap iron.....				
Iron ore.....				
Trucks.....	11.2			11.2
Freight cars.....				
Steel equipment.....	.5			.5
Timber equipment.....				
Electrical equipment.....	.5			.5
Other imports.....	13.5	8.8	4.7	
Total commodity imports.....	216.9	24.6	28.2	164.1
Net freight.....				
Other dollar payments.....	20.0	20.0		
Total.....	236.9	44.6	28.2	164.1

TABLE 5.—*France and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		French dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	115.7		11.8	103.9
Coarse grains.....	66.1		9.5	56.6
Fats and oils.....	76.9		28.6	48.3
Oil cake.....	20.8			20.8
Sugar.....	19.8			19.8
Meat.....	.8			.8
Dairy products.....	26.7			26.7
Eggs.....	1.8			1.8
Dried fruit.....	2.0			2.0
Rice.....	4.6			4.6
Coffee.....	7.6			7.6
Other foods.....	7.4			7.4
Subtotal.....	350.2		49.9	300.3
Tobacco.....	18.1			18.1
Cotton.....	165.8		9.5	156.3
Nitrogen.....	11.8			11.8
Phosphates.....				
Potash.....				
Agricultural machinery.....	59.7			59.7
Coal.....	206.2			206.2
Mining machinery.....	10.7			10.7
Petroleum products.....	146.5			146.5
Timber.....	35.6		16.0	19.6
Iron and steel:				
Finished.....	17.5			17.5
Crude and semifinished.....	10.0			10.0
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	5.5			5.5
Freight cars.....				
Steel equipment.....	13.8			13.8
Timber equipment.....	8.9			8.9
Electrical equipment.....	10.0			10.0
Other imports ¹	504.2	275.7	52.2	176.3
Total commodity imports.....	1,574.5	275.7	127.6	1,171.2
Net freight.....	263.0			263.0
Other dollar payments.....	93.0	93.0		
Total.....	1,930.5	368.7	127.6	1,434.2

¹ Includes (in millions): Machinery, transportation equipment, and business machines, \$173; chemicals, \$43; copper, \$19; lead, \$9; zinc, \$11; hides and skins, \$32; wool, \$26; cotton textiles, \$31.

TABLE 6.—Greece

Import	Total imports	Possible sources and distribution of financing		
		Greek dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	47.4			47.4
Coarse grains.....	4.8			4.8
Fats and oils.....	.8			.8
Oil cake.....	.6			.6
Sugar.....	16.6			16.6
Meat.....	8.8			8.8
Dairy products.....	35.4			35.4
Eggs.....	.9			.9
Dried fruit.....				
Rice.....	.6			.6
Coffee.....	2.7			2.7
Other foods.....	.7			.7
Subtotal.....	119.3			119.3
Tobacco.....				
Cotton.....	6.5			6.5
Nitrogen.....	2.4			2.4
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9			7.9
Coal.....	.2			.2
Mining machinery.....				
Petroleum products.....	8.3			8.3
Timber.....	4.5			4.5
Iron and steel:				
Finished.....	7.0			7.0
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	7.3			7.3
Freight cars.....				
Steel equipment.....				
Timber equipment.....	1.0			1.0
Electrical equipment.....	1.0			1.0
Other imports ¹	47.0	37.7	9.3	
Total commodity imports.....	212.4	37.7	9.3	165.4
Net freight.....	49.9	29.4		20.5
Other dollar payments.....				
Total.....	262.3	67.1	9.3	185.9

¹Includes (in millions): Machinery, parts and accessories, \$13; clothing, \$12; chemicals, \$7.

TABLE 7.—*Iceland*

Import	Total imports	Possible sources and distribution of financing		
		Icelandic dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	1.5			1.5
Coarse grains.....	.5			.5
Fats and oils.....	1.4			1.4
Oil cake.....				
Sugar.....	1.2			1.2
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.2			.2
Rice.....				
Coffee.....	.7			.7
Other foods.....	.2			.2
Subtotal.....	5.7			5.7
Tobacco.....	.1			.1
Cotton.....				
Nitrogen.....	.2			.2
Phosphates.....				
Potash.....				
Agricultural machinery.....	.8			.8
Coal.....	.9			.9
Mining machinery.....				
Petroleum products.....	1.7			1.7
Timber.....	1.3			1.3
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	1.0			1.0
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....				
Other imports ¹	11.0	10.0		1.0
Total commodity imports.....	22.7	10.0		12.7
Net freight.....				
Other dollar payments.....				
Total.....	22.7	10.0		12.7

¹ Includes (in millions): Fishing and industrial equipment, \$9.

TABLE 8.—*Ireland*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Irish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	26.5			26.5
Coarse grains.....	37.2			37.2
Fats and oils.....	3.1			3.1
Oil cake.....	1.4			1.4
Sugar.....	7.2			7.2
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.7			.7
Rice.....				
Coffee.....	.6			.6
Other foods.....	1.3			1.3
Subtotal.....	78.0			78.0
Tobacco.....	8.3			8.3
Cotton.....	2.0			2.0
Nitrogen.....	.4			.4
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.6			1.6
Coal.....	11.2			11.2
Mining machinery.....				
Petroleum products.....	13.0			13.0
Timber.....	7.1			7.1
Iron and steel:				
Finished.....	1.6			1.6
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	1.9			1.9
Freight cars.....				
Steel equipment.....	.4			.4
Timber equipment.....				
Electrical equipment.....	1.0			1.0
Other imports ¹	64.1	38.8		25.3
Total commodity imports.....	190.6	38.8		151.8
Net freight.....	1.7	1.7		
Other dollar payments.....				
Total.....	192.3	40.5		151.8

¹ Includes (in millions): Chemicals, \$5; machinery and transportation equipment, \$12.

TABLE 9.—*Italy*

Import	Total imports	Possible sources and distribution of financing		
		Italian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	267.1		23.8	243.4
Coarse grains.....	26.7		9.5	17.2
Fats and oils.....	30.2		9.5	20.7
Oil cake.....	4.1			4.1
Sugar.....	2.8			2.8
Meat.....	7.0			7.0
Dairy products.....	7.2			7.2
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....	14.3		4.8	9.5
Other foods.....	10.2			10.2
Subtotal.....	369.6		47.6	322.0
Tobacco.....	4.5			4.5
Cotton.....	149.5			149.5
Nitrogen.....	1.2			1.2
Phosphates.....				
Potash.....				
Agricultural machinery.....	5.0			5.0
Coal.....	88.0			88.0
Mining machinery.....				
Petroleum products.....	61.2			61.2
Timber.....	13.8			13.8
Iron and steel:				
Finished.....	6.9			6.9
Crude and semifinished.....	8.0			8.0
Pig iron.....	.9			.9
Scrap iron.....				
Iron ore.....				
Trucks.....				
Freight cars.....				
Steel equipment.....	4.5			4.5
Timber equipment.....				
Electrical equipment.....	7.0			7.0
Other imports ¹	305.8	183.0	60.5	62.3
Total commodity imports.....	1,025.9	183.0	108.1	734.8
Net freight.....	134.0			134.0
Other dollar payments.....				
Total.....	1,159.9	183.0	108.1	868.8

¹ Includes (in millions): Copper, lead, and zinc, \$18; wool, \$15; hides and skins and leather, \$15; machinery, \$7; fish, \$5; naval stores, \$3.

TABLE 10.—*Netherlands and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Dutch dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	111.0		39.2	71.8
Coarse grains.....	70.3			70.3
Fats and oils.....	40.5			40.5
Oil cake.....	31.4		9.5	21.9
Sugar.....	6.6			6.6
Meat.....	4.2			4.2
Dairy products.....	1.7			1.7
Eggs.....				
Dried fruit.....	3.3			3.3
Rice.....	.6			.6
Coffee.....	17.7			17.7
Other foods.....	14.6			14.6
Subtotal.....	301.9		48.7	253.2
Tobacco.....	23.4			23.4
Cotton.....	32.9			32.9
Nitrogen.....	6.2			6.2
Phosphates.....	.6			.6
Potash.....				
Agricultural machinery.....	8.8			8.8
Coal.....	25.8			25.8
Mining machinery.....	2.3			2.3
Petroleum products.....	32.2			32.2
Timber.....	25.2			25.2
Iron and steel:				
Finished.....	53.8			53.8
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	23.2			23.2
Freight cars.....				
Steel equipment.....	4.6			4.6
Timber equipment.....				
Electrical equipment.....	6.3			6.3
Other imports ¹	491.3	174.1	110.7	206.5
Total commodity imports.....	1,038.5	174.1	159.4	705.0
Net freight.....	6.0	6.0		
Other dollar payments.....	91.0	91.0		
Total.....	1,135.5	271.1	159.4	705.0

¹ Includes (in millions): Industrial machinery and transportation equipment, \$193; chemicals, \$26; hides and skins, \$13; copper, lead, and zinc, \$15; cotton textiles, \$54.

TABLE 11.—*Norway*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Norwegian dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	35.9	35.9		
Coarse grains.....	11.0	11.0		
Fats and oils.....	9.9	9.9		
Oil cake.....	3.4	3.4		
Sugar.....	9.9	5.1	4.8	
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....	.9	.9		
Rice.....	.6	.6		
Coffee.....	10.6	5.8	4.8	
Other foods.....	2.9	2.9		
Subtotal.....	85.1	75.5	9.6	
Tobacco.....	6.2	6.2		
Cotton.....	3.6	3.6		
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	4.8			4.8
Coal.....				
Mining machinery.....				
Petroleum products.....	15.0	15.0		
Timber.....				
Iron and steel:				
Finished.....	24.5	5.6		18.9
Crude and semifinished.....	1.4			1.4
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	2.5			2.5
Freight cars.....				
Steel equipment.....	2.5			2.5
Timber equipment.....				
Electrical equipment.....	4.0			4.0
Other imports ¹	98.0	51.4	46.6	
Total commodity imports.....	247.6	157.3	56.2	34.1
Net freight.....				
Other dollar payments.....	6.0	6.0		
Total.....	253.6	163.3	56.2	34.1

¹ Includes (in millions): Machinery and transportation equipment, \$46.

TABLE 12.—*Portugal and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		Portuguese dollar earnings ¹	Sources other than new United States funds	New United States funds
Bread grains.....	33.4	33.4	-----	-----
Coarse grains.....	7.3	7.3	-----	-----
Fats and oils.....	3.1	3.1	-----	-----
Oil cake.....	-----	-----	-----	-----
Sugar.....	6.1	6.1	-----	-----
Meat.....	1.9	1.9	-----	-----
Dairy products.....	-----	-----	-----	-----
Eggs.....	.6	.6	-----	-----
Dried fruit.....	-----	-----	-----	-----
Rice.....	-----	-----	-----	-----
Coffee.....	.7	.7	-----	-----
Other foods.....	-----	-----	-----	-----
Subtotal.....	53.1	53.1	-----	-----
Tobacco.....	4.1	4.1	-----	-----
Cotton.....	2.0	2.0	-----	-----
Nitrogen.....	3.4	3.4	-----	-----
Phosphates.....	-----	-----	-----	-----
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	3.1	3.1	-----	-----
Coal.....	9.5	9.5	-----	-----
Mining machinery.....	-----	-----	-----	-----
Petroleum products.....	10.0	10.0	-----	-----
Timber.....	4.5	4.5	-----	-----
Iron and steel:	-----	-----	-----	-----
Finished.....	6.4	6.4	-----	-----
Crude and semifinished.....	-----	-----	-----	-----
Pig iron.....	-----	-----	-----	-----
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	-----	-----	-----	-----
Trucks.....	7.0	7.0	-----	-----
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	-----	-----	-----	-----
Timber equipment.....	-----	-----	-----	-----
Electrical equipment.....	2.0	2.0	-----	-----
Other imports ²	31.8	31.8	-----	-----
Total commodity imports.....	136.9	136.9	-----	-----
Net freight.....	7.4	7.4	-----	-----
Other dollar payments.....	-----	-----	-----	-----
Total.....	144.3	144.3	-----	-----

¹ Including drawings of \$72 million on gold and foreign exchange resources.² Includes (in millions): Fish, \$6; machinery and transportation equipment, \$7; textiles and bagging, \$1

TABLE 13.—*Sweden*

Import	Total imports	Possible sources and distribution of financing		
		Swedish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	19.1	14.3	4.8	
Coarse grains.....	5.9	5.9		
Fats and oils.....	7.7	7.7		
Oil cake.....	11.8	11.8		
Sugar.....	7.3	2.5	4.8	
Meat.....	5.1	5.1		
Dairy products.....				
Eggs.....				
Dried fruit.....	1.7	1.7		
Rice.....	1.1	1.1		
Coffee.....	30.4	16.1	14.3	
Other foods.....	11.1	11.1		
Subtotal.....	101.2	77.3	23.9	
Tobacco.....	9.6	9.6		
Cotton.....	29.4	29.4		
Nitrogen.....	1.2	1.2		
Phosphates.....	.5	.5		
Potash.....				
Agricultural machinery.....	12.7			12.7
Coal.....				
Mining machinery.....				
Petroleum products.....	58.3	58.3		
Timber.....				
Iron and steel:				
Finished.....	27.1	27.1		
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	12.2			12.2
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....	8.0			8.0
Other imports ¹	238.3	219.5	18.8	
Total commodity imports.....	498.5	422.9	42.7	32.9
Net freight.....				
Other dollar payments.....				
Total.....	498.5	422.9	42.7	32.9

¹ Includes (in millions): Copper, \$16; lead, \$6; chemicals, \$53; machinery and transportation equipment \$58.

TABLE 14.—*Switzerland*

Import	Total imports	Possible sources and distribution of financing		
		Swiss dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	55.2	55.2		
Coarse grains.....	43.8	43.8		
Fats and oils.....	8.5	8.5		
Oil cake.....	2.2	2.2		
Sugar.....	20.4	20.4		
Meat.....	6.7	6.7		
Dairy products.....				
Eggs.....	6.1	6.1		
Dried fruit.....	.2	.2		
Rice.....	1.4	1.4		
Coffee.....	11.2	11.2		
Other foods.....	9.5	9.5		
Subtotal.....	165.2	165.2		
Tobacco.....	8.4	8.4		
Cotton.....	14.0	14.0		
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.6	1.6		
Coal.....	4.0	4.0		
Mining machinery.....				
Petroleum products.....	12.0	12.0		
Timber.....	1.6	1.6		
Iron and steel:				
Finished.....	27.5	27.5		
Crude and semifinished.....	1.4	1.4		
Pig iron.....	.2	.2		
Scrap iron.....				
Iron ore.....				
Trucks.....	1.0	1.0		
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....	1.0	1.0		
Other imports ¹	187.0	187.0		
Total commodity imports.....	424.9	424.9		
Net freight.....	110.0	110.0		
Other dollar payments.....				
Total ²	534.9	534.9		

¹ Includes (in millions): Machinery and transportation equipment, \$44; chemicals, \$30; copper, \$11; instruments and apparatus, \$11.

² Switzerland has net dollar earnings on current account.

TABLE 15.—*Turkey*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Turkish dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....				
Coarse grains.....				
Fats and oils.....				
Oil cake.....				
Sugar.....				
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....	.3	.3		
Other foods.....				
Subtotal.....	.3	0.3		
Tobacco.....				
Cotton.....				
Nitrogen.....	.6	.6		
Phosphates.....				
Potash.....				
Agricultural machinery.....	7.9	7.9		
Coal.....				
Mining machinery.....	1.0	1.0		
Petroleum products.....	7.5	7.5		
Timber.....				
Iron and steel:				
Finished.....	5.0	5.0		
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	9.0	9.0		
Freight cars.....				
Steel equipment.....				
Timber equipment.....	.4	.4		
Electrical equipment.....	2.0	2.0		
Other imports ¹	25.2	25.2		
Total commodity imports.....	58.9	58.9		
Net freight.....	4.7	4.7		
Other dollar payments.....	5.4	5.4		
Total ²	69.0	69.0		

¹ Includes (in millions): Chemicals, \$6; machinery and precision instruments, \$4.² Turkey has small net dollar earnings on current account.

TABLE 16.—*United Kingdom and dependencies*

Import	Total imports	Possible sources and distribution of financing		
		United Kingdom dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	436.4	-----	238.1	198.3
Coarse grains.....	121.7	-----	38.1	83.6
Fats and oils.....	128.3	-----	38.1	90.2
Oil cake.....	43.1	-----	19.0	24.1
Sugar.....	147.1	-----	19.0	128.1
Meat.....	329.5	-----	33.3	296.2
Dairy products.....	164.2	-----	-----	164.2
Eggs.....	75.9	-----	-----	75.9
Dried fruit.....	17.1	-----	-----	17.1
Rice.....	37.9	-----	-----	37.9
Coffee.....	18.0	-----	4.8	13.2
Other foods.....	61.0	-----	-----	61.0
Subtotal.....	1,580.2	-----	390.4	1,189.8
Tobacco.....	160.4	-----	-----	160.4
Cotton.....	226.6	-----	-----	226.6
Nitrogen.....	1.4	-----	-----	1.4
Phosphates.....	.5	-----	-----	.5
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	20.8	-----	-----	20.8
Coal.....	12.1	-----	-----	12.1
Mining machinery.....	32.6	-----	-----	32.6
Petroleum products.....	190.6	190.6	-----	-----
Timber.....	212.8	156.3	-----	56.5
Iron and steel:	-----	-----	-----	-----
Finished.....	14.3	14.3	-----	-----
Crude and semifinished.....	56.0	56.0	-----	-----
Pig iron.....	-----	-----	-----	-----
Scrap iron.....	-----	-----	-----	-----
Iron ore.....	8.8	-----	-----	8.8
Trucks.....	-----	-----	-----	-----
Freight cars.....	-----	-----	-----	-----
Steel equipment.....	8.5	-----	-----	8.5
Timber equipment.....	1.7	-----	-----	1.7
Electrical equipment.....	40.5	-----	-----	40.5
Other imports ¹	1,622.4	1,594.5	27.9	-----
Total commodity imports.....	4,190.2	2,011.7	418.3	1,760.2
Net freight.....	59.0	59.0	-----	-----
Other dollar payments.....	62.0	62.0	-----	-----
Total.....	4,311.2	2,132.7	418.3	1,760.2

¹ Includes (in millions): Chemicals, \$109; copper \$80; tin, \$44; lead, \$37; zinc, \$35; aluminum, \$75; wood pulp, \$48; newsprint, \$24; hides and skins and leather, \$87; machinery and equipment, \$371; fish, \$29; wool, \$33.

TABLE 17.—*Western Germany, bizone*

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Bizonal dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	284.6			284.6
Coarse grains.....	54.1			54.1
Fats and oils.....	24.5			24.5
Oil cake.....				
Sugar.....	27.5			27.5
Meat.....	6.2			6.2
Dairy products.....	9.9			9.9
Eggs.....				
Dried fruit.....	5.5			5.5
Rice.....				
Coffee.....	2.2			2.2
Other foods.....	23.9			23.9
Subtotal.....	438.4			438.4
Tobacco.....	16.1			16.1
Cotton.....	66.5			66.5
Nitrogen.....	12.0			12.0
Phosphates.....	1.1			1.1
Potash.....				
Agricultural machinery.....	8.4			8.4
Coal.....				
Mining machinery.....	28.0			28.0
Petroleum products.....	22.5			22.5
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....	9.4			9.4
Freight cars.....	60.0			60.0
Steel equipment.....				
Timber equipment.....	.3			.3
Electrical equipment.....	5.0			5.0
Other imports ¹	212.4	99.6		112.8
Total commodity imports.....	880.1	99.6		780.5
Net freight.....	134.0			134.0
Other dollar payments.....				
Total ²	1,014.1	99.6		914.5

¹ Includes (in millions): Copper, lead, and zinc, \$18; hides and skins, \$9; seeds, \$22.² In addition to its dollar requirements for imports from the Western Hemisphere, bizonal Germany will have an uncovered dollar deficit of \$200 millions with nonparticipating countries outside the Western Hemisphere. This deficit is made up of the following items (in millions): Wool, \$71; hemp, \$6.5; lead, \$10; coarse grains, \$28.5; cotton, \$16.6; other raw materials, \$26.6; freight, \$26.8.

TABLE 18.—*Germany, French zone*

Import	Total imports	Possible sources and distribution of financing		
		French zone dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	44.6			44.6
Coarse grains.....				
Fats and oils.....				
Oil cake.....				
Sugar.....	1.6			1.6
Meat.....				
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....	.3			.3
Other foods.....				
Subtotal.....	46.5			46.5
Tobacco.....	2.0			2.0
Cotton.....	16.7			16.7
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....	1.1			1.1
Coal.....				
Mining machinery.....				
Petroleum products.....	8.7			8.7
Timber.....				
Iron and steel:				
Finished.....				
Crude and semi-finished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....				
Freight cars.....				
Steel equipment.....				
Timber equipment.....	.7			.7
Electrical equipment.....				
Other imports.....	16.2	11.5		4.7
Total commodity imports.....	91.9	11.5		80.4
Net freight.....	1.3	1.3		
Other dollar payments.....				
Total.....	93.2	12.8		80.4

TABLE 19.—*Germany, Saar*

Import	Total imports	Possible sources and distribution of financing		
		Saar dollar earnings	Sources other than new United States funds	New United States funds
Bread grains.....	7.0			7.0
Coarse grains.....	.6	.6		
Fats and oils.....				
Oil cake.....				
Sugar.....	1.0	1.0		
Meat.....	.8	.8		
Dairy products.....				
Eggs.....				
Dried fruit.....				
Rice.....				
Coffee.....				
Other foods.....				
Sub-total.....	9.4	2.4		7.0
Tobacco.....	.3	.3		
Cotton.....				
Nitrogen.....				
Phosphates.....				
Potash.....				
Agricultural machinery.....				
Coal.....				
Mining machinery.....	3.9			3.9
Petroleum products.....				
Timber.....				
Iron and steel:				
Finished.....				
Crude and semifinished.....				
Pig iron.....				
Scrap iron.....				
Iron ore.....				
Trucks.....				
Freight cars.....				
Steel equipment.....				
Timber equipment.....				
Electrical equipment.....				
Other imports.....				
Total commodity imports.....	13.6	2.7		10.9
Net freight.....				
Other dollar payments.....				
Total.....	13.6	2.7		10.9

Thank you very much, Mr. Secretary.

Chairman EATON. Mr. Secretary, it is very evident that the committee is finding you a real gold mine for information we have been seeking. In fact, you constitute pay dirt. I would like to suggest, to give everybody a chance, that we see if we cannot confine our questions to about 10 minutes each, Mr. Richards.

Mr. RICHARDS. I have no questions at this time, Mr. Chairman.

Chairman EATON. Mr. Vorys.

Mr. VORYS. Mr. Secretary, you have recommended that this aid be in the form of grants and loans. We have had considerable discussion on the proposition that the grants could require ultimate repayment in, for instance, strategic materials. Members of our committee have pointed out that this amounts merely to a restricted type of loan. What I want to know is what is wrong with that?

Secretary SNYDER. In the immediate future, the difficulty would be that in figuring this program, the countries have taken into consideration the production and sale of as much of that material as can

be handled, as part of their own effort. As time goes on, as they get into production, that might be well able to form an important part of the program, beyond this earlier period of aid.

Mr. VORYS. I appreciate that, and you have stated it quite well—that for a 4-year period, or a 5-year period, there is no use loading down these countries which are dollar-short with dollar liabilities that would come due during that period, or with obligations that would cut down their dollar resources.

Secretary SNYDER. Or cut down their supply of equipment, materials, and food for their own consumption, needed to bring them back up to a stable level.

Mr. VORYS. That is right.

Secretary SNYDER. Because if we force them to put these dollars which we are loaning them into something which is not productive toward the reestablishment of their own economy, we would not be aiding them. We have figured all of that—what their capacity to produce those materials will be during the next 3 or 4 years, what they can do under that program—and have tied it into their self-help. The aid we are proposing is over and above that.

Mr. VORYS. Yes.

Secretary SNYDER. As you say, when we go beyond the period of aid, and the countries get stabilized and get into production, then we might give some consideration, in the individual dealings with them, as to what might be feasible in that area.

Mr. VORYS. What I cannot understand is why it would hurt a country to say to it, in substance, this: "We are furnishing you food and a great many other things you need, subject to your repaying us in X strategic material, of which you and I both know that you have excess supplies which have not yet been developed. You do not need to make any payment for 10 years, let us say. But at that time you will have to repay, in strategic materials, on the basis of, let us say, 25 percent of your production." Or some other such percentage. That country has the right to pay in dollars rather than strategic materials, but has no obligation at all except that, at some period in the future, it must repay something that we know perfectly well we are then going to need.

For the life of me I cannot see how that would cripple that country, or cripple the recovery plan.

Secretary SNYDER. I agree with you, and the Administrator will be charged with giving consideration to all those things in making the agreements, and determining what shall be loaned and what shall be grants-in-aid. If he sees an opportunity, over a long-range period, for repayment of a loan, then he can move over into the problem of how the loan could best be repaid. He has to analyze not only the immediate conditions of the country receiving the loan but the future conditions of that country.

Mr. VORYS. Well, the thought was that by having some provision in the law, we might help the Administrator a little by not leaving him quite so much latitude. We have found an inclination on the part of administrators who can make loans or grants, often to make the grants because then they do not have to collect them. If percentage-wise or otherwise we were to say, "Now, so much of this, six-sevenths of it, shall have some provision for ultimate repayment in kind some day," I think we would be helping the Administrator

when these countries come in saying, "We prefer to have a grant rather than a loan."

Secretary SNYDER. Mr. Congressman, you will be interested in page 49 of the background information for the program, which says:

In appropriate circumstances loans made by the United States administering agency might contain a provision specifying that in the event circumstances make the probability of repayment of the loan in dollars at its maturity date doubtful, the participating country may tender or the United States Government may require deliveries of materials expected to be in long-term short supply in the United States.

Mr. VORYS. I am familiar with that suggestion.

Secretary SNYDER. The point of what you are saying is in complete accord with the thinking of the people who are proposing this.

Mr. VORYS. That is all for now.

Chairman EATON. Mr. Courtney.

Mr. COURTNEY. No questions.

Chairman EATON. Mr. Gordon.

Mr. GORDON. Mr. Secretary, I want to thank you for your comprehensive statement. I have only one question. Is there some set rate of interest contemplated under these stabilization loans?

Secretary SNYDER. Will you repeat that question? I am sorry, I did not hear it.

Mr. GORDON. Is there some set rate of interest contemplated on these stabilization loans?

Secretary SNYDER. No; there has been no rate determined at this time. Those long-term stabilization loans are for some time in the future. We are merely mentioning those here because I want to give you the complete thinking, so that if a proposal for stabilization loans should come up at some time and I were to be around, you should not say, "Why did you not tell me that before?" We might consider stabilization loans an appropriate thing later on, as we see those countries stabilized and moving ahead, where just a little extra help of a stabilization loan might be of assistance to them. But it is too early to talk about that now, because it might not happen for 3 or 4 years.

Mr. GORDON. I suppose, too, that the rate of interest would vary as to different countries?

Secretary SNYDER. It has to. Of necessity, it has to.

Mr. GORDON. And the amount of loan also?

Secretary SNYDER. Not only the amount of loan, but the type of rate structure that existed from country to country. If you go into the international loans we have made over a period of years, you will find many rates. There may be a pattern of rates, but there is no precise rate. That is a negotiated matter.

Mr. JARMAN. Will the gentleman yield?

Mr. GORDON. Yes.

Mr. JARMAN. Mr. Secretary, as I understand it, the basis on which it has been decided whether these funds are to be allocated as loans or grants is the opinion of these people who have studied the question as to the ability of the various countries to pay.

Secretary SNYDER. It will be the Administrator who determines that. It will not be a predetermination made now, but it will be the Administrator's duty to determine their ability to pay when he is negotiating the arrangements with the various countries.

Mr. JARMAN. I suppose that explains the leeway in the testimony we have heretofore received, to the effect that the loans would be between 20 and 40 percent of the total.

Secretary SNYDER. There necessarily has to be a spread there.

Mr. JARMAN. The Administrator would decide that?

Secretary SNYDER. Yes; and we do not want to narrow that down, because we want him to make just as many loans as he possibly can, measured against the countries' ability to pay, and we do not want to say today that a certain percentage will be loans and have everybody set that as their goal. We want the Administrator to be charged with doing the best job he can, and making as many loans as he possibly can, measuring against a careful analysis of their ability to pay.

Mr. JARMAN. But it is now contemplated that the loans will be between 20 and 40 percent?

Secretary SNYDER. That figure has been used; yes.

Mr. JARMAN. Now, Mr. Vorys just asked you, if I understood him correctly, about stipulating into this legislation the fact that, in due course, six-sevenths of it be loans, and one-seventh be grants; and, as I understood your reply, you said his thinking coincided with that of those who are proposing this legislation. Did you mean to say that you think it would be desirable for us to tie these countries down to pay six-sevenths of this?

Secretary SNYDER. I did not think I had made any such commitment.

Mr. JARMAN. Maybe I misunderstood one of you.

Secretary SNYDER. No, I do not think I said that. If I did, I certainly want to correct it.

Mr. JARMAN. Perhaps I misunderstood one of you.

Secretary SNYDER. No, we were talking about requiring the countries to pay in materials rather than in dollars, and we were not talking about the percentage or anything of that sort.

Mr. VORYS. I did not understand that you approved of the percentage which I picked out of the air. I would be glad if you did.

Secretary SNYDER. I did not intend to agree, and I did not think I did.

Mr. JARMAN. What would be the danger for us, if instead of six-sevenths, say, 50 percent were fixed; what would be the danger, if, by this legislation, we were to stipulate that England, say, or France, in a 10-year period, were to repay a considerable amount in strategic materials rather than leave it to the coordinator or administrator, what would be the danger of, just as soon as we pull these countries out, us having, by legislation, created a situation whereby they would just fall back into the pond again?

Secretary SNYDER. I do not think it would be the best approach, to tie down any specific percentage that must be made in loans, or grants-in-aid, or any percentage to be repaid in a certain fashion. Having spent my entire life in the banking business, I know that if the board of directors ever tries to make too precise a determination of policy, and spells it out too definitely, they put their officers in a very bad position when they start negotiating. A good broad policy will produce the best results.

Mr. JARMAN. I so thoroughly agree with the Secretary that I just did not want to run any risk of the record being misunderstood.

Secretary SNYDER. Thank you very much.

Mr. VORYS. Mr. Secretary, were you ever on a board of directors that authorized the president of the bank to either lend or give away all the money in the bank?

Secretary SNYDER. That is a new field of banking, Mr. Vorys.

Mr. MUNDT. Mr. Secretary, I want to pursue this for a moment. It seems to me that the criterion which you spell out on the first page of your testimony does not quite represent the process of administration which you have been discussing here with Mr. Vorys and Mr. Jarman, because you list there only two possibilities: grants-in-aid, which are gifts, absolutely, and loans. And the way you describe the word "loan," it is something to be paid back in dollars. The criterion to be used is the ability of the countries in years to come to pay back the dollars. I think you said in the record that there is a third possibility, that an advance of some kind, to be paid back in commodities or in critical materials, after these countries have started to get back on their feet, if that is part of the program.

Secretary SNYDER. That is not inconsistent with what I have said here, because those materials are worth dollars, and if we elect to take those materials instead of the dollars, that is just exactly what we provide here.

Mr. MUNDT. But your implication here is that unless they have the opportunity to convert those raw materials into dollars, which many of them may not be able to do, it is then a grant-in-aid.

Secretary SNYDER. Oh, no.

Mr. MUNDT. Let me read it to you, Secretary Snyder:

The criterion—

Secretary SNYDER. I am quite willing to amend the statement to include that, because that is our intention. Perhaps I oversimplified it. I am considering that if they furnish us materials, those materials have a dollar value, and, therefore, it would be a question of dollars, or so many dollars worth of material. So I simplified it by saying, "their dollar ability to pay."

Mr. MUNDT. Then, it is the purpose of the Government, insofar as you speak for it, to consider this third field?

Secretary SNYDER. It is right in our proposal, on page 49. It is spelled out.

Mr. MUNDT. I know, but, after all, that is your testimony.

Secretary SNYDER. Perhaps I oversimplified it. I was thinking in terms of the dollar ability to pay, which would be material.

Mr. MUNDT. Do you agree with me that there is a fourth category of repayments which they might make, which are repayments in services? For example, France owns the radio station in the name of the Government. We want to conduct radio programs to help the people of Europe realize the motive behind the European recovery program, and to answer the lies the Communists are spreading against us. Would there be anything wrong, as you see it, for them to make certain repayments to us by giving us time on that radio station?

Secretary SNYDER. Those things should all be given consideration in the negotiating of the individual loan.

Mr. MUNDT. Would it not seem to you to be a reasonable way of making some repayment?

Secretary SNYDER. Personally, I think that much of that should be required as part of the program, because it is just as much to their interest to get this program into effect as to ours.

Mr. MUNDT. Very good. I agree with you.

Secretary SNYDER. But again you agree with me that if that service is worth dollars, that it gets back to the dollar ability to pay.

Mr. MUNDT. That is correct. In this case it is not, of course, because they are not selling that to the American advertisers for dollars.

Secretary SNYDER. That is right.

Mr. MUNDT. I agree that if this program is going to work, we have got to put it on the basis that when we start putting coal in the locomotives, that the train does not stop dead in its tracks, that we are going to have to work together with the elimination of customs duties and so forth. Therefore, will you tell me why the administration has discouraged the meeting which was to be held about now in Europe by the British and the French, to begin at this time to work out the cooperative agreements whereby they are going to bring their economies and their customs systems closer together?

Secretary SNYDER. I do not know of any such discouragement. I am not aware of it.

Mr. MUNDT. Yes. I realize that you are not in the State Department. But I think that is a matter of record, or a matter of fact. Do you wish to say something on that, Mr. Ness?

Mr. NESS. No comment.

Mr. MUNDT. No denial?

Mr. NESS. I just do not know.

Mr. MUNDT. I think you will find that to be true, and it is very disappointing to me because I would like to see them get under way with this program at once, insofar as working out this mutuality and cooperation is concerned.

Have you any thought, Mr. Secretary, as to the amount of these stabilization loans which are contemplated later in 1948? Is that going to be a multibillion-dollar proposition, or will that involve just a few million dollars? What do you envision in that connection?

Secretary SNYDER. I could not possibly make an estimate of that, at this long range.

Mr. MUNDT. But you do feel, however, that this \$6,800,000,000 is not a program to cover 15 months, but an installment payment to which we are to make further contributions later on during the year?

Secretary SNYDER. Oh, no; not unless Congress elects to do so by being convinced that it is a proper thing to do.

Mr. MUNDT. That is right.

Secretary SNYDER. That is not part of this particular program, no.

Mr. MUNDT. But if you run up an amber light or caution signal, "Do not expect this \$6,800,000,000 to be enough, because it will not do it——"

Secretary SNYDER. I want to make myself perfectly clear. In looking over our experience in the past, in stabilization of exchange, and maintaining a balance of position with a country, it occurred to us that there might arrive a time when we would deem it advisable and proper to consider such a procedure, and I just wanted to flag it. I do not know whether it will happen or not. It is just something that has been advanced, something that we have thought of.

As the participating countries advance, and we see things moving along in pretty good shape, you folks might, yourselves, say, "It might be a good idea to set up this stabilization fund."

Mr. MUNDT. I appreciate your candor in bringing it up. In your final paragraph you say:

It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopt methods which might accentuate inflation in the United States * * *.

In all honesty, I think we should be candid with the country, and let them realize that this program, in itself, is accentuating inflation in the United States, because necessarily we put the impact of a great purchasing power upon supplies which are short, which is an inflationary measure. I think we should do something along that line. I do not think we should disguise it as a cloak and as having nothing to do with the high cost of living, because obviously it does.

Secretary SNYDER. Yet this program calls for less exports than we exported last year; is that not true, Mr. Ness?

Mr. NESS. That is true.

Mr. MUNDT. But the exports made last year, together with other factors, certainly have precipitated the inflationary rise in the cost of living?

Mr. NESS. It may have been one of the factors contributing to the rise.

Mr. MUNDT. Well, that is a fact, is it not?

Mr. NESS. Yes, but this program, however, does not tend to do that, because it is dropping back in exports.

Mr. MUNDT. It may not be intensifying it, but it is certainly going to contribute, during this coming year, to increasing or maintaining the high cost of living.

Secretary SNYDER. But it is not adding to the inflationary pressure, that is the point I make.

Mr. MUNDT. It is adding to the vis-à-vis not doing it. It may not be adding to the vis-à-vis of 1947.

Mr. JONKMAN. Will the gentleman yield?

Mr. MUNDT. Yes.

Mr. JONKMAN. It is not making us sicker than we are.

Mr. MUNDT. It might be postponing our convalescence. I think we have to recognize that factor and move into the program, anyhow, but I think we should do it with complete honesty to the American public and say, "This is not only going to cost us taxpayers money, but it is also going to increase the cost of living while it is being done." As an economist, you would not deny that, would you?

Secretary SNYDER. I think it is perfectly obvious that if we are going to put this much of a program through in this country, we are measuring it in terms of much greater stakes.

Mr. MUNDT. That is perfectly right.

Secretary SNYDER. But I do want to say something about this sick country here. I would, first of all, like to stay as sick as we are, producing more than we ever produced in our history, and making greater profits than we ever made.

Mr. MALONEY. We also have more debt than we ever had, have we not, Mr. Secretary?

Secretary SNYDER. Well, we are getting along with it all right.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, insofar as inflation is concerned, it seems to me that Marshall plan or no, unless this Congress takes some action, we are still going to have inflation. That is the nub of the whole thing.

Now, I have a few questions I would like to ask. Do you think this country is capable of undertaking a project of the magnitude envisaged in the Marshall proposal?

Secretary SNYDER. I bottom my opinion on the careful study made by the various groups which approached that problem. I think yes.

Mr. MANSFIELD. Do you think we can carry this proposal, and at the same time appropriate the funds necessary for universal military training?

Secretary SNYDER. I think we have got to measure both this program and universal military training program against a greater problem. It is not purely the economics of it, as apparent today, but it is the long-range economics taking into consideration some alternatives that we have to face.

Mr. MANSFIELD. You indicate, then, I presume, that we could carry both?

Secretary SNYDER. If we are able to maintain our present or nearly our present level of economy, yes.

Mr. MANSFIELD. Do you think it reasonable to assume that we can carry those two proposals, and the tax reduction as contemplated in the Knudson proposal, which I understand will be before the House this month, and which will mean a lessening in revenue to the Treasury of something like 5.8 billion dollars?

Secretary SNYDER. Mr. Congressman, I have stated on a number of occasions that I do not believe that while we are faced with these particular problems as we are today, and with the present economic situation as it is in this country, we should have the lowering of revenues available at this time.

Mr. MANSFIELD. You think these funds are necessary for the carrying out of this particular program, and the reduction in the national debt?

Secretary SNYDER. That is correct.

Mr. MANSFIELD. That is all, Mr. Secretary.

Chairman EATON. Mr. Smith.

Mr. SMITH. Mr. Secretary, do you consider it a condition precedent that we have a balanced budget before this plan is adopted?

Secretary SNYDER. I think we should include any aid in a balanced budget.

Mr. SMITH. In other words, if there is a danger that the budget is not going to be balanced, that we should refrain from embarking on this program.

Secretary SNYDER. Quite the contrary. I think we ought to provide this and then see that we have a balanced budget.

Mr. SMITH. I notice from your remarks on page 5 you stressed the fact that countries, by agreement, will concede that they must stabilize their currency, and their budgets must be balanced, and so forth. Do you have any information that you can offer for the record to show that these countries are willing to do that, aside from your own statement?

Secretary SNYDER. Oh, yes; they proposed it themselves. It was included in the original proposal, the Paris proposal.

Mr. SMITH. Do you feel that——

Secretary SNYDER. I quoted from it in my statement, Mr. Congressman, as to just what they agreed to undertake.

Mr. SMITH. Where is that, please?

Secretary SNYDER. At the top of page 5:

At the Paris meeting the 16 participating countries undertook to apply any necessary measures leading to the rapid achievement of internal financial, monetary, and economic stability while maintaining in each country a high level of employment.

That was all spelled out, the balancing of the budget, and stabilizing of their internal economy. They all agreed to that in the meeting.

Mr. SMITH. Since that meeting, has there been any movement in that direction that you know of?

Secretary SNYDER. In a number of countries; yes, sir.

Mr. SMITH. Which ones?

Secretary SNYDER. Italy, France, several of the other countries where studies are under way, but the most progressive movements have been made in those two countries.

Mr. SMITH. In other words, by these agreements we are going to impose certain conditions?

Secretary SNYDER. Definitely.

Mr. SMITH. There has been some publicity to statements from people in Europe to the effect that if the American plan envisages any demands or any strings, that they are not interested. As a matter of fact, in our trip last fall, an official of one of the governments said, "If you offer us aid, and attach strings to it, we do not want your aid." I think there is a growing feeling, in some of those countries, to the effect that if we restrict this program in any way which does not meet with their approval, they do not want it. Do you have any information to that effect?

Secretary SNYDER. No, sir; I have not, presently.

Mr. MUNDT. I think the record should show that that was not one of these 16 countries.

Mr. SMITH. It was not?

Mr. MUNDT. No.

Mr. SMITH. It was.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Secretary, on your trip to Europe, did you find that one of the basic things lacking in Europe was confidence by the people in their own governments and their own currencies?

Secretary SNYDER. That was almost universal.

Mr. JAVITS. And do you feel that such confidence would be materially reestablished if there were stable currencies in those countries?

Secretary SNYDER. Definitely.

Mr. JAVITS. Therefore, would you not advise considering very seriously some means by which, as part of this European recovery program, we could help in the stabilization of those currencies more promptly perhaps than is indicated in your memorandum?

Secretary SNYDER. That is a delicate question of timing. To try to spell out in legislation how to do it would be a difficult thing to do. We could provide for the objective, but I doubt if we could say, "This is the pattern that should be followed." I think we would have trouble working that out.

Mr. JAVITS. What would you think, Mr. Secretary, in view of the lack of confidence which we both observed, if part of the aid under

the European recovery program were made available in gold, instead of in paper dollars or credits? We have a good deal of gold at Fort Knox. Why not allow some of this aid in gold?

Secretary SNYDER. That would come under the stabilization matter I talked about. What we are talking about here is getting them in motion.

