

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, JANUARY 27, 1948

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

The committee met, pursuant to notice, at 10:30 a. m., Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order. It is with peculiar delight that I am able to present to the committee my old-time colleague and beloved friend, Phil Reed, who became chairman of the board of General Electric on his fortieth birthday. Enough said.

Mr. Reed.

STATEMENT OF PHILIP D. REED, CHAIRMAN OF THE BOARD OF DIRECTORS, GENERAL ELECTRIC CO.

Mr. REED. Mr. Chairman and gentlemen, my name is Philip D. Reed and I am chairman of the board of General Electric Co. Four of the past seven years I spent in Government service—a year and a half with the War Production Board in Washington and two and a half years in England, first as Deputy and then as Chief of the United States Mission For Economic Affairs in London. I have made four trips to Europe since the war.

My approach to the problem of the European recovery program is that of a businessman. Approximately 94 percent General Electric Co.'s production is sold here in the United States. On the average, about 6 percent of our production is exported to various countries of the world, particularly South America. I give you this background for such use as it may be in evaluating my testimony.

The importance of reaching a sound decision on the European recovery program can scarcely be overestimated.

Shall we go through with it? Where do our best interests lie? Can we afford it, or can we afford not to proceed with it? We have already, as you know, given or loaned 10 or 11 billion dollars to these 16 countries. Would more be sending good money after bad; would it in fact be "operation rathole"?

Let's assume for the moment that we decide to make no further grants or loans to the so-called Marshall-plan countries and that we limit our exports to what those countries can pay for currently with goods, services, and such dollars as they have left. What would that decision mean to these countries? They would, of course, be forced immediately to reduce their standard of living to new low levels

that could be supported by their present production. Food supplies, already very low, would drop drastically. In Austria, for example, the daily diet is around 1,500 calories, and in other countries it varies from that level to a top of 2,700 calories in Great Britain, compared, you will recall, with almost 3,500 calories per day here at home.

People cannot live and work on 1,500 calories a day; and at the higher levels—1,900, 2,100, 2,400—in other western European countries there is in all cases a serious deficiency from the standpoint of maintaining good health and efficient production. A sharp reduction from these levels would confront millions with starvation and so weaken and discourage the rest as to reduce their productivity, destroy their hope, and set the stage for complete collapse. If we assume, as we must, that heavy cuts would also be necessary in imports and consumption of fuel, raw materials, and machinery, it requires no stretch of the imagination to picture western Europe as a political and economic concentration camp.

This in a very real sense is what we face if we go onto a cash-and-carry basis with Europe. Police states would be necessary to maintain order and to keep any government in power. You may judge for yourself whether this is precisely what Russia wants to happen and whether these police states would be Communist-controlled.

What, then, would our position be?

First, can there be any doubt that our expenditures for military defense—Army, Navy, and Air Force—would be increased by many billions every year? It would be surprising to me if the increased exposure and risk of war resulting from the conditions I have described did not justify a 50-percent increase in our military appropriations. This, as you know, would mean more than an additional 5 billions per year.

Second, trade with Europe and with other areas of the world would be greatly reduced and our standard of living here at home would suffer accordingly.

Third, such trade as took place—and there would be some because we require many raw materials and products from Europe and her colonies—would be carried on with official representatives of police states, not as heretofore with thousands of private producers and traders in those countries. It would not be long before the private exporters and importers here in America would find it necessary to join forces in order to bargain effectively with the foreign government monopolies. At this point our Government would, of necessity, step in to legalize and supervise the operation, and from that moment our free-enterprise system in foreign trade would disappear indefinitely.

The step, gentlemen, from Government participation in and control of America's foreign trade to a far larger degree of regulation and control of our home market and production is indeed a short and human one.

Although much more could be said, my fourth and final point on what our position would be, if we elect to go on a cash basis with western Europe is this: We are a decent, sympathetic, humanitarian people. It is my best guess that if Europe found herself in the plight I have described, with millions suffering and starving, the churches, schools, and relief agencies of this country, and not improbably the Government itself, would be raising huge sums of money for the relief of these unfortunate peoples. In other words, we as individuals are

going to do what we can in any event, as a matter of good conscience, to relieve suffering abroad. To whatever extent we would do this—and I leave it to you to say how much it would be—we would be spending our American dollars year after year to alleviate the results of economic collapse which the European recovery program is designed to prevent.

So much then for what would happen if we don't go through with the European recovery program. Now let's add up a few of the plus items if we do go through with it. In general they are the points I have already mentioned but expressed in reverse.

Our expenditures for Army, Navy, and Air Force would not have to be increased many billions because of the collapse and communitization of Europe. Indeed, if the European recovery plan achieves its ends, conditions in Europe, political as well as economic, would be infinitely more conducive than they are today to the achievement of lasting world peace and a strong, effective United Nations. Under these circumstances we might reasonably look for a substantial reduction, rather than an increase, in the cost of our Military Establishment.

If we successfully prosecute the European recovery program we can look forward to a mutually beneficial exchange of goods with Europe and other foreign areas at a level commensurate with their improved economic condition. This would lift our standard of living and contribute to high employment.

Again, the European recovery program would go far toward preventing the creation of police states in western Europe which might well force our Government into the practices and exercise of controls which by their very nature are destructive of private competitive enterprise.

And, finally, by helping western Europe to restore her production and regain her economic and political feet we minimize and perhaps avoid the necessity of continually passing the hat for the relief of starving Europe.

From all this it would seem clear that America stands to gain or lose a very great deal indeed by what happens in Europe in the next few years. No one questions the absolute truth of the statement that the most unhelpful thing we could do to the friendly nations of the world is to so strain or inflate our own economy as to bring on a depression in this country. That, of course, is what Russia is waiting for. And it must be our prime objective so to conduct our affairs that it will not happen.