Mr. JAVITS. But, Mr. Secretary, if the resources of these countries can be materially enhanced by confidence, would it not seem advisable to give serious consideration to allowing them some of the money in a form which would inspire the greatest confidence? To us it should not be impracticable because we have a good deal of the monetary gold in the world now.

Secretary SNYDER. Well, I do not know. It would be all right. I suppose. We would advance these funds in gold?

Mr. JAVITS. Well, in part.

Secretary SNYDER. I do not think that would make any great difference. If it was felt that that would create confidence, whether it was dollars or gold, and if we have any free gold not tied up by obligations, I am quite sure that that would be just another manner of payment.

Mr. JAVITS. Would you say that some serious consideration should be given to that point?

Secretary SNYDER. The main handicap of the suggestion is that we do not intend to make big advance payments. We are going to advance money as the program goes along, watching it to see that it is meeting the needs for which it is set out. So there never would be an occasion where we were going to advance funds that would be of the size to encourage the sort of thing you are talking about—at least in the early stages. It is not the intention to make big advance payments.

Mr. MANSFIELD. Why not make it bimetallic, gold and silver, instead of just gold?

Mr. JAVITS. I might say to the gentleman that I do not accept that amendment.

Mr. Secretary, I notice on page 6 of your statement that you say:

I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

Does not the Secretary believe that fiscal measures will figure in the bilateral agreements between us and the benefited countries?

Secretary SNYDER. By all means; but by my language there I mean we are not going to tell them: "You have to put on a certain type of taxes," or "You are going to have to set up a certain arrangement toward this end." We will give them the principles, and then we will have to watch as they go along, and if they are not following those principles, that is when we can cut aid off.

Mr. JAVITS. Suppose we are convinced that their actions are uneconomic, can we turn the stream of aid on or off?

Secretary SNYDER. Always.

Mr. JAVITS. Will the Treasury have anything to do with the turning the aid on or off, or is that solely the decision of the Secretary of State? As I read this, it is.

Secretary SNYDER. The NAC is in consultation at all times, and we have found it to be very effective up to date. If you talk to the Export-Import Bank officials, they will tell you there is a very fine

working arrangement between the NAC and the bank, and they welcome the type of consultation we give on the Council as to whether that is proper or this is proper. I am quite sure the Administrator will be delighted to have the advice of the Council in his work.

Mr. JAVITS. Is there any reason why there should not be a disclosure to countries to be benefited under this European recovery program of those of their citizens who have private investments in our country, whether or not they are blocked?

Secretary SNYDER. We are working on that program right now and I hope to have a proposal on this very shortly.

Mr. JAVITS. Do you believe that we must have some mechanism by which American foreign policy should be observed by private investors in the ERP countries in return for the guaranties of convertibility and withdrawal of the foreign exchange involved, which are proposed in the administration's ERP bill?

Secretary SNYDER. There is no question about that.

Chairman EATON. Mr. Secretary, are you conscious of the fact that, in going into this enterprise, the United States of America becomes a European power, along with the other 16 nations?

Secretary SNYDER. Well, we are certainly taking a great interest in European affairs.

Chairman EATON. That evidently has your approval, Mr. Secretary.

Mr. Jonkman will take the chair, as I must go.

Thank you very much for being here, Mr. Secretary.

Mr. JONKMAN. Mr. Lodge.

Mr. LODGE. Mr. Secretary, in the several pieces of legislation which we have had before us over the past year, we have substituted the word "credits" for "funds," in connection with the availability of dollars to other countries, and each time—Dr. Judd brought this up with Ambassador Douglas, I believe—each time that foreign-aid legislation comes before this committee, the word "funds" is put back, and we have to take it out and put in the word "credits."

I wonder if you would care to tell me whether you feel very strongly that we should make actual funds available or whether you have any objection to our substituting the word "credits"?

Secretary SNYDER. Does that cover your grants-in-aid?

Mr. LODGE. It covers everything except for loans, of course.

Secretary SNYDER. I do not quite get the distinction.

Mr. LODGE. All the legislation we have had up to now has been for grants-in-aid. I am referring to the grants-in-aid part of this measure, which is, of course, by far the larger part, as it is now constituted.

Secretary SNYDER. The point I wondered about was, if we say "credits" and then were grants-in-aid, whether we leave the impression with people that they were credits to be repaid. That would be the only question in my mind. I am just wondering whether the general public would understand that we were advancing \$6,800,000,000. in repayable credits.

Mr. LODGE. You would have no objection to making "credits" rather than "funds" available for the grant-in-aid part of this legislation?

Secretary SNYDER. I think that would be more clearly stated. I would have to give careful study to that question.

Mr. LODGE. I would be glad to have your view on that, Mr. Secretary, because this is a matter which crops up in every foreign-aid

bill that we have, and we thought that it was better to have the word "credits" instead of the word "funds."

Secretary SNYDER. Just roughly, I do not see that it makes much difference, when we follow my interpretation of those two words. I am just wondering whether we would be making it clear to the public.

Mr. LODGE. Our object in putting in the word "credits" was to protect the public. We thought we were protecting the public against the use of these funds in a way which would send up prices beyond our control. If we established lines of credit, then, we would have more control over the expenditure of these dollars in the United States, and, therefore, it seemed to us that from the point of view of protection of the public it was better to do that. Now, when it comes to the public's misunderstanding, I suppose that is a matter of public relations, and I notice that your Department has always been very adept at that, so I do not doubt that you can sell that idea along with a lot of others.

Secretary SNYDER. If you desire me to, I will make a very careful study of the use of the two words as applicable to this.

Mr. LODGE. All right, sir. I think that would be very useful.

Now, Mr. Secretary, does it not seem to you that the dollar, rather than gold, is becoming the medium of exchange throughout the world?

Secretary SNYDER. At present, certainly.

Mr. LODGE. Do you anticipate in those circumstances——

Secretary SNYDER. There are some gold movements, but they are principally in terms of dollars.

Mr. LODGE. Do you anticipate that in that connection it might be necessary, at sometime, to prevent the export of dollars or to control the export of dollars, in the same way in which other countries control the exports of the currency of their country? or do you believe there is no danger of having to do that?

Secretary SNYDER. I would hesitate a long time in making any recommendation to block dollars, or anything of that sort. I think, for our world-trade aspirations, we want to bend every effort to keep the dollar free, if we can.

Mr. LODGE. I was tremendously interested in that part of your statement to which Mr. Jonkman referred, on page 6. I think it is an excellent statement. In that connection, I would like to ask you this: Would you agree that a large part of the load on the American taxpayer consequent upon this program is due to the demand made upon us to fill in the gap between the legal and the real value of foreign currency?

Secretary SNYDER. No; I do not quite follow that, Mr. Congressman.

Mr. LODGE. Well, you said that you felt that some of these currencies were overvalued. Obviously, when they are overvalued—and you state that yourself—exports become difficult, and exports are reduced.

Secretary SNYDER. It is a matter of getting their economy to move in such a fashion that that can be corrected.

Mr. LODGE. Therefore, to that extent, we are being asked to fill in the gap between the legal and the real value of their money; is that not so?

Secretary SNYDER. The real ability of the country to meet its need. I would rather put it that way.

Mr. LODGE. In other words, you would say that it is not true that we are being asked to fill in the gap between the legal and real value of their money?

Secretary SNYDER. Not as such. It is the real need of the country.

Mr. LODGE. If that is true, then, what difference does it make whether their currencies are overvalued or not?

Secretary SNYDER. In the long run, it makes a great deal of difference, because what we are doing here is to enable them to reestablish their economy.

Mr. LODGE. You mean it makes no difference now? If the real value of their money was the same as the legal value, it would make no difference to us right now?

Secretary SNYDER. Now, Mr. Congressman, do not try to get me all twisted up.

Mr. LODGE. No. I am trying to understand.

Secretary SNYDER. I just said that there is no desire on our part to make up the difference between the legal value and the real value of their currencies. What we are looking at is the objective and at the ability of those countries to purchase at this time, and we are trying to make up the difference between the real need and the available means of payment. The purpose is to get the countries into a stable area where their currencies can be adjusted to their proper level. You could get into a rather intricate discussion of that, which gets us away from what we are trying to do.

Mr. LODGE. I am afraid I do not understand you any better than you understand me at this point, Mr. Secretary. That doubtless is my fault. It seems to me that since it was desirable to devalue these currencies, that one of the reasons it was desirable was the European recovery program, and since a devaluation of these currencies would contribute to European recovery, therefore, it would also diminish the load on the American taxpayer and, therefore, that it would be important for us to know now to what extent the difference between the legal and real value of these currencies constitutes an additional drain on the American taxpayer by means of this program.

Secretary SNYDER. Well, if we required each country, right at this minute, to revalue its currency, on a dollar basis, we would probably just wreck a great many of them.

Mr. LODGE. I am making no suggestion, sir. You know so much more about this than I do. I am simply asking that question.

Secretary SNYDER. I am not assuming that I do at all. I am just trying to approach it in the fashion that most of us can understand better. If we get to talking about a difference between the legal and real value of a currency, we get to thinking in terms which are completely foreign to our real objective. We are not just trying to go into a country and say, "Here is the real value or dollar value of this currency, and here is the official rate, and, therefore, we are going to make up the difference in the value of that currency." No one would understand what we were trying to do.

Mr. LODGE. I understand that, Mr. Secretary, and I realize that the question of devaluation is a very delicate matter. I do not feel competent myself to comment on how this devaluation should take place. You say it should not be across the board, and I am quite willing to defer to your estimate of that situation. Nevertheless it seems to me pertinent to inquire—and the inquiry is not made in

any spirit of criticism. I would simply like to know to what extent the difference between the legal and the real value of foreign currencies adds to the burden of this program. Just as a matter of estimate.

Mr. SNYDER. That would be a difficult question to try to answer.

Mr. LODGE. The reason I think it is important, Mr. Secretary—

Secretary SNYDER. If you will permit me again to sit down and try to think that one through—

Mr. LODGE. Yes, sir; I do not want to embarrass you in any way.

Secretary SNYDER. I might be able to come up with something. But I do not want to cloud the thinking here, Mr. Congressman, by stating that all we are doing is making up the difference between the actual and legal value of a currency.

Mr. LODGE. I made no such suggestion, Mr. Secretary.

Secretary SNYDER. I know, but you are asking questions, the answers to which might lead to that thinking, and lose sight of the basic purpose we have here.

Mr. LODGE. I can only say that the present preoccupation of many people, including yourself, according to your own excellent statement, the preoccupation of the Herter committee, was in large part with this question of stabilization of currencies, and surely the word "stabilization" has something to do with the difference between the legal and the real value of the currency, has it not? I am not an economist and I would defer to the Secretary of the Treasury on that question.

Secretary SNYDER. There is no question about that. On that we are in full agreement. But when you ask me, Mr. Congressman, if what we are actually doing here is not furnishing the money to make up the difference between the real value and the legal value—

Mr. LODGE. I said if in part that was not what we were doing.

Secretary SNYDER. Will you permit me to sit down and figure that one out?

Mr. LODGE. I would like to have an answer to that question, whether in part this legislation is not intended to fill in that gap. Then we can appreciate the importance of that particular problem. It has occurred to several of us that a customs union, an economic federation of Europe, which some of us believe in, as a worthy objective, cannot be achieved unless you have stabilization of these currencies, and stabilization implies devaluation and some uniformity. Would you agree with that?

Secretary SNYDER. I think that is the objective of stabilization.

Mr. LODGE. Therefore, to that extent, I would be interested in getting your authoritative view on that.

Secretary SNYDER. I will be glad to consider the matter and give you an answer.

(The information requested is as follows:)

The estimates of the executive branch are based on the assumption that exchange rates of the participating countries will not be an obstacle to exports.

Even in those cases where an adjustment of the foreign-exchange rate may be needed, a change in the rate at the present time would not substantially increase the availability of goods for sale in the Western Hemisphere. The scarcity of goods in Europe is such as to restrict the amount available for sale in the Western Hemisphere. In addition the volume and nature of imports in many countries are determined primarily by direct import controls rather than exchange rates. For these reasons, even if European exchange rates did in all cases reflect what we might consider to be the "real" values of the currencies, the European dollar requirements would not be substantially reduced.

However, in instances where the exchange rate maintained by a country receiving European recovery assistance is found to be imposing an unjustifiable burden upon that country's balance of payments the Administrator will require that the country concerned consult with the International Monetary Fund, or with the United States Government in the case of nonmembers of the fund, with respect to revision of its rate of exchange.

Mr. LODGE. Now, Mr. Secretary, with regard to these loans which are to be made by the Export-Import Bank, to what extent will it be necessary to relax the conditions under which the Export-Import Bank now operates, in order to allow it to make these loans?

Secretary SNYDER. This will have no effect on the Export-Import Bank's loan policies. The Administrator, when he decides that a loan should be made, will allocate funds to the Export-Import Bank to make the loans under the terms the Administrator works out in consultation with the NAC.

Mr. LODGE. But those terms will be different from the terms under which the Export-Import Bank is allowed to make loans today?

Secretary SNYDER. They may well be.

Mr. LODGE. In other words, they are not as good loans; from a banking standpoint they have more latitude?

Secretary SNYDER. The loans may or may not. Some of them would approach Export-Import Bank standards. I just would not want to say whether they would or would not.

Mr. LODGE. But they would not be forced to?

Secretary SNYDER. No, they would not.

Mr. LODGE. In other words, the reason for this exception in the bill is because we want to be sure that the Administrator has the power to make loans, even though they do not meet the conditions under which Export-Import Bank loans are made?

Secretary SNYDER. That is correct.

Mr. LODGE. In other words, in some part we can presume that these will not be as good loans?

Secretary SNYDER. I certainly do not want to advocate that we make a lot of loans that we do not think we are going to be able to collect. We might make some weaker loans, but certainly not loans that we do not think will be paid back.

Mr. LODGE. But you see, after all, Mr. Secretary, for us who are asked to give something of a blanket endorsement there, it is just as well that we understand what that blanket endorsement might entail. That is why I am interested in having your opinion as to whether the purpose of this relaxation of conditions is not to enable the Export-Import Bank to make loans which otherwise it would not be allowed to make.

Secretary SNYDER. The Export-Import Bank is only acting as the agent for the Administrator. Therefore, its activities would not affect its loan policy or its operations in any way.

Mr. LODGE. Not with respect to matters outside this legislation?

Secretary SNYDER. That is right.

Mr. LODGE. I am, naturally, talking only about matters within this legislation.

Secretary SNYDER. It is using that established agency to administer the loans rather than create a new agency and having another operating unit, when we already have the bank working. That is the purpose of the proposal.

Mr. LODGE. After all, it would not be necessary to have this legislation in that connection if these countries, which will receive the loans under this legislation, would be able to satisfy the conditions under which the Export-Import Bank operates?

Secretary SNYDER. Well, not entirely, because this is a unified operation, in which the Administrator is dealing in both ways, and he tries to move as much over into the loan area as he possibly can, and still take care of the specific situation by not having two agencies working on the problem. It might accomplish a little more than otherwise. That is the purpose of it.

Mr. LODGE. Yes; but if these loans were able to satisfy Export-Import Bank conditions, then, it would not be necessary to have this legislation at all. These countries could simply go to the Export-Import Bank and insofar as that bank had credits available, they would be able to obtain the loans. It is because the conditions are apt to be less easily met that we have decided to relax these restrictions to some extent; is that not so?

Secretary SNYDER. There are many loans which do not fall within the Export-Import Bank field.

Mr. LODGE. Yes.

Mr. SOUTHARD. We anticipate the possibility that if the Export-Import Bank separately were given the authority to make loans, a situation might arise of a decision by an autonomous agency that a loan was not appropriate. Then, how would the Administrator make a grant? Having a total program, estimated to cost a certain amount, how would you move freely, in view of the circumstances, between making grants and making loans? After all, if there were separate responsibilities, you could well envisage that if the loans were not to be made under the Administrator's funds, the grants would be inadequate.

Mr. LODGE. In other words, that would be inadequate because unless you relaxed these conditions, these items which otherwise would be loans would have to be grants. Is that what you mean?

Secretary SNYDER. It might well be that.

Mr. LODGE. But it would necessarily remain true that they would not be as good loans?

Mr. SOUTHARD. Not necessarily. I think one could apply the most rigorous capacity to pay test, and then if the country did not meet that test, the rest of the assistance to it would be grants. But at least you would have one agency fundamentally responsible for the making of the decision.

Mr. LODGE. And at least you would have a hope of repayment. Is that correct?

Mr. Secretary, will the Export-Import Bank, in this connection, operate largely through the governments of these several countries, or will they operate also through private banks?

Secretary SNYDER. Largely through governments. Perhaps those questions could be better answered by the Export-Import Bank. If they are not, I will attempt to get answers for you.

Mr. LODGE. Very well, sir.

You mentioned the combating of inflation. If you were the Administrator of this program, Mr. Secretary, would you recommend to these countries tactfully, of course, as I am sure you would, that they use the same means of combating inflation as have been advocated

by the President of the United States for combating inflation within the United States?

Secretary SNYDER. I think you would have to approach each country with its own situation.

Mr. LODGE. But would you operate under those principles laid down in connection with anti-inflation measures in this country?

Secretary SNYDER. You would have to take each country's situation into consideration.

Mr. LODGE. You would not be prepared to state whether you would adopt the same principles of combating that inflation?

Secretary SNYDER. We would certainly adopt the principles that were most applicable to the country with which we were dealing, and would not attempt to set up any over-all program for all the countries. Each country would be studied carefully, and in the agreement with that country, the appropriate suggestions and recommendations would be made.

Mr. LODGE. Insofar as the President's anti-inflation program in this country contains—in your opinion well-established economics principles—would you take those principles and attempt to adapt them to each individual country?

Secretary SNYDER. If they were adaptable to the particular country why, that would be proper, yes.

Mr. LODGE. Would you, for instance, be prepared to say whether you believe that price controls, in these countries in Europe, should remain in force, or should be diminished, or augmented?

Secretary SNYDER. It all depends on the local situation.

Mr. LODGE. Have you any views as to any of those local situations with respect to price controls?

Secretary SNYDER. Not at this time.

Mr. LODGE. Is it possible to get the view of the administration with respect to price controls in these various countries?

Secretary SNYDER. I think we would have to study each country, as we approach the agreement with them.

Mr. LODGE. Who in the administration would be willing to give us a view as to what the Administrator should recommend with respect to price controls in these several participating countries?

Secretary SNYDER. I do not know who is equipped to give any such answer at this time.

Are you, Mr. Ness?

Mr. LODGE. Well, I would like to have an answer on that, Mr. Secretary, because as you know better than I, price controls, monetary stabilization, and so on, are all linked up with recovery in one way or another. Of course, views differ as to how they are linked up. But since, after all, I assume that you will agree that this program cannot be considered independently of our domestic economy, therefore, I would like to get the view of the administration as to whether they will be inclined to recommend the same sort of medicines for the domestic economies of these countries as have been recommended by the President with respect to our own domestic economy, bearing in mind, naturally, variations within the various countries. I would like to get an authoritative view from the administration on that. I assume that you agree with me, Mr. Secretary, that insofar as foreign affairs are intimately related to domestic affairs, at this critical juncture, it is well to approach both from a nonpartisan angle.

Secretary SNYDER. I think so.

Mr. LODGE. That was the purpose of my question. You mentioned sound fiscal policy in this country. I do not wish to go into that too deeply, Mr. Secretary. I assume that you feel that the present policy, which has existed for some time, of monetizing the public debt, is sound fiscal policy.

Secretary SNYDER. That what, sir?

Mr. LODGE. That the policy of monetizing the public debt, I assume you feel, is a sound fiscal policy.

Secretary SNYDER. I have established, I think, on a number of occasions my views on the management of the public debt, and the approach we should make, and I am prepared to give you an exhaustive statement which I have prepared on the subject.

Mr. LODGE. I regret that I am ignorant of that, Mr. Secretary.

Now, with respect to taxes: Do you believe that in these countries where inflationary conditions exist, the tax structures should be altered?

Secretary SNYDER. We would certainly have to examine each country.

Mr. LODGE. I would like to get some recommendations as to taxes within these countries, because although I am quite appreciative of the fact that we must be very tactful in dealing with the internal affairs of these countries, nevertheless, since the conduct of these affairs bears so directly on the possibilities of recovery, it is important at least for the Administrator to make tactful suggestions in the beginning, let us say, on these various matters. Therefore, it is important for this committee, it seems to me, to know where the Administrator might possibly stand on such questions as price controls and taxes.

Secretary SNYDER. I think I can state very categorically that the nationals of every one of these countries should be called upon to give their full support and aid in the support of their own country. If it requires adjustment of tax structures, and that sort of thing, then, it will be most appropriate to give very careful consideration to that fact.

Mr. LODGE. You would not suggest a \$40 tax credit as an anti-inflationary measure?

Secretary SNYDER. I do not think it has ever been suggested as that.

Mr. LODGE. The point of these questions, Mr. Secretary, is that it would be very interesting to me to obtain your views particularly, and the views of the administration generally, on what the criteria for internal recovery and reciprocal self-help among the 16 participating nations will be. They will unquestionably look to us for leadership on matters of that kind, in an attempt to expand the free-trade area of Europe, as we have created our free-trade area in this country. It is not my desire to put you in a delicate position, but I would like to know what these criteria for internal recovery will be, and, if it would be convenient for you to submit to us some memorandum on that, including the various items which I have brought out, it will be very helpful to this committee.

Secretary SNYDER. We will attempt to do it.

Mr. LODGE. We are trying to write legislation, and it is a difficult piece of legislation to write.

Secretary SNYDER. I know.

Mr. LODGE. We do not want to handicap the Administrator, but we would like to have some guidance as to what his criteria will be in this connection.

Secretary SNYDER. I frankly want to be just as helpful as I can; and if we can get up something that will be helpful, we will try to do it.

(The information requested is as follows:)

While the Administrator will have a real interest in the goals to be laid down by each country for the achievement of internal stability, he will leave to each government the determination of the most effective means possible for the attainment of its objectives. At frequent intervals, the Administrator will consult with the governments of these countries on the relative success achieved in accomplishing the proposed aims.

Obviously, it is impossible at present to foretell what the Administrator will find it necessary to do in each specific case, and, consequently, it would not be wise to express at this time any views which might bind his actions. While all of the ERP countries have suffered from internal price distortions which are inevitable results of a long war, the forms and extent of inflation and the probable effectiveness of alternative remedial measures differ very widely.

Most ERP countries have experienced a large expansion in their money supply as a result of military or reconstruction expenditures which were not covered by taxes or savings. However, the domestic price levels of a number of these countries have not risen in the same proportion; this is mainly due to reasonably effective price and wage controls offsetting the shortages of goods and services. As a result, there have accumulated in such countries large backlogs of more or less involuntary savings. Confronted with this situation, several countries resorted to the partial blocking of liquid assets. This action, reenforced by capital levies, initially served to restore a measure of equilibrium, but most of these countries have continued to suffer from budgetary deficits. Other countries have maintained the effectiveness of their wartime price controls while restoring approximate equilibrium in the public budget. Although these countries have avoided the disruptive effects of open inflation, the impact of "suppressed inflation" arising from a shortage of goods while current and accumulated purchasing power remains high is nonetheless real.

Still other countries have experienced disproportionate price increases that, far from restoring equilibrium between prices and the money supply, have set off a cumulative process of inflation that has been fed by budget deficits, private credit expansion, and the wage-price spiral.

While there is large scope for direct and financial controls to stem inflation and to prevent the dissipation of resources for nonessential purposes, an increase in the flow of goods, stimulated by the ERP, can provide the most effective and lasting assurance of price stability. Such a recovery of production would permit the progressive relaxation and elimination of price controls at an earlier date than would otherwise be possible.

As in the case of prices, the Administrator will expect each country receiving assistance to adopt the tax measures necessary to internal stability but the particular measures will be left to the discretion of the government in each country. In the event that the goal of internal stability is not achieved in a particular country within a reasonable period of time the Administrator will be concerned with the extent to which the tax system in that country is impeding achievement of internal stability.

The willingness of recipient countries to undertake necessary tax reforms is implicit in the statements which the several European governments issued at Paris on the subject of internal financial and economic reforms. The Administrator will, of course, wish to render every possible technical assistance when requested by the European countries in improving the administration of the tax program adopted by the foreign government. Naturally the amount and nature of the technical assistance which will be requested from the Administrator will vary from country to country since there is a wide diversity in the tax structures and the efficiency of the tax systems among the participating countries.

The administration's approach to the problem of European recovery has been based from its very beginning on the fundamental principle that European self-help and cooperation are prerequisites for United States assistance. In reply to questions by Senator Vandenberg, administration witnesses have declared the administration's readiness to accept a clause for insertion into the proposed bill which would specifically tie the continuation of American assistance to a continuation and development of European self-help and cooperation.

In evaluating whether satisfactory progress has been achieved by a European country over a given period the Administrator will have to appraise—

- (1) With respect to self-help, results in—
 - (a) increasing industrial and agricultural output; and
 - (b) achieving and maintaining monetary and financial stability.
- (2) With respect to cooperation, results in—
 - (a) developing intra-European exchange of goods and services; and
 - (b) developing its economy along lines that assist in integrating and unifying the economy of western Europe as a whole.

Such an appraisal will call for the highest kind of political and economic judgment. It will take as its point of departure such objective criteria as industrial and agricultural output, data on the fiscal position of the participating countries, on price developments, on the volume of intra-European trade, etc. But such data may be highly misleading unless they are interpreted in the light of many less definite factors.

Thus, a 10-percent increase in industrial output of a country that received additional coal during the period and whose production was previously held back only by a fuel bottleneck would be a much smaller achievement than a similar increase on the part of a country that has to contend with labor shortages and a series of strikes fomented by political opposition. The importance of taking varying weather conditions into consideration when appraising any progress in agricultural output need hardly be mentioned. The same percentage of public expenditures uncovered by tax receipts would have varying significance depending upon the purpose of the expenditures, the country's current rates of savings and of private investment, and similar factors. A given increase of prices over the period may mean either the tapering off or the start of an inflationary spiral.

With respect to cooperation, the same reduction in the level of tariff protection between two countries is far more significant if they are countries with competitive industries than if they are countries whose economies are largely complementary. Also the achievement of an above-average increase of exports to other participating countries may be far easier for a country that has abandoned an overvalued rate of exchange than for a country that has already been forcing exports through allocations or incentives to exporters.

Even more complex questions arise in trying to appraise the progress of a country in the face of contrasting developments in different fields. There is obviously no mechanical criterion for offsetting the progress achieved in stepping up production against a simultaneous worsening of the inflation or, alternatively the success in stopping inflation against a concomitant reduction in economic activity. Furthermore, many elements which enter importantly into the determination whether satisfactory progress has taken place do not lend themselves to any quantitative determination. This is particularly true with respect to the progress toward greater intra-European cooperation.

It would certainly be convenient to be able to rely on an objective test which would automatically gage the progress made by the participating countries toward the goals of the European recovery program. Unfortunately, no such test is available. Quantitative indexes on production, budgets, prices, trade, etc., have important functions as indicators. But, like laboratory tests in medicine, they do not do away with the necessity of balanced judgment by an experienced diagnostician. This judgment will have to be exercised from time to time, in the light of all the relevant evidence, by the Administrator.

Mr. LODGE. Thank you very much, Mr. Secretary. I am much obliged.

Mr. VORYS. Mr. Secretary, we appreciate your coming here. You have been very helpful, and we thank you for your contribution, which has been very valuable.

Secretary SNYDER. Thank you, Mr. Chairman. I appreciate the courteous approach that each of these gentlemen has had.

Mr. VORYS. We will adjourn until 2 o'clock, at which time we will hear Secretary Harriman.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

We have with us our very distinguished Secretary of Commerce, who will make a statement, and then subject him to the inquisition.

STATEMENT OF SECRETARY OF COMMERCE W. AVERELL
HARRIMAN

Secretary HARRIMAN. Thank you, Mr. Chairman.

If I may, I would like to run through some material I have prepared as Secretary of Commerce.

Before doing so, I would like your permission to give a personal view on the program as a whole.

I firmly believe that the recovery program for Europe of the size and nature proposed by the President is an essential step in building a stable peace.

We are proposing to assist the people of western Europe to regain their economic stability, without which political stability cannot be obtained.

It is certainly abundantly clear that there are forces in Europe which wish to take advantage of the economic chaos and hunger to establish a totalitarian dictatorship. I must say that I am completely convinced that that process can be checked by stable economic conditions; and from my experience, I have found the people of Europe are as wedded to their historic freedoms as ever.

At the same time, it is clear that there is economic political warfare publicly declared by those that are under the control of the Kremlin who are attempting to prevent recovery and who maintain the present conditions under which they are hopeful of expanding their influence and power.

In addition, it is also abundantly clear that the overwhelming majority of the people of these countries are struggling to overcome the destruction and disruptions caused by the war and to rebuild their lives under democratic institutions.

With the help that we have given, real progress is being made in spite of the efforts that have been made, both from within and without, to prevent recovery. These countries, including western Germany, number 270,000,000 people who are among the most talented industrial and freedom-loving people in the world.

They are largely the people from whom our traditions and way of life stems.

If western civilization in these areas collapses we shall face world conditions quite different from anything that we have ever before known.

We know that wherever governments are under the control of the people, and wherever the people are free to make the ultimate decisions, the cause of peace is furthered; but historically we find no such assurances in dictatorships.

This program contemplates helping these countries to help themselves and, by working together, to help each other.

The cooperative relationships which the participating countries have undertaken to develop during the recovery period may well lead to permanent relationships and help break down the nationalistic barriers which have caused so much economic difficulty in the past.

I, for one, have no doubt that if we embark on this program with determination it will be successful in the reestablishment of western Europe on a firm foundation so that it can go forward in its traditions of democracy, freedom, and expanding human values.

Not to have such faith is to deny the vitality of the free institutions to which we so firmly adhere.

I believe that this program is one of the most far-reaching undertakings for peace and for human progress ever undertaken by this or any other country. It is noble in concept and at the same time is based on considerations of our own self-interest and, in my opinion, of our own self-preservation.

I would prefer to discuss only the constructive aspects of the program, but I feel that I should also state my judgment as to the effects of the alternative—if we should fail to take this step.

The President last summer appointed a committee of 19 distinguished private citizens to give its judgment on a foreign-aid program. I served as chairman of this committee.

A section of their report deals with the interest of the United States in European recovery. They emphasize our humanitarian and economic interest and then conclude with their views on the strategic and political aspects.

I commend to this committee their full statement on this subject. I will quote, however, only the concluding sentences. This statement was written by the members of the committee and not by myself, but I fully concur in their conclusions:

The domestic consequences are such as no American could easily tolerate: The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in our relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of our economic and political life, perhaps extending even to our very form of government.

In such prodigious terms is the interest of the United States in European recovery defined. The committee is convinced that a sound program for western European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

I want to make it clear that a program of the contemplated magnitude will be costly and will mean sacrifice by the American people. The benefits to be gained, however, far outweigh the immediate sacrifices. As you know, we cannot expect to obtain direct repayment for a substantial part of the aid given. Our returns will be in furthering peace and in world stability, and I believe we will get an indirect return over the years from expanding world trade.

Up to now I have been speaking as an American who has had the opportunity during recent years to observe at first hand developments in Europe. I shall now turn to certain aspects of the problems that are associated with my present responsibilities as Secretary of Commerce.

UNITED STATES ECONOMIC INTEREST IN EUROPE

The area we are concerned with is a great industrial workshop, even now comparable in the world only to our own country. It is also a great world trade center. Its economy in modern times has rested in large measure upon buying raw materials, converting them into manufactured articles through use of its own fuel, skilled labor, and industrial resources, and selling the finished articles in the world market.

Much of its grain, feeds, fats and oils, tobacco, cotton and other fibres, and petroleum have been bought abroad with the proceeds of these sales. To an important extent, also, western Europe's income from sales of manufactured products was augmented by income from tourist, shipping and financial services to the outside world, and from overseas investments.

Its ability to sustain a dense population is dependent upon the existence of world conditions under which it can buy its needed materials, manufacture and sell finished products in volume.

These conditions have not existed since the war. You have heard in detail, in previous testimony, the ways in which they were disrupted by the war and the extent of this disruption.

It is unnecessary for me to repeat those details. Suffice it to say here that western Europe is, under present conditions, unable to produce and trade in the volume necessary to play its prewar role in the flow of world trade, or even to rebuild and expand its productive equipment, employ its population fully and effectively, and support itself.

This indicates the seriousness of the situation for Europe itself. I wish rather to indicate our economic interest in the restoration of Europe to its earlier role in the world's economy.

We clearly have such an interest in the restoration of Europe as a paying market for United States goods. Prewar western Europe bought and paid for United States commodities far in excess of their sales to the United States.

This was part of the great triangular trade in which western Europe sold its goods and services to Latin America, the latter to the United States, and the United States to Europe.

Similarly, part of our exports to western Europe were paid for from the proceeds of its excess exports to the Far East, which, in turn, had an export surplus with the United States.

This is a very general, rough indication of the type of multilateral trade with which we are involved directly and indirectly in Europe.

The war and its aftermath, including the delay in European recovery, has disrupted these multilateral trading relationships and seriously affected the economies of the other trading nations of the world.

With too little production and a resulting low level of exports, Europe has since the war been able, only with difficulty and with much outside assistance, to provide its most pressing import needs.

Contrary to the general impression, and in spite of our financial aid, we sent in 1947 a smaller proportion of our exports to Europe than in 1946 or before the war. And, while our total exports have to date been sustained by an abnormal demand backed up in other areas of the world during the war years, definite signs have appeared of a dollar shortage in other parts of the world as well, foreshadowing an inevitable steep decline in our exports.

It is to our interest, therefore, purely from a business standpoint, that this world network of trade be restored and sustained on a paying basis, not necessarily on the identical lines as prewar Europe's industrial productivity, so that she may be able to sell abroad in payment for what she needs to buy abroad.

To be sure, there will be more competition for certain of our products. There will, however, be bigger and sounder markets in Europe and elsewhere.

I am not suggesting that the United States could not endure the loss of European markets. However, our output of many industrial and agricultural products and that of other countries has been developed on the basis of European participation in international multilateral trade. The decline of Europe would require far-reaching readjustments of agricultural and industrial production and distribution in this country and in other areas.

It would also affect our ability to obtain needed imports and, particularly, essential raw materials.

That is not only within Europe but among the dependencies of European nations.

Such readjustments would be costly in terms of employment and standards of living to our people and to the people of other countries. The cost of such a change is, of course, not calculable in dollar terms, or easily related to the cost of the program before you.

It is clear, however, that the cost would be very great in both economic and human terms.

PROGRESS TO DATE

We have already furnished substantial aid to western Europe—nearly \$3,000,000,000 in grants and over \$7,000,000,000 in loans and credits since the end of the war. It is fitting and desirable at this point to inquire into the results achieved thus far.

We find that in 9 out of the 16 countries involved, industrial production is now at or above prewar levels.

I am speaking of the current level, that would not go for the year as a whole.

These are the Netherlands, France, Denmark, Luxemburg, Norway, Sweden, Switzerland, Ireland, and the United Kingdom.

Belgium is below prewar level by about 10 percent; and Italy's production is at about two-thirds of prewar; Germany and Austria, however, are operating at less than half of prewar.

Except for the latter two countries, the average level of industrial production in the other participating countries is now close to prewar.

To be sure, consumption levels are considerably below prewar for large groups of the population, but this is so in large measure because so much of the production has had to go into replacement of what was lost through wartime destruction and deterioration.

Then, too, these countries have been trying to maximize their exports.

At the same time, they have had to take care of an increased population. The hard winter of 1946, the 1947 drought, and the rapid depletion of foreign exchange resources also increased their difficulties most substantially.

The point should also be made, in the light of these facts, that the Europeans are not sitting down on the job. The urban populations have largely a most inadequate diet; in addition, there is a widespread lack of consumer and incentive goods.

It is not easy to work on a half-empty stomach; and it is not encouraging to work for wages that cannot be used fully to satisfy family needs.

Nevertheless, they have worked hard to achieve the substantial progress that has been made.

More than that, it promises well for what can be accomplished with further adequate help. Our assistance thus far has certainly produced results. I believe, therefore, we have a reasonable basis for going ahead.

PROCUREMENT AND SUPPLY FROM OTHER SOURCES

It is important to understand that Europe will have to get many of the materials she needs from countries outside of the United States.

Only about one-third of the things needed by the sixteen countries of western Europe will be obtained from the United States.

The European countries will not be able, at first, to finance all of these so-called offshore purchases with exports of their own products. For the first 15 months of the proposed program, only about two-thirds of the materials to be imported from sources other than the United States can be paid for by exports from Europe.

The other third will have to be paid for either by dollars from the United States or by credits extended to Europe by the supplying countries.

There are several reasons why we should assist European countries to acquire goods from other countries. The strains on our economy will be lessened if other nations can supply part of the materials that are in short supply here. This will also provide the widest possible opportunity for other countries, particularly in the Western Hemisphere, to send to Europe the goods which they have customarily supplied.

South America can supply various food items and fertilizers; Canada can supply some manufactured goods as well as grain. And these Western Hemisphere countries are thus enabled to buy the goods which we have usually sent them.

This triangular trade will have a healthy effect on the internal economy of these other countries and assist in the reestablishment on a firm base of the structure of international trade.

There will also result a broader diversification of purchases in this country over a wider area of our productive capacity which can be more readily sustained and which will be healthier for our economy both now and in the long run.

At the same time, it will be possible through the wise use of the export control powers, which the Congress has recently extended, to protect our economy from undue drains in any particular items.

There is a further aspect of this matter.

Several of the most important supplying countries will be unable to produce sufficient of the materials that Europe needs unless they receive some outside assistance.

In this connection, the Congress has just recently, during the special session, authorized the Commodity Credit Corporation to engage in broad projects "to stimulate and increase the production of foods, agricultural commodities and products thereof, in non-European foreign countries."

This farsighted legislation is bound to make our task easier.

To sum up—other exporting nations are expected to supply to a great extent the needs of western Europe. That will not only lessen the impact of the program on the United States; it will aid tremendously in rebuilding the trade of the world on a sounder base, and at a higher level.

In general, it will help the development of world reconstruction and prosperity.

THE DOMESTIC IMPACT

When we try to determine the effect of European aid on our economy, it is not enough to consider the amount of financial aid we plan to extend. More important than the amount of money involved is the volume of goods we will ship. High prices in this country result from the short supply of goods in relation to heavy demand.

The impact of current and expected exports cannot be appraised without recognizing that imports help to relieve many important commodity shortages.

It is, therefore, the difference between the exports of goods and offsetting imports which is significant.

My figures relate only to export and import of goods. They do not include services.

This export-trade surplus, which was approximately \$10,000,000,000 during the past year, represented about 4 percent of our gross national product. This rate compares to about 5 percent for 1943 and 1944, the peak war years, and is comparable to the postwar years of 1919 and 1920.

While exports have increased from prewar, the volume of our production has also increased, to a level more than half again as high as before the war. This large increase in our production has made it possible to assist in postwar reconstruction abroad, and at the same time to provide impressive increases in our standard of living.

I believe that we have probably passed the export peak, and to the extent that exports contribute to our inflationary problems they will play a lesser role.

Assuming the appropriation of 6.8 billion dollars recommended for the European program is made, our exports will be somewhat less in 1948 than in 1947, and our imports are expected to increase.

In making this statement, account has been taken of all known resources available for the purchase of our products, including remaining credit balances, gold, dollar assets, likely private investment, and funds which may be made available by the International Bank and Monetary Fund.

I do not mean to suggest that our exports of short-supply commodities do not play a part in the current inflationary situation. To ship products abroad for which there is a market here at home calls for sacrifice.

It would, of course, be easier for us to win our battle against inflation if we could use the goods we are exporting to help meet the heavy demands at home.

We must face the fact that the European recovery program will add to our difficulties in trying to control inflation. But we must remember that inflation is caused in large part by many other factors of domestic origin.

In general, therefore, the answer to the question as to the inflationary aspects of the program is that they are real but are not controlling.

We should have to treat with them even in the absence of this program, and in either event the same measures would be necessary and should be used.

SPECIFIC IMPACT, INDUSTRIAL ITEMS

To complete this analysis, the drain on our economy should also be appraised in terms of the particular items involved. I shall touch on the major industrial items, since I understand Secretary Anderson will discuss with you the food and agricultural items; and Secretary Krug, coal and petroleum.

I should then like to refer briefly to the findings of the President's Committee on Foreign Aid, and relate them to the recommendations of the executive branch.

AGRICULTURAL MACHINERY

The CEEC stated import requirement for tractors and other farm machinery, of which the United States would be called on to supply some 85 percent, amounted to \$932,000,000 at July 1, 1947 prices.

Of this total, \$353,000,000, or 38 percent, was required for the first year of the program.

This request was judged to be far in excess of United States capabilities to supply and probably a good deal greater than could be used effectively in the time involved.

The estimate here presented is that the United States would supply \$136,000,000 of farm machinery during the first 15 months and a total of \$545,000,000 during the entire period of the recovery program.

Mr. VORYS. Would you mind an interruption?

Secretary HARRIMAN. Not at all.

Mr. VORYS. I am trying to tie this in to a recapitulation table that we have been handed. On that recapitulation table I find 133.2 million United States funds for agricultural machinery out of a total of imports of 158.7.

I just wondered if you are familiar with this recapitulation or if somebody here is?

Secretary HARRIMAN. My figures indicate that our suggested supply in this program for 15 months is \$136,000,000.

Mr. VORYS. I wondered whether that is the Harriman report recommendation.

Secretary HARRIMAN. I am talking about the executive branch recommendation. This shows \$136,000,000.

Mr. VORYS. I thought we might be coming to a whole string of similar items and we might get the thing geared in together at this time, so that we could follow it.

Secretary HARRIMAN. This shows a couple of million dollars difference only.

Mr. VORYS. Could we find out where this mimeographed sheet comes from? I am informed that Ambassador Douglas brought this in yesterday.

Secretary HARRIMAN. I will check my figures with that. In this case it is only a fractional difference. It is 133 instead of 136.

Mr. VORYS. That caused me to wonder whether these figures you are now giving were the ones you intended.

They are not merely the Harriman report figures?

Secretary HARRIMAN. No. We will touch on them later. I am discussing the executive branch recommendation. It may be a misprint. I will check that.