But to say we cannot afford the European recovery program because of its inflationary effect here at home requires careful analysis. We must remind ourselves of all we stand to lose and of the inflationary effect of increased military expenditures we face if we do not go through with the program. We must recognize that while the exporting of scarce commodities is undoubtedly inflationary, exports under the proposed European recovery program would be no more so in 1948 than were our exports in 1947—indeed, they are estimated to be less. And we must face the fact that our exports are not the sole cause, are not even the major cause, of our inflation here at home.

In view, therefore, of the tremendous stake we have in European recovery and the preservation of her democratic institutions, I am convinced that we must proceed with the program, recognizing that it

adds to the inflationary pressures at home and makes all the more imperative an intelligent, comprehensive, and courageous set of measures designed to relieve inflationary pressures and hold our economy in balance through this difficult and terribly important period.

Now, assuming we decide to go ahead, what would it cost us? My answer is that no one knows within \$5,000,000,000 above or below any given estimate of what it would cost. Here are some of the variables that make it impossible to fix a figure:

1. Our price level hasn't stabilized yet. Who knows whether it will be 10 percent up or the same amount down, or some other figure up or down, 2 or 3 years from now? The difference in the cost of European aid at different American price levels could affect the total by billions of dollars.

2. Consider how much less food Europe will require from us if European weather conditions are excellent during the next couple of years and bumper crops result. And consider, on the other hand, how much more we will have to supply if crop weather abroad is unusually bad as it was last year. Here again the difference would run into billions of dollars. The same, incidentally, applies to our ability to supply food if we should have bad crop weather in our country.

3. Russia will do everything in her power to sabotage our program, and we can be quite sure it will be done well and with imagination. Until we see what methods she will use, what tricks she will try, who can say to what extent these efforts will neutralize our program? This is war, gentlemen, economic and political war, and the cost of war is importantly affected by what moves the enemy makes and what we must do to counteract them.

There are other matters that will influence the cost of the European recovery program, but perhaps I have said enough to demonstrate that it cannot be determined at this stage.

I recommend, therefore, that Congress, after taking note of the various estimates that have been made by several responsible groups, make no attempt to agree upon an over-all amount. The important thing is that the program be undertaken with full recognition that it will cost us many billions and that the prospects are good that those billions will have been well spent if we proceed promptly, intelligently, and realistically, being neither penurious, on the one hand, nor profligate, on the other.

Having authorized the program without naming a specific amount, I believe the Congress should appropriate the 6.8 billions requested by the President for the first 15 months. Thereafter additional appropriations can be considered in the light of conditions and accomplishments as they may appear. Holding the purse strings, Congress will have ample control over the program beyond the initial appropriation. Whether the 6.8 billions is exactly right for the initial period I do not know. As I have indicated, the variables are too great to permit close estimates. We do know, however, that to appropriate too little would be very serious. And if we provide for administration of the program that will be competent and efficient, any overage in the appropriation will not be wasted but will be available for later use.

Before leaving this phase of the matter I want to emphasize the extreme importance of the psychological effect of what Congress does

at this time. I have been told repeatedly by Europeans in whose judgment on reactions, both east and west of the iron curtain I have the greatest confidence, that prompt action by Congress on this matter and the appropriation of a fully adequate amount for the first period would have an enormous psychological impact throughout Europe.

I need not remind you that timing is often more important than the act itself. In this case, where quite apart from our central objective of helping European recovery we have in Russia an avowed and active enemy of that objective, an early announcement of prompt and full support would give Russia less time to mobilize her counteroffensive and might well require her to move prematurely and unwisely in western Europe. I am convinced that prompt action on our part has special value to the effectiveness and ultimate cost of the program.

The next question is, How should the program be administered and what limitations and conditions should be imposed by statute on the Administrator? Here again it is exceedingly important that we take the right course. It will be clear to all that effective and efficient administration of a European program can be achieved only if wide latitude and freedom of action are given to the Administrator. Each of the 16 participating countries has different conditions, resources, and problems. The character of the aid required, the production goals to be established, the steps to be taken by the foreign governments to restore economic and monetary stability, the capacity of each country to pay in whole or in part for American aid, and the things each country must do as a part of the over-all program of economic cooperation between the participating states, will vary widely from country to country.

It is most important, therefore, that the enabling legislation shall impose no unnecessary restrictions on the Administrator in working out the over-all program with each country and in carrying out the broad purposes of the act. Indeed, the success of the entire program may well depend on the flexibility and scope of the administrator's authority in dealing with the participating countries.

Accordingly, the act itself should be expressed in terms of broad basic principles and objectives. It may well, however, include by way of guidance and suggestion as distinguished from mandatory requirement, points to be considered by the Administrator and, if appropriate, included in the agreements to be worked out with participating countries. I yield to no one in my desire to minimize the cost of this program to the United States, but we must not lose sight of our basic objective, nor risk failure by insisting on the inclusion of provisions that would profit us little and might jeopardize all.

Two bills are now before the Congress, the so-called Herter bill and the administration measure. The Herter bill would place responsibility for administration of the program in a new corporate agency to be known as the Emergency Foreign Reconstruction Authority. This agency would have broad powers, including procurement, export controls, investment of foreign currencies, and so forth, and would be headed by an administrator and directed by a bipartisan board appointed by the President with the advice and consent of the Senate. This administrative set-up gives a minimum of voice and influence to the State Department in the handling of the program.

The administration bill, on the other hand, provides for an Administrator appointed by the President, as in the Herter bill, but gives him

no board, much less authority, and provides for most operating matters to be handled by the regular Government departments. Also, it makes the Administrator subject to the direction and control of the Secretary of State on all matters affecting foreign policy and provides for an ambassador to handle all negotiations with the participating countries.

In my opinion the proper organizational set-up lies somewhere between the two bills. There is no doubt that the State Department has a vital interest in the European recovery program. It is equally clear that important domestic questions are involved which are not within the jurisdiction of the State Department. Organizationally, therefore, it is a split job which will call for the closest kind of cooperation between the various interested departments, including State, Treasury, Agriculture, and Commerce, under the over-all direction of the Administrator. If important differences of opinion arise, the President will have to decide.

In my view the Administrator should report direct to the President and should have an advisory board presided over by the Secretary of State and made up of the Administrator, the Secretaries of the Treasury, Agriculture, and Commerce, the head of the Export-Import Bank, and the United States representatives on the Monetary Fund and International Bank. An ambassador at large appointed by the President, approved by the Senate, and responsible equally to the Administrator and the Secretary of State should head and coordinate the activities of the European recovery program in Europe.

The Administrator's staff should be small and of exceptional competence. A considerable part of it will have to be borrowed on a temporary basis from business, and its job will be to formulate recovery programs with each participating country, clear them with all interested departments, obtain Presidential approval and then see that the programs are fully and promptly carried out.

Although the Administrator's power to operate and break bottlenecks should be broad, normal operations such as procurement, export control and loan transactions, and so forth, should insofar as practicable be handled by the Government departments or agencies now performing these functions.

The Administrator in cooperation with the State Department must arrange for suitable personnel to follow the progress of the program in each country. This will include seeing that all commodities and equipment furnished under the program reach their destination and are put to the intended use, checking on the performance by the foreign governments of all terms of agreements with our Government, including production targets and steps to be taken to restore economic and monetary stability.

In the long run American private investment abroad will be a potent factor in maintaining a healthy balanced world economy. This fact should be prominent in the minds of the Congress and the Administrator to the end that all possible encouragement be given to the flow of private investment funds into Europe and other countries.

I cannot leave this discussion of the Administrator's responsibility without mention of Germany. Although, strictly speaking, it is not one of the Marshall plan countries, it is a country for which we as an occupying power have direct responsibility and it is also a country whose economic well-being is probably the key to European prosperity.

Again, although the problems are many, more production is the basic one. Incentives for the German people, not in worthless marks, but in food and fuel, in certainty as to their status and in opportunity to work their way to better things, must be provided if the German economy is to get off dead center. We have waited too long for Russian agreement. Western Germany must now be included in the program of European recovery, and the planning and procurement of American aid should be the responsibility of the Administrator of the European aid program. In addition, as the principal occupying power we must promptly take the steps—monetary reform, organization of a German government, and so forth—which will restore incentive and vitality to a normally hard working but now hopeless and lethargic people. These things are fully as important to European recovery as a program of aid for the 16 participating countries.

More production, and this applies to other European countries as well as to Germany, must be our central objective; it must be a condition of our aid and a test of whether that aid shall be continued beyond the initial stage. Although we cannot, it seems clear to me, dictate to a sovereign power or a sovereign people the economic system they shall use, we can and in our own interests must make production performance and the achievement of predetermined goals a condition of our continued assistance.

I spoke earlier of the need for early action by the Congress for psychological and timing reasons. I now urge it again on grounds of effective administration of the program. The Administrator will have an enormous task on his hands, and the sooner he can get organized and functioning the better it will be for all of us. There must not be a hiatus between the interim aid and the European recovery program.

My final point on this matter of European recovery is of capital importance. It stems from the fact that the people of Europe—west as well as east of the iron curtain, barring only Great Britain—are in very great ignorance of America's intentions, motives, plans, and assistance given to date. In most countries the newspapers carry next to nothing about us. Newsprint is in very short supply. In some countries, including France, most of the newspapers are Communist-controlled and, in accordance with the Communist line, present a distorted and critical picture of us. American books and magazines are very scarce, radios are relatively few and programs concerning America are both limited and inadequate.

If we are to go through with the European recovery program we must not fail to get all the benefits that are in it for us. One of them is that the people of Europe be fully aware that we are helping them and in what way and to what extent. Another is to demonstrate by every means at our command that our intentions are not imperialistic and that we seek only a peaceful, prosperous world of free people. Again we shall have a tremendous opportunity to show, by the very aid we are giving, the merits and advantages of our way of life as compared with communism, especially as measured by the status and standard of living of the average man and woman.

To do these things we must plan and organize just as in any business, having built a fine product, we must advertise and promote its sale. Fortunately, the ground work has been laid for the kind of a selling

organization we so badly need. The bill authorizing United States Foreign Information Service has passed both Houses of Congress unanimously and is about to become a law. Appropriation of adequate funds to operate this Information Service is no less important than approval and implementation of the European recovery program itself.

Chairman EATON. Mr. Reed, we thank you for your very, very statesmanlike analysis of this tremendously important and difficult situation.

Mr. REED. Thank you.

Chairman EATON. I am sorry that Mr. Mundt is not here to enjoy your endorsement of the Voice program, although I am not surprised that you so endorse it. I have had so many opportunities of asking you questions that I will not take the time on this occasion. We have a rule here now so as to give everyone an opportunity of going around, of limiting each member to 5 minutes, and I will ask that Mr. Vorys begin the questioning on the 5-minute basis.

Mr. VORYS. Mr. Reed, you certainly presented a fine analysis of our problem and the answer. I remember talking with you on this organizational problem in 1944 in London, when you were lend-lease officer over there, and asking you about whether the program should be under the State Department or separate. You said, as I remember it, that although there was a separate Lend-Lease Administration, you were functioning very satisfactorily officially under the Ambassador there. Is that the way that you would contemplate that this program would be operated in the various countries?