The necessity of insuring that Europe has available sufficient means of production to maximize food output has been discussed in detailed evidence previously submitted to your committee; and will, I am sure, be emphasized in the course of Secretary Anderson's testimony.

Our particular concern has been the development of an export program which will not endanger the achievement of food production goals in the United States.

Normally, Europe has taken about 5 percent of our farm-machinery production. The program recommended would about double that percentage, but because of our increased production it would still leave more of this equipment for the American farmer than he had in 1946, and at the same time, take care of our other regular customers abroad.

Although many American farmers have had machinery on order for some time, they are in better shape in this respect than prewar.

The volume of farm power, machinery and equipment is calculated to be more than 20 percent higher than prewar. The recommended increase in exports to Europe should not result in any decrease in our food production, but only cause a short deferment in the replacement of some older equipment.

COAL-MINING MACHINERY

The proposed program for the export of coal-mining machinery calls for the shipment of \$82,000,000 worth of this equipment during the first period of the program.

The estimated total for the entire period is approximately \$207,000,000. It will be noted that the program here recommended approximates the level of the CEEC request but it should also be noted that these recommendations involve a redistribution of the exports envisaged in the Paris report.

In particular, the requirements for certain of the participating countries have been revised downward while those for western Germany have been increased.

Exports under this program will involve a wide variety of equipment, the most important items being conveyor belting, hose, wire rope, and some specialized machinery such as cutters and loaders.

The CEEC requirements have been carefully reviewed by American manufacturers and it is their judgment that they can be met. Our productive capacity has increased since the war, and our own accumulated demand has been substantially overtaken.

Fairly accurate forecasting of future demand was possible, because of the large volume of orders now held by our manufacturers for delivery 2 years ahead.

Only conveyor belting offers a major supply problem but this is proposed to be met in great part through alteration of the original specifications to enable United States producers to operate their presses at maximum capacity.

The effect of imports of these items on Europe's production and export potential is great. The shipment of relatively small amounts of these critical items will make possible the rapid completion of programs for repair, modernization and expansion of Europe's coal mines which will in turn progressively reduce and ultimately eliminate the currently high and uneconomical movement of United States coal to Europe.

ELECTRICAL EQUIPMENT

The power program calls for the furnishing of equipment and supplies to the total value of \$345,000,000. It comprises generating equipment, motors, and other types of electrical machinery, apparatus and supplies, and also such items as machine tools, small construction machinery, boilers, valves, and castings.

Of the \$345,000,000, \$70,000,000 is destined for the power generation industry; the remainder will be equipment for use in fertilizer production, mining operations, and other industries.

During the first period, \$95,000,000 is involved, consisting mainly of the smaller items, such as motors and electrical supplies. No large generating equipment, of which we are now extremely short, is contemplated to be supplied until toward the end of the program.

Our annual production of these items now exceeds \$4,000,000,000 and we have usually exported 6 percent of our production.

There is contemplated a relatively large increase over our regular exports to Europe, which is normally self-sufficient in these items, but our total exports to all destinations are not expected to exceed 8 percent of production.

The electric-power program is a vital phase of the general economic rehabilitation of western Europe. The importance of the program to the CEEC countries is shown by their plans for expansion.

The participating countries are undertaking to expand their power industry to an extent requiring the use of \$5,000,000,000 of equipment, of which we propose to supply the aforementioned \$70,000,000, or 1.4 percent.

While our contribution in electrical equipment generally is relatively small, it involves many items of specialized character available at this time only from the United States.

IRON AND STEEL

We propose to supply 3.1 million tons of iron and steel valued at \$290,000,000 during the first 15 months of the program; that is just over half the amount estimated in the Paris Conference report.

Included are 2.1 million tons of finished and about 1 million of crude and semifinished.

During the same period, the participating countries will produce about 35 million tons; our production will be about 80 million tons.

Our contributions will fill a critical need to reconstruct damaged and destroyed plant and transportation facilities and take care of a large volume of essential replacement and maintenance deferred during the war.

That will be particularly important to certain countries.

Imported steel in the next year or two is also essential to the success of many vital production programs in Europe. In the latter years of the program our contribution will be much less.

Mr. VORYS. I hate to interrupt you, but we are going through a detailed thing, and we might as well try to keep track of the items.

If this is Mr. Douglas' summary sheet, every item so far has been different from what you are giving. There is in here \$2,000,000 for scrap iron. I do not know what that is. I think that is the same.

Secretary HARRIMAN. That \$2,000,000 for scrap iron, I think, is the sale of scrap in Austria. It is not coming from the United States. I am dealing with the commodities coming from the United States.

Mr. VORYS. All I wanted to find out was whether yours was correct, and I understand yours was supposed to be the executive branch statement, and so far out of four items there is a difference between your items and those that I have, and understand to be the executive branch items, which total up at the bottom, \$6,860,600,000.

Chairman EATON. Is that 6 billion?

Mr. VORYS. Yes. It is \$6,860,600,000.

Each item you mentioned so far, including agricultural machinery, electrical equipment, mining machinery, and one item that you have given on iron and steel, are each different. I thought you were talking about the same thing, as this list.

Secretary HARRIMAN. I am. This is calculated in a different way.

I can explain that. That scrap iron is Austrian and scrap which is to be financed by dollars, but it is not coming from the United States. That is the explanation.

I can take this and reconcile it. I have given general figures. The figures can be reconciled.

Mr. VORYS. This is supposed to be the composition of imports of commodities and services from the Western Hemisphere and possible sources in distribution of financing, April 1, 1948, to June 30, 1949. It is July 1, 1947, prices in millions of dollars.

I thought the way to follow this was in this manner.

Mr. JARMAN. That is the Western Hemisphere?

Mr. VORYS. It is Western Hemisphere. You all have this.

Mr. RICHARDS. I do not have it.

Mr. JARMAN. Are there any South American or Canadian figures in there?

Mr. VORYS. The columns are, "Total imports from the Western Hemisphere," "Possible sources in distribution of financing," "Own resources," "Sources other than United States funds," "United States funds."

I thought that probably the last column would correspond with your figures.

Secretary HARRIMAN. This table includes purchases made in this country as well as in other countries.

I have to reconcile the two, which I will be glad to do. What I am giving you is the totals that are expected to be furnished from the United States proper, whereas this is how they are to be financed.

Mr. VORYS. What you have given so far for agricultural machinery, let us say, of \$136,000,000, is the amount of machinery at July 1, 1947, prices, that is to come from the United States?

Mr. BISSELL. This is a break-down by financing. The figures the Secretary has given refer to physical sources of supply. Take agricultural machinery, for instance. The program provides for \$136,000,000 physically to be shipped from the United States, but this suggested break-down implies a small portion of that would be financed with funds other than recovery-program funds.

None of these estimates will precisely reconcile, except by accident. The total for Western Hemisphere shown on the sheet agrees with the totals for Western Hemisphere by physical source.

Secretary HARRIMAN. I am dealing with the impact on our economy, which is what has to be shipped from this country.

I have explained the program contemplates shipping 2,100,000 tons of finished and 1,000,000 of crude.

The request for scrap has been rejected entirely, because scrap so directly affects our crude-steel production. Similarly, the estimates for crude and semifinished steel have been substantially revised downward, because of their effect on our output of finished steel and because shipments of such products reduce the availability of scrap generated in their further finishing, and thus affect our domestic production.

In making these reductions, account was also taken of the fact that available fabricating facilities and manpower in Europe are considered inadequate fully to utilize the originally requested tonnages.

I should mention at this point that we have just sent a technical mission to Germany to survey the possibilities of exporting scrap to the United States.

In the case of steel-making equipment, also, it was found necessary to scale down the CEEC requests. We propose to furnish such equipment to the extent of \$48,000,000 during the period ending June 30, 1949, as compared with a request of \$100,000,000.

Substantial orders amounting to between \$60,000,000 and \$80,000,000 are already placed in the United States, and much of the equipment which it is proposed to be made available should come out of these orders. The reduced amounts will, nevertheless, make a substantial contribution to the CEEC program for expanding steel-making plants.

Mention should also be made here of the secondary demand on our steel supply involved in the furnishing of products made from steel.

Taking this in account, the exports during the first 15 months are estimated to be 5.5 million tons of ingot equivalent. This represents 5 percent of our ingot production.

Moreover, there should be subtracted therefrom the volume of scrap generated within the steel industry proper and in the fabricating industries involved, which is estimated to be 1¼ million tons.

In other words, the actual weight of steel in all forms, including machinery, which will be exported under the program during this period will be about 4,000,000 tons.

FREIGHT CARS AND TRUCKS

While we fully recognized the critical need for rehabilitating rail transport in Europe, the requests of CEEC for freight cars were considerably reduced. The request for 47,000 cars in 1948-49 did not adequately take account of the substantial contribution that could be made by repair of war-damaged equipment and by the reorganization of transport facilities.

In view of these considerations and of the great needs within the United States, we propose to permit exports of only 20,000 cars, all to western Germany, during that period.

Incidentally, I might point out that 20,000 cars built to European specifications are about the weight of 10,000 United States cars.

Provision has also been made for about 65,000 motortrucks during the 15-month period. While the CEEC report assumed that United States parts would be imported and assembled in Europe, it is our

view that Europe will, in part, continue to find it necessary to follow the traditional practice of importing complete units.

The recommended total of 65,000 motortrucks for the first 15 months is not relatively large.

In the first place, normal prewar United States export of motor-trucks to these countries averaged 30,000 units yearly. Moreover, 65,000 motortrucks probably will not increase the over-all inventory of motor vehicles in these countries.

In all likelihood, the units supplied by the United States will be used only to replace worn-out units and will, therefore, also not increase petroleum consumption in these countries.

RELATION TO PRESIDENT'S COMMITTEE ON FOREIGN AID

The President, in appointing under my chairmanship a nonpartisan committee of distinguished private citizens to study the problem of foreign aid, emphasized the necessity for an appraisal which would determine the limits within which United States could "safely and wisely" undertake a program of foreign assistance.

While there are certain differences between the conclusions of the President's Committee on Foreign Aid and the program recommended by the executive branch, a comparison of the foregoing analysis with the recommendations of the committee reveals a broad area of agreement in the two sets of estimates.

In setting forth the reasons for an assistance program, the report of the committee stressed the vital importance of European recovery on political and strategic grounds and also pointed out the great importance of the European market to the American economy, both for direct trading with the United States and as a vital element in the restoration of those multilateral trading relationships which are a prime objective of United States economic foreign policy.

The committee estimated that for the first year of the program the United States Treasury should provide 5.75 billion dollars to finance the European deficit, including western Germany. This may be compared with the figure of 5.90 billion dollars for the fiscal year 1949, in the executive branch program.

The committee further estimated that undertaking a program of this magnitude would result in a total volume of United States exports and an export surplus over imports smaller than in recent experience.

Of equal importance, however, with such over-all magnitude is the probable impact of a foreign-aid program on specific commodities required from the United States.

It is significant, therefore, to note that in the cases of those commodities which I have discussed, the program here recommended for the first year of the recovery effort contemplates exports within the range of United States capabilities as estimated by the President's Committee on Foreign aid.

Thus, in the case of agricultural machinery, the administration's program contemplates exports from the United States amounting to 136 million dollars as against the committee's estimated range 75-125 million dollars.

For coal-mining machinery, the figures are 82 million dollars in the executive-branch program as compared with the committee's range of 80-105 million dollars.

In the field of electrical equipment, the administration's recommendation is 95 million dollars as compared with a range of 100 to 125 million dollars.

While the committee estimated the furnishing of a larger proportion of finished steel products, the contemplated total exports of steel-mill products and raw materials amount to 232 million dollars as compared with the committee's range of 175 to 300 million dollars.

The administration's recommendation in the case of steel-mill equipment amounts to 48 million dollars as compared with the committee's range of 50 to 100 million dollars.

Finally, the program for the export of freight cars is identical with the estimates of the committee.

THE ROLE OF THE DEPARTMENT OF COMMERCE

In concluding, I should like to explain briefly the role of the Department of Commerce in relation to this program.

We are at this time administering certain export control, allocation, and priorities functions, the necessity for which would undoubtedly continue with the European recovery program.

I believe that such functions should be performed in an agency of Government other than the one established to administer the ERP.

Decisions in respect to the exercise of these powers are now made on an interdepartmental basis under the supervision of the Secretary of Commerce in the manner prescribed in the Second Decontrol Act.

In that way, the technical counsel and assistance of all agencies concerned are brought to bear on the many difficult and complex problems involved, including the evaluation of our own needs and those of the rest of the world.

It is my feeling that a new organization established to administer the ERP should be authorized to appraise the needs of the European countries, but not to decide what the total amount of our exports of any commodity should be, or what share should go to western Europe.

The new agency would have a vital responsibility but in a limited field.

Its primary assignment in this respect should be rather as the advocate for the participating countries—to initiate, approve, and present their programs—but not to make the final decisions as between their claims, and those of the United States and the rest of the world.

That is the brief statement, sir, that I have prepared for the consideration of the committee.

Chairman EATON. Mr. Secretary, thank you for your very comprehensive statement.

What is your idea of the proper organization for the administration of this great enterprise?

Secretary HARRIMAN. I am a firm believer that it should be in the hands of one administrator, appointed by the President, with the advice and consent of the Senate, and that he should be in charge of the operating responsibilities of this great task.

He must, of course, work under the direction, in regard to foreign policies, of the Secretary of State, which policies, of course, in the last analysis are made by the President.

I am impressed with the fact that he will have to have relationships with other members of the Cabinet and the heads of the other agencies

of the Government, and that he should be in a position to deal with us and should have access to us.

In other words, in vital decisions it will be a matter of how much grain can be made available from the United States, and he must have the full cooperation of the Secretary of Agriculture who is charged with the responsibility of our domestic agriculture, and responsibilities in seeing that our people get enough to eat.

Those relationships were established during the war, and we are now working under them, in spite of the fact that I have the ultimate responsibility for export controls.

We have worked together with the Department of Agriculture and the staff, and the Secretary of Agriculture and I get together and talk on questions of major policy.

There should be an administrator of this program who has the same relationships that a member of the Cabinet has.

He would have to have relationships with the Department of Commerce in the industrial equipment end, with Interior on questions of coal, and certain of the other agencies, such as those providing transportation as required.

He would consult with the Maritime Commission on shipment abroad.

It sounds complicated, and is complicated.

This is a very vital program. I think the administrator should be charged with those operating duties and should have a competent staff here and abroad to make the necessary analyses of the requirements of these countries.

I went through in England much the same type of study that is now required.

I went there early in 1941 and with a small staff we got to know pretty well what the British economic requirements were and how they were operating, the needs for the war, and also the civilian population needs.

We worked very closely with the Supply Ministry in England, the Agricultural and Food Ministries and those relationships are outside of our normal diplomatic relationships.

But anyone abroad must be under the supervision of our Ambassador. We cannot have two representatives, in addition to which many of the decisions are beyond the purview of the particular supply ministers and must go to the Cabinet and must be dealt with by the Prime Minister.

In those respects those men will only work with our Ambassador, who is our senior representative.

Therefore, our Ambassadors in each country will be brought into the recovery program and must cooperate with those who administer the program abroad.

On the over-all policy decisions that will occur, the current day-to-day flow goes through channels of communication of the State Department, and directly to the Administrator here.

It is a great convenience.

Chairman EATON. You would give the Administrator Cabinet rank?

Secretary HARRIMAN. I think that is a detail. I don't know that it is necessary to do so. There are plenty of men in administrative positions that are accepted by the members of the Cabinet as their

equal, and I would certainly accept him as such, and I think all the other members should.

I have never heard of a special agency having Cabinet rank, and I am not suggesting that. I am only speaking about his status within the councils of the Government. After all, he is much the same in certain respects as the Lend-Lease Administrator, Mr. Stettinius, who had access to members of the Cabinet on matters of policy, and I am only trying to indicate the need for the relationship with the other agencies and departments of the Government.

Chairman EATON. You are in full accord with the general purposes of this proposal and the expenditures of these billions for the purpose of recovery in Europe?

Secretary HARRIMAN. It is my judgment that this is the minimum safe amount to undertake this enterprise. I think the enterprise, as I have said, is noble in its concept, but I cannot overemphasize my feeling that it is in our self-interest, and our own preservation.

I believe that the humanitarian interests are to some extent important, but I think in time our economic interests will repay our own investment when we get the money back indirectly in terms of stability of our own economy. I think the very fact of being able to get an increase of the raw materials we need, and a stable supply, will be important. Over-all, I just cannot contemplate a world in which western European civilization has declined and is under aggressive domination. The change in the balance of power would be such that it would have a drastic effect on the rest of the world.

I think we can avoid war. In fact, I am satisfied that we can avoid war, if we recognize this is the time to work and lay foundations for peace. I would have no such confidence if we did not take the step contemplated by this program.

Chairman EATON. This committee has a very difficult and important responsibility to prepare a bill authorizing this expenditure and giving the ground for our faith in it, and also to create an organization for its administration. That is why I was asking you for some light on that particular subject.

This Administrator would have to be two men. He would have to represent in some way, at least, the foreign policy of this Nation, which involves our becoming a European power along with the other 16 countries which would cooperate. On the other hand, he would have to be skillful, even as skillful and able a financial administrator as you are, to handle this situation.

How are you going to reconcile those two great functions in one man?

Secretary HARRIMAN. He must take the lead of the Secretary of State in foreign policies. Most of his activities will be within those policies, and that will require a very detailed knowledge of the economic requirements of these countries and the progress that is being made in recovery and how funds can best be used in each country and in the recovery of Europe as a whole.

Most of his activities will be in the economic field, but they must be considered with our foreign policy. We cannot have, of course, two foreign policies, but having worked in that field I see no basic difficulty in coordinating our economic assistance with our foreign policy.

Chairman EATON. This is the last question I have: Supposing the State Department takes one view of this proposed action and the Department of Commerce takes another view. Which department will prevail?

Secretary HARRIMAN. Well, we have those differences today. For instance, we have a Cabinet Food Committee, of which Mr. Anderson is the chairman, and Secretary Marshall and I are members of that committee. Mr. Lovett usually attends instead of Secretary Marshall, because he has been away so much and otherwise occupied. We thresh out these programs, weigh the values, and between us, we have always been able to come to conclusions.

On matters of basic policy we have on occasion gone to the President to explain what we are contemplating doing because, after all, he has the ultimate responsibility.

We have not found it impossible to come to an agreement. This is really carrying on much of the same type of work as we did during the war, and which has been continuing since the war. It would be more concentrated in its attention. But I do not see any grave difficulties.

Of course, if there is a situation where there are fundamental differences of opinion they must go to the President for his ultimate decision.

I presume the Congress would follow the program from time to time, and would give an expression of its views. After all, if the people of the country and Congress are not satisfied with the work as administered and progress being made there will be questions raised in connection with appropriations for the future.

Chairman EATON. Failure is the last court of appeal in your point of view, but there is a further appeal from the President to the Congress.

Secretary HARRIMAN. Certainly.

Chairman EATON. Thank you very much.

Secretary HARRIMAN. May I say this. You have asked a question on administration, and I want to emphasize that I would not shoulder this administrator with responsibility for decisions as to how much we should eat at home, and what our policy at home should be, and our relation to other countries. You would be putting on an administrator's shoulder a burden which would be impossible for one organization or man to fulfill. They must remain with agencies outside of this organization.

Chairman EATON. He would have to spend most of his time up here.

Secretary HARRIMAN. Defending the interests of the communities that each of you represent, sir.

Chairman EATON. Mr. Richards.

Mr. RICHARDS. I want to congratulate you and your very fine committee, and the other members of your very fine committee, who have made such a comprehensive report of your study of the European situation.

As I understand it, the recent war cost the United States between \$200,000,000,000 and \$300,000,000,000. The national debt of the United States now is about \$265,000,000,000, and for that reason I am very glad indeed that you went into very fully the question of the alternative, if we do not do this thing, because I think we can only

justify a position in support of this program in the full light of what may happen if we do not do it.

You mentioned here that the United States has already spent in Europe, since the war, about \$3,000,000,000 in grants, about \$7,000,000,000 in loans and credit, \$10,000,000,000 in all. This bill proposes to furnish something over \$6,000,000,000, of which from 20 to 40 percent will be in the form of loans and credit.

In view of the fact that Europe is already obligated to us to the extent of \$7,000,000,000, not to mention normal commercial debts, that they are further obligated to the International Bank for certain loans, do you think that it could be expected that 20 to 40 percent of this money could be repaid in the future without endangering the European economic program?

Secretary HARRIMAN. I believe 20 percent is a sound minimum. You see, each country is in a different position, and certain of these countries are in a position to pay considerable sums of money, not all are obligated. We are dealing with 16 different nations with different conditions. Therefore, I believe that we may get repayments on 20 percent. The amount above that I think will require a detailed analysis of the position of each country, the amount that is going to each country, what their programs are, and to some extent it would depend upon one of the objectives which we have contemplated in this program, to get these countries to expand the production of their raw materials, particularly in their colonies or dependencies, and then be able to take back for our current needs and stock-piling such of that increased production as is necessary.

It is most important for us in connection with being assured of a source of supply. As you know, we are much more dependent for our raw materials abroad than we were prewar, both because of our depleted national resources here and because of our expanding needs with this very much larger economy we now have.

Now, I speak of that as being one of the variables which we do not know until our negotiations are made with each country. If they can expand their production of these raw materials it may well increase their income over what now appears to be evident. Therefore, I think that the administrator should have flexibility in the decisions.

I certainly agree with the thought which I gather is back of your question, that it would be most unwise to saddle any country with a debt which it could not pay. Our object is to get back to sound credit, and if we follow the pattern of former experience, such as after the last war, private credit begins to take the place of Government credit, private investment in place of Government investment, and when you get a period of confidence and stable currencies we find that to follow.

To get back to healthy conditions will also follow. If you saddle countries with a debt it hinders a return to normalcy.

Mr. RICHARDS. It would also discourage our people if they expected to get 20 to 40 percent repayment on this money and get none of it back?

Secretary HARRIMAN. It would certainly be most unfortunate.

Mr. RICHARDS. You mentioned in your very admirable statement here that these people over there requested a certain amount of scrap, and that you had turned them down flat in your recommendation. Is that the only instance in which they have been turned down flat on anything they have asked?

Secretary HARRIMAN. I think that is the only instance where they have been turned down particularly. The reason for that, Mr. Congressman, is that the one limiting factor, or the one bottleneck in our steel production in this country is the shortage of scrap. We would be more closely operating on a 100 percent capacity basis if we had more scrap in this country. If we shipped scrap out of this country it would reduce our steel production and reduce our ability to carry other programs. We also feel that the European countries, and we, ourselves, have not made as energetic an effort to organize scrap collection in Europe, and particularly Germany, as was possible.

Mr. RICHARDS. Is it not a fact that scrap is all over the place over there?

Secretary HARRIMAN. That is correct. There is no question of the need for more scrap in Italy, Britain and other countries, to some extent. In Germany they can collect more scrap than is now being collected. It was not turned down from the standpoint that they did not need scrap, but the place to get it is in Europe, rather than in this country.

Mr. RICHARDS. I saw one plant there covering about 5 square miles with nothing but scrap. None of it has been utilized.

Secretary HARRIMAN. That is correct.

Mr. RICHARDS. It seems to me that some plan could have been worked out to use this scrap where it is needed most.

Secretary HARRIMAN. These problems have been growing, and with all of the problems we have been having the problem of collection of scrap is now receiving the attention which it deserves. That is being organized some.

Mr. RICHARDS. There is one other material that is very essential to steel production, as I understand it, and that is chromite.

Secretary HARRIMAN. Manganese is the most important for our production.

Mr. RICHARDS. They both are in short supply in the United States, are they not?

Secretary HARRIMAN. We are importing chrome. There is no shortage of manganese and chrome to keep our present production going. There is a desire on our part to stockpile some of those critical materials, both chrome and manganese, in order to see us through in emergency if it should come.

Mr. RICHARDS. Domestic production does not meet the need for those two materials?

Secretary HARRIMAN. No. We import most of our manganese and a large part of the chrome.

Mr. RICHARDS. A great deal of it comes from Russia?

Secretary HARRIMAN. I think 20 or 25 percent of our manganese and chrome comes from the Soviet Union.

Mr. RICHARDS. The fact that we need those materials is good ground for trading with Russia, is it not?

Secretary HARRIMAN. Well, we are trading with Russia now on an open basis. We are buying what we can in Russia and they are buying what they can here, subject to export controls.

Mr. RICHARDS. Are those two materials produced to any extent in this 16-nation group?

Secretary HARRIMAN. Well, not directly in those nations, but their dependencies, West Africa, for instance, one of the colonies of Britain,

produces a very substantial amount in the Gold Coast. They produce manganese. Of course India is now a free dominion. We get a large quantity of manganese from India and also get a substantial quantity from Brazil.

Now, part of this program would contemplate the expansion of the production of raw materials so that that should be considered.

Mr. RICHARDS. Do you think we would have a right to insist, through a provision in this bill, or otherwise, that part payment for the money we are letting these nations have, be delivery to the United States of these commodities when they are surplus to the needs of Europe?

Secretary HARRIMAN. I am glad you say "over and above their normal transactions," because I think we would be destroying future trade if we did not permit our purchases for our current requirements to be paid for in cash, which, again, gives them in those countries the dollars to buy from us the needed commodities. It is the program, approved by Congress, to stockpile those critical materials.

I hope that program can be fulfilled. It has not been possible since the war to make much progress. But I would hope that as a result of this program these countries can properly be asked, and, if satisfied, be willing to do it and expand their natural resources in colonies and dependencies to increase production, to be sure of what is very touchy in many items, for instance, tin, which we are very short of, and to increase it for current requirements and protect our expanding economy, and then over and above that to ship to us tonnages which we can stockpile and keep as a reserve.

It is in that area in which we can expect to get repayment. You can handle it two ways. It has been proposed one way. The Congress, of course, could appropriate more money, bearing in mind what we would get back for nothing in the way of stockpiling, or in accordance with what the administration has recommended, that certain sums be granted as loans, and then we purchase out of the appropriations the Congress has made, or may in the future make, for stockpiling, which funds would be used to repay us.

It seems to me the one that has been recommended is the more practical method of dealing with it. So indirectly we get repaid through the goods we get here later, which we take in repayment and add to our stock pile.

Mr. RICHARDS. The bill here suggests that we be allowed the privileges of purchasing.

Now, I was just wondering whether it should be written in the bill that certain critical materials should be furnished us in part payment for this aid.

Secretary HARRIMAN. Well, sir, then you would have to reduce the amount of loans that you would expect to make because it is contemplated on this recommendation that we will get repaid with dollars that are appropriated for the stock pile. You could handle it either way. Then you would have to increase the appropriations for the European aid program to take account of the material which we would get for nothing for stock-piling.

I am not sure I make myself plain. I will put it another way: You would have to increase the amount of grants-in-aid. Then you would get back some of the grants-in-aid not in the form of dollars but in the form of material or as is recommended you could make more

loans which they would repay out of dollars through our purchase of these raw materials for stock piling.

Mr. RICHARDS. To put it another way, you start to run in a circle and meet yourself coming back?

Secretary HARRIMAN. Yes. This is a method, and I think the most practical method, of doing it.

Mr. RICHARDS. I was trying to get out of that vicious circle.

Secretary HARRIMAN. Well, sir, at the moment, the reason why we are not buying for stock pile is that these materials are not being produced in sufficient volume over and above current needs of ours, and other nations. This will require additional facilities which will require capital expenditures, which will have to be made, and it will be a period of time before they can afford to make those expenditures. It will take steel and other equipment which they first need to rebuild their own facilities at home. But I certainly believe it should be the objective of the program to divert at the proper time the energies of the European countries to expand these productive facilities, and it is only through exploration and development and exploitation of these natural resources that we can hope to be assured of a supply of these critical materials with an additional amount for stock piling.

Mr. RICHARDS. I have one more observation. The United States has taken over many additional military obligations for the protection of Europe. These additional obligations cost us one billion annually, which is another reason why this aid should not be a one-way street.

Secretary HARRIMAN. I agree with you, sir.

Chairman EATON. Mr. Mundt.

Mr. MUNDT. Talking on the subject of manganese, I wanted to point out that it was pretty hard to justify exports of war potentials to Russia which make her strong enough to jeopardize the peace of the world and to cause 16 countries to come to us for assistance on the basis that we were short of manganese, because we have in one State of the Union alone, South Dakota, the world's largest deposits of manganese. You can get them from us without building up a formidable aggressor by making exports for those things in return for peace of the world.

Chairman EATON. Will the gentleman yield?

Mr. RICHARDS. Yes.

Chairman EATON. Why have we not discovered South Dakota before?

Mr. MUNDT. They have been discovered, sir, but they have not been exploited and developed, and I do not think that probably is an appropriate question for the Secretary of Commerce. That is not his particular field. That is handled by the Bureau of Mines.

Secretary HARRIMAN. Thank you, sir. That is correct.

Mr. RICHARDS. I might add that the gentleman's State has the finest pheasants in the world. You cannot beat them.

Mr. MUNDT. If we were going to encourage all these superlatives, it would occupy the rest of the afternoon.

Chairman EATON. They certainly have very fine representatives in Congress, too.

Mr. VORYS suggests that we make a 5-minute rule, and he sets a very beautiful example thereby. Then we will go around after that.

Mr. VORYS. I know everybody wants to ask something, and I realize I have more than 5 minutes' worth here.

Who got up this so-called Harriman report, Mr. Secretary?

Secretary HARRIMAN. The committee organized itself into subcommittees on the different basic categories of commodities that were required. For instance, on capital durable goods, Hiland Batcheller; consumer goods, John L. Collyer; development and administration and drafting, Robert M. La Follette; economic and financial analysis, Owen D. Young; food resources, Chester C. Davis; manpower, Paul G. Hoffman; mineral resources, Robert Koenig; transportation, Granville Conway.

The committee, as a whole, had a staff, although a small staff. Mr. Bissell was the executive secretary. He is here, if you want to ask some detailed questions.

Each of the subcommittees had a small staff. They had available to them the information in Government, and they went outside of Government to industry or to the background of the individual experience of the men. The subcommittees' reports were finally approved by the committee as a whole.

That, roughly, is the manner in which they went to work. They worked very strenuously and energetically for the brief time they were at it.

Mr. VORYS. Here is why I ask: I find that when Cabinet officers come up here often the most valuable detailed information comes from the second line of defense that sits behind them, because, of course, a Cabinet officer is a very busy man and he must have much of his studying and assembling of figures done by subordinates.

Secretary HARRIMAN. We are also not always as competent as our staff.

Mr. VORYS. What I am thinking about is this: That the data that is compiled in a particular foreign country is what is ultimately controlling, or at least very important, and I wondered where this committee got its data on the needs in, let us say, Germany?

Secretary HARRIMAN. Well, some of the men had been to Germany, and the information in particular I can explain. Mr. Koenig was over there on the matter of coal, one of the important items; such information was made available as they may have required. I think some of the food committees in Germany were studying requirements in Germany. That was from their own experience and was available in the Government. They also went to the industries who had been doing business, or had plants over there, not only in Germany but some of the other countries, and machinery people who had plants over there, and got from them the estimates of their requirements as they saw them. They had the benefit of their experience.

Of course, fundamentally, they tried to take and seek reports and analyze them in the light of these various other sources of information, which I speak of.

Mr. VORYS. For instance, when I was in Germany as a member of the Economic Aid Committee, we would see things and talk to people, but then when we would ask about coal production, or something like that—we did not go around and check all the mines—but we would ask for statistics. Our information was just as good as these statistics that were handed to us.

I am wondering whether your committee—I see it is the President's committee; but colloquially it is known as the Harriman committee,

and a very fine committee it is—whether you finally got down to where you had to rely on the same statistics that the CEEC fellows did and our officials did, or whether there was any double-check down the line?

Secretary HARRIMAN. Mr. Vorys, there was not time to send anybody abroad. You speak of coal. Mr. Koenig had been in Europe a good many months. He was on the SHAEF staff and he had to do with opening up the mines as we advanced. He also made a special report of conditions in Germany prior to that time, and also a report on the coal production in England, so that he drew on his previous experience in order to analyze the features which were before him. If the committee members were not particularly familiar, they brought in as advisers men that they thought were competent from industry who had been abroad recently, and in almost every case I think that is true. These committees had outside advice from men who had been on the spot; but I do not want to give the inference that we had a year to make a detailed examination. These are estimates, based upon the independent judgment of these men.

Mr. VORYS. For instance, on steel, the CEEC report came up with a proposal for production by the 16 nations of roughly two-thirds more than the steel exports to nonparticipating countries in 1938. As you mentioned in your report, you have cut the steel requests about in half, and yet the total is still very large, in view of the great needs of our economy.

I wondered whether your committee has any suggestions or recommendations about reexporting of this steel, as to where it should go? The amount, you remember, is still very high, compared with any previous production of these countries, as I understand it.

Secretary HARRIMAN. That is right.

Mr. VORYS. The proposition is, roughly, that we shall furnish the crude steel. They shall process it and then sell it. Is that not right?

Secretary HARRIMAN. Well, of course it goes into the pool. Some of the steel products are used for reconstruction and the domestic needs. Some of it is planned for exports. It goes into the flow of their economy, and exactly what use was made of the individual bar, or something, or the ingots, is a difficult question. That is something we have not followed through on. Some will go to reestablish their economy out of domestic use of the exports.

Mr. VORYS. Would you think that they should be exporting—these 16 participating countries—to the East; let us say to Russia—the finished steel products?

Secretary HARRIMAN. I certainly think so. One of the great question boxes about Europe's food in the future is their eastern European trade. They are obtaining a large amount of food from eastern Europe and Russia has also exported food.

To get the economy of western Europe going trade with eastern Europe must be reestablished.

The only way it can be done is by trade.

Mr. VORYS. So that you feel that it would be all right for us to allocate and control and thus reduce our use of steel in this country so that these countries could take the crude or semifinished steel and process it and reexport it to Russia, for instance?

Secretary HARRIMAN. Assuming they get in turn the vitally needed food.

Chairman EATON. The time of the gentleman has expired.

Secretary HARRIMAN. May I just say this: I do not believe in trying to build an iron curtain to the west of the iron curtain. I believe in attempting to break it down. That can be done by trade.

Mr. VORYS. I hate to see us furnish iron for the iron curtain, though.

Chairman EATON. I would hate to see both sides of the iron curtain come down at the same time.

Mr. LODGE. Mr. Chairman, may I suggest that since the gentleman was in the middle of questioning, he be given more time.

Mr. VORYS. I gladly yield at this time.

Mr. JARMAN. Mr. Chairman, following up that question about export of steel or any commodity to Russia or anywhere behind the iron curtain, in view of the fact that the gist of this thing is a shortage of dollars, would not any food or other material that even Germany we will say, would gain in return for the steel reduce what we have to do to help the situation to that extent?

Secretary HARRIMAN. Yes; if eastern Europe can increase its food production to anything approaching prewar, it will do two things: It will release the strain on dollars; but what is even more important, it will relieve the strain on our agriculture here and the sacrifice that we have to make in straining ourselves to help those countries. Wheat is a tough item.

Mr. JARMAN. This will no doubt sound like a foolish question, Mr. Secretary. It would be foolish but for the fact, in the discussion of the interim-aid bill, despite your testimony before us at that time, the statement was repeatedly made on the floor even after members of our committee refuted it, that we had had no testimony whatever as to the availability of these materials in the United States and as I say, that is the basis for this apparently foolish question that I am going to ask you.

You spoke of eliminating the scrap requests and the reduction of steel by those reductions. I suppose you spoke of the Paris request?

Secretary HARRIMAN. Yes.

Mr. JARMAN. That was gone into very carefully by your committee, I take it, resulting in the throwing out of the scrap and the fact that we would need this reduction and that reduction, and when you had reached your final conclusion, I judge it is your opinion and the opinion of your committee that while some of these goods are in short supply and although it is going to be necessary for us to sacrifice and tighten our belts in instances, by and large this material is available in this country and can be supplied without wrecking it.

Secretary HARRIMAN. That is correct, sir. To cover some of the other aspects, there are a number of commodities such as coal and cotton and certain others where the full requests have been included in the estimates.

The requests were analyzed from two angles: one, the availability in this country or in other parts of the world—the question of availability.

There was not any use of embarking on a program if the goods were not available. The second was whether the estimates at Paris were overambitious in terms of use and they were scaled down with that in mind as well.

The net conclusion, I think, was that the program of capital expenditures which would be required for some of this steel and

other machinery was rather greater than the 16 countries could absorb during this 4-year period.

It would take more like 6 years to expand that production to the degree which they had contemplated in this report. At the same time, we believe that this assistance will be of a nature to let these countries get back to a self-sustaining basis.

Mr. JARMAN. There is no use in getting them back on a self-sustaining basis, is there, if in doing so we should put requirements in this bill that they pay back a great deal of this in strategic materials 5 or 10 years from now?

In other words, if we create a situation which would endanger them falling immediately back into the slough of despondency, the situation in which they now find themselves, immediately after we pulled them out—there would not be much system to that; would there?

Secretary HARRIMAN. No, sir.

Mr. JARMAN. Now, considering this \$6,800,000,000 that is proposed under this bill, 20 to 40 percent of which is expected to be loaned.

Now, the crux of the situation being the dollar shortage, if we put in any stipulations about requirements of payment in strategic materials which would increase those loans to a larger amount than 20 to 40, would it not be necessary to add that much to the six-million-eight?

Secretary HARRIMAN. It would be.

Mr. JARMAN. And therefore we would be just taking out of one pocket and putting into the other; would we not?

Secretary HARRIMAN. We would; that is correct.

Mr. JARMAN. Now, short supply: Of course, many of these goods are in short supply. We had several amendments on the floor offered by well-intentioned young gentlemen, I am sure, from my part of the country, to eliminate the shipment of anything that was in short supply.

Is it the opinion of your excellent committee that we can supply these goods? A sufficient number of them are in short supply, are they not—that an amendment to prevent shipping anything in short supply would ruin the program; would it not?

Secretary HARRIMAN. It would. I do not mean to say that some quantities are not in adequate supply. Dried fruits, for instance, we can send. We may even have some wheat in surplus. I think we have enough cotton and coal, but it is taxing our transportation. But in other areas, even though we have some in surplus, we have not enough and we must realize that this cannot be undertaken unless the American people are prepared to make an immediate sacrifice for the ultimate gain.

Mr. JARMAN. Speaking of sacrifice, can you compare quickly the tax that the Englishman pays as compared with our tax? I mean, which pays the most?

Secretary HARRIMAN. Oh, they pay very much more. I have forgotten what it is now, but during the war a single man paid a 50-percent tax on his income over a hundred pounds, over \$400, and that went up to nineteen and six to the pound.

That is 19½ cents out of every 20 cents.

Mr. JARMAN. A great deal more?

Secretary HARRIMAN. A great deal more, and corporations paid 100 percent excess-profits tax.

Incidentally, they paid a larger percentage of their war expenditures out of taxes than we did, I think—about 10 percent more.

Mr. JARMAN. I wonder, how wrong I have been in making the statement which I have made promiscuously in my district to the effect that while our taxes are high in this country and we want to reduce them when that can reasonably occur, that if this plan does not become law and assuming the worst, that is, a domination of the rest of the world by communism and the necessity to fortify this continent and maintain the necessary standing army, that this period of ours would during the years to come probably be reflected upon as a low-tax period.

Was I very far wrong in that?

Secretary HARRIMAN. I think you are very right, sir.

Mr. JARMAN. That is all, Mr. Secretary.

Chairman EATON. The gentleman from the manganese section of the country, Mr. Mundt.

Mr. MUNDT. Mr. Chairman and Secretary Harriman, on page 13 you mentioned that the calculated production of farm machinery next year is going to be 20 percent higher than it was last year.

Of the calculated farm machinery production for next year, what percentage is it expected you will ship overseas under this program?

Secretary HARRIMAN. I do not think we estimate 20 percent above. I think I said that the machinery on the farms was 20 percent above prewar.

Farm machinery production for next year I have not included. Unless we can do something to help increase the amount of iron and steel available, I doubt if it is very much greater. It would be slightly greater, I think. It would be about 10 percent greater.

Mr. MUNDT. And what percentage of that greater production is calculated to be shipped overseas?

Secretary HARRIMAN. I think that the total exports of farm machinery from this country, it is contemplated, will be about 10 percent to Europe and the over-all would be about 15 percent.

It would be about 15 or 16 percent of our agricultural machinery for export and about 10 percent would go to Europe.

Mr. MUNDT. Does that mean we are going to have 5 percent less farm machinery available domestically next year than we are this year?

Secretary HARRIMAN. No, we would have roughly 5 percent more. Your expansion in production amounts to more than the increased shipments to Europe would.

Mr. MUNDT. That is what I was speaking of. Now, we come to something a little more vital. On page 17, in view of these considerations about freight cars and of the great need for them in the United States, we propose to permit exports of only 20,000 cars to all of western Germany. I think that is very commendable, that you are going to maintain the transportation system of the United States and limit exports to 20,000.

In that connection, I would like to find out what is going to be the policy of this administration about exporting freight cars to Russia, which was done through 1947?

Secretary HARRIMAN. I do not think there will be any shipped to Russia next year.

Mr. MUNDT. I know about some that were shipped this year but there may be a lot more than that.

Secretary HARRIMAN. I will submit the figures to you. They are a very small number.

(The information is as follows:)

During the eleven months ending November 30, 1947, 281 cars valued at \$1,616,254 were shipped.

Mr. MUNDT. That to me is the crux of a very difficult problem that you are going to have to face up to, and I think you realize it. It is a realistic approach to this program now in which we are sort of engaging in economic strife or ideological warfare, or something. I agree with you this is not just a humanitarian gesture, but it is a very essential part of our program if it is anything at all, and I think it is.

I think we are going to have to have some kind of modification to what you said was an open trade program with the Soviets whereby they would buy in this country what they could get and we would buy in their country what we could get without screening it, apparently from the standpoint of effectiveness of what they buy here upon this European situation which we are trying to help alleviate.

Certainly freight cars and locomotives and trucks and tractors are something which, in the hands of the Soviets, regardless of where they get them, help them increase the pressure and develop a formidable attack economically upon the 16 western countries they do not want to have successfully functioning in the ERP.

If we are going to, through congressional action, give \$6,000,000,000 or any major portion thereof in trying to make this program work in those 16 countries, I think it is an axiom, I think it is just naturally part of the program, and we might as well announce to the world that we are not going to, during that period, ship to the Soviet the type of things they need in order to succeed with their program of crippling our venture in Europe.

Now, what is wrong with that suggestion?

Secretary HARRIMAN. Well, Mr. Congressman, I would like to put it this way. We have the problem that we have only been controlling about 25 percent of our exports. We got down from controlling pretty nearly everything during the war to the natural fact that we did not have to control so much and then we were under considerable pressure from our appropriations standpoint and we had to reduce it to that amount.

When you control exports you have to have enough staff to make quick decisions or else you cripple all trade. We have additional funds now and we have recently, in the last week, placed all of the exports to Europe under control.

We felt that was a desirable thing to do.

Mr. MUNDT. May I ask a question for information here: By that, do you mean that before an American exporter can ship something he has to get some kind of clearance.

Secretary HARRIMAN. He has to get a license and that would include Russia and its satellites, as well as all western Europe.

Now, we believe that is desirable. That is a recovery area in which consideration of everything they buy here is important to make sure they are using their dollars for the most useful things and also to protect our economy.

We are finding that we should control more than we have in order to protect ourselves at home.

Now, that policy will make it most important for us to review what we had not been able to review, the major part of the trade to the Soviet Union and eastern Europe.

We will be developing policies in that respect. I want to say this, though, that in approaching that I think that we must consider definite questions on shipments to all countries regardless of what equipment goes out. I do want to emphasize the fact that we could not have world recovery as rapidly as we otherwise could if we attempted to shut-off trade from eastern Europe.

The food is most important of all, but then there is a great shortage of timber, coal from Poland also being a vital factor, and the trade between western and eastern Europe and trade between those countries and this country is important in recovery.

Now, as I say, I am not in sympathy with the idea of building up an "iron curtain" to the west of the "iron curtain." I am a firm believer that if we can get recovery in western Europe the pressures of the better living in western Europe will force a reduction of the rigidity of their controls which we say they have over certain countries in eastern Europe and that we can hope for a peaceful world only if we pursue that policy.

As far as such things as tractors are concerned, if they are available, I think we want to encourage that type of thing to increase agricultural production.

Now, you can play it two ways. We can accept the fact that a conflict is inevitable—and I do not accept that—or we can pursue the policy of trading with those countries, but in all cases we must see that they do export the things that we need, not only for ourselves but for the recovery of the countries that are interested in those things.

Mr. MUNDT. May I summarize that to be sure that I have it clearly in mind, because I think that this is one of the big vital issues around which the success of the program is going to revolve when it passes through Congress and the country must understand it clearly.

Am I correct, then, in my understanding that as of today and henceforth, all exports to European countries, which includes those behind the "iron curtain" and those this side of it, now must receive official approval by your control board before they are shipped?

Secretary HARRIMAN. That is correct. I beg your pardon. I am corrected. I must say we have announced it. The effective date is March 1.

Mr. MUNDT. Yes, and certainly that is a very commendable constructive step because we are going to be impelled by the realities, I am sure, to restrict certain types of exports to certain areas. Otherwise you are going to be accessory in trying to defeat the program and you do not want to do that. If it is going to succeed, do you agree with me that you must have in these bilateral agreements some kind of understanding with these 16 countries that they, in turn, exercise some kind of discretion in the type of things which they are shipping to the other side of the iron curtain? If we build up 16 European economies which, in turn, ship over into the Soviet area war potentials, because of their desire to get wheat or coal, then, we are engaging in a very vicious circle which comes back to jeopardize our security at some future date.

Secretary HARRIMAN. Well, I think, very frankly, that the less attempt we make to dominate other countries in this program, the better

off we are and the better results we will obtain. I think we had better leave it to those countries to decide on how they should develop their trade. It is absolutely impossible to define this war potential. In total war, as you said, even machinery for the farm in practice increases the war potential. Food is the really basic commodity on which a nation fights a war. I feel very strongly that trade must be encouraged, that we should not interfere with the bilateral arrangements. I know of the leading statesmen of these different countries, that they have the same thoughts and objectives in mind that we have. It may not satisfy any one individual. He might disagree on the kind of trade that is desirable or is not. I might disagree with him. In the last analysis, I think the time is going to come of more prosperous conditions in western Europe and the pressures of people for a better life will tend to make for a change in the objectives of the present rulers of those countries. I believe if we embark on a program of trying to hold them down, it will lead to disaster and lead to developments in the wrong direction. The standard of living in the Soviet Union is very low, as you know, and as the standard of living is increased, people begin to realize they can have a better life and when the Soviet Union begins to pay more attention to the improvement of the standard of life of their people, then, you are going to begin to have a more peaceful outlook.

Mr. VORYS. Mr. Jonkman?

Mr. MUNDT. A parliamentary inquiry. May I have the record show that silence does not mean consent, but simply that my 5 minutes have run out?

Mr. VORYS. Yes Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, Chairman Eaton has already asked a few questions about the function of the Administrator. Are there not more significant differences in the form of organization proposed by the President's bill, on the one hand, and, for instance, the committee which you headed and the Herter committee, on the other hand. By that I mean, to put it briefly, in my estimation the President's bill appoints only another Assistant Secretary of State while, on the other hand, your committee, if I may call it that, and the Herter committee propose a corporate form of organization of a Board of Directors in which the Secretary of State will be one of the directors and in that way it will integrate our foreign policy. Would you care to comment on that?

Secretary HARRIMAN. I would prefer to have the exact recommendations of the so-called Harriman committee presented to you by Mr. Bissell who is here, or by Senator La Follette, who wrote it. I do not find myself in full agreement with that proposal. On almost all of that report I agree, and the only thing I disagree with is the question of administration. It is not far afield. I cannot see how this can function in much of any other way than the one I have attempted to describe.

Mr. JONKMAN. When you say the one you attempted to describe, you mean in the Harriman report?

Secretary HARRIMAN. No.

Mr. JONKMAN. Do you mean the President's bill?

Secretary HARRIMAN. I have not discussed it in detail with Secretary Marshall, but I know generally what it does. I would not be surprised if it did not operate much in the way I outlined it in answer

to Chairman Eaton's question. Of course, the Herter committee's report is quite a different set-up from the so-called Harriman committee's recommendations. The Harriman committee report suggested the possibility of a form with a council attached to it which included largely the members of the Cabinet which this administrative group would have to function in. The Herter committee proposes, as I understand it, an independent Board of Directors of part-time individuals with export controls within the function of that corporation. I find myself not in agreement with that proposal. I want to say I have tremendous respect for the work of Mr. Herter and his committee. It has been very constructive and I cannot believe they entirely considered what would happen if this Administrator had such an independent authority and they put in an independent group of part-time men who had not been through, and were not responsible for, certain parts of it.

Mr. JONKMAN. At the present time, do you not think this will involve a big business administration? As I said to Secretary Snyder this morning, we are going to spend more on this program annually than our average annual budget for the 10 years in the 1930's. Will you give us an illustration? There has been considerable discussion here about stock piling of materials, whether we could not ask some of these 16 nations to bind themselves, not during the life of this program, but in the future, after the program has been consummated and they are back on their feet, to repay some of this money with stock piling materials. There has been quite a little discussion as to whether that would be in loans or in grants. Well, now, in loans, I cannot see any question there at all unless you want such things as uranium or exceedingly strategic and scarce materials, because any nation would be glad to pay its bills in commodities. In fact, that is one of the troubles we have with European countries, they want us to take more imports. But if we are going to take that from the grants, I can see it is going to be most difficult for a foreign policy-making organization to put itself in that position of the Shylock that says, "Just as soon as you get on your feet we are going to have a mortgage on you and then you are going to have to repay some of this stuff," while, on the other hand, if you had an independent auxiliary administration or a corporate organization, they would look at the business aspect more. After all, this is not relief any more, it is not helping the person for relief. We are putting them back on their feet in business and oftentimes furnishing the capital. Do you not think that the form of organization proposed in the so-called Harriman report or the Herter committee would give us a far better business administration than the State Department, which, from the very nature of its functioning, is under a difficult situation along this line? I am not criticizing them except for that.

Secretary HARRIMAN. Well, as I have said in answer to the question of Chairman Eaton, I believe that there should be an independent administrator to handle the operating functions. Now, on the question of the positions as to foreign policies, they must be under the Secretary of State. I do not know how you are going to define in advance what each of the countries can do in the way of developing natural resources. I have had certain discussions with certain people. There are potential sources of raw materials which are not entirely explored yet.

Mr. JONKMAN. I am not interested in taking the time on that. I would like to have you answer the question whether or not, for instance, if the State Department handles it, it would be far more difficult to lay down those conditions than if you have an independent corporate organization.

Secretary HARRIMAN. I would not have felt so; no. I think that those programs have got to be worked out with the full analysis of all of the administration, the Department of the Interior and the Department of Commerce, in terms of our knowledge of what we need and in terms of what can be expected in the way of future trade relationships. I think the Herter committee puts too much responsibility on a group of men who are entirely outside the Government. I think you will get a much better and more satisfactory arrangement if it is within the Government.

Mr. VORYS. Mrs. Bolton.

And again it is understood that the time schedule suggested by the Chair does not mean that silence gives consent to the last statement of the witness.

Mrs. BOLTON. Mr. Secretary, in the matter of the strategic materials and the method by which we might set up the agreements in the matter, if it would be feasible, it does seem as if it would be forward-looking on our part to do something about it. Would you feel that it would be wise to include such a condition wherever practicable?

Secretary HARRIMAN. I think much as it has been proposed is the right way. It is an objective and the Administrator should be charged with the responsibility to negotiate on what can be done in the way of expanding the production of these strategic materials and the amounts that can be obtained over a period of years, and those programs should be borne in mind in connection with what proportion of our assistance should be in the form of the grants-in-aid and what percentage should be in the form of loans. I think one has to bear in mind that to be effective this must be a continuing program and what might be decided in the way of percentage this year might be changed in another year and any new conceptions can be adjusted. The future question of grants-in-aid can be adjusted by what has been found out in the meantime.

Mrs. BOLTON. The strategic things would be in the Loan Division, however.

Secretary HARRIMAN. Yes, because they would be in terms of dollars, but actually what they could supply would be taken into consideration on those grounds.

Mrs. BOLTON. I have been informed that there is a difference between the State Department method and the other bill before us, which is the Herter bill, that in the State Department it is put in more or less as a condition and in the Herter bill it definitely negotiates toward that end. Does there seem to be very much difference to you?

Secretary HARRIMAN. I have not studied the language. I thought the State Department proposal made it perfectly clear that it was one of our objectives to get the maximum increase in production that was within reason and within our requirements. I do want to impress on you the fact that I am concerned over the availability of the raw materials we need, not alone for our strategic stock piling, but for our current use. I would think that the Administrator should have made clear to him that one of his responsibilities to this nation is to

see that these developments are undertaken. I do want to say that to my knowledge it is impossible to lay it down now because in some areas there are indications that minerals are there but they have not been explored sufficiently even to say what can be developed from them.

Mrs. BOLTON. Of course, the other countries would have to have machinery to develop and also they would have to have engineers to do the work.

Secretary HARRIMAN. They would have to have the machinery for their own production and there is also the question as to whether in certain cases American corporations might not be able to undertake these developments. And they might. It should all be left to the Administrator to work out and I would hope that at the proper time he would give it his attention.

Mrs. BOLTON. And in some of the considerations given we would have to consider, I suppose, what the ultimate goal is in this whole matter, whether it is for a controlled economy or whether it is for the thing which we always feel is American, the free-enterprise method, so that private capital would be developing these materials in different countries rather than just a Government-controlled economy.

Secretary HARRIMAN. Well, I must confess that I feel in these European countries that remain under what we call a democratic system, where the people express their own opinions as to the form of their economic development, that it is none of our affair, but when it comes to a totalitarian dictatorship, where a few people dominate, then, you have a potential difference. After all, we have in our own experience had the Government make certain regulations and if a country in western Europe felt that it would better develop its resources by a Government-controlled enterprise, I do not think that is any of our affair. At this time I think we ought to create opportunities for American private investment because that will get back to normal trade and business relationships.

Mrs. BOLTON. Could a further condition be inserted into the law that would provide that no alteration in the terms of agreements on businesses conducted by American concessionaires may be made without the approval of the United States Government?

Secretary HARRIMAN. I must confess that I hate to see that type of condition written into the law. Conditions change from period to period, and it should be our national policy to protect investments abroad in an appropriate manner, but conditions do change and I do not think you could give a concessionaire that authority if a country of its own free will wants to take over those assets. It is its right to do it, but we must insist, of course, that the investors be properly compensated for it. I would not favor writing in such a condition. I think it must be left to future development, although I firmly believe that American investments abroad should be protected. I do recognize the right of any nation to nationalize its resources if it finds it is necessary to do so, but American investors should be properly compensated for that.

Mrs. BOLTON. My 5 minutes is up, so I cannot go on.

Mr. LODGE. I would be glad to yield.

Mrs. BOLTON. Thank you very much Mr. Lodge.

Mr. VORYS. Mr. Lodge.

Mr. LODGE. Mr. Secretary, in connection with the strategic materials which have been holding our attention for some time, my under-

standing is that our stock-piling-development program runs over a period of 25 or 30 years; is that correct?

Secretary HARRIMAN. I have forgotten. I think it is 20 years. It is a long term.

Mr. LODGE. Do I understand you correctly that the administration's attitude means that these countries can never produce enough to repay something above the balance needed to support those countries?

Secretary HARRIMAN. I am not sure I understand your question. Would you mind repeating it?

Mr. LODGE. In other words, if they should reach a point where there is no dollar deficit, could we then receive some of these stock-piling materials in the future by way of quid pro quo for sums turned over under this program?

Secretary HARRIMAN. What was contemplated, as I understand it, was that the possibilities of supplying our stock pile would be taken into consideration in connection with the long-term loans which we would be making to these different countries and that that is a long-term repayment as far as our stock-piling program is concerned. The ability to repay, the production of these foreign countries would be taken into account in connection with the size of the loans that are included in the program.

Mr. LODGE. I misunderstood you, Mr. Secretary. I understood you to say to the gentleman from Alabama that you felt that it would be a mistake to make long-term commitments providing for repayment of any part of these sums in the long-term future.

Secretary HARRIMAN. If I made an incorrect answer, I want to correct myself, because I firmly believe that we should expect these countries to repay all that they reasonably can without interfering with their coming back to a normal relationship and get back to the time when private capital will take care of the future investments that will be required.

Mr. LODGE. Then, in that case there would be no reason not to increase the amount of these loans to more than the 20 percent now contemplated and provide for repayment of these loans in strategic materials in the long-term future?

Secretary HARRIMAN. Well, I believe that within this range it is a fair topic to set up. I think it would be unwise to set up any longer time of repayment at this time. After all, in the future, we may find that our guess as to the amount of strategic material has increased as a result of experience. This is a 4-year program, and adjustments can be made. I would think it would be unwise for Congress to insist on more than this range at the present time and have any real contemplation of getting the money back.

Mr. LODGE. Supposing it were expressed in such a way that the payments would not be made unless there was something above the balance needed to support these countries—in other words, something beyond these terms?

Secretary HARRIMAN. I would rather see the program stimulated as best it can be and set those goals. In your case there would not be the same incentive to meet those adjustments which are necessary. I think you would get about as much as we can fairly contemplate receiving in time.

Mr. LODGE. Is that not a pretty hard thing to stimulate?

Secretary HARRIMAN. Most of these developments are pretty long range developments—10 to 20 years. The loans will run for at least that period of time, and I would think you would have to make them about as precise as possible, and I think it would leave the future open. I think we ought to make these arrangements so. Otherwise, if there are contingencies hanging over the heads of different countries, it will affect their credit and their position, and I believe it would be wiser to set them in advance rather than leave them open.

Mr. LODGE. After all, is not credit a question of dollar balance? And if it were provided that that would first have to be satisfactorily handled, it seems to me that it would not affect their credit.

Secretary HARRIMAN. Well, it is such a variable factor. We well know the kind of restricted conditions which people are living under now, and if you had contingencies over their heads so that they could not program their balance of payments, there would always be the question as to whether they should increase the food rationing of the British people or pay us a little more. I think it would be far better in our relations with each of these countries if we made a fixed agreement. I think we would get more incentive and there would be more recovery and it would work out better in the long run. If you leave that contingency open, then you get into every aspect of the life of each of these countries, because they are so restricted today. When you say that they ought to pay us more or less, causing a decision as to whether they should have a little more gasoline rationing or a little more food rationing, I would not think we would want to keep such a continual decision hanging over their heads.

Mr. VORYS. Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, on the basis of the report made by your committee, and other committees which have looked at it from a domestic angle, is it your contention that the United States is well able to undertake the cost of the proposal now before us?

Secretary HARRIMAN. I believe that it was the conclusion of this committee that this country should embark on this program and should undertake this program and pursue it, as I have quoted, with boldness and determination; but, by the same token, it is recognized that it cannot be done out of our surpluses—that there will have to be a definite sacrifice in terms of consumption at home during this period. So when I agree that we are well able to do it, I must qualify it by saying, "With certain sacrifices, we are."

Mr. MANSFIELD. But, in your opinion, the sacrifices are well worth the achievement of the goals which have been set and which are, as I see them, a certain amount of humanitarian relief for a distressed people, the economic rehabilitation of western Europe, and we hope eventually all of Europe and the world, and, finally, as a hold-back of the spread of communism; is that correct?

Secretary HARRIMAN. Yes. I would put it in a slightly different way, but that is substantially correct. I think you can put it another way. I think we would be repaid economically, although that is very hard to prove, in terms of our world trade over the years. But in terms of the main objective of peace, the investment is tiny as compared to what we would face if we did not embark on it.

Mr. MANSFIELD. Mr. Secretary, would you give this committee the benefit of your views as to what would be the result here if this proposal were defeated?

Secretary HARRIMAN. I read from the statement of the so-called Harriman committee and I can read it again very rapidly. Or if you prefer, I shall give it to you to read.

Mr. MANSFIELD. If you have already given it to the committee, I will read it later.

Secretary HARRIMAN. I am handing you the part I read.

Mr. MANSFIELD. One more question, Mr. Secretary, and maybe two. Would you think it advisable to attach conditions to this legislation if it is reported out of this committee by means of which we would be able to get back from countries which have materials, minerals and products which are critical and in short supply in this country?

Secretary HARRIMAN. I do not think I would express it that way. It is the objective that these countries should expand their natural resources at home and in their colonial possessions, not only to assure us a normal supply for our economy but also to help us build up our stock pile. I think it should be expressed as an objective, not in terms of a condition, because it is very hard to define a condition and in the last analysis it is the general skill of the Administrator and wisdom of the administration in this program and the energy and good will of the people. I think we can best get that by stating objectives rather than conditions.

Mr. MANSFIELD. I see. Thank you, Mr. Secretary.

That is all, Mr. Chairman.

Mr. JONKMAN. Any further questions?

Mr. LODGE. Yes, I have some more questions.

Mr. JONKMAN. Mr. Lodge.

Mr. LODGE. With respect to the petroleum situation, Mr. Secretary, I understand that England, France, and Holland have big oil holdings, possibly as large as our domestic reserves. Why could we not cup some of our fields in from 5 to 10 years and repay the owners by deliveries from European-held oil reserves abroad? I am informed that the estimates of those reserves permit commercial use along these lines. Could we not keep these cupped fields for naval reserves and be repaid several hundred million gallons a year from foreign assets?

Secretary HARRIMAN. You mean with our domestic consumption held down?

Mr. LODGE. Yes.

Secretary HARRIMAN. I think in answer to that we would have to consider the whole world petroleum situation, our own requirements and the requirements of other countries, and I think the administration should consider that question. As you know, we have under control of our own companies very large reserves in the Middle East which in some ways are larger even in potentialities than those of any other country.

I think that a study should be made. I feel very strongly, as your question indicates, that we should conserve our petroleum resources in this country and should embark upon a program of expanding production abroad and increasing our imports. Generally speaking, at the present time, known reserves in the United States are about a third of the known reserves in the world and I imagine we probably know more about our reserves than at least certain other areas. We are now producing about two-thirds of the world's petroleum. That certainly is a reckless thing to continue to do and I certainly agree with what I gather is the background of your question. We are in

a very difficult shortage of petroleum products in this country this winter, and as Secretary Krug has testified before other committees of Congress, it looks as though next year is going to be serious also. We are expanding and have expanded fantastically our use of petroleum products in this country, approaching double what we used before the war. That is not the exact figure. Now, it would be reckless for us to go ahead and drain our own resources to take care of our immediate requirements. Now, Europe at the present time gives as per capita use of petroleum something less than 10 percent of petroleum products that we use in this country and it is contemplated under this plan, if the plan goes through as it is planned, that they will get up to about 10 percent per capita by the end of this program.

They use 10 percent per capita as compared to us. In other words, they use 1 barrel per capita compared to 10. One-tenth as much. Not 10 percent less, one-tenth as much. I do not think we can have European recovery if we deny Europe the value that comes from the use of petroleum products in internal combustion and so forth. What I am getting to, I think we should consider in expansion of world production our own resources and European resources under the control of the European countries. I think it would be perfectly appropriate to consider what part of their production they could, over a period of years, contribute to us, but I do not think anybody can be in the position of answering now what part of the available resources in the Middle East and Far East and the Caribbean, and so forth, we can now count on their contributing to us from their resources. I think it requires a very exhaustive study and I think that will be made, and I certainly agree with you that that study should consider what contribution they can make to our increasing requirements of petroleum products. I, for one, would like very much to see us conserve our supplies.

Mr. LODGE. I am in full agreement that without petroleum the European recovery program cannot work. I presume you will agree with me, Mr. Secretary, that unless we have adequate petroleum in this country to enable us to fill our vital needs with respect to heat and transportation and what not, this country cannot back up the European recovery program.

Secretary HARRIMAN. I agree fully. All I was trying to say, sir, was that it takes machinery and steel and capital and so forth to develop petroleum resources held by other countries. I think we should consider them in the requirements along with our requirements before we arrive at a figure at which it might be fair to ask them to contribute to our needs.

Mrs. BOLTON. Mr. Secretary, as I understand it, the European recovery plan from the standpoint of fuel counts upon a very definite amount, a very large amount, of oil from the Near and Middle East.

Secretary HARRIMAN. That is correct. They are pretty nearly dependent upon that.

Mrs. BOLTON. As I have gone into the figures, my information indicates that the oil production in the Western Hemisphere just about takes care of the Western Hemisphere and that the Near East could take care of the European situation as well as its own requirements as they increase?

Secretary HARRIMAN. Potentially.

Mrs. BOLTON. Now, if the Near East production is stopped, as it now has, as far as deliveries to the Western World are concerned, what will that do to the whole plan of the European recovery program?

Secretary HARRIMAN. Well, if there is a recession of petroleum from the Middle East it would be extremely serious to Europe as well as ourselves.

Mrs. BOLTON. And it would be a major difficulty, would it not?

Secretary HARRIMAN. A major difficulty to us and to the world.

Mrs. BOLTON. Especially to western civilization?

Secretary HARRIMAN. It would be, yes.

Mrs. BOLTON. Thank you.

Mr. LODGE. Would you have any objection, Mr. Secretary, to our cupping certain wells within 5 or 10 years?

I did not mean as of today. I mean within 5 or 10 years.

Secretary HARRIMAN. Well, I would like to see us establish a national policy. I would rather not say exactly what we should do. I would like to see us embark upon a full study in connection with this program of the long-range fulfillment of our requirements as well as the requirements of the other nations of the world and in that connection how it should be properly handled I do not know.

I am not familiar with what means should be adopted to see that we do not overdrain our present resources.

Mr. LODGE. Is there any present project toward such a solution?

Secretary HARRIMAN. I think Mr. Krug can best answer that.

Mr. LODGE. Is he going to testify before us, Mr. Chairman?

Mr. VORYS. Tomorrow afternoon.

Mr. LODGE. Mr. Secretary, in the Harriman report that it is stated—

The committee feels strongly that top priority should be given to provision of steel and equipment to repair war-damaged nitrogen fertilizer plants as rapidly as possible and the allocation of adequate supplies of coal to operate these at capacity.

Now, that brings me to the question as to how you feel about the dismantling of sheet steel and steel-rolling mill plants in Germany, and the second part of my question is, How do you feel about the dismantling of the huge nitrogen multiple plants in the French zone?

Secretary HARRIMAN. Well, I am not familiar with the details. I fully agree with that statement in the committee's report. As you know, the whole question of the plants in Germany has been reviewed and I think it is an established policy of all concerned that we must get Germany's coal production and industrial steel production up from its present low.

I think we have got to recognize, and we do recognize, as far as the administration is concerned, that there are fears of our western allies that Germany is not only a military threat but lest Germany should become the predominant industrial nation of Europe again. This European recovery program contemplates expanding steel production as well as bringing the German steel production back up to a substantial level.

I am getting off the nitrogen end but it is very clear that Germany must always play its part in the recovery of Europe and our plans should, and I believe do, accomplish that objective.

I am not familiar with the particular plants that you speak of. But nitrogen production for fertilizer is a very important element in the whole program.

As I have said, food is the most critical item of all and nitrogen fertilizer is needed in great quantities.

Priority should be given in coal, in my opinion, and in getting their plants back in full production.

Now, what exact amount of nitrogen fertilizer is needed, I cannot say.

Mr. LODGE. It is, however, interesting to note that the amount of nitrogen production lost in Germany because of dismantling is approximately 500,000 tons, according to the figure that I have, which amounts to 300,000,000 bushels a year, which is three times the amount that the American consumer was called upon to save in the Luckman food conservation program.

Bearing in mind the importance of nitrogen as mentioned in your report, I hope that you have considered this problem.

Secretary HARRIMAN. The existing nitrogen plants are not operating at full capacity, and this recommendation was directed to the supply of coal in order to assure a maximum production of the plants that are available, which we are not obtaining at the present time, as you know.

Mr. LODGE. When it comes to the question of coal, if we had not dismantled some of these steel mills in Germany we would be able to conserve a good deal of our steel and manufacture more freight cars and we could have transported more coal.

Secretary HARRIMAN. Well, this year, as you know, Germany has produced less than 3,000,000 tons of steel.

The program contemplates expanding that production to about 10½ million tons, so there is 7½ million tons more capacity there that they can expand.

That is the contemplation of this program.

Mr. LODGE. Mr. Secretary, in connection with your answer on this dismantling, and taking that in relation with your position with respect to the shipment of finished goods to Russia, do I take it, then, that you feel that Germany is more of an immediate threat to our national security than Russia is?

Secretary HARRIMAN. No, I have never testified to that.

Mr. LODGE. I was just asking the question.

Secretary HARRIMAN. No, I do not think so, but I do believe we should carry out the program of the recovery of Germany along the lines that are indicated. That is a vast task and steel is going to be required in more quantities than before the war and we should help the other countries come back.

I think we can assist in developing a healthy economy in Germany without making her a potential threat in the future.

She is not a threat at the present time. But I do think we must be, may I say, vigilant in our objectives in Germany for a long period of time, the principal aspect of which is the political side, namely, the encouragement of a real democracy in Germany.

I believe that can be done. I am satisfied that can be done if we stick to it because there was enough of a development of a democracy in Germany in the prewar period to make a decent economic life in Germany.

It is the opinion of those who are dedicated to those concepts that the opportunity can be extended to Germany to help form a peaceful western Europe.

Mr. LODGE. I am inclined to bear in mind, Mr. Secretary, your very wise statement that war potential is a very difficult thing to define. The problem is to see that Germany is playing her part and that is a bigger threat to the peace of Europe than to try to draw a distinction between a plant which manufactures one thing and a plant which manufactures another.

These plants can all be converted one way or the other, I imagine; do you not?

Secretary HARRIMAN. There are certain direct war production plants which are in the program to dismantle.

Seven and a half million tons of steel production in the Ruhr will provide enough steel for Germany to rebuild and I fully agree with you that we must bend our efforts in encouraging the increased production in Germany.

It has lagged way behind, as you know.

Mr. LODGE. Could we not more easily afford to ship coal to Germany than we could steel and would it not be wiser to ship more coal and get more steel production in order to rehabilitate these nitrogen plants and thereby increase the production of wheat in Europe and diminish the drain on American wheat and thereby reduce the cost of living in America?

Secretary HARRIMAN. I would think our interests ought to be directed toward an increase in the production of coal. When you begin to transport coal in ships 3,000 miles or more and bring back ballast, it is a very expensive operation.

I think our energy should be directed toward increasing the coal production and getting the steel production. I think the program there outlined is a pretty ambitious program for the immediate future and the important thing is to get coal as fast as possible.

Mr. LODGE. Can you not get more coal if you have more steel to improve the coal mines with?

Secretary HARRIMAN. Well, you can get some improvement in the production of coal by shipping steel for repair parts, some of which have been contemplated, and this 20,000 cars is one of the items in order to help transport the coal, but coal is the one great natural resource of Europe and we ought to do everything we can to stimulate that production.

I must confess that I have been gratified by the progress which has been made in the last 6 months in increasing the production of coal in Germany.

That is the most rapid way to get a dividend, I believe, and get recovery, is to bend efforts toward increasing coal production.

Mr. JONKMAN. Mr. Secretary, on page 12 under the section of agricultural machinery, you state:

The estimate here presented is that the United States would supply a hundred thirty-six million dollars for farm machinery during the first 15 months.

Now, is that what the final figure is for farm machinery?

Secretary HARRIMAN. That is the round figure, the estimate for the 15-month period.

Mr. JONKMAN. That goes into the bill for whatever you ask?

Secretary HARRIMAN. Yes; that is correct.

Mr. JONKMAN. Because the CEEC report, the general report, calls for \$370,000,000.

Secretary HARRIMAN. That is right; it was cut back for two reasons; one, the question of our own needs here and also a very serious question as to whether Europe could use that amount of additional farm machinery that quickly.

Mr. JONKMAN. That was your first shot, of course, and that pleased me very much. Your mining machinery you left about the same and your electrical machinery you left about the same.

You handle only the items that come within the cognizance of the Department of Commerce.

That is why you confined yourself to these articles here? That is the only serious cut that you have made, is it not?

Secretary HARRIMAN. That is what?

Mr. JONKMAN. That is the only serious cut that you have made, is on farm machinery. I think you cut steel plants down from a hundred million to 48,000,000.

Secretary HARRIMAN. Steel is about half.

Mr. JONKMAN. That is the steel plants?

Secretary HARRIMAN. No, also steel. It includes semifinished steels.

Mr. JONKMAN. Well, the CEEC general report had \$370,000,000 for iron and steel products. How much did you cut that?

Secretary HARRIMAN. About in two, I think.

Mr. JONKMAN. You cut that \$370,000,000 in two also. I want to say you have done a very good job.

That is all, Mr. Chairman.

Chairman EATON. Well, that has been a cooperative job with the State Department.

Mr. JONKMAN. But you still get a larger amount than the five billion-nine that the CEEC general report calls for, I mean not you, but the general result.

Secretary HARRIMAN. No, I do not want to give the idea that we have any made contribution there. As I said, cotton is available and has not been cut and coal is available and has not been cut.

Mr. VORYS. Could I say a word?

Secretary HARRIMAN. May I just say this: I do not take any pride in anybody's cutting these estimates because I am interested in seeing the maximum recovery in Europe as quickly as possible.

It is a question of availabilities and its effect on our domestic economy.

Mr. JONKMAN. Of course, you are certainly not going to give them a hundred million when 48 million will do the job?

Secretary HARRIMAN. That is what I mean by cut.

Mr. VORYS. Could I say this: You and the executive departments have scaled down certain CEEC requests and have made adjustments between them. Have there been any bad diplomatic repercussions from that, that you know of?

Secretary HARRIMAN. No. When the committee adjourned some of the working committees came over here and consulted with our people.

The members of the so-called Harriman committee consulted with them and also the members of the State Department, and our people consulted with them.

We considered their estimates and requirements and their more detailed information in the CEEC report as to the justification.

I do want to make that plain, that these figures are really all estimates and from my experience in the war, we will never really get down to a bill of materials until you sit across a table with each country and estimate exactly what they are going to use this material for and when, so that at best these are, in my judgment, intelligent "guess estimates" of what will come out. In the final analysis they will take this general form but they will inevitably have certain increases and certain deductions.

Mr. VORYS. But the fact that this has changed considerably from the 29 billion that was the first collective product of the CEEC committee has not ruined the chances for recovery; that is true, is it not?

Secretary HARRIMAN. Well, I believe that the figure that is now requested is a figure which can attain the results that we are after.

Mr. VORYS. What I am getting at is that if the Congress, which has an over-all responsibility fully as extensive as that of the executive department, in its collective wisdom should review and adjust this program that would not necessarily mean its collapse or failure; is that not true?

Secretary HARRIMAN. Well, I think that if this program were—I say substantially cut—it would be dangerous to the effect we all wanted when we embarked on this program.

Mr. VORYS. There is a straw man that is being fought with great success around here. That is the alternative of backing out and doing nothing.

In my judgment the chances of our doing that are extremely slight. On the other hand, there is also a tendency of all the cabinet officers who have come up here to say, "Now, we have gone over and back and forth on this and we have disagreed with each other and made adjustments up and down, and that is all right, but if anybody up on the Hill attempts to do that, then the whole thing is gone and the world is sunk."

Now, I do not think that is true, and I do not think that is the way to win friends and influence people up here. But that has been the attitude through 10 days of hearings here.

Secretary HARRIMAN. Well, how do you want me to express it? I will try to put it this way: now, these estimates that have been made are probably about as good estimates as you can have before you to consider.

Another group of people working on it would have come out with a somewhat different figure, perhaps larger and perhaps slightly smaller.

Now, you are asking us for our honest opinions. Now, I must frankly say that if you cut this figure substantially, from the studies that we have made I think that there would be a risk what we would not attain the objectives that we were after.

As far as I am concerned, as a taxpayer and an American citizen, I would rather see us appropriate a larger sum than this. I think in the long run the recovery would be faster and the over-all cost would be less.

I accept this figure because I think it will do the job. When you say, if you cut a hundred million dollars off it, should we stop the program, of course I would say, go ahead with it, no matter what is appropriated, but I am satisfied in my own mind that insofar as one

can analyze these various problems that if the Congress cuts it substantially it will be taking a risk of not attaining the objectives that we are after and that if we see it through it will cost us more in the long run.

I want to just explain this a little further. I went to Germany last summer, and I think if we spent more money in Germany, I figured roughly a third more between the British and ourselves, we would have more recovery.

The food is so low there although the situation now may be different, I do believe, that if you under-finance we will have to come back for more money.

I could not honestly say that a deep cut in this program would not be a dangerous thing to make.

Mr. VORYS. You are talking language which the Members of Congress understand and I wish we had heard more of that point of view. I think others have questions.

Mr. LODGE. Mr. Secretary, in connection with the shipments to Soviet Russia, could you inform this committee whether during the past year there have been any shipments of electrical equipment, including generators, for us in the development and manufacture of the atom bomb to Soviet Russia?

Secretary HARRIMAN. I have no knowledge, and nobody has that I know of, of the Russian program for the development of the atom bomb. There has been electrical machinery shipped. We know that power is necessary and I do not know where it is being used. There were substantial shippings of machinery.

I have not got it with me, but I will be glad to give you the full list of shipments to Russia this year by categories.

They were not under control and were not reviewed and from now on we do expect to have more information about it.

Mr. LODGE. What I had particular reference to was the report that duplications of the electrical equipment which the General Electric Co. in Chicago supplies to Oak Ridge, have been shipped to Soviet Russia.

Secretary HARRIMAN. I am not familiar with that.

Mr. LODGE. That would go through the Treasury Department, would it not?

Secretary HARRIMAN. The shipments of machinery have not been under control and we have not reviewed the individual shipments.

We get the totals from the Bureau of the Census, who tabulate by categories the shipments to different countries.

I could only give you totals. We would have to go back to the companies to know exactly what each item was.

Mr. LODGE. Would it be possible to find that out?

Secretary HARRIMAN. It would be very difficult. It would require a very considerable staff to go back to each of these items. In the future we can review machinery.

Mr. LODGE. Would it be much of a job to get a list from the General Electric Co. as to what items which they sent to Oak Ridge they also sent to Soviet Russia?

Secretary HARRIMAN. That would be available.

Mr. LODGE. That is what I had reference to. Now, would you say, in the light of your remarks earlier in the afternoon, that it was justifiable, to send such equipment?

Secretary HARRIMAN. I certainly think we should not send machinery that is specialized or directly used only for atomic energy production.

Mr. LODGE. I agree with you.

Secretary HARRIMAN. We are in consultation with the appropriate authorities on that question and will continue to be.

Mr. LODGE. I had an idea that we might be sending such equipment and I would be very much interested in knowing about this. Mr. Secretary, just one question in connection with the general purpose of this legislation, which constantly refers back to 1938 figures. I suppose this is done as a convenient measure.

Secretary HARRIMAN. That is correct.

Mr. LODGE. Would you say that the purpose of this program was, so to speak, "put Humpty-Dumpty together again"?

Secretary HARRIMAN. One of the objectives stated is to continue the cooperation in Europe. I feel very strongly that the continued economic cooperation in Europe should be an important objective of the program and I think we should encourage in every way that we can the fulfillment of the undertakings of the European countries in the closest economic cooperation.

I do not think you can get a satisfactory recovery in Europe and a firm prosperity there unless these trade barriers that I touched on are permanently broken down and they would get more of the economic integration or certain conveniences in breaking down trade barriers and then the freer exchange of goods.

Mr. LODGE. In other words, you believe that we should look toward an economic federation of Europe rather than toward the restoration of the crazy-quilt pattern of Europe with all its conflicting sovereignties?

Secretary HARRIMAN. There are many people who have tried to attain economic federation of Europe through conquest and there has never been the opportunity such as we have now to encourage it with peaceful objectives.

Therefore, I would hope that the administration would give that very high consideration.

As far as I know, all of the European countries in principle accept that. I think they would welcome cooperation from us and the right kind of pressures from us in encouraging the permanent development of those relationships.

It is a difficult thing to do, as you well know, and I think we would be remiss if we did not use all of our ingenuity and the right type of encouragement to accomplish that.

It would be tragic.

Mr. VORYS. Will the gentleman yield?

Mr. LODGE. Certainly.

Mr. VORYS. A change is difficult, to something new, but restoration of what existed in 1938 would create a difficult situation which Lord Lothian described as "the 26 nations that constitute the anarchy that is Europe;" and certainly our objective is not to restore that situation.

Mr. LODGE. That is the point I was trying to get at.

Mrs. BOLTON. Well, is it not true, if I may be permitted, that anything we do that merely rolls things backward is against the whole law that is functioning today to set up a new world? If we are trying to go backward we will find we are not progressing.

Secretary HARRIMAN. The reference to 1938 was purely a convenience in judging the size of expansion and the standards of living that existed at that time.

Mr. LODGE. It seemed to be important to stress the orientation of the program, Mr. Secretary, and perhaps you would agree, that the challenge is that either these nations can get together with the impetus of the European recovery program on a voluntary federated basis or they will succumb to an involuntary federation imposed by a Moloch state.

Would you agree with that?

Secretary HARRIMAN. Well, all you need do is to go back in history and see what has happened.

Mr. LODGE. Well, would you agree with that as a statement of the issue?

Secretary HARRIMAN. Well, I would rather put it affirmatively that I do not see a permanent recovery in Europe and an expanded economy unless there is the type of economic cooperation which is contemplated.

Mr. LODGE. I thought I had put it affirmatively and stated a choice.

I am just anxious to find out, Mr. Secretary, whether the administration is still going on tiptoe on this measure.

Secretary HARRIMAN. I am not trying to quibble words, but I did not hear your question very carefully. I think you are going to have continued difficulties in Europe on one account or another unless the objectives of the undertakings that the European countries have been spelled out are fulfilled, not just for this period, but permanently.

Mr. LODGE. But it would be hard to justify this measure if there were not the threat which we are all familiar with.

In other words, it is a strategical measure. Is it not?

Secretary HARRIMAN. Yes. That is certainly one of the controlling aspects of it.

Mr. LODGE. Thank you very much.

Secretary HARRIMAN. And I think if we could attain the objectives which you hold out the money we spent would be cheap at the price if that is the only thing we got out of it.

Mr. LODGE. I quite agree with you.

Mr. VORYS. Thank you very much.

(Thereupon at 5 p. m., the committee adjourned.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, JANUARY 22, 1948

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

The committee met, pursuant to adjournment, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. Mr. Secretary, you may proceed.

STATEMENT OF HON. CLINTON P. ANDERSON SECRETARY OF AGRICULTURE

Secretary ANDERSON. The success of the European recovery program depends to a large extent on food. Without adequate food there is little chance of real industrial recovery. A great amount of careful work has gone into the preparation of the food aspects of the program which is before you. These estimates represent our best thinking, and I am glad to have this opportunity to discuss them with you.

I understand that this committee has already had opportunity to study the testimony which I presented to the Senate Foreign Relations Committee. Therefore, I will only briefly summarize some of the most important points in that statement in my discussion here, and then present some additional information.

One point of which I am keenly conscious as Secretary of Agriculture is the importance to American farmers of a strong European market. All of us have taken pride in the tremendous increase in this country's food production in recent years. Our farmers have produced enough to feed our own people better than they have ever eaten before and at the same time enable us to respond to the needs of other countries with record-breaking shipments.

This record production has been achieved through increased use of fertilizers, a great expansion of mechanization, improved varieties—such as our new hybrids, improved insecticides and fungicides, and general improvements in farming practices. Weather helped, too. But last year the weather was unfavorable over a wide area. Though ideal for winter grains, which helped in our record wheat crop, it was adverse for some spring-sown crops and particularly bad for our corn crop. But in spite of the weather our total crop production was about up to the best 5 years of our history and within 5 percent of the all-time record set in 1946.

Come bad weather or good, our farmers are not going to give up the new tools which science and industry have given them. This

means assurance of greater total production than we have known in the past. It is fortunate that we are going to have an over-all abundance of food and fiber in the years to come. This prospect should be in the forefront of the thinking of all of us when we face decisions regarding American agriculture.

The many groups that have testified before the House and Senate Agricultural Committees on long-range agricultural programs have been practically unanimous in stressing the needs for substantial foreign markets for our agricultural products now and in the future. We all recognize that in the interest of conservation we need adjustments in the acreage of some of the crops which now bulk abnormally large in our exports. This is particularly true of grain. But even after we have achieved a well-balanced pattern of land use we shall still need good markets for cotton, wheat, tobacco, lard, rice, and certain fruits and vegetables. We have always needed good outlets for these crops, and in the past Europe has been a major market. For most of these crops we shall need a considerably larger foreign market than we had in the years immediately before the war. Our farmers also have a big stake in foreign markets for our manufactured goods, for such markets make jobs and food buying power in this country.