Mr. REED. Mr. Vorys, it seems clear to me, based on the experience that I had abroad during the war, that the worst thing this country could do would be to provide two separate and independent channels from our Government to any foreign government. The moment there are two doors open to a foreign government they can play one against the other. Therefore, I believe that our embassy in each country must be the official point of contact with the foreign government.

Now, having said that, it does not necessarily follow that the foreign embassy or foreign ambassador should have complete control of what passes through that office to the foreign government. That must be the amalgamation of thinking and planning and responsibility of our Government generally in terms of this foreign job.

As I see it, the European recovery program placed, as I have recommended and as is contemplated by both of the bills we have mentioned, under an administrator who reports direct to the President, must be in terms of the formulation of the separate agreements with these 16 countries worked out by the administrator, in close contact and communion at all times with the State Department; and, if there are differences between the State Department and the administrator as to what shall be included in the program or what our official point of view shall be, then that must be resolved before it gets to the foreign government. It just must not go with differences of view to London or Paris or to any other foreign government. They must be resolved, and if necessary the President must resolve them before the project is presented to the foreign premier, or whoever it happens to be.

The mission we had in London did not have one boss, or two bosses. We had five bosses. We represented in London the Lend-Lease Administration, the War Shipping Administration, the Petroleum

Administration for War, the War Food Administration, and the War Production Board. In addition to that we did many things for the State Department. We frequently had instructions on that same subject from as many as three of those Departments which were inconsistent in themselves, to do so-and-so with the British in connection with the working out of the particular program, and it was our job to compose those differences and to see that before they reached 10 Downing Street, or wherever it may have been, that the American front was together.

That can be done, and we did it under conditions which seem to me to be much more difficult than those that confront us now, and I do not have any doubt, Mr. Vorys, but what it can be worked out along the line I have suggested. I am afraid that is a very long answer to your question.

MR. VORYS. Well, a lot of these answers have to be long. Is this not the important thing: That in any foreign country we must present a united front to the foreign government and therefore you can have only one top boss in that country, and that would be the ambassador, but that the representative of, say, the European recovery program must have the right when he disagrees with the ambassador to report back to Washington to somebody, so that you do not have the ambassador controlling the flow of information back here? Now I am not telling you, but I am merely asking you.

MR. REED. That is absolutely so, and one of the reasons, one of the strong reasons, why I say the importance of a sort of ambassador at large for the European recovery program is to accomplish the very thing you are talking about. If an ambassador of that type were appointed who had a roving commission covering each of the 16 countries, if you let him concentrate on the problems of European recovery program, he could and would, I believe, if he were the right type, so lubricate the machinery of the 16 different embassies and the ambassador in each of those countries—and they vary tremendously in personality, in competence, and everything else—that he could and would, being a State Department man, and also answering to the Administrator, smooth that whole operation out in a way that the Administrator's people would get cooperation from the embassy.

The presentation and the convincing of the local ambassador that this was the right course to take, coming from the ambassador at large as well as the administrator, would, I think, enormously lubricate that whole machinery.

Chairman EATON. The time of the gentleman has expired.

MR. REED. I am afraid that is largely my fault.

Chairman EATON. Mr. Bloom.

MR. BLOOM. No questions.

Chairman EATON. Why, Mr. Bloom!

MR. BLOOM. I am satisfied. I am ready to vote right now.

Chairman EATON. Mr. Mundt.

MR. MUNDT. Mr. Reed, I am sorry I did not get an opportunity to hear your fine statement, but I have skimmed through part of it and several people have pointed out several sterling and estimable statements on page 16 especially, which I assure you I concur with heartily. I remember you spoke before a committee of Congress over on the Senate side, favoring our information bill. The testimony was so persuasive that after you finally permeated the minds of the Members of the other body, they voted unanimously for the bill.

It took some time to sink in, possibly because of your large words, I guess. It took 6 months' time.

Mr. REED. I heard your testimony, and I thought it was wonderful.

Mr. MUNDT. I do not think that helped so much, but there was a lot of testimony from the outside, which is really what helped. I did not hear the questions Mr. Vorys asked, and he probably went into the matter of how you felt this administrative set-up should be handled over there. If you went into this other portion of it you need not answer again, but I feel we can best serve the purpose stated in this act if we have behind it as great an element of the American population as possible.

That means, since we are divided politically into two parties, that we must bring into harness the best principals of the two parties of an advisory capacity, or a directive capacity, or in some capacity in this bill. Then I think it will be on sounder ground. I wonder if you have commented on that either in your statement or in interrogatories by Mr. Vorys.

Mr. REED. I am not sure I entirely understand your question.

Mr. MUNDT. You have not commented on that question, have you?

Mr. REED. I have recommended an administrative set-up to deal with this program which is neither the Eaton bill nor the Herter bill, but it runs down between the two.

Mr. MUNDT. Does it provide some place in this administrative organization for a bipartisan advisory board of that type?

Mr. REED. No; it does not. It provides that an administrator shall be appointed with the nomination of the President and with the advice and consent of the Senate. That administrator would be guided by an advisory board which, in my judgment, should be headed by the Secretary of State because of the enormous interest of the State Department in these matters, and it would then be filled out with the administrator and Secretaries of Treasury, Commerce, Agriculture, Export-Import Bank head, our representatives on the International Fund, and the bank.

That board, incidentally, would not in my judgment have power to approve or disapprove specifically programs formulated by the administrator. Their job would be to assist him and consult with him, and to fulfill their responsibility of developing a sound program. The President, however, would have to approve each program before it was promulgated or implemented. Of course, the advisory board I speak of would, I have no doubt, be consulted by the President before he approved any program.

Mr. MUNDT. Such support as that would not bring into focus at all the advisers and counselors of the minority party, whether they happen to be the Republican Party as it is now, or the Democratic Party, as it is likely to be after next January 1. Either way it does not bring that into the picture.

Mr. REED. No. That is quite true.

Mr. MUNDT. Do you not think, from the standpoint of the two factions, one holding the support of the American public, that it is important that members of both those major parties feel they are sharing in the administration and the advising of this project; and more important perhaps, the European people and leaders who do not understand our political system any too well, might feel that this has more continuity and that they can bet on it more confidently if it has

a bipartisan aspect rather than it being the administrative creature of one Administration which might be changed after the November election?

Mr. REED. Would this bipartisan board you have in mind have the power to determine what the programs would be, or would it simply be advisory?

Mr. MUNDT. It would be advisory with some administrative authority. I mean, it would have nothing to do with foreign policy. That reposes in the President and in the Secretary of State. It deals with the economic aspects.

Mr. REED. It goes without saying that bipartisan support is always desirable, but the executive agency in our governmental set-up must be given responsibility for the execution of the will of Congress. Congress, having set out in the statute the objectives it seeks, and they being obviously bipartisan, otherwise it would not be passed, would then assume that the executive must be given responsibility for carrying it out. Anything that suggests additional legislative activity at the level of operation and implementation of the statute does not seem to me to be entirely consistent, and I am afraid it might develop into slow-downs resulting from differences in view, or possibly political reasons that might interfere. Maybe I am wrong.

Mr. MUNDT. The chairman has signaled that I have just a minute of my time left.

Mr. REED. Excuse me.

Mr. MUNDT. I would like to get the next point in. The difficulty of these programs is this: They are bipartisan all right during the legislative process, but when they get to the administrative level they become one party entirely. I am trying to find a way in which you can retain the values, as I see them, of marshaling the strength and the intelligence of both parties in this program, all the way through, and not short-circuiting it as soon as the bill is signed.

Chairman EATON. Could we not fix that by having a Republican administration in Congress?

Mr. MUNDT. No; I do not think so. You would still have the same Congress.

Mr. BLOOM. A good idea.

Mr. MUNDT. I am for the eventuality you described though, Mr. Chairman. I think it is a fine idea.

Chairman EATON. The time of the gentleman has expired. Mr. Kee.

Mr. KEE. Mr. Reed, I was interested in your discussion of the amount of the appropriation to implement the proposed program in the event it is decided that the program shall be inaugurated. As I understand it you approve of the Administration's estimate of \$6,800,000,000 and would advise that that amount be fixed as the minimum?

Mr. REED. I indicated in my statement that I do not know whether it is right or not. I don't think anybody can say whether that precise figure is the correct one. I would throw the responsibility right back into the executive side of this Government myself. If the administration is good and efficient, the money is not going to be wasted if too much is appropriated. If too little is appropriated, great danger lies, it seems to me, in that deficiency. I do not think we can tell whether 6.8 is the figure. Certainly, I cannot, but I did approve it on the

theory that it is the result at least of careful study and I would then place all my study and debate on seeing to it that we had an efficient, hard-hitting administration to deal with the expenditure of those funds, and put my reliance there rather than try at this stage to put our finger on the exact amount it is going to cost for 15 months, because I do not think anybody can make that determination.

Mr. KEE. You understand this committee's authority with reference to the amount of the appropriation is extremely limited. We can fix the maximum beyond which the Appropriations Committee cannot go, but we cannot put a floor under the appropriation by that committee. Personally it would be my view, and I hope you will agree with me, that inasmuch as the State Department and practically all of the officials of the Government, after long study of this proposition, have adopted the figure of \$6,800,000,000, which as they say is the minimum of what it will take to carry on this program, and the entire matter will have to go to the Appropriations Committee anyhow in the long run, with a chance that it will be very closely scrutinized by that committee, that that amount should be the amount fixed by this bill when it is reported out. Is that your view also?

Mr. REED. That is my view.

Mr. KEE. With reference to your discussion of the administrative machinery, the Herter bill, I believe, provides for the appointment of eight members as a board of directors of the organization to assist the executive director in the administration of the program. Those eight members shall be, as required by the Herter bill, composed of four members each of the major political parties in the United States. Fourteen members of the organization are provided by the Herter bill, of which eight would be these civilian appointees, who are non-partisan appointees. The other six would be officials of the Government in certain capacities.

Would you think that that is an idea that should be adopted and carried into the legislation; that is, that we should have a bipartisan organization that would be established and given full corporate powers with eight nonpartisan directors?

Mr. REED. As I indicated in answer to Congressman Mundt's question, I had not recommended that. Perhaps I do not understand all of the reasons why that type of an organizational set-up should be used. I have talked with Congressman Herter and with others who are interested in his bill, but it seems to me that the kind of organizational scheme I have suggested is more consistent with our theory of government operation, and that on the whole, although I recognize full well Congressman Mundt's point that the maximum of obvious and evident bipartisan support is desirable here, nevertheless, I believe that the effective, rapid, and efficient administration of the program would be greater under a kind of a scheme that I have talked about, than the kind of a scheme he has talked about. I think there would be more debate and delay under that kind of a scheme than under this one.

Mr. KEE. Thank you.

Chairman EATON. The time of the gentleman has expired.

Mrs. Bolton.

Mrs. BOLTON. Mr. Chairman, Mr. Jonkman will be back shortly. He had to testify before another committee.

Mr. Reed, in considering the amount of \$6,800,000,000, have you considered it at all from the standpoint of doing the job, but on the

basis of doing as little as it is humanly possible to do by way of dollars, and still be effective and not putting all one's trust in dollars?

Mr. REED. Yes. I think it is unfortunate for us to think in terms of dollars at all, if we can avoid it. We have in the last analysis to translate these things into dollars because that is our unit and the common denominator of the measure of value, but I think we can think of it in terms of tons of steel and food and machinery and other items that are required to accomplish a specific and a clear objective; the objective being much more easy to state than it is to achieve and to analyze the real need.