Western Europe is the world's biggest market for food exports. Since the turn of the century from 60 to 75 percent of our food exports have gone to the nations of western Europe. Unless the economy of that area can be restored to a strong, self-supporting basis the producers of our export crops will suffer directly, and all our farmers will suffer indirectly.

Conditions in western Europe affect our agricultural exports in many diverse ways. I have for some time been concerned about the need for expanded markets for our citrus fruits. As you may know, citrus products are now selling at extremely unfavorable prices to growers. Canada traditionally has been our best foreign citrus market. Before the war it took about one-half of our citrus exports. The United Kingdom was the next best market, taking about one-third of our citrus exports. Britain's dollar shortage has now caused most of the British market to disappear. But the effects have gone further than that. It is a sort of chain reaction proposition. Canada has been doing all she could to help in the rehabilitation of western Europe. In so doing she has shipped to Europe a large portion of the goods which would normally have come to the United States. This has resulted in an acute dollar shortage in Canada. Hence, beginning last November, the Canadian Government limited citrus imports from this country to not more than half the amount imported in fiscal year 1947.

I cite this situation as one illustration of how the break-down of European economy affects not only our trade with Europe, but with other countries of the world.

In one way or another this situation in Europe adversely affects our market for apples, pears, and other fresh fruits; prunes, raisins, and other dried fruits; cotton, tobacco, lard, and other agricultural products.

The implications of the program which you are considering, of course, go much further than agriculture; they involve the future of democracy in Europe, the strength of our allies on that continent, and

in fact, the very peace of the world. Nevertheless, thinking from merely the limited vision of our own agriculture, when you consider what the outlook would be without healthy, stable customers in western Europe, the prospects are not pleasant to contemplate.

In order to get a clear picture of Europe's food problem today and what is involved in her recovery—insofar as food is concerned—I have two maps which I would like to show you. I have big ones here from which I will talk. Smaller copies are included in my prepared statement.

These maps show the international movement of grains and soybeans, prewar and last year. The reason soybeans are included is that before the war Manchuria exported large quantities of them, and the virtual disappearance of those exports is an important factor in the present food deficit in the Far East. The inclusion of soybeans prevents these figures from being comparable with those which we normally use regarding grain movements. The width of the bands reflect the actual amounts of exports and imports, and they are carefully drawn to scale.

I would like to point out a number of aspects of this picture which explain the present European food problem, and then I want to come back and discuss the prospects for improvement in some of these areas.

First, notice the situation in South America. The country primarily involved here is Argentina which, before the war, was by all odds the world's largest grain exporter. Last year her grain exports were only about two-fifths of what they were before the war.

If the question is, Why are the Argentine exports down? the best answer is that Argentina has reduced acreages of grain and flax, and in addition had low yields in 1945 and 1946.

Secondly, they have had some change in their agricultural procurement program so the farmer has obtained a relatively small share of the price.

Mr. BLOOM. Is that also because the Government took control of the wheat market and other markets?

Secretary ANDERSON. The effect of the Government taking control of the market has been to change the price received by the farmers against the price received in world trade. I think that it is not the fact so much that the Government controls the export because this Government controls the export of grain from this country. It is the fact that the Government has not reflected the export price in the price paid to farmers, whereas we do reflect that.

Mr. BLOOM. The Government pays them \$2.35 and they sell it for \$5.

Secretary ANDERSON. Sometimes the Government spends a little bit less than that. The average price for the new crop is nearer \$1.70 than \$2. I am not inclined to criticize the Government's reason for that. We do things in this country that we do not always take the trouble to explain to the other countries. It is a fact which has had an influence on the amount of crops that have been available. I might say that the present wheat crop in the Argentine looks very promising, and may be due to a very substantial change in the Government's policy. I hope that is the reason. At least, whether that has helped there, as it has here, they do have a wheat crop coming on now that is substantial in proportion, and may be very useful in world trade.

Second, you will note that Canada's exports have increased sizably. Canada always exported a large quantity of her grain and she has done all she could to increase these amounts.

Third, you will notice some decrease in exports from Australia. That was due to a bad wheat crop in 1946. They are now harvesting a very large crop and their exports this year will be above prewar, though not likely to set a new record. Australia, too, has cooperated fully in meeting the world food crisis.

Fourth, notice the shipments from eastern to western Europe. Eastern Europe was normally a major source of grain supplies for western Europe. In 1946-47 this source had dried up, and eastern Europe was in fact a net importer.

Fifth, you will notice that the Far East has changed from a sizeable exporter before the war to a net importer since the war. In terms of total food her prewar exports averaged about $4\frac{1}{4}$ million tons. Last year she imported $6\frac{1}{2}$ million tons. This has required the United States and Australia to send to the Far East food which might otherwise be available for Europe.

Finally, you will notice the tremendous increase in exports from the United States. Before the war the United States exported some 4.6 percent of all grains moving into world trade. Last year, with almost exactly the same total world movement of grains, we exported 52.4 percent. Those are figures on grain only and so do not exactly correspond with the ones on the map.

You will notice also that prewar western Europe imported 24,000,000 long tons of grain and soybeans. In 1946-47, in spite of the increased shipments from this country and Canada, western Europe's total imports were only 17,400,000 long tons. That is 28 percent less than prewar.

To appreciate what that decrease in imports meant to the diets of the people you have to remember that western Europe's own grain production in 1946-47 was still substantially below prewar, whereas her population had grown by about 8 percent. You also have to remember that the reduction in supplies of meat and milk and eggs and most of the other major food items was even greater than for grain supplies. The Europeans have been able to stretch their grain supplies by cutting down on their livestock feeding and using portions of their coarse grain for human food. But that, of course, has cut their supplies of meat and milk and eggs still further. It adds up to a distressingly poor diet.

As you know, people in the Department of Agriculture, working with technicians from the Departments of State and Commerce, have spent a great deal of time in recent months working out the food aspects of the European recovery program which has been presented to you. This study has included several aspects: The minimum food requirements of the participating nations over the next 4 years, the portion which could be supplied from indigenous production, the amount which could be supplied from other nations, and the part which the United States might supply. We had to consider the needs of other food deficit areas, as well as those of Europe.

As I pointed out to the Senate Foreign Relations Committee this study led us to scale down considerably the estimates of the participating nations as to the quantities of grain and some other foodstuffs which they might expect to import during this program. It was not

because these nations were asking for more than they needed—to the contrary their figures were exceedingly conservative from the standpoint of need—it was merely that we do not think the exporting countries physically could furnish the quantities of food requested—particularly in the first 2 years of the program.

I have here a table—table 1—which compares our estimates of grain imports available to the participating countries from all sources, with the estimates of grain needs worked out by the European countries. You will notice that for the current year, 1947–48, import requirements are estimated at 29.9 million tons as compared with our estimate of an availability of 19.5 million. For next year they requested 27.7 million and we estimate 19.9 million available. For 1949–50 the figures are 27.6 as compared with 22.8, and for 1950–51 they are 27.4 and 22.8.

In the following lines we indicate how our estimates of grain availability break down between the various exporting regions. These figures involve a number of assumptions which you should know about. They are based on our knowledge of the prewar production and exporting patterns of the nations involved, the current trends in production and exports from these countries and the background of information and experience gathered through our participation in what is now the International Emergency Food Committee. After we had worked up our figures through this method we had an opportunity to check our estimates for Canadian exports with representatives of that government. It was gratifying to find that our estimates checked very closely with theirs.

Turning to the specific figures, you will note that the estimates on Canadian exports increase through next year but then begin a slight decline as Canada starts adjusting to a somewhat more normal wheat acreage.

The next line “other Western Hemisphere,” consists primarily of exports from Argentina. We estimate over the next 4 years that Argentina will increase her grain exports considerably above the present low level. As I pointed out earlier, that Nation was at one time the world’s largest grain exporter. The biggest portion of those exports were corn, but Argentina also exported substantial quantities of wheat. One of the commonly discussed needs in Argentina is some adjustment in the price paid farmers for their grain so as to offer greater incentive for increased production. Another often expressed need is for certain items of farm and transportation equipment and supplies. A program designed to restore Europe’s industrial economy will unquestionably help establish a desirable pattern of trade around the traditional United States, Latin America, and European triangle.

The “other nonparticipating countries” primarily involve eastern Europe and Australia. Australia will this year export about as much grain as could be expected from her in the next 4 years.

We have assumed a gradual increase in exports from eastern to western Europe. Any time you set down figures on expected exports from eastern Europe you have an assumption which you can’t prove. But we had to make estimates and we did have pretty good figures on the prewar exports, the land resources, and the conditions of the agriculture of these nations. So we can estimate with some confidence the approximate amount of grain which these countries

should produce under normal weather. The amount which will be actually offered for sale in the western European countries is, of course, a question involving many ramifications. However, we do expect a substantial increase in grain movement from eastern to western Europe.

There are several reasons for this: In the first place, the lack of exports for 1946-47 shown on the map before you was not due primarily to political considerations. The best grain-producing areas of eastern Europe—the plains of Poland, the Danube Basin, and the Ukraine—were seriously affected by either actual destruction of war or the political upheaval that followed. For example, a large portion of the ex-German territory now occupied by Poland is still not under cultivation. Furthermore, eastern as well as western Europe suffered from considerable bad weather up until 1947.

In the second place, this past year there was considerable improvement in the crops of eastern Europe and already some grain is beginning to move out. The USSR has recently agreed to ship Britain 750,000 tons of coarse grain between now and September in return for British-manufactured goods.

In the third place, supplies of manufactured goods would provide an incentive for other eastern European countries to export grain to western Europe. Eastern Europe has never been self-sufficient in manufactured goods, and there is little likelihood that she will become self-sufficient for many years. Her normal source of those manufactured goods is western Europe, just as western Europe depends on that area for food. As the agriculture of eastern Europe is revived on the one hand and the industry of western Europe on the other, there will be a very strong incentive to the revival of this trade.

All this adds up to the fact that although we have assumed some increases in grain exports from the various parts of the world which I have mentioned, the assumptions do seem to be reasonable. I call your attention also to the fact that the countries of western Europe themselves expect to have their grain production up to slightly above prewar levels by 1951. We have studied their estimates country by country, and believe that in most cases their goals can be achieved, and possibly in some cases surpassed.

Now we come to the last line on table 1, the estimates of grain which will be available from the United States.

Since these figures are of particular importance, I shall discuss them in some detail and indicate what effect the estimated exports of grain and other agricultural commodities would have on the economy of the United States.

The estimates of grain available from this country anticipate that for the next 2 years we will continue our acreage of wheat and corn at approximately the present levels. During the current year our wheat exports are proceeding at a planned rate of 450,000,000 bushels. However, if present conservation efforts are successful, our exports might run as high as 500,000,000 bushels. Such record-breaking quantities are made possible in part because of the exceptionally high yields which we had last year. Since we can only figure on the basis of normal weather and normal yields, we have dropped that figure down for next year and the year after. I might say that in the estimate of 300,000,000 bushels of wheat export to all countries, including western Europe, for next year, we have made adequate allowance for food used

by our own population as well as for other domestic uses, such as feed and seed. So, exports in this amount not only should constitute no strain on food grain supplies in this country, but probably represent a fairly good estimate of the amounts which we want to export with our present high level of production.

For the last 2 years of the program we have dropped our proposed wheat shipments down to 250,000,000 bushels so as to begin gradually decreasing our wheat acreage to more desirable levels.

As to feed grains, we estimate exports of about 100,000,000 bushels to Europe and elsewhere for each year of the program. Roughly about half of this amount is expected to be corn. With a normal yield of some 3,000,000,000 bushels from the anticipated corn acreage this would be an exceedingly small amount and would obviously have little effect on the amount of meat available for our consumers.

Turning from grain to other items in tight supply, let me say a further word about meat. We do not plan during the first 2 years of the program to export from this country to western Europe any of the types of meat which we consume. Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

I think your table will show a small amount of meat going to Europe. It is not beef or pork or mutton. It is horse meat, and therefore we are not worried about it in our own supplies.

The other two major food items which have been in short supply are sugar and fats and oils. We are a big sugar importer, and do not plan any sugar exports. However, world sugar supplies should be adequate to meet the needs of the participating countries.

I should be glad if you go into that in detail because it does present an opportunity for low-cost calories although not the most satisfactory food.

As to fats and oils, though some exports from this country are planned, they are more than offset by Philippine copra and other forms of oil which we will import. We have been a net exporter of fats and oils in recent years. But for the next 4 years we expect to be a net importer of these items.

I think it ought to be said we were a substantial net importer and it is planned to return to a more normal position.

Those, as I say, are the major food items involved in this program which now are in tight supply in this country, and I say to you frankly that I do not anticipate that exports in these amounts would add to the inflationary pressure in this country or call for any undue sacrifice on the part of our consumers. The reason I make that statement is that exports in the volume estimated represent considerable reduction from the present level at a time when we are continuing all-out production.

The other agricultural products covered in the proposed exports from this country are items which we have in relatively ample, if not abundant, supply.

This includes small dried egg shipments—much smaller than we have been making in recent years—a gradual decrease in our exports of cheese and dry skim milk, some increase in our exports of fresh and processed fruits, and increased shipments of cotton and tobacco. I discussed the picture regarding these items, as well as timber, fertilizer, and farm machinery, at some length before the Senate

committee. Though I will not cover that material again in this statement, I shall be glad to answer any questions which you might care to ask.

Now a word about the administrative machinery for carrying out this program. I am sure that others in the executive branch who have been working directly on this question would make more valuable witnesses on this aspect of the program than I. I do, however, have a general acquaintance with various proposals which have been made, and I would say that the organization recommended by General Marshall and Ambassador Douglas appears to be by far the best I have seen.

In this connection there is one point on which I have strong convictions. I believe the Department of Agriculture should continue to perform those functions for which its organization and personnel are best fitted and in which they have had long years of experience. This is provided for in the administration's proposals, and I do not believe my emphasis of it involves any undue pride of agency.

The job of buying large quantities of needed foods, when such purchase tends to have considerable effect on market prices and the normal flow of supplies, is at best a delicate operation. Through the Commodity Credit Corporation we not only have an agency which has had years of experience in handling much larger quantities of food and fiber than will be involved in this program, but we also have field personnel located at strategic points over the Nation which is experienced in dealing with food and fiber trade. Its people are also familiar with the problems of transporting, storing, and scheduling for ocean shipping, which will be involved in this program. CCC has also worked with most of the governments participating in this program, both in buying for them and in helping them locate supplies in this country which they desired to buy for themselves.

Closely related to the administration of this program is another phase of CCC activity which I should like to speak to you about. Section 7 of Public Law 395 passed by the recent special session of Congress authorizes CCC to engage in projects in non-European countries which would increase exportable supplies of food through purchase arrangements, or by furnishing technical assistance, seed, fertilizer, machinery, and other requirements of a similar nature. We now have under study specific areas and crops for which this authorization might be used. However, I feel it only fair to point out to this committee that we cannot expect too much in the way of results through this legislation during the 1948-49 crop year. The reason for that is simple. To be effective, this type of action must be taken before planting time. Planting time in most of the world begins in the next couple of months and, as all of you know, international negotiations take time.

This brings me to another factor which makes fast action difficult, if not impossible. Before we can act under this legislation we must first negotiate and get a firm commitment out of the country involved. Then we must present the proposal to Congress and wait 60 days to see if it is disapproved. Now even if Congress did not disapprove the project it would very likely be too late to take action after waiting 60 days. Congress, of course, might require some change in the agreement which the other country would find unacceptable, whereupon the circle of negotiation—submission to Congress, and waiting

60 days—must start all over again. Even for future years this 60-day requirement puts us at a distinct disadvantage since it requires a firm commitment out of the other country at a time when we are not able to give such a commitment ourselves. In short, the hands of administrative officials who will be responsible for carrying out negotiations are tied before they start.

Believing as I do that this authority could be very valuable to us in lightening the burden which the European recovery program places on our grain resources, as well as increasing the chances of the program's success, I urge the Congress to reexamine this 60-day waiting period provision so that changes can be made in order to expedite negotiations.

In closing, I would like to give you my conclusions about the food aspect of this European recovery program.

First, let me emphasize that the quantities of food which would be available to the people of western Europe under the estimates worked out by the executive branch are much less than those people had before the war. The plans envision a gradual increase above the present Spartan levels, but even at the end of the 4-year period the people of Europe would still have little more than a subsistence diet. Comparing per capita amounts with prewar, they would have less of most of the principal foods, including meat, sugar, fats and oils, milk, eggs, fresh fruits, coffee, even less bread grain. They would have some increase in potatoes, fish, cheese, cocoa, dried fruits, and fresh vegetables. We have cut the figures presented by the European nations very drastically, and should [the diets fall below the general level which we have indicated, it will endanger the success of the entire undertaking.

My second conclusion is that the United States can furnish the quantities of food indicated as available from this country without adding any extra strain on either our food supplies or on food prices. The fact to keep in mind on this point is that the total food exports which we are recommending from this country—not only for western Europe but for the entire world—are less than we have been exporting in the last 2 years. In the items which are in tight supply, such as grain and fats and oils, this reduction is particularly significant.

Third, the chief unfavorable aspect of this program on our agriculture will be this: It will delay the time when we can begin reducing our grain acreage, particularly wheat, to more desirable levels. It will necessitate increasing conservation efforts if we are to prevent further reduction in our soil resources.

Fourth, this program, as I pointed out in the beginning, will constitute an investment in the future prosperity of American agriculture which should continue to bring returns for many years to come.

Finally, viewing the outlook in terms of our need for strong, democratic friends in Europe, in terms of the impetus which European recovery will give to world-wide recovery and in terms of improving the chances for world peace, I feel that we have no alternative but to undertake this program.

Chairman EATON. Mr. Secretary, we thank you for this very illuminating discussion.

We have adopted a system here in questioning of starting around on a 5-minute basis with each member being allowed his time. After we go around once then we start the open discussion.

I have one question. In the export of American food to Europe under this plan, they will be paid out of money furnished by the American taxpayers of whom they are a portion; is that correct?

Secretary ANDERSON. The farmer?

Chairman EATON. Yes. If we buy a bushel of wheat under the Marshall plan, the money comes from the American taxpayer?

Secretary ANDERSON. That would depend upon the particular method of financing worked out with each country.

Chairman EATON. Will that lift our economic structure to any appreciable degree and greater prosperity, do you think?

Secretary ANDERSON. No; I think that if we did not require some of these foods, we would merely be turning back to conservation practices in many of the farming areas of the country, and thereby perhaps reduce the amount of national income and farm income.

Mr. BLOOM. It would reduce the price, too, would it not?

Chairman EATON. You would not consider this farm subsidy to American agriculture?

Secretary ANDERSON. No, indeed.

The prices that the farmer will get for this will not be too greatly above the prices which he would get if he were merely dropping production to more normal figures.

I do not think that a program of this size, particularly in the last 2 years when we are talking about exporting 200,000,000 bushels of wheat, would not make too much difference to him because under the wheat agreements which have been under way for many years, we have been talking about export of 180,000,000 bushels of wheat in a longer period of time to come—20 years or more. This figure is not greatly above that figure.

Chairman EATON. I was thinking of the general impact on our economy. In the old days when the farmers sold a million bushels of wheat for export, they received pay for it from the country to which it was exported. Under the Marshall plan, when we ship a million bushels of wheat, they are paid out of money paid forth by the general taxpayers, of which they are a general portion; is that right?

Secretary ANDERSON. I think that is right, but it is only the same story that they had always in the creation of foreign credits. Sometimes they were paid by these countries from foreign loans which were paid for by the American taxpayer.

Chairman EATON. Sooner or later the American taxpayer has to increase his crop some way.

Mr. Bloom is an expert on agriculture.

Mr. BLOOM. Mr. Secretary, a further inquiry with reference to the question that the chairman asked you: Is it the intention of giving away all of this grain, or are you going to sell some of it? Are you going to be paid for some of it?

Secretary ANDERSON. Mr. Bloom, I think the best answer is that in all of the transactions that we have had with European countries, the matter of who makes the final payment has chiefly been a matter for determination by the State Department. We do not attempt to say how much will be loaned, how much will be cash payments. We get our money from the State Department and it has the problem of international finance before it. I cannot tell you how much of this program would be paid for by loans, how much would be paid for by

the export of goods, how much might be paid for by transfer to this country of products we might want in our economy, such as olive oil. We have to leave that to the State Department. It is completely out of our field. I would like to answer your question, and I am not trying to avoid it, but I must say we do not in our department reach the final decision as to how payment shall be made. We turn it over to the State Department and they reach that decision, which is properly within their province.

Mr. BLOOM. Your answer to the chairman's question was a positive statement that this amount of grain that was going to be exported would be coming out of the taxpayer's pocket. According to the last statement that you just made, that is not quite so, is it?

Secretary ANDERSON. I think as to the entire program the State Department will know there will be certain recoveries that may come back to them. I do feel that for the first year or two of the program, a good deal of the money that will be put into the program will come from the American dollar. That money is eventually repaid; whether it is immediately repaid on the basis of goods, I am not in a position to say, but at the beginning of it, it will probably be a matter of paying us in American dollars at least.

Mr. BLOOM. If you send them bread grains, and they make the bread, do they sell that bread or give it away? In other words, if we give them the material to make the bread and these countries sell the bread, then we are not altogether achieving the desire that we want to achieve to feed these people. If they are going to sell that bread, they get money for it. Do you not think we ought to be paid for the grain?

Secretary ANDERSON. I do not know that I can answer that question except to say that the primary purpose of the program is not relief. The primary purpose is recovery. If they sell that for some type of exchange and use that for their recovery, and hasten it thereby, then we were primarily interested in whether or not it comes back to us in some form of payment, and we increase our commitments, or whether they use that in their recovery program. I think it is a decision that should be made by the administrator and not by the Department of Agriculture.

Our function is to see that they have grain available for these needs and ship it when requested, to do what the administrator decides, or administration, or whatever, may be set up for the operation of the program. What it decides the receiving country should do with its money is not a question with which the Department of Agriculture would become involved. I do think that he would have to decide whether he wanted immediate repayment of so much for grain, or whether he would regard those grain shipments as instruments by which the economy might be more rapidly restored. It might, for example, as we found last year, be that there were quantities of olive oil available in certain European areas which they were anxious to trade or sell for goods made in Germany. The reason they wanted to sell for goods made in Germany in preference to the United States was that they had tractors of German manufacture. They wanted the repair parts to fit into those tractors. It was far more desirable for the quick recovery of both countries that the surplus quantities of olive oil in Italy be traded directly in the German economy and

repair parts be traded to Italy. We did supply, in the meantime, grain to both countries.

Mr. BLOOM. Is there any difference in giving grain to any of these participating countries and their making bread and selling the bread, is there any difference in that procedure than if we were to give them leather, and they were to make the leather into shoes, sell the shoes? Do you not think we ought to be paid for the leather as long as they are making a profit out of it, and getting the price of the leather besides the price of manufacture? Would that same thing not apply to foodstuffs?

Secretary ANDERSON. Yes; it is a question of what coin you want when you are repaid.

Mr. BLOOM. We have got to be repaid, or should be repaid some way if they sell it. If they give it away, if it is to feed the starving people over there, and give them food to eat, shoes to wear, and clothes to wear, and they put that on the market and sell it for a price, make a profit out of it, do you not think there should be some accounting of that?

Secretary ANDERSON. Yes; but I think that the accounting can be in terms of what the money is used for in the restoration of their economy. I do not think it always needs to be returned to us directly.

Chairman EATON. The gentleman's time has expired.

Mr. Jonkman.

Mr. JONKMAN. Mr. Secretary, on page 10 you say:

We do not plan during the first 2 years of the program to export from this country to western Europe any of the types of meat which we consume. Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

Are the figures available as to the amount of those types of meat we exported up to that program for 2 years in dollar value and in volume?

Secretary ANDERSON. Yes, they are available. For which years?

Mr. JONKMAN. Only 1946 and 1947. We are starting with 1948.

Secretary ANDERSON. During 1946-47, out of our total exports of 499,000,000 pounds, 235,000,000 pounds went to European recovery program countries.

Mr. JONKMAN. That is for 1 or 2 years?

Secretary ANDERSON. For the 1 year, 1946-47.

Mr. JONKMAN. Half a billion pounds a year.

Secretary ANDERSON. Out of this country; yes.

Mr. JONKMAN. Do I understand that we will export during the next 2 years that much less?

Secretary ANDERSON. This year we were not shipping meat to these European countries.

Mr. JONKMAN. This year or next year?

Secretary ANDERSON. Next year we are shipping no meat to the European countries except horse meat, and the year following.

Mr. JONKMAN. That should ease up the meat situation in the country. What is the annual consumption of meat?

Secretary ANDERSON. In calendar 1947 it was about 22¼ billion pounds.

Mr. JONKMAN. It would be at least an easing up of 2 percent.

Secretary ANDERSON. Yes. Even that amount was not going to these countries. Only 235,000,000 pounds. About 1 percent.

Mr. JONKMAN. Since when have you not been shipping any?

Secretary ANDERSON. I imagine the last meat went in the spring of 1946 in any sizable quantities. We shipped some small quantities that previously had been contracted for in the summer of 1946, but they were relatively small quantities. Starting the 1st of July 1947 no meat went to Europe. Some small quantities have gone to neighboring Western Hemisphere countries. Some small quantities went to Cuba because we had contracts. We shipped them so much rice and wheat in exchange for sugar. Our transactions with Cuba were almost entirely on a trade basis. They sold us 1 year about \$450,000,000 worth of goods. We sold them wheat and meat.

Mr. JONKMAN. The policy of not shipping the types of meat consumed by the American people has already been in effect for a year.

Secretary ANDERSON. Yes; starting July 1, 1947, no meat whatever has been going into Europe.

Mr. JONKMAN. With reference to wheat, has the Government already bought the wheat for the interim-aid program?

Secretary ANDERSON. I think it would be safe to say that we have not bought all the wheat for the interim-aid program. There was a statement made yesterday as to the totals. We have acquired sufficient wheat as grain and sufficient flour to cover the period through March 1948. We have not acquired much flour or wheat for April which is still in the interim-aid program. Most of the interim-aid program requirements are covered, however, since a good deal is in pipe lines.

Mr. JONKMAN. It is considered the pipe line that you run from the interim aid into the Marshall plan, if it is adopted?

Secretary ANDERSON. The pipe-line stock is the working stock necessary to keep the export programs operating without interruption.

Mr. JONKMAN. How much wheat have you on hand for that program now, do you know?

Secretary ANDERSON. Not exactly because our purchases are not broken down separately for each program. There have been acquired, however, by the Commodity Credit Corporation and by commercial interests, 435,000,000 bushels of a 520,000,000-bushel goal for grain and grain products.

Mr. JONKMAN. That covers you through the April pipe line? That is, you calculate that it will?

Secretary ANDERSON. No; it covers through March, the tentative March allocations. I am concerned with the shipments we have made and the shipments we are going to make during January, February, and March on our present allocations as they are all covered by the supplies of grain we now have.

Mr. JONKMAN. I agree with it on the basis of shipments. I was not interested in allocations, but I like to know what is shipped.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. Mr. Secretary, when the interim-aid program was before the House, there was a determined effort to amend it to prevent the shipment of anything in short supply in the United States. You stated that you expressed the opinion that the quantities of food indicated as available from this country could be supplied without any extra strain on the food prices. Even so, what effect, as far as food is concerned, would an amendment like that have?

Secretary ANDERSON. Any amendment which says that you cannot ship items in short supply makes you stop and test what the use of

that commodity would be if you allowed everything to run unrestrained. For example, under it, I would have to use an illustration to show you what I mean. Under the price decontrol bill, if you recall that was passed in August of 1946, it became my duty to certify those things which were in short supply month by month. I continued to say that cereals were in short supply to the very last day of the legislation, and I mean they were still in short supply as far as we were concerned, and in June of 1947, when people were talking of this terrific billion four hundred million wheat crop and the possibilities of another large corn crop, the corn crop failed and cereals did show up in extremely short supply over all. If you allowed everybody to use everything, if you did not discourage in any way the consumption of grain, you would shortly find yourself in a situation where they were extremely short, and you would have price difficulties.

Right now, if people continue to conserve on the supplies of grains, if they do not feed hogs beyond reasonable weights, if they do not fatten cattle to top finished grades, if you do not allow unlimited amounts to distillers and brewers, and others, we have a sufficient supply. What the demand would be if you took off all restrictions and all suggestions, and all attempts to bring about conservation, I do not know. Therefore, I hate to have legislation that says I must stop and find which things are in short supply. They are all interrelated, a great many of them are, and you might have a bountiful supply of cottonseed oil, and great shortage of lard, but that shortage of lard would have its effect on the cottonseed-oil supply very quickly. If you cut off the imports of copra, it would see its effect on the cottonseed oil supply shortly. Therefore, would I be justified in saying when we have the greatest supply of cottonseed oil that it is in short supply? People would say I was doing something absolutely contrary to Congress, intent. It is not in short supply. It is in relation to other world demands and substitution of other products.

Mr. JARMAN. You do not think it would be beneficial to the program or the country for such an amendment to pass?

Secretary ANDERSON. I never tried to tell the Congress what I think it ought to do. But I would be glad to say it is a bad amendment to pass just as I thought an amendment restricting the amount of carry-over was a bad amendment. It had to be considered in connection with what the next crop was. The amount of carry-over does not mean a thing; 150,000,000 bushels, with an absolute failure of the wheat crop, does not mean a thing; 150,000,000 bushels, with a whale of a wheat crop, is a huge supply; 80,000,000 bushels, with a big wheat crop, is ample; 150,000,000 bushels, with a small wheat crop, is far too small.

Mr. JARMAN. Another amendment vigorously pursued when that was under consideration was to prevent the shipment of fertilizer and machinery, farm machinery as long as they were in short supply, something of that kind. The burden of the argument was, as I recall, that our farmers could not produce the food because they did not have the fertilizer and the machinery. Of course, the argument on the other side was that it would be better to let them produce a little over these than for our farmers to continue to have to do it. What do you think about an amendment like that as to the program?

Secretary ANDERSON. I think that is an amendment where the matter of individual judgment comes in very heavily. You can

argue both sides of that, and we do argue both sides of it in the Department. It is pretty persuasive on both sides. I opposed, for example, the shipment of large quantities of tractors by UNRRA on the ground I did not think those tractors were going into the hands of people who had the know-how to operate them. It seems to be a simple thing to operate a tractor in these United States where youngsters are brought up with a kit of tools in one hand and learn what to do with a model T Ford early in life. It is something else to people who happen to use animals for their motive power for a long time. They do not understand what a magneto is supposed to do. Some of those tractors were wasted, and that has been amply proved. Unless you have the skilled people who can start off those tractors and see that they are serviced properly, utilized, that the fields are large enough to use the type of tractors shipped, then, it is a waste to send that tractor there, and we in the Department have vigorously opposed large wholesale exportation of American tractors in the present program. The number of tractors will be substantially limited. Therefore, I say to you that wholesale permission to export large quantities of tractors would be a very bad thing. A limitation on how many tractors you can send is something that would require a tremendous lot of knowledge of the situation by the persons putting on the limitation. I doubt if it could be easily done. I mean to say that I doubt that the information is quickly available to the Members of Congress.

For instance, it is pretty hard to say how many tractors you can put into France that will be well used or how many can be put into Italy and be well used. I questioned the other day tractors going into Norway. I did not think it possible for those tractors to be used. I have an explanation back as to why they are being used. I am not completely satisfied as to that. We fight those things as vigorously as they need to be fought out. I say it is a doubtful area and, as to fertilizers, I am on a little better ground. We are not shipping large quantities of fertilizer. Something like 8 percent of the commercial nitrogen and small quantities of phosphate. When you ship a ton of fertilizer, you eliminate the necessity of shipping 6 or 7 tons of food. To the extent we need that fertilizer, it can be well used and we ought to ship limited quantities of it. We are providing for the shipment of limited quantities of it. I do not think that the shipment of all fertilizers could with wisdom be barred by the Congress because the immense amount of food to be shipped would need to be even larger. All of the economy is on the side of a small shipment of food and of a large amount of fertilizer.

Mr. JARMAN. That is the position I took against those amendments, and there was one fertilizer, only 1.7 percent of the supply of which was contemplated in the program. I believe it was nitrate.

Secretary ANDERSON. I testified so much, but I believe 8 percent is about right.

Mr. JARMAN. I say that was the other program, not UNRRA. As to the interim aid, I further took the position that while the farmers of our country might, by being required to continue to produce this food at high prices, might profit somewhat by it, I did not believe they were that selfish. What prompted this question was a statement you made awhile ago, which I am not sure I got, to the effect that, but for this program, what would happen to the farmers. Do you remember what you said? It seems to be contrary to what I had in mind in my argument.

Secretary ANDERSON. I said this: Someone says: "Why do we not quit all this and let Europe get back on its own feet?" I think one of the answers is: Because of the requirements of war, and the requirements of postwar support, that we have asked our farmers to produce present quantities of a great many things. They are geared now, and they have their seed in the ground for the largest winter-wheat acreage we have ever known in the country. It is the largest we have ever sown. In any event, it is an extremely large acreage of winter wheat. The farmer cannot be suddenly told that we do not want that much production. You can stop a factory half way, stop the assembly line, and start up again in a few days, but once you put that wheat in the ground, you have to go on through and harvest it. If that all came through, and there was no program of support whatever, I think we would have some very serious repercussions in agriculture. My limited knowledge tells me that you cannot have that happen without tearing down every business institution in the country. We found it out twice, and we will find it out quickly again. My concern is that it would destroy a great many businesses of all kinds, the people of Europe would lose their example as well as their food. I think it is a great thing to have a country agriculturally and industrially alert to point to as to how democracy works. I mean that more than anything else. The American farmers are in pretty good shape financially, perhaps better than some others, but the cutting off of these agricultural commodities would have, I think, serious repercussions on our whole industrial life.

Chairman EATON. The time of the gentleman has expired.

Mrs. Bolton.

Mrs. BOLTON. Mr. Secretary, am I right in thinking that you said that the prices here are not affected by the exports, and that there is an ample amount of feed, corn, and so on for this country?

Secretary ANDERSON. I am sure I did not say that.

Mrs. BOLTON. Please correct me. That is why I am asking the question.

Secretary ANDERSON. There is no provision for the export of corn, and there is a shortage of corn and feed corn.

Mrs. BOLTON. I was well aware of it.

Secretary ANDERSON. Yes.

Mrs. BOLTON. I want to ask you quite definitely what method do you have, or do you not do it at all, to follow the home food and the foreign food program, and if you check in the different countries on the use of food and fertilizer, or is that done by some other agency?

Secretary ANDERSON. It is done primarily—and it depends on the program. In the UNRRA program they were checked by UNRRA. In the State Department program they are checked by the State Department.

Mrs. BOLTON. In this new program, who checks?

Secretary ANDERSON. In this new program I am not able to say to you if it is the Secretary of State or is checked by the State Department. When you have agriculture attachés in these countries who report primarily to the State Department, it is secondary to us. They are agriculture people, however, but their services are available to the State Department, and they are primarily the ones.

Mrs. BOLTON. You have no responsibility in the matter of decision as to how much food shall go?

Secretary ANDERSON. We have the responsibility of the decision as to how much food shall go.

Mrs. BOLTON. You do not follow it when it gets over there?

Secretary ANDERSON. No. We do not set up two organizations to follow it. The State Department is supposedly following it, and I think it is.

Mrs. BOLTON. What relation do you have envisaged with this new organization and the State Department plan of organization for this new program? What do you envisage as your relation to the Administrator?

Secretary ANDERSON. On the production side, I would think that we would have available to him a staff of people most of whom we could very quickly recruit, and most of whom are probably now available, who would examine production plans in these areas to see if they are producing the things essential to their own food source. It is pretty hard to illustrate except by an examination. When we made the examination of Poland last July, we tried to determine whether the wheat shipments proposed to Poland were essential. We found Poland was placing primary emphasis on sugar for export and rehabilitation of her livestock industry. Therefore, we knew it was not grain that was greatly needed for her own people. If its people were hungry, they would have been trying to feed them first with grain and not trying to get sugar for export. Upon that knowledge of their emphasis, we were able to draw some conclusions about their needs for wheat which subsequent months have proven to be very accurate.

Now, the Poles show up with fairly good supplies. We have tried to go in to some of these countries to find if we thought it would help to meet the goals we have set out. If it would not, we would not attempt to remedy it ourselves. It would be our responsibility to go to the Administrator, as he has the responsibility in this connection because he is the one who is going to be able to say we will or will not supply these things, depending on their cooperation with the program.

Mrs. BOLTON. Do you have responsibility to keep him informed?

Secretary ANDERSON. We would have a responsibility to keep him informed as to their program, not as to their compliance with it.

Mrs. BOLTON. Then, he is responsible for checking their compliance with it?

Secretary ANDERSON. I would think so, because that is a situation in which we find ourselves in Germany now. We have made certain recommendations and laid out certain programs, but the responsibility for carrying it out comes to the administrator in that area.

As to the shipment of foods, we feel it should be our responsibility to get together these agricultural supplies and see that they are shipped and landed where the Administrator requires them. We do not think we ought to have the responsibility for distribution.

Mrs. BOLTON. So far as I can find out in my study of the bill, none of that is spelled out in the State Department bill as submitted to this committee.

Secretary ANDERSON. I think that is true, and that is why I have stressed it in my testimony, and stressed it before the Senate. I feel it would be extremely unwise to have another procurement group. I base that upon some experience I had in the closing days of the war when we were dealing with two or three agencies that had some

responsibility. Mr. Crowley had a general plan and UNRRA had one, and we had one, and when we tried to put them all together, we might have found certain stocks and there had been competition there under unusually distressing circumstances.

Mrs. BOLTON. Do you represent the United States in the International Food group?

Secretary ANDERSON. Yes.

Mrs. BOLTON. In that group, has there been a study made of the places from which western Europe can hope for food supplies if they are developed?

Secretary ANDERSON. Yes; but not as much in the International Food Council as in the Food and Agricultural Organization. The International Emergency Food Council has now become the International Food Committee and has been merged with the Food and Agricultural Organization. Theoretically and practically, probably it was the function of the International Emergency Food Council to deal with shortages and try to find ways of plugging up these present groups. Food and Agriculture Organization was to look for the long-range program.

Mrs. BOLTON. In the long-range program, and in the studies made by that group, what consideration, what share was the Near East to have in that?

Secretary ANDERSON. In the supplying of food?

Mrs. BOLTON. You have the greatest value in the long-range program.

Secretary ANDERSON. In the long-range program the great emphasis was placed on rice production in Burma, Siam, and French Indochina.

Mrs. BOLTON. What about the closer and nearer land of the Near East which is fabulously rich?

Secretary ANDERSON. I am not sure, because in an area like Saudi Arabia it will require irrigation projects.

Mrs. BOLTON. But rather simple ones and simple ones in which you have the greatest value?

Secretary ANDERSON. Not simple from what I saw. They run into hundreds of millions of dollars.

Mrs. BOLTON. The original one?

Secretary ANDERSON. There are a great many simple possibilities for improvement of food supply in that area. That is Food and Agriculture Organization's province, and Food and Agriculture Organization does have a group in that area working now in that question of food supply.

Mrs. BOLTON. That has been taken into consideration with the food supply for western Europe?

Secretary ANDERSON. Yes; although western Europe does not depend on that area and probably will not depend on that area for its supplies of food. That area has need for those supplies in their own land, if adequate diet should become available. We have looked to the possibility that western Europe will depend on Canada and Argentina.

Mrs. BOLTON. And the development of North Africa?

Secretary ANDERSON. The British are trying to remedy their fats and oil situation. There is a project there now which is somewhat started out of a suggestion made by the Department of Agriculture. We just told them that they could not continue to depend on large quantities from us.

Mrs. BOLTON. You are to be commended.

Secretary ANDERSON. The British went down and tried to put it in operation and they have had some unusual problems.

Mrs. BOLTON. What about the French in North Africa?

Secretary ANDERSON. They are doing something but not as yet operating with the same vigor as the British.

Mrs. BOLTON. It is not your responsibility and, under the new arrangements, it will be the responsibility of the State Department to fulfill those responsibilities.

Secretary ANDERSON. Not as to North Africa. I do not think the economic recovery program would touch the State Department's responsibilities in North Africa. I think that is still Food and Agriculture Organization's responsibility and not the State Department. It is an interesting field that I would like to further discuss that we, as a nation and part of the United Nations, should continue.

Chairman EATON. We will hear from Mr. Mansfield.

Mr. MANSFIELD. Mr. Secretary, in your opinion would the enactment of this legislation contribute much toward the inflationary spiral now in effect in this country?

Secretary ANDERSON. If you would ask me whether it need add anything to the inflationary spiral, I can answer that quite easily, by saying that it need not. I also recognize, and I think we all recognize, that as soon as a program is announced, that envisions the export of 10,000,000 bales of cotton in the next 4 years, that has a strengthening influence on the cotton market. It does not mean that it needs to have one because we know, as a practical matter, that this country has always exported cotton. We will undoubtedly be exporting cotton again, but some sort of export arrangement will be made for the export of cotton regardless, and, if that does not happen, it would be disastrous to a great section of our whole economy. The fact that you announce that sort of an export program does strengthen the market. If you announced that we were going to export 350,000,000 bushels of wheat, that would have, for a while, a little stimulating influence on the market. If you stopped, then, and showed that would not be at all an unusual amount of wheat for us to ship in connection with our present supplies, that story does not seem to have much influence on the market. For some reason or other, the optimism runs high in the grain exchanges and, as soon as you give them one encouraging word, it seems to move things along well.

Mr. MANSFIELD. Looking at this legislation practically, then, we can assume that it will undoubtedly contribute to inflationary processes now in effect in the country?

Secretary ANDERSON. No, I do not say that will contribute to them. I think it will not contribute to those things that might break our industrial and agricultural prices substantially, namely a sort of turn-down in all of our present level of high national income. There is nothing in it that I see that causes real trouble. Our real great difficulty today in the domestic field is the high price of meat, butter, and eggs, and none of those things would be affected by this program.