Mrs. BOLTON. The objective would be definitely the setting up of security?

Mr. REED. Exactly.

Mrs. BOLTON. Not security. That is a bad word for final security would bring a static condition precluding growth.

Mr. REED. That is the ultimate.

Mrs. BOLTON. I mean what we generally mean by it.

Mr. REED. That is right. I quite agree. I think we must keep bringing ourselves back to the consideration of physical things that are going to be furnished under this program.

Mrs. BOLTON. And the morale?

Mr. REED. Absolutely.

Mrs. BOLTON. You spoke of the Germans and others. What is your view of them? Are they hopelessly discouraged?

Mr. REED. Yes; I think they are.

Mrs. BOLTON. Very hopelessly so?

Mr. REED. Yes.

Mrs. BOLTON. Is it just discouragement, or is it a deep, secret sense as some people tell us that they will come back and do it again?

Mr. REED. No. I think it is a hopelessness and a frustration and a lethargy that has resulted from almost 3 years now of not only very low diet—that did not bother me at all for the first year and a half or so; I think it was perhaps a good rather than a bad thing—and with complete uncertainty as to their status. Hundreds of thousands of them still are not permitted to work. They have not been cleared yet under the denazification scheme that has been going through. I think it has been slow and it has been a difficult job, but the result of it has been that substantially all the German people who have any ability based on previous experience to operate, to plan, and to act in executive capacities are immobilized, and the long time that it has taken to release them and either to classify them as bad or to say, "All right, you are all right and you may now proceed," has taken so long that that category, which, as you know, are the leaders in terms of production and economic activity, has just bogged down.

Mrs. BOLTON. You feel they are an important factor in the reestablishment of western Europe?

Mr. REED. Oh, yes; terribly important.

Mrs. BOLTON. Have you any reactions that you would express in the matter of the French franc in the past 48 hours, Mr. Reed?

Mr. REED. No; I am not sufficiently expert, Mrs. Bolton, in those matters. Just from the curbstone—

Mrs. BOLTON. I am speaking from the curbstone, too.

Mr. REED. My question on that is as to timing and not as to the desirability of the act. Certainly it was inevitable and certainly it is

realistic as viewed from my standpoint. Whether the timing of it in relation to other countries and the Monetary Fund was the best, I am just not competent to form an opinion on.

Mrs. BOLTON. Is it possible that the Monetary Fund and the World Bank itself should be reviewed? We are going to insist on the reestablishment of the fund currencies. They have taken a step to do that in their own country. Perhaps, if it runs counter to the Monetary Fund and various other things in the Bretton Woods agreement, it would seem as though we should study those in relation to all the currencies of Europe.

Mr. REED. Yes, indeed. That is what the Monetary Fund, of course, was created to do.

Mrs. BOLTON. Exactly, and of course if it does not do it we have to find out; do we not?

Mr. REED. To prevent competition in devaluation among the countries, which was so common during the thirties—that is its objective. As I say, I am just not sufficiently acquainted with the details of that and the background of that situation to have a view about it, but I certainly think that our members of the Monetary Fund should have a very strong view about it.

Mrs. BOLTON. In the matter of the method by which bipartisan interest and control might perhaps be secured in this legislation, would it seem to you that there might be a place for the group that Mr. Herter sets up, not on the operations but more in the advisory echelon?

Mr. REED. That would help. It seems to me if it were not purely advisory it would be almost sure to slow down the work and it would be definitely inconsistent with our theory of Government operation.

Mrs. BOLTON. Yes.

Mr. REED. I have not mentioned it here, but it seems to me that the Administrator would want to set up a number of advisory groups drawn from industry and the segments of industry where he is going to need the most help.

Mrs. BOLTON. He might, but I am speaking of what Congress would want to set up.

Mr. REED. Isn't it true that under the Taft-Hartley Act a continuing joint committee of the House and Senate was set up to watch very closely those operations and to see how it was going and to be able to act quickly if it seemed to be desirable to do something about it? I think that is the kind of a committee, perhaps as a standing committee, to work closely with the legislative body. To do that would be perfectly within the authority of Congress and I think perhaps a very desirable thing.

Mrs. BOLTON. Like the Atomic Energy Commission?

Chairman EATON. The time of the lady has expired. Mr. Jarman.

Mr. JARMAN. Mr. Reed, we are always happy to have you before this committee.

Mr. REED. Thank you.

Mr. JARMAN. Just as any other committee of the Congress must feel, because your testimony is always so able and beneficial.

Mr. REED. Thank you.

Mr. JARMAN. I want to express my appreciation of your presence here. Do you believe any considerable number of the people of the United States consider politics in connection with this effort to save the world? I mean American politics.

Mr. REED. Outside of Washington, you mean?

Mr. JARMAN. Yes.

Mr. REED. I do not know quite how to answer that. I would say, generally speaking, "no." I think they are trying to determine what really is right and whether our interests will be served or whether we are just again being made a Santa Claus.

Mr. JARMAN. There is no doubt in the world in my mind of the correctness of your opinion, and my mail indicates that to be true. That being the case, I do not share this fear about whether we have a bipartisan proposition or not. We have one party in control of the Congress and one in control of the Executive. It seems to me the way to make this thing bipartisan is for both Houses of the Congress to pass a bill with well-nigh unanimity and then for the Appropriations Committee not to quibble about the amount but to appropriate the amount you suggest with unanimity and then the other party, of course, and the Secretaries of the different departments will be on this Board that you suggest to administer it. It seems to me that is not only enough nonpartisanship, but I believe it is as much as people outside of Washington, as you say, want.

In fact, I cannot help but feel it is beneath the dignity and righteousness and the high level of the purpose of this program to be quibbling about how many Democrats and how many Republicans we will have in charge of it. I just cannot get that, to save my neck.