Mr. MANSFIELD. You stated also that if there was no foreign market for these extremely good crops that we have been having that the result would be surpluses, naturally, and the further result would be deflation in agriculture which, in turn, would spread itself out to other fields.

Secretary ANDERSON. Yes; I think that is right.

Mr. MANSFIELD. You mentioned the fact that there would be no, relatively speaking, shipments of corn abroad at the present time.

Secretary ANDERSON. There has not been since the early part of the current year. There were some shipments of corn scheduled to take place for which contracts had been made during the last fiscal year. They were to have been shipped before June 30, 1947. They did not get shipped until the first months of the next year, which starts on July 1, 1947, and about 15 or 20 million bushels of that corn was shipped even after we knew there was going to be a short crop in the country because it had been contracted for.

Mr. MANSFIELD. There are shipments of other grain, especially wheat?

Secretary ANDERSON. Yes.

Mr. MANSFIELD. And there is no shipment of meats at the present time except horse meat?

Secretary ANDERSON. There are some small shipments to neighboring Western Hemisphere countries.

Mr. MANSFIELD. Are there some shipments going overseas now?

Secretary ANDERSON. Not right now. We do occasionally make shipments of it. I do not know when the last shipments went.

Mr. MANSFIELD. In this matter of horse-meat products, the initial processing of horse meat took place in my part of the country. It seems that some of the people out there initiated this particular program 25 years ago and have not been given much consideration by the Department of Agriculture when it came to sending their product to western Europe where horse meat is a prime commodity. You say that horse meat is going to be a prime commodity under the program next year? Is it the objective of the Department of Agriculture or Department of State to call for bids on this horse meat from recognized and capable American concerns?

Secretary ANDERSON. I cannot say what the policy of the Department of State will be. The Department of Agriculture's policy has been to ask for bids and will be to continue to ask for bids from all firms. We cannot say because somebody was in business 25 years ago they are going to get the business over someone else who gets in with a more attractive offer.

Mr. MANSFIELD. I do not think it is a matter of a more attractive offer. I think certain concerns in the Midwest, in Illinois and Kansas especially seem to have a monopoly on the horse-meat market in this country, and shipping it overseas. I would like to see some system by which all American horse-meat companies, because this is a prime commodity, would have an equal chance in having their bids considered. What do you think of the idea of incentives? Using such things as tobacco and the like as a means of getting the workers in these countries to produce more, and to bring their hoarded supplies, and to help bring about some equilibrium to their economy?

Secretary ANDERSON. I have spoken on that a great many times. I think there should be incentives for them. The present financial situation in these countries makes it impossible to appeal to a farmer after he has produced large quantities of food to move that into normal channels. One farmer in Stuttgart, Germany, came up to me and asked me what I would do if I were in his place. He was offered a carton of cigarettes for a ton of wheat.

I would have done what he did. I would have kept it at home or looked around for a better offer.

Mr. MANSFIELD. Mr. Secretary, on this matter of fertilizer, we had quite a discussion in the debate on the interim aid bill. I brought up the fact that a good deal of phosphate, to the extent of 500,000 tons, was shipped to a former enemy country, Japan, during 1946-47, and that also the entire output of the Island of Angar in the old Japanese mandates estimated at 3,000,000 tons, was also to be sent to Japan. I wonder if we could not divert some of this fertilizer going to a former enemy country to use in the rehabilitation of these friends of ours in western Europe.

Secretary ANDERSON. The Angaur project is purely an armed forces project. Under agreement reached by the commercial producers of fertilizers and those branches of the Government, the Army principally, which had been manufacturing fertilizer, the farmer in this country and the areas such as France and Italy have been supplied out of supplies controlled by the civilians. The Army plants were set up primarily to supply fertilizer to the Army zone of occupation. The money put into it was put into it on that basis. The cost of operation is higher than the cost we would have in ordinary commercial operations. We felt that since it was an area that would not come in the ordinary commercial sense, it was right for the Army to take the output since they were only adding to the total world picture, at the higher cost, and moving it into the areas where they wanted to put it.

Mr. MANSFIELD. That includes the Idaho-Montana exports, too?

Secretary ANDERSON. Yes. They were in the areas developed by a Government plan. Had it not been for the Government plan the production which they took would not have been turned out.

Mr. MANSFIELD. They were developed long before the war, if the Army came in they came in long before that.

Chairman EATON. I wonder if, for the information of the committee, the gentleman would be permitted to answer one question.

This horse meat sounds to me like cannibalism, but is the horse meat provided by broken-down old work horses for meat only?

Mr. MANSFIELD. Mr. Chairman, in our part of the country, we are mechanizing our farms. We have a surplus of horses and they are a menace to the country.

Secretary ANDERSON. They are consumers of grain.

Chairman EATON. Mr. Smith.

Mr. SMITH. Mr. Secretary, have we had two or three crop seasons since the end of the war?

Secretary ANDERSON. We have had two full ones.

Mr. SMITH. Has there been any improvement in the general situation from the agricultural standpoint, or has there been a disintegration of agricultural production since the war?

Secretary ANDERSON. Here?

Mr. SMITH. No. I am talking about Europe.

Secretary ANDERSON. I would say that the food situation in Europe this year was worse than the first year after the war, but not so much due to disintegration as bad weather. The same thing applies to the crop of wheat in France. The French farmer went to greater length than he has ever gone to produce a wheat crop. He even put

little plots of ground into wheat. He had the most disastrous weather he ever had.

Mr. SMITH. It is true, is it not, that considerable grain is still being held by the farmers who refuse to take it to market?

Secretary ANDERSON. In Europe?

Mr. SMITH. In Europe, yes.

Secretary ANDERSON. I am not sure. I wish I could answer that question correctly. I would say that I have an impression that—and only an impression—in Germany the collections have been much poorer than we anticipated. They are based to some degree on inability to collect, not solely crop failures.

The French Government last July established a price for grain which was more appealing to the farmers and has brought increasing quantities of grain from the farmers there.

Mr. SMITH. Considerable grain, however, has gone into the feeding of cattle, has it not? I believe in the testimony that we have on the interim aid bill, that in Italy alone cattle had increased 25 percent.

Secretary ANDERSON. It is like a man who has only one necktie. When he gets an extra one, he has increased 100 percent. Italy is like a fellow with two neckties. The Italian livestock situation is notoriously bad. They have increased a little bit, by a big percentage, but not a significant increase in quantity.

Mr. SMITH. It is not a fact in the interim-aid bill we provided millions of dollars to pay farmers to get their grain on the market?

Secretary ANDERSON. I do not know that.

Mr. SMITH. I think you will find that to be the fact.

Secretary ANDERSON. Would you tell me where I could find that?

Mr. SMITH. This was incentive goods. Mr. Mansfield referred to the matter. We get more production if we give the farmers incentives.

Secretary ANDERSON. I subscribe to that. I understand the interim-aid bill authorizes not to exceed 5 percent of available funds to be used for procurement of incentive goods.

Mr. SMITH. Mrs. Bolton reminds me there are 80,000,000 dollars for that purpose alone, for the purpose of incentive payments.

In that matter of collections, have you been satisfied with them as we have gone along?

Secretary ANDERSON. In other countries?

Mr. SMITH. Yes.

Secretary ANDERSON. No.

Mr. SMITH. Do you recommend any way whereby we can help that situation so that the American taxpayer is not paying the bill for European countries.

Secretary ANDERSON. I was just going to say in the case of the mission which went over to see the people in Japan, we were not happy at all over the fact that there came in a request to us from headquarters over there for a very substantial quantity of grain at a time when it was extremely difficult for us to scrape any more grain out of the American barrel. A mission went to Japan, and I think two members of that mission are here this morning, and they made a survey and found out that our collection methods were bad. The grain was not coming out. The matter was rather heatedly discussed with members of General MacArthur's staff, and finally it came to the attention of the general himself. A new project was set up to better the collection program in Japan. This year that is working well. We are collecting above the amount that they have

set aside for their goal. That has been a success. On the contrary, the situation in Germany has been a disintegration of the collection machinery because we are not able to believe that the potato crop has failed as greatly as the figures indicate, nor led to believe that the collection of grain has failed as greatly. We think it cannot be solved by saying that neighbors must get together and solve this. We think there must be some strong method, as adopted in Japan, if we are to have decent collections there.

Mr. SMITH. Does that apply to Italy and France, also?

Secretary ANDERSON. I think there are other factors in Italy.

Mr. SMITH. Just one more question. Mr. Secretary, with reference to the matter of tractors: It is my understanding that the tractor industry in the country has been called upon for a set-aside of a certain percentage of production this year.

Secretary ANDERSON. I have no knowledge of that. I am sure there is no such thing as that.

Mr. SMITH. I would like, Mr. Chairman, to ask unanimous consent to place in the record, at this point, a request that has been made showing that many tractors are expected to be taken from our production for overseas shipment.

Secretary ANDERSON. Let me see it, too, because it is news to me.

Chairman EATON. No objection?

Mr. BLOOM. Let us all see it.

Secretary ANDERSON. I am certain there could not be. It would be well for me to comment on it here.

Mr. SMITH. I do not have it here.

Mr. SMITH. Do you believe there ought to be an allocation of tractors?

Secretary ANDERSON. Yes.

Mr. SMITH. For overseas use?

Secretary ANDERSON. Yes.

Mr. SMITH. To what extent would you say? What percentage of production?

Secretary ANDERSON. Probably around 10 percent for the ERP countries.

Chairman EATON. The gentleman's time has expired.

Mr. JAVITS. Mr. Secretary, have you made any estimate of the demand for meat per capita in the United States for 1947 as contrasted with the supply?

Secretary ANDERSON. The Bureau of Agricultural Economics worked up some figures that I would rather they introduce because I know they have calculated how much we are now consuming, if there were all the meat we wanted within what we might regard as reasonable prices.

Mr. JAVITS. Would you be good enough to introduce that calculation into the record?

Secretary ANDERSON. Mr. Wells, I am sure, could testify right now.

Mr. JAVITS. Could you give it to us briefly?

Mr. WELLS. Average per capita consumption during the last year was 155 or 156 pounds, we have generally estimated with reasonable prices American consumers might buy 165 pounds per capita if they could get it. It appears that the supply for this year will not be more than 145 to 146.

Mr. JAVITS. Mr. Secretary, are there material diversions of grain to feed cattle?

Secretary ANDERSON. There is a certain amount of normal use of grain for the feeding of cattle. That is not as large as you might anticipate because of unfavorable feeding ratios. For instance, the last few days cattle prices turned down nearly a dollar, and when wheat prices move up and cattle prices down, you intensify the unfavorable ratio.

Mr. JAVITS. Does the pressure of grain demand for feeding increase the price of grain?

Secretary ANDERSON. Yes, the high price of meat naturally attracts grain to that feeding, but not much wheat. The price of wheat is such that it is not a desirable feed at \$3 a bushel.

Mr. JAVITS. I note that you plan to export 100,000,000 bushels of other grains. Does it affect the prices of those other grains?

Secretary ANDERSON. Yes, sir.

Mr. JAVITS. Do you believe that it is advisable that the use of grain, for feed, should be enhanced in order to take up eventually the difference between what we are now exporting to Europe and what we will export to Europe at a time when the need there diminishes, or do you believe that curtailment should take place at that time through reduction of the acreage allocated to grain?

Secretary ANDERSON. I am not sure that I understand exactly what you mean. I know this: There will be an increased consumption of grain in the cattle industry as soon as we can afford to use those grains for that purpose. We, in the Department, are conscientiously trying to bring about the increased grain consumption. Temporarily, that goal has to be put aside. We hope to get to livestock as quickly as we can.

Mr. JAVITS. For a constructive agricultural policy under present circumstances to bring it in accord with the ERP, that goal of increased grain consumption should be deferred?

Secretary ANDERSON. That is right.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Secretary, I was interested in your statement on page 10 where you say:

I do not anticipate that exports in these amounts would add to the inflationary pressure in this country, or call for any undue sacrifice on the part of our consumers.

I do not quite know what you mean by an undue sacrifice.

In interrogating Mr. Clayton on this matter, I find that this is what he said:

We produced last year 1,400,000,000 bushels of wheat. The human beings in this country cannot use over half of that, to save their lives, and they do not eat over half of that. Of course, we feed a certain amount to animals, which is unfortunate, and you have a lot of wheat you have to export.

Mr. LODGE. Yet the price of wheat goes up?

Mr. CLAYTON. And yet the price of wheat goes up, because there is such an enormous demand over the world for it. The production of wheat in other countries has declined so much that they have to have our wheat.

The point I am trying to get at is this: I favor the principle of the European recovery program, but I would like to know from such an eminent authority as you, do you really feel certain that that statement of yours on page 10 is exactly what you want to say about these inflationary effects of these exports of wheat? I think the American people can take their medicine, they have shown that in the past.

Secretary ANDERSON. I will say what I said before. I cannot understand what makes the price of wheat jump in the manner that it sometimes does. From 1930 to 1946, the total use or distribution of wheat in this country has averaged 770,000,000 bushels. That from the 1,450,000,000 bushels leaves 680,000,000 bushels for export and carry-over. Knowing that we are going to export at least 450,000,000 bushels, that would leave 230,000,000. If we export 500,000,000 bushels, that would still leave 180,000,000 bushels for carry-over and additional use in this country. You would think this quantity would drive down the price of wheat. Yet they pay no attention to it. The speculative market seems to feel that the important figure is 450,000,000 bushels. Every time you announce something about it, the price of wheat drops. It dropped a little because we said we have only 50 to 80 million bushels to acquire.

Mr. LODGE. That is what you said to Mr. Mansfield. That it need not, but it does. Your statement therefore is not in conflict with Mr. Clayton. You do not say that it will not.

Secretary ANDERSON. I say that it need not.

Mr. LODGE. In further regard to this question, I have here a statement which has been gathered from the Agricultural Department statistics, the statement and letter are from Dr. Fitzgerald of the Foreign Agricultural Commission, and corroborated by the State Department. It points out there would be a carry-over of only 25,000,000 bushels at the end of the year on the basis of those estimates.

Secretary ANDERSON. I am sure that is not right. There is a mistake there somewhere.

Mr. LODGE. Apparently, Mr. Secretary, there is some conflict between your figures and the Department of Agriculture figures.

Secretary ANDERSON. There is no Department of Agriculture figure in existence that indicates the carry-over of 25,000,000 bushels. Someone has made a mistake.

Mr. LODGE. It is indicated on this statement that according to Department of Agriculture the figure for feed is 325,000,000 bushels, whereas you apparently put that at 250,000,000 bushels. I wonder whether you could comment on that so that we can reconcile the figures.

Secretary ANDERSON. Surely. At the time that 325,000,000 bushel figure got into existence, it was based on the possibility that wheat prices would remain low, corn would be scarce, and that thereby a great deal of wheat would be diverted into feeding of livestock. You can feed wheat to cattle at \$2.06 a bushel which was about the export price at that time. You cannot afford it at \$3. Immediately after the announcement of goals, this looked like a possible use. We took figures from everybody in the Department. We have different groups, including the Bureau of Agricultural Economics, and the Production and Marketing Administration. They all had made an estimate and this was a sort of a median figure. After we got our first reports, this was made well in advance, after we got our first report in the year, it became evident we should scale that down to 250,000,000 bushels. Now we are getting indications that it might run as low as 200,000,000 bushels.

Mr. LODGE. In other words, there is no conflict between the Department's figures and yours?

Secretary ANDERSON. No, the trouble is that we set out a set of figures shortly thereafter after the BAE conference, one of Mr. Wells' people got up and revised that figure substantially, and revised it in the right direction.

Mr. LODGE. The reason for the apparent disparity between the two figures is that a different time was taken?

Secretary ANDERSON. That is right.

Mr. LODGE. There is, in fact, then, no difference between your estimates and your Department's estimates?

Secretary ANDERSON. No, because I am using the very figures which Mr. Wells supplies to me. I have to. It is the only place I can get figures I can rely on. There is a change as time goes on. Very shortly we have additional figures and disparities. Those could jump the other way. As we get more and more information, as we go along in the year, then, we know more and more how much is going to be used in the year.

Mr. LODGE. Then, would you say that 25,000,000 carry-over is a very unlikely estimate, would you?

Secretary ANDERSON. Yes.

Mr. LODGE. You would say a 25,000,000 carry-over would have inflationary effects?

Secretary ANDERSON. Very definitely. It is impossible to get a 25,000,000 carry-over. You need so much for warehousing, so much in docks, terminal elevators. The day will never come when you can shrink it to 25,000,000 bushels.

Mr. LODGE. I am glad to have that for the record.

Chairman EATON. Mr. Jackson.

Mr. JACKSON. Mr. Secretary, if my question is a little nonrural, it is because the agriculture in our district comes from window boxes.

Secretary ANDERSON. Victory gardens there are important.

Mr. JACKSON. And small.

What are the latest estimates you have, Mr. Secretary, relative to the crop, the wheat crop for next year? What are the prospects?

Secretary ANDERSON. The last figure indicates a total crop somewhere in the neighborhood of a billion to a billion two hundred million bushels. The acreage is there to produce that much wheat. Whether or not the crop conditions are there to produce that much wheat, I do not know. The conditions have improved very materially. We got rain when we needed it. You have to have continued good rain to save it permanently.

Mr. JACKSON. How did that compare with last year?

Secretary ANDERSON. One billion four hundred million. The average is way, way below that. These are very unusual and extreme crops. The thing that it does do is to make an attractive price for wheat. Farmers gamble for \$3 wheat when they do not for \$2 wheat.

Mr. JACKSON. So do other people. Percentagewise, what is the amount of the total United States wheat shipments sent in the form of flour?

Secretary ANDERSON. Last year about half was shipped as flour. This year there will be well under half in flour. We expected to ship about a third, and it is running at about that figure. The reason we tried to get more and more into whole wheat was that they have a higher extraction ratio than we do. They will put 90 to 96 percent

of that flour—or wheat into actual flour whereas we will put 68 or 72 percent into it. We will get certain byproducts of shorts and middlings if we manufacture the flour here. They would like to have it as human food over there and they desire us to ship it over there that way.

Mr. JACKSON. The coarse grain itself?

Secretary ANDERSON. That is right.

Mr. JACKSON. I am sure that all of us in Europe were struck by the amount of white bread available. White bread in France, white bread in Italy, and in many cases, and certainly the nutritive value declines considerably.

Secretary ANDERSON. It depends a whole lot on whether you are in the home of the ordinary family or whether you are in the resort hotels and restaurants because they do, as could be expected, they realize the heavy dark bread is not popular in restaurants and would serve you in a hotel what is more expensive. Generally speaking, many of the countries in Europe have kept their flour extraction ratios running 90 percent and over. Most of the countries in Europe, for their ordinary trade, do utilize fully the kernel of wheat. We do ship some flours in all of those areas, and some of it has found its way into hotels and served on this basis.

Mr. JACKSON. Would it not be desirable to send all of it in grain?

Secretary ANDERSON. No, not entirely, because sometimes when you get to sending it all in grain, it gets used for livestock as well.

Mr. JACKSON. That would be true of all of it?

Secretary ANDERSON. That is true, in part, but once it is sent in flour we know it is used for human food. We have done what we think is desirable. We have reversed the ratio. This year we have sent a large portion of it in grain. That phase of that varies, when the country has asked us to change our policy and send more and more in grain than we did before this year.

Mr. JACKSON. Relative to the prices of grain and with particular reference to wheat, there have been several reasons advanced for the high prices of wheat. Would you care to comment as to what the effect on the price of wheat speculation of the grain market has been?

Secretary ANDERSON. No, sir. I say that this year's supply was so ample that, taking out the whole export program, there was more grain left than we were going to use, and we put a small amount in surplus. Normally when that happens, that has a depressing effect upon the market. Every time we would announce that we were going to buy, every time the ticker out of Washington the night before said that Commodity Credit Corporation would take bids tomorrow morning, that had a nice wholesome or strengthening effect on the grain market. Why that should happen, I do not know, unless hope does keep springing eternally. That means higher prices. There was nothing in the total amount of purchases that need have driven up the price of wheat too high. However, you may recall that a very well known wheat producer is reported to have said the price of wheat would get above \$4 and \$4.50, as he left an interview at the White House. I challenged that statement immediately because I saw nothing in the picture to permit it to go there. I am glad that subsequent events proved it cannot go there. The way the grain market is worked, I could not guarantee it would not. We have found that Commodity Credit Corporation moves into the market to buy rather limited

amounts of flour, and the whole flour market seems to move up in response to that.

Mr. JACKSON. Does it have a direct effect? Large scale Government purchases do have an effect on the price.

Secretary ANDERSON. We are going to buy less grain here on out the rest of the year than the flour mills will be buying. Why should not the large-scale flour-mill purchases of the General Mills or Pillsbury affect the market, buying a large quantity of grain? That does not change the bid. If we go in and buy a comparable amount, that does.

Mr. JONKMAN. Mr. Maloney.

Mr. MALONEY. Mr. Secretary, in the last few days there was an announcement in the press that a quantity of Idaho potatoes was on the dock and consigned to Scotland.

Scotland refused them and other countries refused them. Was that statement true, and if so, why?

Secretary ANDERSON. I do not know.

Mr. MALONEY. You have no knowledge of that?

Secretary ANDERSON. No, I cannot tell you. We have a large purchasing operation going on all of the time. If it was operated, I have not heard about it.

Mr. MALONEY. Yesterday.

Secretary ANDERSON. We do ship potatoes abroad, and we ship them abroad under favorable price limits. However, the shipment of potatoes at this time of year is a hazardous business. There was a possibility of their freezing in transit on the docks, or freezing in the cars, and the countries do prefer to have wheat.

Mr. MALONEY. Mr. Hoover sent a message yesterday to the Senate in which he advocated limiting the time of this aid to 1 year. Now, there are several vantage points to that. I want to point out one to you and see what you think about it. If we have this long-range aid and we tell Europe what we are going to give them in grain next year and the year after, would that not be likely to limit the farmers in their efforts to produce? Would they not rest on their oars and say: "Here we are getting so much grain from America or Argentina, and we do not produce, or it will not be necessary for us to produce?" There are other questions, but that is purely an agricultural question on the 1-year aid. What is your thought on that?

Secretary ANDERSON. My thought is that telling them they shall have a little smaller degree of starvation by doing that would not appeal to them. What I mean is this: We are not sending them enough grain to relieve their actual needs for cereals, at best. We are not sending them enough to restore their livestock populations. Nearly every country over there would like additional supplies of grain. The fact that we are making some contribution—and their total is still below their needs—I do not think ought to restrain them from going ahead and doing the best they know how. It is, to me, similar to what you might say to a young man going away to school—if he were your boy, you can say to him: "I am going to send you so much money a month. With what you have coming, that ought to see you through in reasonably good fashion." It does not mean he will drop every source of revenue because a portion of it comes to him. He might want enough to sustain himself decently. I think the countries of Europe are in that situation. They would like

enough so their people can live decently. They have to increase their efforts if the plan is to be successful at all.

Mr. MALONEY. Then you do not approve of the 1-year plan?

Secretary ANDERSON. No; I think it is much better if they can count on what is coming over for a reasonable period of time.

Mr. MALONEY. On page 10 you say:

Whether we send any meat to western Europe during the last 2 years will have to depend entirely on the situation at that time.

I was wondering what situation you were thinking of.

Secretary ANDERSON. If we should have, in 1948, another 3,300,000,000-bushel corn crop, as in 1946, instead of 2,400,000,000, as we had in 1947, then we could safely say to the American farmer—or he would do it automatically—"Greatly increase your output of pork." There are two ways you increase the meat supply. You can increase it very rapidly through pork. Increase of beef is a slow process, and probably we cannot expect much improvement in the beef situation for years to come. You can expand pork tremendously almost overnight. That would be available sometime in 1949. If we had another big corn crop, you could have large quantities of pork by 1950. Therefore, at the end of 2 years we might know whether we would be able to send them some pork.

Mr. MALONEY. What I am interested in is that it would depend on our own situation rather than the European situation?

Secretary ANDERSON. That is right.

Mr. JONKMAN. Mr. Jarman is recognized for a question or two.

Mr. JARMAN. Mr. Secretary, referring back to Mr. Bloom's question to you wherein he drew a distinction between supplies for food to prevent starvation and leather and other goods that would be manufactured into products—and he felt we should be paid for the leather—is not the nubbin of that proposition the fact that this is a recovery program and an indirect effort to preserve permanent peace rather than a relief proposition? We do not regret our part in the recovery, for the world recovery, and contributions for world peace that we hope continues.

Secretary ANDERSON. The decision would be one for the administrative program to decide—how quickly they needed a payment, basing it upon the speed of recovery or factors of recovery we could look at. We do not extract it all at once, the total amount of food that you can get out of an area. In that connection, I think if you would read some of the statements Mr. Hoover made about Russia's program, of taking reparations out of the current food production, you will find he strongly deplored their action. He said, very correctly, they defeated the very things we were trying to accomplish.

Mr. JARMAN. You referred, on page 12, to this 60-day wait for approval of Congress and urge that it be changed. I am not sure that I understand it.

Secretary ANDERSON. Here is what I mean: Suppose we should find in the next few weeks there was an arrangement that we could make would be advantageous. I wish the thing would be affirmatively approved. When you draft a treaty it can be submitted to the Senate, and the Senate could, if it wanted to, approve it that day, if it were urgent. If we should find that we can enter into negotiations with another group that was satisfactory, I wish there would be changes

that permit an immediate affirmative approval by the two Foreign Relations Committees, Senate and House, by the Appropriations Committee perhaps of the Senate and House, by somebody who could say to me at once, "Go ahead and finish it up."

If you wait 60 days, things get cold. I am not trying to take away full congressional approval. I said to Senator Taft, "I fully subscribe to the plans in any respect being approved by Congress." I still simply say when you are in a trade, I wish there were some similar provision that said if I could submit the matter—and, I would hope, in executive session—to the two Foreign Relations Committees, I mean the committees of the House and Senate dealing with foreign matters, and they might give me committee approval, and I could then proceed. If you want to have that checked by the Appropriations Committees, fine. We want the chance to move quickly.

Mr. JARMAN. I can understand the undesirability of that wait. That provision is in the bill.

Secretary ANDERSON. I sent that in to the so-called anti-inflation bill.

Mr. JARMAN. Which has become law.

Secretary ANDERSON. That is right. I did not object to it, and I do not object to it now. Although if we had a chance to see it in advance, we would have recommended that the provision be one to give a possibility of affirmative action. I am perfectly willing to have congressional approval, if it should be necessary, but I would so much rather have a right to bring it to the committee, explain it to the committee, and have them say, "Yes; we would like to have you do it," or, "No; we do not want you to go ahead." That is all I mean by that.

Mrs. BOLTON. Mr. Secretary, you said in the beginning of your prepared statement that the farmers have a stake in the foreign market.

Secretary ANDERSON. Yes.

Mrs. BOLTON. With this I agree. They have been deeply disturbed over the destruction of food supplies, the burning of the potatoes and the destruction of citrus fruits at different times when there are starving people in the world and when food costs are up, I find them utterly unsympathetic to the reasons that are given. They ask why potatoes cannot be reduced to potato flour so that they could be shipped—the idea being that the potatoes in the bottom of the hold rot. The reasons given them were that this was too expensive a process for the amount of food value in the potatoes when it was made into bread. My women are very unsympathetic to that. They say potato flour bread is better than no bread. What are we going to do about that sort of thing?

Secretary ANDERSON. On the question of potatoes, we have offered to give them away to these areas. The shipments of potatoes being made at the present time are required under the export program, based at prices virtually giving them away.

Mrs. BOLTON. It seems very reasonable to me that women should object to such waste.

Secretary ANDERSON. No; you have a time exporting potatoes. It is not an easy thing to explain. You have a type of potato that carries 70 or 75 percent water. When you start to ship that abroad you have to decide whether it is better to take the criticism of people who see them destroyed or ship something of real value.

Mrs. BOLTON. The 30 percent which is not water could be made into potato flour.

Secretary ANDERSON. It can be, at a price well above what wheat flour would cost.

Mrs. BOLTON. Exactly; but when there is no wheat flour?

Secretary ANDERSON. You were dealing at that time with another government which had very limited dollar funds, and which tried to get the greatest possible value out of its dollar. The foreign government had to decide whether it wanted potatoes or wheat. We did not have the authority to say they must take potatoes.

Mrs. BOLTON. Also, right nearby, potatoes were difficult to get in our own markets. That was another objection that I had from the women.

Secretary ANDERSON. They have been plentiful all over the country.

Mrs. BOLTON. Yes; but not distributed so they could be obtained.

Secretary ANDERSON. I do not know. I think the marketing records show there are potatoes available all over the country in plentiful supply.

Mrs. BOLTON. Perhaps the records might not have covered all the areas. Am I to understand that the reason they are not being sent abroad is the refusal of the country there to accept them at the price; is that it?

Secretary ANDERSON. First of all, we tried to make disposition of them. They were offered to charitable institutions. The institutions get, after awhile, all they can handle. Then we offered them for industrial uses. They are offered to people who make starch, people who make many other products. Then they are offered to livestock feeders. There is only a limited amount of the potatoes that you can feed direct to the livestock. Then they do not want them. When you have exhausted those channels, there is very little you can do with them. I have furnished this total figure as against the total crop of 384,000,000 bushels; when you get down to the distribution of a million bushels, it is not a large figure. It looms large in a photograph. I realize that. I got enough copies of that picture. Any destruction of potatoes in 1947 is going to be no larger than the destruction of potatoes in 1937. Nobody worried about it then. Any time you get one of those unusual situations—the same thing happened to butter during the period when we were buying butter, and they printed pictures of some butter destroyed in Philadelphia. Mrs. Bolton, you know that butter goes rancid every day in the year, in every kitchen in the country.

Mrs. BOLTON. I send it back to my grocer when it does.

Secretary ANDERSON. I congratulate you on that. The grocer has nobody he can send it back to.

Mrs. BOLTON. He will send it to you.

Secretary ANDERSON. He sends me a copy of the picture, but it is a hard problem. We destroyed tremendous quantities of potatoes in 1946. We destroyed tremendous quantities of it; but out of the 1947 crop we will have about the normal percentage of destruction or shrinkage. A certain amount of them always go out of condition. Cars are not available when the farmers want them. That goes right along. We are trying to see they are not wasted.

Mrs. BOLTON. Can you assure me that the farmers understand that they have a stake in export trade?

Secretary ANDERSON. No; I cannot assure you, but I can assure you that we have done everything we can. I have been surprised how many of them understand it. You notice the regular list of the American Farm Bureau on it every day.

Mrs. BOLTON. Ohio farmers did a good job, too.

Secretary ANDERSON. They saw conditions and reported honestly and favorably what they saw.

Mrs. BOLTON. Thank you.

Mr. LODGE. Mr. Secretary, the Krug and Harriman reports both stress the need of fertilizer as an A-1 priority.

Secretary ANDERSON. Yes.

Mr. LODGE. The report stated that you were able to satisfy or to meet only about three-quarters of world requirements. In these circumstances does it seem wise to you to dismantle nitrogen plants in Hochbau in the French zone of Germany?

Secretary ANDERSON. You see, you have the best of me, Mr. Lodge, because I am not sure that I know the particular plants to which you are referring. I do say to you in general that we have felt it extremely unwise to dismantle any of these nitrogen plants. I do know that last summer I tried to get a situation straightened out where one of the plants we were very much interested in would be back in production. It had not been our fault that that plant had gone out of production. We made a three-cornered deal that should have put it into production. We carried out our part. The British carried out their part.

Mr. LODGE. Where was that?

Secretary ANDERSON. It was the old I. G. Farben plant at Hoëchst, in the United States zone. And its operation depended on liquid nitrogen that it got from a plant in the French zone at Ludwigshaven. We agreed that we would send additional quantities of food in the Ruhr to permit the British to mine additional coal, and send the additional coal to Ludwigshaven, and then send the liquid from there to make fertilizer. It is that sort of horse trading that you have to do there. The British delivered the extra coal, the French made the extra ammonia water, and promptly shipped it in to the French. They have problems of their own, the French do.

Mr. LODGE. I am in sympathy with the problems the French have faced. I have no doubt that one of the things we must do under the European recovery program is to integrate the various elements in these matters in order to achieve what I believe to be a worthy objective, which is an Economic Federation of Europe. Obviously, we are going to ship wheat into France. They are going to get it. Surely we cannot take a formalistic attitude and say, because this is in the French zone, we cannot make a suggestion as to the dismantling. I am sure that the French authorities would respond understandingly to a suggestion from us that these nitrogen plants which are multiple and important at Hochbau in the French zone should not be dismantled. I would appreciate it very much if you would present a memorandum to this committee on this subject because that is one of the things that many of the people find hard to understand. An opinion from you would be very valuable to us, indeed.

Secretary ANDERSON. I would be very glad to do that, because one of the things that we have worked on as hard as any single thing I can think of is that these plants built by the Army should not be dismantled and tossed aside. They should be used.

(The information is as follows:)

In undertaking to ascertain the exact status of plants located in the French zone of Germany which are capable of being used for the manufacture of fertilizer, I have asked the Department of the Army for a statement upon the matter. Following is the information received from the Army, which I understand is based upon official reports received from OMGUS:

"With regard to bizonal Germany, United States/United Kingdom zones, there has been no destruction or dismantling of fertilizer plants since the cessation of hostilities, and destruction or dismantling is not contemplated.

"Two plants, one designed to produce concentrated nitric acid, and the other to produce synthetic fuels, are being converted to the production of nitrogenous fertilizers.

"Two new plants for the production of Rhenania phosphate have been placed in operation.

"French zone production of nitrogenous fertilizer has been indicated by the French to be 44,000 metric tons of nitrogen per year at the present time. The French are not operating the calcium nitrate plant or the ammonium sulfate plant at the Oppau works. The first could be placed in operation in 6 months and the second in 18 months. The combined capacity is 55,000 tons of nitrogen per year. This possible increase is reflected in French Marshall-plan figures.

"Soviets have destroyed potash mines in the U. S. S. R. zone, but they have stated in the Allied Control Council that the mines destroyed were exhausted mines that had been used for the underground production of war materials.

"No fertilizer plants in Germany have or will be declared for reparations. Synthetic ammonia was set aside as a prohibited industry. However, the Allied Control Council authorized production of synthetic ammonia for Germany's peacetime requirements until such time as exports could pay for all imports.

"Some persons have claimed that the dismantling of steel plants and blast furnaces capable of producing basic slag involves dismantling and destruction of fertilizer plants. We are unable to classify steel plants as fertilizer plants. Obviously, the need for basic slag cannot justify the retention of steel plants above the required level."

Mr. LODGE. May I say to that, insofar as there might be disagreement within the President's Cabinet, I am on your side.

Secretary ANDERSON. Thank you very much.

Mr. LODGE. Mr. Secretary, on page 6 you compare requirements to availabilities. That is a very interesting comparison, and the thought that arises in my mind is this: Are these availabilities going to be sufficient to maintain even the austerity rations which are essential in order for these governments to survive? If the bread ration in Italy goes down at all, the de Gasperi government will be in very grave danger. We cannot ship any more than we have; but does not this mean that perhaps we should cudgel our brain to find some other way of adding to the rations—perhaps not the bread ration, but some other rations—in order to give these people a diet which will protect these governments and thereby protect American security?

Secretary ANDERSON. Yes; I think so, and I think possibly the answer comes in two parts. I think that not enough was done with the fishing situation. I think substantially greater quantities of fish could have been available with just a little bit of the right type of cooperative planning. We allowed ourselves to get into a situation where we missed some of that because of an argument over a few dollars in one country. I still feel it might have been avoided. As to the bread ration in Italy, I do not think that is as much at stake as food levels in some other areas which have been out of line with the very different situation in France and Italy.

Mr. LODGE. You mean that the Italians have not been able to import what they otherwise would have been able to import?

Secretary ANDERSON. I mean that we have a higher bread ration in France than we have in Belgium and Italy. We have scaled some of those down more than we have the Italians.

A very good crop seems to be coming on in Argentina and a greater export potential in Australia. We may be able to do what you have suggested, substantially.

Mr. LODGE. I am glad to hear you say that, Mr. Secretary, because, as the Secretary of State intimated, if we did not appropriate enough, we might lose the benefit of what we did appropriate. I believe that unless we can go this extra step of providing an adequate ration, we may find that the political situation in Italy will become very threatening, indeed. It is now the most threatening spot in Europe, and I would be tremendously interested in some kind of a program which would look toward meeting that situation. Since we are making the great effort, let us try to make it effectively, and in the light of grim realities.

I have one more question, Mr. Secretary, and that is, when I was in France, I found that meat was unobtainable at the controlled price. The only place you can buy meat in France is on the black market where the Government cannot tax it. Is it your opinion that price controls should be maintained in France on meat?

Secretary ANDERSON. I hope you will be satisfied with this answer: I think you realize it would be highly improper for a member of the Cabinet in this country to comment on the situation in France. I do not believe I should do it.

Mr. LODGE. May I ask you if, in your opinion, the Administrator of this program should refrain from making any comments to the governments of the several participating countries as to the management of their internal affairs?

Secretary ANDERSON. I would reply that he should not refrain. That he should be very vocal.

Mr. LODGE. It seems to me that we must be tactful, of course, but many Europeans have said to me: "Please urge us into doing the right thing to achieve this economic federation. We look to you to be the catalyzing agent to precipitate a proper state of affairs because we are bound down by certain obsolete traditions and we recognize that." You would think it quite proper for an Administrator to comment on that?

Secretary ANDERSON. I am sure it would be proper, and I am very sure I saw some things that a strong pointing out of what was involved would have resulted in beneficial effects many months ago.

Mr. LODGE. You would not say that the removal of price controls on meat in France would necessarily be a poor thing?

Secretary ANDERSON. I believe I stand by my other answer, Mr. Lodge. I do not think it is proper for me to comment on what takes place in another country.

Mr. LODGE. I thought it was an interesting question, Mr. Secretary, because of the fact that it seems to me foreign affairs and domestic affairs are so very much linked. I wondered whether this administration was going to take the attitude with respect to the other countries, in the matter of inflation, as the President took in his message on the state of the Union regarding inflation in the United States. Would you say this: Insofar as foreign affairs are very much linked with domestic affairs, you certainly would approve of a non-partisan attitude in both connections?

Secretary ANDERSON. Yes; I think that I have tried to welcome an unpartisan attitude in the administration of this plan.

Mr. LODGE. I am glad to get that opinion.

Mr. JONKMAN. Are there any further questions?

Mr. JONKMAN. Mr. Secretary, you have been very helpful. Thank you for your valuable time.

(Whereupon, at 12:30 p. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

Chairman EATON. The committee will come to order.

STATEMENT OF HON. J. A. KRUG, SECRETARY OF THE INTERIOR

Secretary KRUG. I would like to say, Mr. Chairman, that I very much appreciate your committee accommodating its schedule to my time.

That is a very unusual courtesy nowadays for Cabinet officers to receive.

Chairman EATON. Our committee welcomes an opportunity to please.

Secretary KRUG. I might explain the documents that are before you. I brought along for the information of the committee a copy of the report I made in the Senate. I have also distributed copies of the National Resources and Foreign Aid Report, and copies of the hearings before the subcommittee of the Committee on Public Lands, investigating our national resources.

I think those three reports will give you some helpful background data on the resources of the country as they relate to the foreign aid program.

If I may, I would like to read a comparatively short statement, and then, of course, submit myself for questioning.

Chairman EATON. Please proceed.

Secretary KRUG. I support the European recovery program not only for its fine humanitarian purposes but as a sound investment in world recovery and our own future well-being.

Our resources and facilities are adequate to do the job; in fact, the export burden under the program is not likely to be as great as the one we handled last year.

I think people frequently forget that and look upon this as a superimposed burden. The total exports should not be as great as the total for last year.

There will be some difficult supply problems in a few basic commodities but they will diminish as the world economy gets into production. These are the conclusions of the Report on National Resources and Foreign Aid made under my supervision last fall. They are even more valid today. We must do the job because we want to assure peace and plenty for ourselves and for the world.

Before the Senate Foreign Relations Committee last week, I elaborated my reasons for supporting the European recovery program. To conserve your time, I have made available to the members of the committee copies of that statement and will summarize some of the points before moving on to discuss those aspects of the program of particular concern to my Department.

In brief, I made the following points:

1. Our long-run interests lie in getting world production into gear and in restoring world trade in order that our own industries and our own resources can be intelligently developed and their products effectively exchanged for those of the rest of the world.

This conclusion is based upon a recognition that our own resources must be supplemented from abroad. Recovery of European production is essential to restoration of multilateral trade throughout the world and therefore of course to our own well-being and security.

2. With the economy of the United States operating at highest peacetime levels and exceeding wartime peaks in many instances, our agricultural and industrial facilities are being heavily strained and this itself is creating problems that must be solved.

Obviously any program of exports would superimpose an additional load, but we had better begin to solve the problems created by the present load on the camel's back rather than attempt to label the final straw. Foreign aid requirements may augment but do not create our difficulties.

3. For the most part, the problem today lies in certain basic world shortages that must be cured if the world economy is to get off dead center. These include wheat, fertilizer, coal, petroleum, steel, and certain items of equipment made of steel.

The supply of those basic commodities must be used during the next few years in such a manner that they will have the greatest effect in solving the problem of world shortages, so that these shortages will not continue indefinitely.

Energy resources: Basic to European recovery and to world development, as well as to our own economy, are the energy resources: coal, petroleum, and water power. Europe's major energy source has been coal and its productive economy is keyed to coal even more closely than our own. Its basic iron and steel, fertilizer, chemical, textile, metalworking, and transportation industries have been crippled by coal shortages, and the lag in these industries has dragged down the entire economy. Without coal, European recovery is impossible.

Europe is not short of coal resources, any more than we are. Coal production is down because coal production depends upon the productivity of the rest of the economy, including food, and that, in turn, depends on coal.

To break this vicious circle, temporary imports of coal are essential. The European nations have set maximum coal production goals for themselves during the next 4 years and are stringently limiting its use.

Their goals can be obtained only with intense and uninterrupted effort. The result of that effort will be that the requirements of coal from the United States even this year will be below Europe's imports of our coal in 1947, which totaled 40,696,000 net tons, and will taper off rapidly after the winter of 1948-49.

European requirements will therefore not seriously affect our own coal supplies if our industry can maintain its current high productivity. The peak requirements will amount to 6.8 percent of our monthly production at present production rates. During 1950-51, requirements will drop to 2.5 percent of our monthly production—based upon current production rates—and during 1951-52 to 0.9 percent. Thus, the coal requirements are small in terms of our total production. They are insignificant in terms of our vast coal resources.