Mr. REED. The Congress would have the right and would be required to approve the two principal operating figures in the program—the Administrator and the Ambassador who head it up.

Mr. JARMAN. As far as I am concerned, I do not care whether they are two Republicans or two Democrats. I believe they will be good men and I do not care anything about what party they belong to. I would not insist upon one of them being a Republican and one of them being a Democrat. You touched, in answer to some other question, on what I think is one of the main objections to this, that is—you referred to it, although you did not say it in these words, but time is of the essence in this thing and you referred to the necessity of speed, and the more boards of directors and the more corporations we get, particularly when we have these regular departments of Government represented by men who are skilled in doing these things, it is bound to slow it up. To that extent I fear it will reduce the effectiveness of it. I believe that is practically what you said, and I thoroughly agree with it.

I want to confirm the expression of your opinion when you said this would mean more than an additional \$5,000,000,000 for the military.

Mr. REED. If 50 percent were added on.

Mr. JARMAN. Yes.

Mr. REED. I believe that is enough.

Mr. JARMAN. I believe Secretary Forrestal's testimony in answer to questions by me not only fully confirmed your prediction, but he indicated there would be that much this year and a great deal more during the years to come. In other words, you can feel perfectly safe on your prediction. Of course, as you said, no one can know whether \$6,800,000,000 or \$6,700,000,000 or \$6,900,000,000 would do it, but you referred in your testimony to the danger that this might increase inflation in this country. There is a danger here.

Mr. REED. It certainly continues inflationary pressures on this economy to export any goods in short supply. There is no doubt about that.

Mr. JARMAN. And with prices going up, as we see them in buying meals from day to day, and because of the fact that it will probably cost so much more the month after next, or 4 months from now, to buy something, is it not reasonable to fear that \$6,800,000,000 would be too little at that time rather than too much?

Mr. REED. I am a little unhappy about your premise. I hope the price level is not going to go up that much more.

Mr. JARMAN. I certainly share your hope.

Mr. REED. If it does, that would be true. To the extent that it does, the 6.8 would be in effect reducing itself as the price level increased in terms of its purchasing power. There is no doubt about that.

Mr. JARMAN. The very shipment and the very export of these goods is bound to tend in that direction. Of course I hope, and I am sure you share my hope, that the Congress will do something to retard that inflationary spiral, and that that will not happen, but with the facts before us now I am afraid the chances are that that might be too little instead of too great, and I thoroughly agree with your opinion of the necessity of not throwing money in a rat hole by appropriating too little.

That is all, Mr. Chairman.

Chairman EATON. Thank you, Mr. Jarman. Mr. Smith.

Mr. SMITH. Mr. Reed, do you consider that this problem is world-wide, or is it confined solely to the European area?

Mr. REED. You mean, do we have problems in other areas?

Mr. SMITH. Yes.

Mr. REED. We do indeed; of course we do.

Mr. SMITH. Do you think the approach of this committee and the Congress should be to consider the over-all problem so that the people of this country might have a complete picture?

Mr. REED. I think it would be desirable, Mr. Smith, were it possible to do that. Had we all the facts, and had our policy a course of action that was crystallized in all areas of the world as it has in connection with the European picture, it would be well to have brought it all together and laid it on the table. On the other hand, I am so sure that our program is right and I am so sure that it is urgent in terms of Europe that I do not think we can afford to delay that segment of our activity until we have debated or made up our minds, or received recommendations from the executive side of the Government as to what we should do in other areas.

Mr. SMITH. Do you think that the program can be successful, without the cooperation of the so-called iron curtain countries in Europe?

Mr. REED. Yes, I think it can.

Mr. SMITH. Do you believe that production is the problem that confronts Europe today?

Mr. REED. I think production is the common denominator of the problem of every country in the world today.

Mr. SMITH. How will this program assist production, in your own words? You have had a lot of experience in the foreign service.

Mr. REED. This program, if it is properly worked out with each of the 16 countries, would be implemented only if and to the extent that

the Administrator is satisfied that the provision of the items to be included in an agreement with the particular country will have an important effect in lifting the production of that country. The same applies to each of the 16, and applies not only to the direct and immediate results of what we ship to them, but it also and very importantly would depend on those countries laying out a program designed to this same target, and to reach the same end, so that it will dovetail with what we are doing, and together it will produce the kind of a result we are talking about.

I believe that can be done and if in any case we were clear that that result would not follow, I would not make the agreement.

Mr. SMITH. You would be in favor of tying some strings to this program in some way to insist that certain objectives be set out?

Mr. REED. Yes; I think the Administrator has got to go to these countries and should go with a broad and flexible franchise which will permit him to trade and to insist upon whatever he analyzes that particular situation as showing to be necessary, and that will vary enormously from country to country. That is my difficulty with the statute itself. It would be fine if conditions were identical in all countries and the Congress could write into the statutes specific instructions, specific conditions, and specific limitations that would be applicable to all of them, but I am afraid that will not be so, and I am so very much afraid that they will write things in that will hamstring an Administrator when he comes to a particular country.

Mr. SMITH. Do you think we can get back to a free economy in Europe under this program? I have some fear, Mr. Reed, that all we are doing under this program is merely implementing the present system of rationing and allocation. It has been quite obvious that we have not gotten production. The CEEC report that we have states that up until 1946 the countries of Europe had attained a pre-war level of production. The falling off apparently occurred in 1947. How will this program that we are talking about here get these people back to a free economy again?

Mr. REED. There are two questions. One is whether it will assist production.

Mr. SMITH. Yes.

Mr. REED. I think it will and I think it can and I think unless it is clear in each country that that will be the result, that we ought not to undertake it because that to me is 80 percent of the job of getting rationing out of the way and getting controls out of the way. Those things always result from a scarcity of goods. Therefore the obvious thing to do is to get more goods and get more production, and with that will come a lightening of the pressures on prices and the need for rationing and controls. I believe we can make a tremendous contribution to those countries to achieve that end.