Petroleum is Europe's other major source of energy and must be supplied if European recovery is to be achieved. Together with electric power, petroleum is rationed in practically all of the participating countries and the program assumes that consumption, except for the most essential uses, will continue to be drastically controlled.

European air and road transport and some of its rail and water transportation are dependent upon petroleum. The European food program requires motorized agriculture. For industrial and domestic fuel, petroleum products are essential. And lubricating oil particularly is vital to industrial activity.

The current world shortage of oil must be relieved by expanding production and refining facilities throughout the world. The European recovery program is a part of this effort, particularly through the rehabilitation of European refineries that will make possible the more effective use of oil from the Middle East.

The sources of oil for European requirements cannot be predicted for the entire period, but with the rehabilitation of European facilities the great bulk will come from the Middle East and Caribbean.

One point on our own exports should be emphasized: Not one drop of oil or oil products will be supplied by the United States which will not be more than offset by our own imports of petroleum.

During the early part of the recovery period, exports to Europe from the United States are not expected to exceed 150,000 barrels a day, or 2 to 3 percent of our available supply. This is less than the average of about 175,000 barrels daily exported to Europe in 1947. Moreover, they will drop off to an average of 50,000 barrels per day at the end of the program, which is less than 1 percent of our production.

In 1948, our imports are expected to exceed our exports by at least 24,000,000 barrels, and domestic production is expected to be increased by 95,000,000 barrels.

The present shortages of petroleum here at home are due, not to current exports, but to an unprecedented and still increasing domestic demand resulting from our peak industrial and business activity. Our per capita consumption today is more than 608 gallons as compared with 367 gallons in 1941. A fantastic increase.

A total increase in United States consumption of 115,000,000 barrels is expected in 1948. To be sure, continued exports to Europe and other traditional areas of export of American petroleum products will aggravate our own shortages but the world is dependent upon our highly refined petroleum products.

The availability of export controls in this country will assure a continuing opportunity to appraise the relative need for American oil exports and to reduce them at any time it appears that they are being used for nonessential purposes.

In this connection, I shall continue to call upon the National Petroleum Council, which is meeting here today, which consists of representatives of the oil industry and has been advising me on petroleum matters.

This group will be of great value in aiding the Department of the Interior in meeting its responsibilities of assisting the Administrator of the European recovery program with technical advice on production and distribution problems that arise in the participating countries and on the ability of our domestic economy and production to meet the demands of the program.

In order to protect our own petroleum consumers against continuing, and possibly more aggravated, domestic oil shortages and to do our part in supplying necessary products to Europe, we must take every step to increase oil supplies here and abroad and to curtail the non-essential uses of oil. This will require the cooperation of the Government, industry, and the public.

Future of American energy sources: In addition to action to break supply bottlenecks and effect curtailment of consumption, we must go forward with intelligent and intensive programs to develop additional sources of energy for our expanding production and our future higher levels of living.

We cannot maintain our current levels of consumption—quite aside from any foreign rehabilitation program—unless we accelerate programs to conserve and develop our own natural resources for energy production. Today's advanced techniques in the transformation of energy forms permit the ready substitution of one form of energy for another; for example, hydroelectric power for coal or oil.

The availability of all forms of energy sources will to an increasing degree in the future, constitute a primary index of the industrial production and the standard of living of a country such as ours.

The petroleum situation, which I have outlined to you, brings home the clear lesson that we must consider this problem together with our coal and water-power resources.

We should continue the development of our water power potentialities in order that the kilowatts thus generated take their rightful proportion of the load imposed by our increased power requirements.

The development of the Federal water-conservation projects now under construction or authorized by the Congress will prevent from wasting down the river annually, coal, oil, and other natural resources equivalent to 50,000,000 barrels of oil.

Such hydroelectric development carries with it appreciable benefits in flood control, navigation, and irrigation, which in turn have a direct effect upon food production and the fertility of our lands.

Even the most sanguine proponent of water-power conservation would not support that this alone will meet our increasing fuel needs. We must develop programs for the increased exploration and production of natural crudes and for furthering the possibilities of synthetic liquid fuels.

But the development of these fuels cannot be accomplished overnight and for that very reason we should expand our research and investigations in these technologies.

We already have under way experimental projects for the production of synthetic liquid fuels from natural gas, bituminous coal, lignite, and oil shale.

About 20 percent of the total coal reserves in the United States are in the form of lignite.

These lignite deposits would have a conversion value to synthetic liquid fuels of approximately 500 billion barrels, or about 25 times the present proved petroleum reserves of the United States. Our oil shale reserves are estimated as capable of yielding over 90 billion barrels of crude oil, or about five times our proved petroleum reserves.

Experimental work is also being undertaken by combined oil and coal industrial interests for the gasification of bituminous coal and the manufacture of synthetic liquid fuels. These programs of both in-

dustry and Government add up to efforts to effect a long-term solution to our energy problem. They must be expanded.

I have elaborated upon the energy problems because they are crucial to the European recovery program and to our own future and because they fell into the area where the Department of the Interior will be concerned, not only in giving technical assistance in the administration of the program, but also in guiding the development of long-range measures to increase our supplies. In this connection, I am appointing a National Coal Advisory Council, as a counterpart of the Petroleum Council I have mentioned, to provide advice from industry on these matters.

We also have a Minerals Council which works in the minerals field.

We must also consider the mineral base of our industrial economy.

The problem of these nonrenewable assets of iron, copper, lead, zinc, and the other materials basic to our civilization convinces me that we must play a double-header today if we are to remain in the running tomorrow.

We must first stimulate search for new mineral deposits through the use of modern ore-finding techniques. Means must also be found for the more economic utilization of low-grade ores. We must then make every effort along the lines of the European recovery program to create a world in which we will have access to materials elsewhere, and we should encourage their development.

We should not attempt to rely either upon domestic or foreign sources of raw materials alone, but should assure ourselves that both are available to us.

Our industrial economy has everything to gain by accenting greater production. I agree with Mr. Baruch that an "all-out production drive here and in the rest of the world" is needed at this time. I do not fear overproduction because a needy world will be greedy for our products. In no other field is this clearer than in that of minerals. Our own need for mineral raw materials is unsatisfied by current world production. For this reason, I will outline our current production and reserve positions.

No other great power within its home borders has so far been able to match the self-sufficiency in minerals that we have enjoyed for generations.

At the same time, we have been extracting our minerals at a far greater rate than any other nation, and since mineral deposits are irreplaceable, we must face the fact that we will be confronted with the problem of maintaining our economy with a declining supply of raw materials available at home.

As a matter of fact, during the last war we were hard-pressed to meet requirements and were forced to go abroad for several minerals which we formerly never needed to import.

With a view to summarizing the available information on this point, the Bureau of Mines and the Geological Survey undertook a study of the Nation's mineral reserves at the close of the war.

The results of this study recently were published as an appendix to the hearings before a subcommittee of the Senate Committee on Public Lands and I am making copies of it available to you.

The report shows that since 1870 the yearly value of production of minerals increased from about 200 million dollars to 12.4 billion dollars, a sixtyfold increase. The physical volume of production

was greater in 1947 than in any other year in our history. The end of this upward trend in the demand for mineral raw materials is not in sight.

To meet these requirements, we must develop a dynamic program of exploration and research that will continually bring into production new resources to replace those that we exhaust. We must also look to world sources.

We already are dependent on foreign sources of supply for substantial proportions of many important industrial minerals. The minerals in which we have been able to maintain a large measure of self-sufficiency in the past, fortunately include coal and iron ore, the two minerals most fundamental to the maintenance of our industrial machine.

But the report shows that we have imported in varying proportions minerals that are extremely important such as lead, bauxite, tungsten, manganese, nickel, chromite, and tin.

While in some recent years we have been able to improve our position in a few commodities, notably nitrates, mercury and potash, our greatly increased demand has exceeded our ability to produce, and our self-sufficiency in copper, zinc, lead, and other minerals has declined materially.

We shall continue, as in the past, to rely on foreign sources for those minerals that cannot be produced in adequate quantities within our own borders. The European recovery program will make a major contribution in this direction. Economic recovery abroad will stimulate the production of raw materials which in time will facilitate importation into the United States of minerals that are in short supply.

In summary, I repeat my endorsement of the European recovery program for world recovery and world peace. It is essential to our own continued productivity and prosperity.

I believe that the underdeveloped areas of the world including those in our own country must be brought into production quickly and effectively.

I am not afraid of overproduction. I believe that we can do the job because we have demonstrated that we can do those things that we set out to do.

That, Mr. Chairman, is my formal statement.

Chairman EATON. Thank you very much, Mr. Secretary. I am sorry that a vote is being called downstairs.

You lay great emphasis on the petroleum situation. What grounds have you for being sure that in this 4-year period the necessity for exports from this country will diminish?

Secretary KRUG. Well, Mr. Chairman, we cannot be certain of that. The conclusion is based on rehabilitating the European refineries and constructing some new ones and getting a crude source from the Middle East, and from South America.

I think you will be interested in the charts attached here which show that. So that if during this period, we, for any reason are blocked out of any of those oil-producing areas, then the exports from this country would have to continue at a higher level. This shows the gradual reduction in our share of European requirements, as the Middle East expands its production.

Chairman EATON. Of course, that depends upon the freedom of Middle East production from outside control.

Secretary KRUG. Yes, indeed.

Chairman EATON. I am turning you over to Mrs. Bolton. You will excuse me.

(At this point, Chairman Eaton left the meeting and Mrs. Bolton presided.)

Secretary KRUG. Thank you.

Mrs. BOLTON. I am sorry to have missed the reading of your statement. I am particularly interested in what I judge was your statement in the matter of the crude coming from the Middle East, the starting of refineries elsewhere to refine such crude oils. Will not the cutting of the Aramco pipe line, which I understand has been done in two places in the last week, have quite a major impact on the plan?

Secretary KRUG. I do not think that in itself would. If the unsettlement in the Middle East is to continue for any time it will have a direct bearing.

Mrs. BOLTON. It is an expectation of what may continue?

Secretary KRUG. I hope not. I would not want to see the Middle East cut out of its function of providing the world supply for a continuing period of time.

Mr. BOLTON. Am I right in thinking that this whole plan of European Recovery counts very largely on the Near East and the Middle East oil supply?

Secretary KRUG. It is planned that way at the present time. However, if necessary, we could make up the difference from other sources. I hope we do not have to do that.

Mrs. BOLTON. What other sources?

Secretary KRUG. We have to expand our own production. We have to curtail some of our uses.

Mrs. BOLTON. We are supposed to have a limited amount of crude in reserve. Then we will be drawing on those reserves, will we not?

Secretary KRUG. Yes.

Mrs. BOLTON. Then what happens to us?

Secretary KRUG. It will bring the day sooner when we will have to rely on coal, lignite, and shale for our liquid fuels. In my formal statement I tried to outline steps in that program which I feel are essential anyway, if we are going to take care of our own future, whether or not we have this foreign-aid program.

Mrs. BOLTON. I am glad you feel that way. But the possibility of the new hemisphere, as I understand it will supply the new hemisphere over a long period but it cannot supply the world.

Secretary KRUG. Yes. There are tremendous resources in the Eastern Hemisphere. If they were properly utilized they would take care of all the requirements of the Eastern Hemisphere for a long time to come. In the Western Hemisphere our demands are so high that I am fearful unless we develop synthetic fuels we will exhaust our petroleum.

Mrs. BOLTON. Am I right in thinking that in the last war we took top-grade octane?

Secretary KRUG. We made the very best we could.

Mrs. BOLTON. Then in the development of jet propulsion of all sorts and kinds, we do not take the top. We take something a little lower down.

Secretary KRUG. That is right.

Mrs. BOLTON. That is the kind of fuel that is important to the civilian population?

Secretary KRUG. But when you start out with crude you can come out with any finished product you need.

Mrs. BOLTON. Exactly. But you would have to have octane. We have not gone beyond the need of that, have we?

Secretary KRUG. We will need both.

Mrs. BOLTON. In increasingly large quantities?

Secretary KRUG. Yes.

Mrs. BOLTON. Because we are going off coal in a great many places. Diesel engines are being used increasingly in our transportation systems. Will we not run into the possible danger of being held up in our transportation?

Secretary KRUG. I do not believe so, if we promptly take the steps we should be taking to prepare a future. We cannot do these things overnight.

I think it will take about 10 years to get into substantial production of synthetic liquid fuels. So if we are going to need synthetic liquid fuels 10 years from now we have to start right now.

Mrs. BOLTON. You feel secure in the situation in the Near East today?

Secretary KRUG. I do not.

Mrs. BOLTON. Then would you be very reluctant to rely upon that if you were this committee, sitting around this table trying to work out a recovery program for Europe with the insecurity to very life at the moment? Would you feel that we would be wise to plan either a different tempo of recovery or an entirely different field from which to draw for fuel?

Secretary KRUG. Well, I think we must plan the European recovery with the best information we have available now. We should have in it the flexibility for meeting what we might encounter during the course of it.

One of the uncertainties is the Middle East oil. If for any reason we cannot make that available for the oil refineries in Europe, then we will have to find some other system. I think we certainly can do it either way.

Needless to say, if you have uncertainty in the Middle East for any extended period it is going to reflect against the ERP. It is based on trying to get these countries at peace and at work.

Mrs. BOLTON. In the South American countries, are they inclined at this moment to give concessions to American firms?

Secretary KRUG. Yes; I think they are. The difficulty at the moment is that any development in South America requires American steel. Right now we do not have enough steel for our own expansion. It is very difficult to get any steel for development work in South American countries.

Mrs. BOLTON. Also of course the pipe lines?

Secretary KRUG. Yes, pipe lines; oil-country goods and refineries.

Mrs. BOLTON. If the security situation is such in the Near East that the pipe lines cannot be continued there do you think there would be any way of reimporting the pipe or bringing it to those places where it might be of use to the western world?

Secretary KRUG. Yes; I think it would be possible. A pipe line alone, however, would not be particularly helpful in the problem in South America.

Mrs. BOLTON. It might be for us?

Secretary KRUG. It might be in this country.

Mrs. BOLTON. We are short, are we not?

Secretary KRUG. Yes; we are short of pipe lines, too. If we are not using it there we certainly should be using it at home.

One of my colleagues points out that there is a water route to the Middle East. You can get it with tankers.

Mrs. BOLTON. I understand that. If we only had T-2's, those would cost us about \$450,000 to build, and there is not the steel to build them with. If we had those making round trips, it would be nice, would it not?

Secretary KRUG. The Navy Department advised me that they estimate the cost of a T-2 tanker to be approximately $4\frac{1}{2}$ million dollars on a basis of current labor, material, and construction costs.

The tankers would require a lot more steel and a lot more material than the pipe line. I hope we can get the pipe line.

Mrs. BOLTON. Do you know what the time would be for building those, even if we could get priorities on them?

Secretary KRUG. I would say it would take a year.

Mrs. BOLTON. That would mean no strikes, sufficient steel, and plenty of labor.

Secretary KRUG. You would have to divert the steel from something else.

Mrs. BOLTON. That would be another matter that would need control?

Secretary KRUG. Yes. I do not think you should venture to build them without the steel.

Mrs. BOLTON. So it would be difficult.

Secretary KRUG. It would be difficult to substitute tankers for pipe lines.

Mrs. BOLTON. And we do not have enough of the tankers.

Secretary KRUG. That is right.

Mrs. BOLTON. I think I have used up my 5 minutes.

Mr. JAVITS, you are next on the list.

Mr. JAVITS. Mr. Secretary, as I read your chart, is it not a fact that today the ERP will get its oil largely from the Caribbean area?

Secretary KRUG. No. You see, from the chart with the circles on it, at the present time the center circle indicates the situation as of today. In the segment or "piece of pie" at the top it shows the Western Hemisphere other than the United States is a little larger, having 4.3 percent, or 17.3 million metric tons. The United States is 9 million metric tons. The Middle East, 8.6.

Mr. JAVITS. In other words, from now until the projected period of 1951, the ERP will get 50 percent of its oil from the Caribbean, roughly, and about 25 percent from the United States, and only the remaining 25 percent from the Middle East?

Secretary KRUG. That is right. That is the way it starts out. Now, it would be expected during this period you would gradually shift over some; at the end of it the Middle East would be carrying most of the load.

Mr. JAVITS. Then toward the end the Middle East reserves, it is assumed, will be more developed than ours?

Secretary KRUG. Yes. It requires two things: development of the Middle East pipe lines and construction of refineries in those countries.

Mr. JAVITS. Now, as far as the Middle East is concerned, for their future development, Mr. Secretary, do you believe that the Middle Eastern countries concerned are interested in having their oil resources developed?

Secretary KRUG. Yes; they are. They would stand to gain very materially in having them developed.

Mr. JAVITS. Do you consider it very essential to their own economies that their oil resources be developed?

Secretary KRUG. Yes, without a doubt, their oil resources, their oil reserves are their most dominant natural reserves.

Mr. JAVITS. Do you know how much of the annual government expenditure budget of Saudi Arabia comes out of the royalties that Saudi Arabia gets for oil?

Secretary KRUG. I do not have that figure but I would imagine it to be a very high percentage.

Mr. JAVITS. Would you give us that figure?

Secretary KRUG. It is 90 percent.

Mr. JAVITS. What is the same figure for Iraq?

Secretary KRUG. I would have to get that figure.

(The information is as follows:)

The Near Eastern Affairs Desk of the Department of State estimate that the following percentages of the total revenues of the countries as noted are derived from the development of their oil resources: Iraq, 19 percent; Iran, 12 percent; Suria 0, Saudi Arabia, 75 percent.

Mr. JAVITS. If you would be good enough to do that; also the same figure for Iran and for Syria. But for Saudi Arabia you say it is 90 percent?

Secretary KRUG. Yes, sir.

Mr. JAVITS. If you have no opinion on this, feel free to say so, but do you believe that at this time it is at least as important for the United States to endeavor to sustain the UN decision with respect to Palestine as it is to make available Middle Eastern oil production? I am speaking of this time, right now.

Secretary KRUG. I am afraid that is a question that my opinion would be pretty much worthless on.

Mr. JAVITS. But you will produce for us these figures on the other things?

Secretary KRUG. Yes, indeed.

Mrs. BOLTON. Mr. Richards.

Mr. RICHARDS. Mr. Secretary, you mentioned two or three times in your very admirable statement just now that you were not afraid of overproduction in this country. I imagine you predicated that upon the theory that European buying power is going to be sustained?

Secretary KRUG. I predicated it on the assumption we are going to get the world back at work again.

Mr. RICHARDS. And they could buy our materials?

Secretary KRUG. That is right; some of it.

Mr. RICHARDS. They cannot buy our materials unless they too are able to produce. They cannot get dollar exchange without having something to sell to us.

Secretary KRUG. Either directly or through some other country.

Mr. RICHARDS. Then you developed the idea, I thought very strongly, that if our people are going to be provided with jobs a sound

economy in Europe must here in the United States be a part of the picture.

You also mentioned shortages in this country of certain raw materials.

Secretary KRUG. Yes.

Mr. RICHARDS. I believe you mentioned zinc, chromite, manganese, and tin—or did you mention tin?

Secretary KRUG. Yes; we have to import all of our tin.

Mr. RICHARDS. Where are we getting most of our replacements in those articles?

Secretary KRUG. They come from various countries of the world. Of course the tin comes mostly from the Dutch East Indies and from Java, including Malaya.

We get various materials from South America. We get copper, of course, in very large quantities from Chile. We get substantial quantities of material from Africa.

Unfortunately, with the world production so low, these materials are short for everybody. There is a tremendous competition in the world markets for the materials in short supply. Before the war I think we considered about 5 materials as critical; now there are over 50. By that I mean that they are materials that you cannot meet all your requirements with.

In tin the demands of the military stock pile have gone unsatisfied because we have not been able to buy enough tin to take care of industrial uses.

Mr. RICHARDS. What about chromite? Where do we get most of our chromite from now? That is a very essential material in steel production.

Secretary KRUG. We will leave this copy with you.

I will recite some of the figures.

Copper: The principal place is Mexico, Canada, Rhodesia, and Peru.

Cordage fibers: Panama, Philippines, and the Netherlands East Indies.

I will skip to some of the better-known ones.

Nickel. Some comes from Canada, a little from Cuba.

We have some——

Mr. RICHARDS. Do you have those figures on chromite handy?

Secretary KRUG. Yes; we will find it for you.

Mr. RICHARDS. I want particularly the figure on how much chromite we import from Russia.

Are these short, critical materials you mentioned produced to any degree in the 16-country area in Europe?

Secretary KRUG. Not in quantities that could be exported. They will need practically all of their raw materials for their own industry and will have to import some on top of that. So if we are going to bolster our position it will have to come from other countries.

That is why I say we need the restoration of world trade, the European countries sending equipment and know-how and South America and Africa, China, India providing raw materials.

We have the sources but not the quantities of chrome. If you want the quantities you will have to wait.

Mr. RICHARDS. If you will put that in the record, it will be all right.

Secretary KRUG. Very well.

(The information is as follows:)

The quantities of chromite imported into the United States from all sources for the years 1944, 1945, 1946, and the first 11 months of 1947 were as follows:

Chromite imported into the United States

[In short tons]

Country	1944	1945	1946	11 months, 1947
Cuba	349,059	297,820	204,268	131,559
New Caledonia ¹	34,492	34,391	21,007	18,396
Philippines, Republic of			30,465	175,515
Sierra Leone ²		6,397	32,912	16,430
Southern Rhodesia	187,781	221,855	99,557	58,474
Turkey	98,777	70,845	9,015	39,149
Union of South Africa	40,376	110,415	235,340	204,092
U. S. S. R.	112,315	166,142	98,952	217,497
Other countries	25,590	6,900	25,875	27,846
Total	848,390	914,765	757,391	888,958

¹ French Pacific islands.

² British West Africa.

With further reference to your inquiry as to the principal foreign sources of supply of major strategic materials imported by the United States, I should like to submit for the record a listing of the better known minerals and the sources of supply for each of these minerals.

Principal foreign sources of supply of the major strategic minerals that are listed for stock-pile procurement by the U. S. Government

Material	Source	Material	Source
Antimony	Mexico, Bolivia, Peru, China.	Mica	India, Brazil, Madagascar, Argentina.
Asbestos	Southern Rhodesia, Union of South Africa.	Monazite	India, Brazil.
Bauxite	Surinam, Netherlands Indies.	Nickel	Canada, New Caledonia.
Chromite	Union of South Africa, USSR, Philippine Islands, Cuba.	Platinum	Canada, Colombia, U. S. S. R.
Cobalt	Belgian Congo, French Morocco, Northern Rhodesia.	Quartz crystals	Brazil.
Copper	Chile, Mexico, Peru, Canada.	Talc, steatite	India, Italy.
Diamonds	Belgian Congo, Union of South Africa, Gold Coast.	Tantalite	Belgian Congo, Brazil, South Rhodesia, Australia.
Graphite	Ceylon, Madagascar.	Tin	Bolivia, Netherlands East Indies, British Malaya, China.
Lead	Mexico, Canada, Newfoundland, Australia, Peru.	Tungsten	China, Bolivia, Brazil, Argentina, Burma.
Manganese ore	India, U. S. S. R., Union of South Africa.	Vanadium	Peru.
Mercury	Mexico, Italy, Spain.	Zinc	Mexico, Canada, Peru, Bolivia, Australia.

Mr. RICHARDS. Do you think that production of any of these short materials could be developed to the point where they are surplus to the needs of Europe and that area?

Secretary KRUG. I doubt very much whether you could safely take raw materials out of the European countries, with the populations they have and the kind of industry they must have to support that population. I think they will need their own raw materials.

Mr. RICHARDS. If it develops that production can be developed beyond domestic needs and ordinary commercial transactions, do you think that those things should be turned over to us in part payment for this aid?

Secretary KRUG. Yes. I agree with what Mr. Baruch said the other day—that we ought to offer to buy raw materials of every description we need, not required in the countries of their origination.

On the other hand, we want to protect our domestic mining industry. We cannot afford to ruin it. We need a careful balance between what we import and what we produce at home.

Mr. RICHARDS. You do not think any of the money provided here should be used as part of the purchase price for any of those materials?

Secretary KRUG. I doubt very much if any of these particular countries will be able to return part of this money in raw materials.

Mr. RICHARDS. Take Great Britain. Of course Great Britain has no tin in the United Kingdom, but they do have in their so-called Empire.

Secretary KRUG. That is what I referred to before. While we cannot get it from those countries, there are other countries in which those countries have an interest. We do have probabilities there.

Mr. RICHARDS. You agree that in these negotiations we should keep constantly in mind the needs of the United States along that line and get what we can for this country?

Secretary KRUG. Yes, indeed. I think that will be one of the great contributions of the recovery program to our own economy. It will put us in a position to get the raw materials we need for an expanding economy.

Mr. RICHARDS. What do you think about the method of administration of this European recovery program?

Secretary KRUG. I think there has been a tempest over the question. My own feelings are that if you are the right man for the job you do not have to worry too much about these organization charts. Whenever I find somebody paying too much attention to his lines of jurisdiction I find he usually is not doing a good job. I think if the President, with the approval of Congress, finds the right man for that job he will do a good job and will work out the questions that seem perplexing at the moment as to his relations with the State and other Government departments which must necessarily have an interest in this program.

Mr. RICHARDS. What would you think about a plan that envisages the President or the Secretary of State setting the foreign policy course in this thing and then have a clear line of demarcation and a corporation to administer the law?

Secretary KRUG. We need a business management of this program, and I do not think the business management will have any trouble following the foreign policy laid down by Secretary Marshall.

I had experience with that in many years of the war, and the relations in those programs were far more complex than they are in this one. We had very little trouble working it out.

Mr. RICHARDS. If we cannot work it out it is just a weakness of the democratic form of government and not the act itself?

Secretary KRUG. Yes. In our Government you cannot put any one man in any position where he has complete authority to do what he wants to do. It is too complex. You have to work with other men as a team.

Mr. RICHARDS. As a matter of fact, an absolute dictatorship, from the standpoint of efficiency of operation, might be better?

Secretary KRUG. I doubt it myself.

Mr. RICHARDS. I am inclined to agree with you.

Secretary KRUG. You know they used to say earlier in the war that if we had a dictatorship we would do a better job. I do not

think experience demonstrated that and those of us who knew about Germany frankly admitted that we could do a better job of mobilizing for the war than they did and certainly better than the Russians.

Mr. RICHARDS. Maybe we did not do a better job immediately, but in the long haul the democratic institutions did a better job.

Secretary KRUG. There is not the slightest question in my mind, either for the long haul or for any of the short-time jobs.

Mr. RICHARDS. Thank you, Mr. Secretary. That is all, Mr. Chairman.

Mr. VORYS. I have no questions at this time.

Mr. JONKMAN. Mr. Jarman, do you have any questions?

Mr. JARMAN. I am sorry, Mr. Secretary, that we have been interrupted, as I am sure my colleagues are. You have been interrupted by a roll call. That is part of the democratic system, even though it does disturb us.

I have one question. Although you feel that it naturally behooves us to look out for our interest about these strategic materials—that is, watch out and get them wherever we can—I take it, if I understood you correctly, that you do not feel that we should tie down in this bill, as a part of the payment for the \$6,800,000,000, a provision to require the countries to return strategic materials to us gratis as part payment for this.

Secretary KRUG. I do not think we should tie it down that way. I think the Administrator should be instructed to make whatever arrangements he can to get raw materials into this country and repayment as soon as possible for the amounts expended.

But if you are to tie this down to any current exchange of raw materials for money you ruin the entire program because the program is based on the best utilization of their resources that they have been able to work out and that our exports so far have been able to contribute to. If we take out of their economy some additional amounts we will just have to put in more money.

Mr. JARMAN. That is right. Those materials are already figured?

Secretary KRUG. They are already counted once.

Mr. JARMAN. We would just be taking money out of one pocket and putting it in the other.

Secretary KRUG. Yes. Of course, 10, 20, 30 years from now, if we get these economies working again, then we will be in a position to get raw materials from various countries in Africa, South America, and the East; and I am sure that we will get paid many times just for having the opportunity to reestablish world trade and replenish our supply, the materials we need, to support our standard of living.

Mr. JARMAN. I could not more thoroughly agree with you. But to make it clear I know you would not want to stipulate in this legislation anything about 20 or 30 years.

Secretary KRUG. No, sir; I would not want to put anything like that in because we might again put the burden in the wrong place and break them down rather than put them back on their feet.

Mr. JARMAN. And create a situation similar to the one we are trying to get them out of?

Secretary KRUG. Yes.

Mr. JARMAN. Thank you very much.

Mr. JONKMAN. Mr. Lodge is recognized until the ringing of the next bell, or thereabouts.

Mr. LODGE. I do not believe I will have time to ask many questions of the Secretary.

Mr. Secretary, in connection with the last point brought out by the gentleman from Alabama, I understood you to tell Mr. Richards that there were not many strategic materials which could be imported from the 16 nations which participated in this program.

Secretary KRUG. That is from those countries in Europe.

Mr. LODGE. Would that include their colonies?

Secretary KRUG. No. Their colonies do have materials which, with the right development, will give us the source for material supply.

Mr. LODGE. Would you see any objection to writing into this legislation a provision which would provide that at a time when there were no dollar deficits in any of these countries, or in the country which happened to be involved, strategic materials would be turned over to the United States in part repayment of some of the funds turned over under this program?

Secretary KRUG. I would not want to see it made that inflexible. I think the Administrator should make the best business deal he can for this country, but I would not want him put in a strait-jacket so that he might be forced to do something which added an economic burden that one of these countries could not stand.

Mr. LODGE. There is nothing magic or sacred, is there, in the amount which it is now proposed to be required as strategic materials from the 16 countries?

Secretary KRUG. No, sir. And you would not know until you move along and find out how their production steps up, what they need in their own economy and what they have left over.

Mr. LODGE. Now, Mr. Secretary, with respect to oil, which, of course, is the most strategic material of all, since we are providing roughly two-thirds of the oil and since we produce roughly one-third; is that reasonably accurate?

Secretary KRUG. We are using a ratio of two-thirds of the world's use and we have reserves of about one-third of the world's reserves.

Mr. LODGE. What would you think of capping some of our oil wells within the next 5 or 10 years and then provide that we shall be repaid, in 1951 or thereafter, at a time when the Middle East oil production has attained a large production, by oil reserves from those sources? I have in mind particularly the question of naval reserves of oil.

Secretary KRUG. I feel very strongly about that. We want to protect and safeguard a strong petroleum industry in this country. We need that as the backbone of our modern industry. Over and above that, I think we ought to import all the oil we can lay our hands on because it is, as you say, the most strategic of all of these materials.

Mr. LODGE. Then could we adapt to this question of oil the suggestion which I made a little while back on strategic materials in general and provide that with respect to oil, after a certain level of production had been attained in the Middle East, we would be repaid and, in the meantime, that we cap some of our oil wells—or within 5 or 10 years—and lay in a stock of reserves for naval and other purposes?

Secretary KRUG. I am not sure just how practical it would be to set up a definite formula as to when you could hope to get repayment of some of these advances from countries that have interests in the Middle East reserves. I assume that in working out this program the

Administrator is going to lay a firm foundation of repayment which will fit in with the economic revival of the countries.

Mr. LODGE. Are you asking us to assume the same thing, Mr. Secretary? Do you think we should make those assumptions?

Secretary KRUG. Yes. I am afraid if you tried to specify how the Administrator is to get repayment of the amounts proposed under this plan you are going to put him in a strait-jacket which will make it impossible for him to do his job, and instead of getting the recovery of the economy for the expenditure we will just have the expenditure.

Mr. LODGE. This would be after the expiration of the European recovery program. I do not see how it would put the Administrator in a strait-jacket.

Secretary KRUG. Because he would not know, or will not know, until he gets into this in great detail, just what years in their expanding economy they can start repaying in oil or other materials. We certainly do not know at the moment. It depends on how rapidly they move forward, and if you put the burden on even 10 years from now and they are unable to take it you have wrecked the purposes of the formula.

Mr. LODGE. Not if you have a formula whereby they would have to attain a certain level before they would make this transfer of oil.

Secretary KRUG. It might be possible to find that formula. What I have been trying to say is that I have not been able to devise one and I have not seen any that I would consider workable.

Mr. LODGE. I would be glad to have your opinion on that.

Mr. VORYS. You suggest that this be left to the Administrator. If the Administrator takes the view that all of the witnesses from the Cabinet have taken, and other witnesses so far, no administrator will ever make a deal to be repaid in raw materials—ever—because he will be so fearful that we would hurt somebody by attempting to secure repayment.

Now, just a few minutes ago on the floor of the House it was decided that in reclamation projects in this country we are going to have a 50-year limit for repayment from communities and people that cannot pay now, or could not pay in 4 years, or possibly not in 10 years, but they are going to get 50 years. What is wrong with asking that of nations that have potential resources when we are going to furnish the means of their existing and of their opening up those resources?

Secretary KRUG. We have been able to make pretty good estimates on reclamation projects as to what you can expect in the way of repayment and what is required. Even there, with our own farmers and an area we know something about, there is wide disagreement as to what the period should be.

I personally feel that 50 years is too short. It ought to be longer. The Congress, in its judgment, picked a different figure.

In our own country, if we find disagreement as to what that should be for an irrigation project, when we know the future of our own agriculture the way we do, you can understand the difficulties of applying a formula of that kind to the economy of these other countries.

Mr. VORYS. We have learned, here, that western Europe paid for about 25 percent of its imports by returns from investments of various sorts. Those investments, in general, furnished money to countries and people at the time they needed it and then were arranged to be paid back a long while afterward, so that as Europe's natural resources

were depleted, before the war, Europe had a means of paying for 25 percent of its needs.

This picture you have drawn shows that we are, in a period of years, to become depleted in our natural resources. But, as I understand it, you do not propose that we make arrangements so that we do the same that western Europe did and some day, when we are in need, through simply providing for long-time loans that are bearable and are honorable, get back some of the things we need when we need them.

Secretary KRUG. I do not think I said that, and, if I did, I did not mean it. What I am trying to say is that you should not try to put a formula into the bill because I do not see how you can write one at this time. I think you should put in a policy instruction to the Administrator to make the soundest business arrangements that he can, not only for the 4 or 5 years but for a longer period of time, in getting us back the materials and money that we have to put into this thing.

I do not know of any way of saying in what period of years each one of these countries should be expected to make a return of this amount of money. I do not think anybody else does.

Mr. JARMAN. Will the gentleman yield?

Mr. VORYS. I yield.

Mr. JARMAN. Is there not also this difference between that situation of the irrigation projects, the beneficiaries of which are on an individual basis, and this program? Is there not this vast difference of the dollar exchange situation, which does not exist between one irrigation man and another?

Secretary KRUG. This is infinitely more complicated. When you find that you are now arguing for hours about the question of what period you will have on an irrigation project you have some idea of what you would do if you were trying to figure out what term to put on these loans or what kinds of material to get repaid with during what period of time.

Mr. JARMAN. And fine and beneficial though the project may be, there is no comparison, I believe, between its effect on the future of this country and the peace of the world. There is no comparison between that irrigation project and this program for Europe.

Secretary KRUG. I think irrigation projects are pretty important as you know, but I think this is a different category altogether.

Mr. JARMAN. I agree with you. There just really is no comparison.

Secretary KRUG. No, sir.

Mr. JARMAN. Thank you, sir.

Mr. JONKMAN. I may have misunderstood you entirely, but did you mention that there should be no reduction of this amount of \$6,800,000,000?

Secretary KRUG. I did not testify on that at all, I was talking about the repayment of whatever amounts are appropriated.

Mr. JONKMAN. This may be entirely out of your jurisdiction, inasmuch as you treat with available supplies rather than where they are going to. For instance, I see in here the Netherlands is down for \$705,000,000. Have you any idea what that is to be?

Secretary KRUG. I personally do not have that information. The people who studied the matter went over it very carefully. But even at this time there would have to be a further specification before you

would know how many farm implements of what kinds and types are included.

Mr. JONKMAN. I have asked for such a statement and we expect to get it from the State Department.

That is all I have in mind.

I think, by way of filibuster, that Dr. Elliott would like to ask a question or two.

Dr. ELLIOTT. It would give me great pleasure to ask a question of my old boss in the WPB.

Secretary KRUG. I did not know I was your boss.

Dr. ELLIOTT. It was an official relationship, and well sustained, I hope.

Secretary KRUG. Thank you.

Dr. ELLIOTT. This whole question of stock piling is, of course, of vital interest to you, as I can tell from your continued interest in it for many years. This question I want to address to you is largely to clarify one or two points that continually have come up and are so likely to be misunderstood.

Suppose I put it this way: It is manifestly impossible to get any large amounts of raw materials of a critical or strategic nature at a time when the whole world is experiencing shortages and therefore there is no possibility of making any sensible exchange, in the immediate future, against American loans or grants or anything else.

That, I think, is common ground, to start off with. And any kind of proposals of that sort are, on their face, ridiculous. You would not be assisting anybody by merely taking back that kind of goods which we are now paying for and spending more dollars. So that is clear.

Secretary KRUG. Yes.

Dr. ELLIOTT. Now, sir, on the other hand, viewing it as Mr. Vorys and others have put it to you, and as you have put it yourself in terms of a long-run proposition, it obviously would be possible, if these countries are ever to achieve solvency and balance, to put their assets on the table in repayment, by developing, above and beyond commercial uses, new resources; would that not be true?

Secretary KRUG. Yes; indeed. I think that is an essential part of this program.

Dr. ELLIOTT. So that, in that way, repayment of some considerable part of the advances, whether they be in the form of grants or in the forms of loans made or that might be made, might have a bearing on the amount of advances that was put in as grants or as loans.

Secretary KRUG. Yes. I think there is another factor that is frequently lost sight of. At the present time, with materials short, the price is extremely high. If you have got production up to the level of world demand, and with a little margin to spare, prices would come down. So we in effect would get repayment of this loan many times if we can get world prices stabilized at a more reasonable level.

Dr. ELLIOTT. I think that is a very important point for the record, Mr. Chairman, and I hope it will be fully noted because that in itself would have an anti-inflationary effect to the degree that we could develop additional resources and bring down world levels of prices.

On the specific point of minerals, as you will recall, sir, when I used to have to report to you on these minerals there were about 200 items, in total, in the stock pile list, and perhaps 40 of them were minerals not produced in adequate quantities for war purposes in the United States.

Secretary KRUG. At least 40.

Dr. ELLIOTT. These are widely distributed in the colonies and territories possessed by the 16 countries. In particular, they are extremely widely distributed in the Belgian Congo, British African territories, and many other territories, including Rhodesia, taking in East Africa; and great quantities of copper and some very interesting minerals that we do not talk about very much, not only uranium but tantalite and columbite, very important war minerals, cobalt, carborundum; and these things that used to give us so many headaches, such as strategic grades of asbestos that we had such heavy sinkings of during the war and had difficulty keeping up with.

Our reserves, as your own experts in the Bureau of Mines have shown, are extremely limited. In some of those we have 6 months' supply and in some no supply. In those that we do have supply they run from 2, 4, 5 years, at the prewar rates of use.

Therefore, from the point of view of building up our natural resources, there need be no limit on the amount of these minerals that we could take and stock pile on a sterilized basis, keeping them off commercial account just as natural resources reserves—just as good above ground as under ground.

Would that be accurate?

Secretary KRUG. There are none that I can think of.

Dr. ELLIOTT. So that if we could arrange to find over a long period the imports for repayment purposes as a condition of these loans, leaving the details to be worked out, giving the administrator a directive and making it one of those conditions which he was to attach to those countries where it was practicable, I believe that would be an equitable protection of the national interest. I do not know how long the period would be. It might run 20, 30, 40, or 50 years?

Secretary KRUG. Yes, where it was up to his judgment.

Dr. ELLIOTT. He would obviously have to proceed in each individual country. If they had little or no minerals of this character, as is the case of Italy, now deprived of her colonies, there is not much to use. Italy would have some sulfur, and steatite talc, but they are negligible in terms of repayment.

Greece and Turkey have considerable mineral resources, directly in the countries themselves. These might well be developed as a long-run proposition.

Secretary KRUG. Yes.

Dr. ELLIOTT. Now, on the question of oil, and I turn back to Congressman Lodge with this introductory statement to bring him up to date.

Mr. LODGE. Please.

Dr. ELLIOTT. I hope we will have testimony before the committee from experts, perhaps your own and outside experts who served in the P. A. W. during the war, about the feasibility of capping certain fields. This would not be possible, because the world shortage of oil is in my judgment the most serious shortage I have been able to find in a study of this European program. It looks to be 40 or 50 percent short, in terms of availability, of meeting the CEEC figures unless we can develop pipe lines and get German pipe into the Middle East and refineries and tankers going faster than now planned.

Your own department cuts down those CEEC requested figures greatly but if the Middle Eastern pipe lines remain cut, or anything of that sort happens often, a very serious situation is created.

Over a long period I think what is back in our mind and what we need help in thinking out is that conditions should be attached to those countries which, like Britain, Holland, in some measure, particularly in the Far East and certainly France, which through their holdings have extremely large reserves of oil.

Those deliveries might well be made over and above the production that they need to carry their own economies over a very long-time period in the same way, barrel for barrel, against the reserves that were kept capped in this country. The exchange could be effected by having this Government pay in advance for taking over a field. I am told the estimates of reserves are now possible on a commercial basis.

Secretary KRUG. I do not think you have to cap fields. The oil wells are running out every day. You reach a point where you do not have to drill as many new ones. I doubt whether we could ever import enough oil so you would want to close down oil fields in this country.

Dr. ELLIOTT. Let me suggest a possible reason for it. The capping of a field with the rigs up in a stand-by condition is a very useful way to keep a potential stock pile of oil because it can be gotten at any time. It is on tap at need.

That deserves thinking about, surely. From the standpoint of a naval oil reserve it does not have to be drilled and a rig set up. This proposition is something to be explored and it is on that line that we like very much, if it were available, to have testimony (a) as to the practicality of whether or not estimates as to commercial reserves were feasible. Would it be possible to estimate these United States within commercial limits? Settlements might be made on such estimates because you would obviously have to pay the owners of capped wells in oil from abroad either by supplying them with equivalent values. If those figures could be worked out in practical relationships, the repayment might be made by debtor countries in kind.

The estimates that were prepared for the Select Committee on Foreign Aid do not differ very greatly from the State Department's estimate for the other minerals that could be produced by foreign countries for our stock piles.

I believe the State Department figured perhaps 160 or 170 million dollars annually over and above commercial needs in minerals might be put in. The estimates prepared by Simon Strauss, who was working during the war for Metals Reserve, for the select committee, ran perhaps 200,000,000 at '45 prices or nearer 250 million at present prices.

Secretary KRUG. I have seen those figures. Frankly, Dr. Elliott, I do not believe we have the information to reach any very accurate conclusion. I think it requires a tremendous amount of additional study.

It should be done, and the Administrator ought to have that as one of his responsibilities, pointing out what this world economy can do and where we are going to get it.

Dr. ELLIOTT. I would respectfully beg leave to suggest that those "order of magnitude" guesses in the minerals field made by experts with some knowledge of the developmental possibilities of the world are at least as accurate as the CEEC figures and some figures submitted by the Administration as the basis for loans or European aid grants to be advanced by this country.

I think, as you have indicated, both have to be screened.

I would not have any doubts about that at all.

Mr. LODGE. Your idea is that what is sauce for the goose is sauce for the gander?

Dr. ELLIOTT. That is right. If this oil proposition could be developed carefully, and it is on that we were looking for some study—it may be that it is an impractical idea—but if it has practical implications and reserves could be figured out and such deals made, after 5 to 10 years some of our oil fields might be kept in a standby condition for naval oil reserves. It might well be possible, under those conditions, to have European countries repay three or four hundred million dollars a year out of oil to this country.

That would be a very substantial item, the two figures added together, \$200,000,000 for strategic minerals plus perhaps another \$300,000,000 for oil payments.

Secretary KRUG. We would certainly be happy to give that more study.

Dr. ELLIOTT. If you would get figures on that it would be of considerable use to us.

Secretary KRUG. Yes, sir.

Mr. ELLIOTT. Thank you very much.

(The information is as follows:)

Because of the numerous variables and the complexities of this situation, a categorical answer cannot be given at this time and I seriously doubt the practicality of an answer which would have to be based upon broad assumptions, the accuracy of which would certainly be open to question. For example, the technical problem of "capping" oil wells is a most difficult one, which involves considerable risk. Unless all the wells in a field or a pool are tightly cased and cemented, the reservoir sands might be damaged. In addition, there are also very real difficulties of an economic and a legal nature, which would make it extremely difficult to require the capping of specific wells. It would also seem to me that such a program of capping our domestic production would at least have a psychologically ill effect on a program designed to accomplish the utmost in new exploration and development, which is so essential at this time.

Concerning the return flow of oil as a repayment feature of the European recovery program, I doubt very much the practicality of attempting to work out the details of such a problem at this time. Basically, the objective of the establishment of adequate refining and transportation capacity in the participating countries is sound and, if successful, it will permit the flow of crude oil from the Near and Middle East directly to these refineries. The net result of such a procedure would be to make available to the United States an additional equivalent amount of crude oil at least from the more adjacent Caribbean areas and thus accomplish a desirable benefit insofar as the United States is concerned. In addition thereto, it would also have merit from the standpoint of security. The entire problem, however, as I have pointed out, is one which will require skillful and efficient administration throughout the life of the program, and I do not recommend an attempt be made at this time to formulate the specific methods by which such objectives can be achieved.

Dr. ELLIOTT. Those were just fill-ins. Now, the members have come back.

Would it be possible to say one final thing, that the estimates of the CEEC figures for petroleum requirements, reasonable as they may be from the point of view of development schemes they are trying to put into effect, are not likely to be filled with available world oil resources, including every export possibility from the United States, by a very large amount?

Mr. LEVY. These estimates have been reduced by about 22 percent by the U. S. Executive Branch.

Dr. ELLIOTT. In the statement submitted to the President?

Mr. LEVY. Yes, sir.

Dr. ELLIOTT. And providing the development proceeds according to your best hopes, including tanker figures?

Mr. LEVY. Yes, sir.

Dr. ELLIOTT. Are refining capacity and pipe lines being put in?

Secretary KRUG. Yes, sir.

Dr. ELLIOTT. The pipe lines to the Middle East in most instances do not seem to be available. Will they be available later?

Secretary KRUG. In 1950 or 1951 they will be.

Dr. ELLIOTT. So the middle-eastern increases will not in most cases have an important effect?

Secretary KRUG. Crude oil will be shipped by tankers.

Dr. ELLIOTT. But the other oil will be there too. Additional oil will be available if lines are laid into the Kirkuk fields?

Secretary KRUG. Yes.

Dr. ELLIOTT. Are you counting on the Kirkuk fields being opened up to reach that efficiency instead of the figures of the Herter report?

Secretary KRUG. Yes, sir; in fact Kirkuk field is liable to come in next year.

Dr. ELLIOTT. Thank you. I have no further questions.

Mr. LODGE. Mr. Secretary, with respect to this vital question of oil, there are certain plants in Germany which are going to be dismantled, according to present plans, and which manufacture pipe. I have it here that—

Among the doomed pipe-producing plants are some of the most modern and most efficient units in Europe, four large units of Mannesmann in Gelsen Kirchen, Duisburg, Dusseldorf, and Witten, and that these plants are especially equipped for welding of large-diameter pipe.

This type of plant has been given top priority by the Herter committee as essential to alleviate the delivery of oil and gas in the United States as well as to provide Europe with critically needed oil products from the Middle East.

I would be interested to have your comment as to whether you think that there are valid and sufficient reasons for going ahead with the dismantling of these plants.

Secretary KRUG. I made no study of the matter whatever and hardly am in a position to give you an informed answer. I would say if the other material necessary to operate those plants can be made available, we certainly have short pipe all over the world and we ought to have the pipe lines to operate them.

Mr. LODGE. If the other material necessary to operate them cannot be made available in Germany it would have to be made available wherever the plants are sent and the value of the plant after dismantling is estimated at 8 percent of its predismantling value.

Secretary KRUG. That dismantling of plants is not a very good proposition. I have found that out from experience.

Mr. LODGE. I believe it is very important for this committee to have your view on that dismantling business. There are many of us here who do not quite understand why it is going on at this particular juncture. Several of us feel it might have been a good thing to withhold at least temporarily the dismantling of many of these plants, particularly this type and the nitrogen-producing plants, at least until the full implications of the whole situation had been fully explored, with particular regard to the European recovery program.

I should like to ask you if you will be so kind as to submit to this committee a statement giving your opinion as to the dismantling of this type of plant.

Secretary KRUG. I am afraid I could not give an opinion without making a pretty detailed study of what plants are being dismantled and why, and I assume from all the discussions of the question that a study of that kind would take a very considerable period of time.

Mr. LODGE. On the other hand, many of us in Congress think it is very important in connection with this program, and I am sure you would not want to delay action.

Secretary KRUG. I am happy to do anything you want me to do. I am reasonably busy with the Interior problems and it seems to me what they do in Germany is in a field somewhat foreign to my own.

Mr. LODGE. Well, that of course is a question on which I could hardly comment, except to point out that insofar as you are testifying on the world oil situation with respect to the ERP, the question of these plants has a very direct and pertinent bearing. It seemed to me that you were not just testifying on the problem within the United States.

Secretary KRUG. I would like to know more about why they are dismantling those plants.

Mr. LODGE. I quite understand that you would not want to answer it now.

I was in hopes that you would be able to give us an answer, sometime at your convenience.

Secretary KRUG. I would be happy to make a study of it.

(The information supplied by Secretary of Interior Krug is as follows:)

I have studied the data and information available to me on this subject in the Department of State and in the Department of the Army. I think I should make it very clear, however, that I have only a general knowledge of the conditions existing in Germany, and that I have not heretofore concerned myself in any way with the German reparation program.

From the information furnished me, I find that, when it became evident that the Soviet Union was not prepared to agree to any practical measures to restore Germany's economic unity, General Clay was instructed to prepare, in collaboration with his British colleagues, a revised level of industry plan for the combined United States-United Kingdom zones in Germany. This revised plan, the preparation of which was begun in the spring of 1947, was published on August 29, and the list of plants selected for removal thereunder was published on October 16, 1947.

The revised plan was designed to insure the retention in the bizonal area of sufficient industrial capacity to afford the basis for the development of a reasonable standard of living, and for a substantial German contribution to European recovery through exports of manufactured products. Its general effect was to provide for the retention of a capacity adequate to sustain a level of industrial production comparable to that which prevailed in 1936. On a per capita basis, this level was estimated to be approximately 75 percent of that of 1936, but provides for a volume of exports 15 percent greater than that of 1936. It is my understanding that the list of plants selected for removal as reparation was drawn up on the basis of the revised level of industry plan, and that the dismantling program has been carried on on the basis of this list.

I find that careful consideration was given to the question of the availability of labor, housing, transportation, fuel, power, and raw materials; and that serious shortages in several of these essentials were important factors in arriving at a decision on the dismantling of these plants. It seems apparent that these shortages will continue for several years to come. The material available to me discloses that these shortages are such as to make it practically impossible to utilize fully before 1951 even the capacity scheduled for retention under the revised level of industry plan.

I further find that consideration was given to the importing of additional coal from the United States in order to bring into production the plants scheduled for dismantling, but that a decision was reached that transportation, labor, and other shortages would make such imports of little, if any, value.

There is further evidence from the material supplied me that, quite aside from any moral obligation which may exist to replace through a reparation program facilities in other countries which had been destroyed by German aggression careful consideration was given to the question whether the recipient countries, would have the necessary transportation, fuel, labor, housing, etc., to utilize these facilities efficiently, and to place them in production with reasonable promptness. I further find that, in making the decision, consideration was given to the costs and the delivery time of new facilities which might substitute for the reestablishment of German dismantled facilities in other countries. It was determined that similar new facilities and equipment were not available from other sources; would in any circumstance involve considerable additional costs, largely in terms of scarce dollars; and that such new facilities could in large part not be procured and placed into operation in a comparable period of time.

In summary on the basis of the evidence available to me, it appears that all significant factors were carefully considered in the preparation of revised level of industry plan, and of the list of plants to be dismantled thereunder.

The data available in Washington do not, of course, completely fill the requirement of a technical investigation with respect to specific and individual plants. Investigations of this character necessarily fall within the operating responsibility of the military authorities in Germany. Such experience as I have had with industrial production in this country convinces me that technical opinions of this kind are dangerous and misleading unless they are prepared upon a basis of complete and detailed information and total familiarity with the subject, such as could only be obtained through operational experience in the field.

Such evidence as is available in Washington, however, indicates that in the selection of individual plants for removal full attention was paid both to Germany's domestic needs and to the needs of European countries for industrial exports from Germany. Since your question was directed specifically to certain pipe-welding or pipe-fabricating facilities, I was much interested in the available information on this specific subject. This information indicates that technical representatives of the contractors for the Near East oil pipe lines were called in to examine these facilities and report upon their possible contribution to the petroleum development and pipe-line construction in that area. It was their opinion that the facilities in question were incapable of manufacturing any materials needed for the near eastern oil development.

I do not like to labor the point that my own unfamiliarity with situation and lack of complete data make it impossible for me to give categorical answers to your queries. While I doubt, however, if my statements have added anything to the material already available to you and your committee, a more definite answer to such a specific question could only be supplied after a careful and detailed examination of the entire subject. Such an examination would require the availability of information as to inventories, personnel, methods, transportation, housing, raw materials, supplies, energy sources, and similar data concerning all of the industrial plants. In addition, it would require a careful survey of the plants on the site in order that related factors might be given consideration.

It is my understanding that the Department of State and the Department of the Army are now collecting additional information for your committee, and that detailed consideration is being given to the question of whether certain plants technically capable of producing items in critically short supply might make a greater contribution to European recovery if retained in Germany. I understand that this information will be furnished to your committee at the earliest possible date.

Mr. LODGE. The same thing applies to the dismantling of many of the other steel plants and where that would have a bearing on your department is with respect to coal.

It seemed to me that it might be worth considering not to dismantle all of these sheet and steel rolling-mill plants in Germany, but to provide them with the coal to function and in that way we could export less steel, which is in relatively short supply here, as I understand it, and much more expensive; we could instead, export more

coal to the French and German plants which now have not got enough coal to operate.

I wonder whether you would care to comment on that?

Secretary KRUG. It is perfectly clear to me that the speediest way to get more steel production would be to put back into production the capacity wherever it is located, which is already available, and I would urge strongly that if there is steel capacity in Germany which can be made productive, and by "can be" I mean coal, Congressman, coke, and the other things that go with it, that we ought to be using that capacity to help out in this program and not diluting our already short supply in this country to take care of the demands in Europe.

Mr. LODGE. I am glad to hear you say that, Mr. Secretary.

Mr. VORYS. I wondered, Mr. Secretary, if this is in your line, as to whether we should ship coal over to Europe, or use measures to stimulate their own production of coal? It has occurred to me that with our coal at about \$22 a ton, delivered over there, we could spend considerably less than that in incentive goods, or certainly in food if it was available, to stimulate the production of more coal over there.

Secretary KRUG. You are right on the principle. Certainly it is better to get the coal there. This program, however, takes into account the maximum stimulation, which is considered practical. My own view is that it is optimistic and they will not be able to make those goals, and we will have to ship more coal rather than less.

In other words, with all-out drive to get more coal production in Europe and in England they will fall short of their projected goals, so that this amount which makes up only the deficit will probably be insufficient. A somewhat larger amount will be needed when this plan is finally worked out.

Mr. VORYS. Now, on timber, we have got in here a considerable amount of timber for the next 15 months.

What are our resources of timber compared to those of western Europe, do you know?

Secretary KRUG. No; I do not, offhand. I do know that our own resources of timber are hardly sufficient for our own needs, and any inclusion of timber in this program would only be on the basis that it is absolutely essential to the program and cannot be obtained from cutting their own forests in Europe.

Mr. VORYS. When we were in Germany the Germans said that they had in their requests timber, and having driven through vast and magnificent, orderly forests there, which was an unusual sight to me from central Ohio, I said, "Why don't you cut your own timber?" They said, "That would mean cutting ahead so that we would be going into our natural resources."

Well, I suggested that we had had to dip into our natural resources to finish the war they started and if they had the timber, I was wondering whether it might not be a good idea for them to dip ahead for a few years through this period.

I wonder whether we are going to have to cut ahead into our natural resources in order to supply them with timber so they will not have to cut ahead into their natural resources.

Do you know what the balance is on timber?

Secretary KRUG. I do not know, to be quite frank with you about it. I certainly would oppose our cutting ahead to any greater degree

than they have. We are already cutting ahead in this country and have been for many years.

Mr. VORYS. I appreciate our questions to you should be directed to what we have here in this country, not the comparisons.

Secretary KRUG. I would be happy to try to find out.

Mr. VORYS. We have to make those comparisons in the committee and therefore we are searching for all the light we can get.

Secretary KRUG. We will give you a report on that.

Mr. VORYS. I think it would be fine to have it in the record at this point.

(The information referred to is as follows:)

WESTERN GERMANY

Complete information is not available at this time. The forestry section of the military government, however, estimates that in the American zone of occupation 21,839,000 cubic meters of timber was cut in 1947, which is approximately twice the estimated growth (10,919,000 cubic meters). This cut timber consisted of approximately 5,480,000 cords of fuel wood; 395,000 cords of pulpwood; 33,000,000 cubic feet of pit props; and 2,080,000,000 board feet of saw timber used for lumber, ties, poles, etc. It is estimated that the ratio of cut to growth is at least 2 to 1.

Information from the same source as it relates to the bizonal areas indicates that the cutting program for 1948 will total 30,000,000 cubic meters while the growth for the same period is estimated at 15,500,000 cubic meters. This cut will consist of approximately 3,743,000,000 board feet of saw timber; 911,000 cords of pulpwood; 118,000,000 cubic feet of pit props; and 4,475,000 cords of fuel wood. The reduction in fuel wood estimated above as compared with 1947 and approximating 18 percent is based on the assumption that increased coal production will make such reduction possible.

In general it is estimated that "overcutting" in the American zone is less serious than in the other three zones. The forests in the French and Soviet zones particularly have suffered great damage from snow and ice, bark beetles and other pests, and to some degree, fires. This has necessitated heavier cutting than would have been normally required. This condition has been aggravated by the necessity of cutting more timber into fuel wood which would otherwise have been suitable for lumber, pit props, pulpwood, etc.

Prior to the war, the normal productive capacity of the German forests, on a sustained-yield basis, was estimated at about 38,000,000 cubic meters, which included both industrial timber and fuel wood. With the advent of Nazi control, Goering ordered the increased cutting in the Prussian State forests in 1933, which policy was soon extended to include the public forests of the other states and later to private forests. In 1933 the ratio of reported cut to normal cut (38,000,000 cubic meters) was 128 percent and in 1937-38 this same ratio was increased to 161 percent. It declined to 130 percent in 1940-41; raised again to 140 percent in 1941-42; reached 150 percent in the next 2 years; and reached 160 percent in 1944-45.

In general it is estimated that the total timber stand in Germany as of 1933 was reduced by 200,000,000 to 250,000,000 cubic meters by "overcutting" from that date to the end of the war. This does not include destruction from military operations concerning which complete information is not available. The reduction from 1945 to date might amount to a 5-percent reduction. The fact that there are still some good stands of timber left in Germany is due to a sound policy of conservation that was followed for many years before the war.

PARTICIPATING COUNTRIES

Data relating to lumber production and standing timber are fragmentary and rather incomplete with respect to the 16 participating countries. Not all of these countries accumulated accurate data and there are many variations in their methods of reporting and the classifications included thereunder. This is particularly true of "standing timber" on which estimates are generally made at rather long intervals and in many countries are not made at all. The following table sets forth the best available data, which, however, is in the nature of an estimate.

Estimated stand of timber; about 1935

Country	Volume of all timber	Volume of saw timber ¹
	<i>Million cubic feet</i>	<i>Billion board feet</i>
Germany (all).....	58,610	200-235
Great Britain.....	2,260	7
Norway.....	11,390	36
Sweden.....	50,050	167

¹ Saw timber includes trees large enough to be sawn for lumber; in the United States these minimum diameters vary from 9 to 15 inches; in Europe, those of 8 inches and over. Norway and Sweden figures are from International Yearbook of Forestry Statistics 1933-35. All-timber volume for Germany is from TIDC Report 30, German Forest Resources and Forest Products Industries; saw-timber volume is calculated. All-timber volume for Great Britain is from International Yearbook; saw-timber volume is calculated.

With respect to lumber production, figures are more readily available although they are not to be considered as other than estimates. The following table sets forth these data as they concern the participating countries.

Lumber production ¹ of participating countries for selected years

[All figures are million board feet]

Country	1934-38 average	1948	1951	Country	1934-38 average	1948	1951
Austria.....	815	739	726	Portugal.....	477	477	477
Belgium.....	165	203	203	Sweden.....	3,146	2,898	2,898
Denmark.....	168	156	177	Switzerland.....	376	357	357
France.....	1,795	2,450	2,471	Turkey.....	192	103	103
Greece.....	37	45	81	United Kingdom.....	268	323	94
Iceland.....				Subtotal.....	9,013	9,121	8,780
Ireland.....	19	24	14	Western Germany.....	3,236	3,700	3,882
Italy.....	783	480	337	Total western Europe.....	12,249	12,821	12,662
Luxembourg.....	6	8	7				
Netherlands.....	49	29	24				
Norway.....	717	829	811				

¹ Includes sawn lumber and railroad ties.

NOTE.—Figures are based on CEEC report.

UNITED STATES

The rate of timber cutting in the United States has been much greater than the rate of growth for at least 50 and probably 100 years or more. The stand of saw timber has been reduced by more than 40 percent in the last 40 years. Although the total drain and growth of all wood are now almost in balance, the drain on saw-timber supplies (trees large enough to yield sawlogs) still exceeds the growth by more than 50 percent.

In 1938, the saw-timber volume was estimated at 1,764 billion board feet while in 1945 this same estimate approximated 1,601 billion board feet. By calculation, giving allowances for rates of cutting and other drain of growth, the stand in 1928 is estimated at about 1,850 billion board feet, in 1947 at 1,575 billion board feet, and in 1951 at about 1,500 to 1,530 billion board feet.

Estimated stand of timber in United States, about 1935

Volume of all timber.....	cubic feet--	520,000,000,000
Volume of saw-timber.....	board feet--	1,765,000,000,000

On a basis of the Forest Service and census for the United States, the following data reflect lumber production in selected years.

Lumber ¹ production of United States for selected years

[All figures are million board feet]

1934-38 average.....	24,645
1947.....	38,000
1951.....	34,000-36,000

¹ Includes sawn lumber and railroad ties.

For convenience, I have treated western Germany in all of the tables given above as one of the participating countries under the European recovery program.

Mr. LODGE. In connection with this steel question, I quite understand the natural fears which many people have. However, I feel that the most imminent threat today in Europe is not Germany. I feel also that an impoverished, distressed and diseased Germany is much more of an imminent threat than an undismantled Germany. It seems to me that if we take the proper police methods to handle the situation, perhaps by internationalization of certain areas or by other means, we can save ourselves a great deal in the export of steel. Let us, therefore, look very carefully, into the question of whether these steel plants should all be dismantled.

Secretary KRUG. While my opinion was never solicited on that question, I certainly as a private citizen have felt that demolishing a big segment of German industry is a very poor preventive for another war.

Mr. LODGE. I think you will agree that almost everything which we use is war potential in an absolute sense. We could say that wheat is a war potential.

Secretary KRUG. Certainly.

Mr. LODGE. Does not it seem to you that the important thing is to get an international organization which could handle this thing, rather than try to decide which plants are war potential and which are not?

Secretary KRUG. That is my feeling.

Mr. LODGE. Mr. Secretary, in view of this shortage of oil, do you anticipate that it may be necessary to ration or price control oil in this country?

Secretary KRUG. Yes, sir.

Mr. LODGE. Would that be in the near future?

Secretary KRUG. It is too late to do anything about it this winter, but it looks to me quite likely that we will have to ration fuel oil next winter.

Mr. LODGE. Would we have to do that even if we did not have ERP?

Secretary KRUG. Even if we did not have ERP; yes, sir.

Mr. LODGE. In other words, you make that quite clear, that it is not because of the ERP that we may have to have rationing of all petroleum products and not just fuel oil?

Secretary KRUG. That is not necessarily true. We finally, during the war, rationed gasoline and fuel oil. We did not ration other petroleum products. It may be possible. If you recall, during the war there were periods when the gasoline rationing was lifted and then put down. You may have a time when you do not have to ration gasoline when you would ration fuel oil. But it is a thing we are watching closely in this cooperative program with the industry to see if by voluntary means we can get consumption down. The oil industry is spending about a million and a half on that program, and they are very hopeful that it will produce the desired result. I certainly hope that it does. But I am not at all certain it will, and rather than have people go cold next winter I think we should take steps, that are necessary.

Mr. LODGE. Do you think that rationing without price control is a practical method of dealing with the situation?

Secretary KRUG. I think it is preferable to have both.

Mr. LODGE. It is pretty hard to have rationing without price controls according to you?

Secretary KRUG. I think it is difficult, although during the war we had price control on coal. We never rationed coal.

We had price control on petroleum, and it was rationed.

Mr. LODGE. Thank you very much, Mr. Secretary. I am very much obliged to you.

Mr. JONKMAN. Mr. Jackson.

Mr. JACKSON. Mr. Secretary, I am very sorry we have been running in and out of here all afternoon and I do not know what has been touched on and what has not, so if I ask some questions that are already in the record, I can undoubtedly look them up rather than have you answer them again.

Would you care to comment or hazard a suggestion, Mr. Secretary, as to how long our proven domestic reserves will be sufficient for American consumption in a peacetime economy?

Secretary KRUG. Well, those calculations are really a bit misleading because the proven reserves as of any date are the reserves you just happen to know of at that time. Obviously, there is a lot of oil we do not know about at this time.

If you take the oil we know about, it is 20,000,000,000 barrels, which will last for 10 years at the rate we are going now.

But I do not want to give the impression our oil will be gone in 10 years because if we did not find another barrel we would not be able to draw it out of the ground in a 10-year period.

We would have to find substitutes and it would run for a considerable period of years.

Mr. JACKSON. Assuming the same proven reserves, how long would that last us in a total all-out war effort such as the last war?

Secretary KRUG. As it happens, our peacetime economy is using more oil than our all-out war economy.

Mr. JACKSON. More than we shipped overseas?

Secretary KRUG. We are using more petroleum today by at least 10 percent than the maximum of the war years.

Mr. JACKSON. That was for ourselves and for our allies, all the oil we used?

Secretary KRUG. That is right.

Mr. JACKSON. The reason I brought this up is because of the fact that during the debate on aid to Greece and Turkey it was stressed very strongly that free access to the oil in the Middle East was essential to our national security, that we could not afford to have access to the oil in the Middle East denied to us.

That is the reason I brought this up about our domestic problem.

Secretary KRUG. I think that is entirely true. If we had to superimpose another war on the uses we are now making of petroleum we would find it impossible to get it from our domestic sources.

We were fortunate at the start of the last war to have productive capacity in excess of our then consumption, so we drew on the extra capacity to meet the war needs and drilled our new wells too.

Now, we are using every drop of our available capacity. We could draw a little more by exhausting the wells sooner than they should be, but we are drawing now at the maximum economic rate of production

from all the wells, and if we had another war, we could not get more from our existing wells, except by shortening the life of those well.

Mr. JACKSON. Now, further, with reference to timber, as Mr. Vorys mentioned awhile ago: Is it not possible that there might be a much more economical and feasible plan to cut timber in Africa, in the colonies, rather than deplete our available supply, or cut ahead, as you put it?

Secretary KRUG. I think that might be possible several years from now. Fortunately if we are going to cut timber in any quantity you need a lot of equipment.

Heavy trucks, sawmills, roads, heavy equipment for handling it, and that equipment is not available in areas of the world where perhaps the timber is.

I would say it would take at least 3 or 4 years to get any considerable expansion of timber production in other parts of the world.

Mr. JACKSON. But certainly, it is a very desirable goal to work for?

Secretary KRUG. Yes, indeed. I think it is perhaps our most extravagant of all wastes the way we have used up our timber reserves in this country.

Mr. JACKSON. To go back, I know the matter of stock piling materials was touched on here. Unfortunately I did not get your entire comment on it. I know in the case of New Caledonia, for instance, they furnished us, all the allies, a considerable amount of nickel, during the war.

Secretary KRUG. Yes, sir.

Mr. JACKSON. A great many of us should like to see some provision written into the act which would give us some future use, as distinguished from current production, which would, of course, discount the balance-of-trade estimates, something that might insure future return in new development and exploitation of new sources of supply. And I wonder if you would comment on that?

Secretary KRUG. We have discussed it at considerable length. In summary, my view is this: Certainly that ought to be done but I would not like to see you put into the bill anything that would put the Administrator in a strait-jacket, so he might be forced to make a deal with somebody which in itself would pull down the structure we are trying to build, which is a sound, healthy world economy.

I think whatever you put into it should be to the effect "You make the wisest business deals you can for this country, with particular consideration to replenishing our storehouse of materials" is all right, and Congress ought to have the Administrator up here very 3 or 4 months to find out what he is doing about it.

I do not think you can write language or formulas that will fit it.

If you do, I am afraid the result will be the ruination of the program.

I have tried to contrive a formula and I have not been able to find one. I think I said before I have not been able to find any other formula by anyone else that seemed to me workable.

Mr. JACKSON. Of course, I cannot subscribe, unfortunately, to the theory that we cannot condition this program, any more than a banker cannot condition a loan. If you went to a banker and you owe him \$10,000 and you want to borrow another \$10,000 he will tell you to quit hitting the bottle, and hitting your wife, and stopping some things you have been doing, and possibly do some other things.

We all know the situation: "That is fine; sometime in the future. We have got the Greece-Turkey bill; don't do it in this bill; let's do

it in the \$342,000,000 bill. The relief bill came along; this is not the time to do it, but possibly in the interim-aid bill we can work it. Now is not the time to do it, but possibly sometime in the future we will be able to work out a detailed plan to get something back for the billions of dollars we are pouring out."

The only natural question that occurs to a lot of us is: Just when are we going to take some concrete steps to see if we cannot get back something in material return for these billions of dollars, without fatally handicapping any program of aid?

Secretary KRUG. Tell the Administrator to do that, but do not tell him how to do that; then check on him.

Mr. JACKSON. It would be all right in the law to tell him it should be done, without laying out any specific details?

Secretary KRUG. That is right. A statement of policy that you would like to get this money back, if possible, should be included. That is his job.

Mr. JACKSON. Thank you very much.

Mr. VORYS. Mrs. Bolton.

Mrs. BOLTON. If I might return to one or two things: You were speaking, I think, about the administration of this program and suggesting that the man was what mattered, and then you left him free to do what he chose.

Under the State Department suggestion, that would be one man; and you would be reluctant to have us set up any different arrangement, would you?

Secretary KRUG. I think it would be one man. He should have an advisory board. I do not think that would handicap his program; perhaps members of the Cabinet could be helpful to him and perhaps a group of citizens.

We had a WPB advisory board during the war that I found very helpful to me. That Board included only Government officials. We also had hundreds of advisory committees that included the best brains we could get in every industry.

I assume he would like to work with groups of that kind in administering this program.

Mrs. BOLTON. Do you think it would be possible to get a really top-flight man without having the thing written up a little more as to what he is getting into?

Secretary KRUG. The natural question of anyone being requested to take a Government job is, "What is the job?" But, as I said before, whenever they start worrying too much about what is the job, they are not going to do a good job, anyway.

Mrs. BOLTON. But any man in business, if he is asked to do a job, will want to know what the job is. This, of course, would look very much like an under secretary of state as far as the general set-up is concerned, would it not?

Secretary KRUG. I would not think so. Personally, I am not sticking for any particular one. We followed throughout the war the principal that the State Department controlled the WPB on policy, as to foreign matters.

We kept them in their field and had no trouble with them.

Mrs. BOLTON. Did you have an adequate definition of foreign policy?

Secretary KRUG. We defined it as we went along; and if we tried to spell it out at any predetermined point, I am sure we would have been in trouble.

Dr. ELLIOTT. I would like to ask a question that I think will bring out a difficulty if foreign policy is to be the only touchstone applied, and at the discretion of the Secretary of State.

For instance, when the State Department worked with you, Mr. Secretary, or your predecessor as Program Vice Chairman of the WPB on the subject of gold mining machinery to South Africa, the State Department took the view that gold mining machinery could not be cut off because of the effect on the political situation. The WPB, on the other hand, asked South Africa to export 200,000 tons of coal more a month to Europe, if railroad cars and mining machinery were sent by the United States to South Africa. The WPB, as I recall it, stuck to its guns and said that unless 200,000 tons of coal a month more were exported from South Africa—

We will not only cease buying low grade manganese and low grade chrome in South Africa, but we will not export gold mining machinery to South Africa. Since we ourselves have stopped gold production in the United States, we want coal, not more gold, to be produced by South Africa.

That was a business proposition, and in the end the WPB view stuck and the 200,000 more tons of coal a month were forthcoming.

They were extra. But that tough bargain could have been defined under the President's bill, could it not, as foreign policy? And it could have been stopped. In other words, it was the position of the Chairman of the WPB—and I believe that may be what you are bringing out—that enabled him to speak with authority on that, because he had to protect the resources of the war as a whole.

Secretary KRUG. During the war we never resolved it in writing. I am sure we could not. It is the State Department's sphere of operation as against the WPB sphere of operation, that is.

We had a number of instances where they thought foreign policy required something, and we did not think so. I do not recall a single one that was not finally worked out between the Chairman of the WPB and the Secretary of State; and we did not win all of these, you remember.

Dr. ELLIOTT. No; but we won a sizeable percentage of them; and the position was not that you had to take a directive from the Secretary of State. But this matter, affecting foreign policy, had to be acted on on both grounds. That is the point I had. The WPB chairman was an equal, not a subordinate. He could argue and had Cabinet rank.

Mrs. BOLTON. Mr. Secretary, in the matter of keeping closely in touch with the Congress, you have suggested that the Administrator come up every 3 or 4 months to inform Congress.

Secretary KRUG. Probably more frequently than that.

Mrs. BOLTON. What would be your feeling if, in order to keep the Congress very intimately informed, a committee of Congress, this special committee, be appointed somewhat similar to the Atomic Energy Committee, which meets very frequently?

Secretary KRUG. I think that might well be a good idea. During the war I found committees of Congress that dealt especially with war-production problems to be very helpful.

I met with them, not once every 3 or 4 months, but every 2 or 3 weeks.

Mrs. BOLTON. My thought was, at least once a week; and in that way we would be more able to follow our own instructions under the new organization bill, which is that whatever we do we must follow.

Secretary KRUG. I certainly will not see any objection to that, and I think it would have many advantages.

Mrs. BOLTON. Now, to go back to the Administrator: If everything was pinned upon the man, supposing something happens to that man? Then what do we have left?

Secretary KRUG. You will need more than one man; and I assume, if he is the right kind of a man, he will have around him a number of people who can take his place.

Mrs. BOLTON. Thank you.

Mr. Richards, do you have a question?

Mr. RICHARDS. We have had our say.

Mr. JACKSON. I have one additional question: From time to time, Mr. Secretary—and I suppose this is characteristic of all Members of Congress—we get letters demanding to know why two or three tankers are loaded with oil for the Soviet Union. Is any oil being shipped at the present time?

Secretary KRUG. I do not believe so.

Mr. FENTRESS. The principal petroleum products under export controls have no allocation for Russia at this time. There are one or two products not under control, and small shipments are going to Russia.

Mr. JACKSON. But not oil or petroleum?

Mr. FENTRESS. The principal products—aviation gasoline, heating oils of all kinds—are under control.

Mrs. BOLTON. That holds good of the Middle East, Bahrein areas?

Mr. FENTRESS. That holds good only within the United States.

Mrs. BOLTON. That is a very different situation.

Mr. JACKSON. Now, of course, much of the oil in Saudi Arabia we do control and we buy. That means that oil under our control is not being shipped?

Secretary KRUG. We are not controlling foreign oil at all, whether American companies happen to be developing it or not. The only controls we have any power to enforce are over exports out of this country.

Mr. JACKSON. But oil belonging to those countries may be shipped directly from the port of debarkation to any country?

Secretary KRUG. If it does not originate within the United States.

Mr. LODGE. Is it contemplated that any petroleum products of any nature will be shipped to the Soviet Union?

Secretary KRUG. Not to the best of my knowledge. The Secretary of Commerce handles that. We give advice only with respect to availabilities.

We have been strongly advocating that exports be held at the absolute minimum.

Mr. LODGE. With particular reference to Soviet Russia?

Secretary KRUG. With reference to everyone.

Mr. LODGE. Do you feel that a different theory should be taken with respect to Soviet Russia than with respect to other nations?

Secretary KRUG. I think Russia is in a position to take care of its own oil requirements if it wants to get in and do the job.

Mr. LODGE. Therefore, in view of our present shortage and particularly the shortage in New England, it would not seem well to stop shipments to Russia?

Secretary KRUG. That is what I would conclude.

Mr. JAVITS. Is there any way in which the Department of the Interior would tie into the proposals under the ERP for these 16 nations and their colonies and dependencies—I emphasize that—to engage in oil exploration, to see if they can find new resources?

Secretary KRUG. We would expect, under this arrangement, to be the technical brains of the Administrator in the petroleum field, and we would be doing our best to influence him at all times to keep the exports of petroleum at a minimum—to make sure they go to essential purposes and to develop all the petroleum he can any place in the world.

Mr. JAVITS. Do you find under this bill any section which gives you an official connection with that effort?

Secretary KRUG. We have no authority under the bill to tell the Administrator to do anything.

Mr. JAVITS. It would then be informal?

Secretary KRUG. Yes.

Mr. LODGE. The Secretary of Commerce advocated that the Administrator should have nothing whatsoever to do with questions of American internal economy, questions of availabilities. Questions of what we could afford would be up to the heads of the departments. If you subscribe to that view, and that becomes the law, then the Administrator would have to come to you?

Secretary KRUG. He would come to us and say: "Can I get this much oil in the United States for shipment to France, Belgium, or Holland?" And we would tell him whether or not he could. If he insisted that he had to have oil, which we felt was more urgently needed here, Averell Harriman and the Department of Commerce would have the controls over the exports. His program could be blocked. Then it would be an appeal to the President.

But I would not expect any contingencies of that kind developing. It would seem to me that is up to the various department heads.

The Secretary of Agriculture for food, Interior for coal and oil, and Commerce for other commodities and equipment, would be able to sit down with him and work out a program that would do his job, with the minimum impact on our own domestic economy. Obviously you could not have him in a position to go out and take some oil equipment or pipe capacity that was desperately needed for our own industry and ship that abroad.

Mr. LODGE. Exactly.

Mrs. BOLTON. What do you think of the Foreign Aid Council set up under the Herter bill for just that purpose?

Secretary KRUG. I have not had a chance to make a careful comparison between the bill proposed by the President and the bill proposed by Mr. Herter, and my own feeling on the administration end of it is that it is given far too much prominence.

The difficulties, I think, are largely imaginary if we get the right kind of people to administer the program; and if we do not get the right kind of people, it will not work anyhow, regardless of the type of organization chart you have worked out.

Mrs. BOLTON. I wondered if we might ask Mr. Elliott?

Dr. ELLIOTT. Mr. Vorys suggested before he left that I put a question to you.

The shortage of both gasoline and fuel oil has increased, we are told, by the recycling processes to increase the octane ratings of gasoline, which has been put up to a very high point, according to Mr. Frey in the report he wrote for the Select Committee on Foreign Aid, by a race between the oil companies.

Is that not capable of being cured now by the powers which I believe would be vested in you, sir, with the Justice Department, in consultation with the industry to work out arrangements to limit that high octane race that is going on? If this race produces new motorcars that require higher octane content, will not that still further deplete our supply of gas and fuel oil?

Secretary KRUG. There has been that kind of a race and it did have that result. Fortunately the tremendous demands on the industry automatically reversed it, so for the past 3 or 4 months the trend is the other way.

We have a committee of industry working with us on that and they have promised complete cooperation to get the maximum of petroleum products to do the job.

Dr. ELLIOTT. Under the new law you would have the right to do that to any extent you and the Department of Justice would agree?

Secretary KRUG. No, we have no power. If the industry is willing to do it, it is all right. We would get the industry together and ask them if they would do it but if one member or if the industry says no, we have no power to require it.

Mr. LODGE. With respect to our national defense, we read in the paper about the insufficiency of petroleum products.

In particular it is my understanding there is just barely enough at this time to run our very much diminished Navy. Suppose we were called upon in the interest of national security and to maintain the peace to demothball some of our ships and suppose we get 70 air groups, which is my devout hope, what are you going to do?

Secretary KRUG. We would immediately have to ration fuel oil and gasoline. We found out after the trial that all other schemes were of no avail. The other alternative is to cut down on the demand where you can cut down without hurting people.

We have to do that immediately, if we have a substantial increase in the military requirements.

At the present time they are running about 4 percent of total consumption. During the war at one time I think they were up to 32 and 33 percent.

Mr. LODGE. In other words, with a certain amount of sacrifice on the part of the American people, and they have always been willing to make sacrifices, and with sacrifices that would not be too painful, we could still expand our armed forces, even without substantial imports of petroleum products?

Secretary KRUG. We would have to do a more drastic job of rationing then we did during the war, if we had to carry on any major defense operations.

Mr. LODGE. It could be done?

Secretary KRUG. Yes.

Mr. LODGE. I am very glad to hear that, sir. Thank you very much.

Mr. VORYS. Are there any other questions?

Mr. MANSFIELD. Mr. Secretary, the question I had in my mind was answered on my arrival here by the questions put to you by my colleague, Mr. Jackson, relative to our own national resources.

However, there has been some talk here about petroleum. Could you give us, offhand, if you can, the amount of petroleum and petroleum products which we are exporting now, and the amount we are importing?

Secretary KRUG. Yes. At the present time, taking the past year as an example, we exported about 450,000 barrels a day to all countries, including Canada, and we imported about the same amount. That is gradually shifting so we are importing a little more than we are exporting and in the current year we would expect to import about 24,000,000 barrels in excess of what we export.

So the imports are gradually working up and the exports have been gradually working down.

Mr. MANSFIELD. Is it true that as far as our Navy and armed forces are concerned, outside the continental limits of the United States, that they receive the major portion, if not all, of the petroleum and petroleum products which they need from either the Middle East or from South America?

Secretary KRUG. They use large quantities from the Middle East and South America.

Mr. MANSFIELD. So consequently there is the least possible strain upon our oil economy under the circumstances?

Secretary KRUG. Yes. Military requirements, as I mentioned, amount to 3 or 4 percent of our total oil consumption, as against 32 percent during the war.

Mr. MANSFIELD. But most of the military consumption, especially in the Navy, is brought in from outside sources, and in the western Pacific, it all comes, I believe, from the Persian Gulf area?

Secretary KRUG. I believe that is right, but I would not be certain. I am told that is right.

Mr. MANSFIELD. The point I wanted to make is that as far as the Government is concerned, we are trying to do everything we possibly can to see that all the oil is retained in this country for the use of its civilian population and its industries?

Secretary KRUG. Yes, we have been doing everything possible with the limited authority we have.

The industry on its own has been doing, I think, a very remarkable job, when you figure the consumption in this country has almost doubled per capita since before the war.

They have kept abreast of it. Everybody is shifting from coal to an oil burner, and naturally you cannot get new oil wells, new refineries, new pipe lines overnight.

Mr. RICHARDS. Mr. Secretary, what part of our imports now—not talking about what the Navy uses, but imports for organized commercial transactions in this country—comes from the Middle East?

Mr. LEVY. Practically nothing. Most of it comes from Latin America.

Mr. RICHARDS. Where do most of the imports in oil come from?

Secretary KRUG. Practically all of it from Latin America and the Caribbean area.

Mr. RICHARDS. That is all.

Mr. MANSFIELD. That is all.

Mr. VORYS. Mr. Secretary, I want to thank you and to apologize for this in-and-out performance which was not of our doing but because of roll calls. You have been very good-natured and patient in taking part in this chain reaction around the table here.

Secretary KRUG. Thank you. I had a very pleasant afternoon.

Mr. VORYS. There will be a short executive session of the committee as soon as we have the room to ourselves.

(Whereupon, at 4:30 p. m., the committee went into executive session.)