Mr. SMITH. But we do have in England today, or in Britain, rather, plenty of coal. We have in France and North Africa great agricultural areas. In other words, the things that they are asking from us can be obtained there.

Mr. REED. Britain in the last 6 months has made very signal gains in coal production. You say that they have plenty. Only now do they have enough to balance their own requirements with their production. A year ago they certainly did not. The Continent is still terribly short of coal and they are short of many items, raw materials

and commodities to be processed. They are short of equipment to produce bottleneck things. A ton of the right kind of equipment aid will produce, in terms of leverage, many, many tons of additional output.

In other words, there are many cases where there are facilities which need only some little gap to be filled in order to make the whole thing more productive, so that it is not like putting in a brand-new plant in Europe. It is supplying the items that are missing in order to make the whole step itself up in production, and the leverage should be and will apply, I think, if it is done intelligently and carefully.

Chairman EATON. Mr. Courtney.

Mr. COURTNEY. I have no questions.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Reed, I am very much interested in your statement about the fact that this program has to have a business aspect, especially insofar as it is going to result in vastly increased production. Do you believe that under the form of organization which you have suggested, businessmen and business managers and technicians will actually go into the service of the Administrator for the purpose of doing this job, and will you tell us from your experience with the War Production Board just how you figure that out? What resources in American production skill will be made available to the Administrator under the idea for organization which you have in mind?

Mr. REED. I think, that in the last analysis is going to be the Administrator's first and greatest job. If the right kind of Administrator is selected and if he gets the right kind of help—from here and from the White House in presenting a picture of urgency and need to American business, there will result as happened in wartime, people separating themselves from their current activities and devoting a certain amount of time to this kind of job. It is not going to be easy and it is not going to be nearly as easy as it was during the war. To what extent the Administrator will be able to bring around him a body of men of the quality that is required remains to be seen, but certainly that is the No. 1 job, as I see it, for that individual.

Mr. JAVITS. Do you consider that one of the principal things or perhaps you consider it the principal thing which would make the program successful is this enlistment in its operations of the best American management skill. Would you express yourself on that?

Mr. REED. Assuming that the Administrator's franchise is right, then I have no question about agreeing with your statement.

Mr. JAVITS. Would you say it would be the most important thing?

Mr. REED. I can see the Administrator licked before he starts by having in terms of the law a franchise that is too limited or that gives him inadequate leeway in making his deals abroad, and all the rest of it, but assuming he has reasonable flexibility and enough money to spend, then there is no question about it. The quality of the personnel that are assigned to do that job with and for him is the No. 1 item.

Mr. JAVITS. Do you think they ought to be dollar-a-year men, or on salary as regular Government employees?

Mr. REED. I think that has to be determined as the organization is developed and as his needs appear. My personal view of it is that it would be far easier for the Administrator to gather around him a limited number of experts in certain areas and fields on corporate leave from their regular employment by borrowing them for a period of time from those companies, than by requiring them to resign and

cut off their career there with only the hope of getting back and coming down on a strictly temporary job into the Government service.

Mr. JAVITS. You feel, therefore, that an administrator could do better and could get better personnel on a dollar-a-year basis?

Mr. REED. I do not think there is any doubt about it.

Mr. JAVITS. In your opinion, will American industry consider this European recovery program as filling sufficient of an emergency need so that they will come forward and volunteer to do this job?

Mr. REED. No; I do not think that they will come forward. I think they will have to be pried out, myself. A few will come forward, but we have to take a good look at those. The ones you really want you will have to go and get.

Mr. JAVITS. Do you think American business management will consider this as equivalent to the war emergency?

Mr. REED. No. I am afraid they will not and that is what concerns me. That is why I say we are going to need strong backing from the Hill and the White House and other places in order to create the kind of environment and sense of urgency that is going to produce this result. I quite agree with you.

Mr. JAVITS. You state here in your statement that G. E.'s business is only 6 percent for overseas sale. Is that 6 percent critical to the company? Would you answer that in the light of our general interest in world trade as affecting American prosperity?

Mr. REED. Right now we could sell it all right here at home. But either one is in the export business or one is not. You cannot, it seems to us, use export markets as a dumping ground for surpluses when your domestic demand has been filled. You have either got to provide continuity for that business and your international organization has to get its fair share of the productive output of the factories in good times and bad, or you will have a weak and probably a profitless operation.

Mr. JAVITS. Do you consider it important in cushioning recessions? Right now you say you can sell everything you make right here.

Mr. REED. In terms of the future; yes. As of today, not at all. As of tomorrow, or some time, it would be very desirable.

Mr. JAVITS. Do you consider subsection (3) of section 7 (b) of this bill—and I will describe it to you—it purports to make certain guaranties of investments overseas by American industry in the types of recovery projects contemplated by the ERP—do you consider that practical? Would your company be interested?

Mr. REED. I do not think that is spelled out in a way that I quite understand. Let me put it this way. I know that some thought has been given by a good many people to try to find ways and means of stimulating the flow of private investment abroad.

Mr. JAVITS. Let me tell you that the bill provides that 5 percent of the amount appropriated may be used to guarantee first the exchangeability into dollars of the avails of foreign investments of American nationals, and protects them against losses due to nationalization of their investments. It is sort of an insurance against that for projects approved by the Administrator. That is the fact.

Mr. REED. I personally think if that is to be undertaken it should be given a good deal more thought and study than is going to be possible before this program should get under way. I have questioned whether, if that type of thing is to be undertaken, it should

be done on the limited basis of a European recovery program. I think thought should be given to its application to South America and to the Far East. It is a deep and important policy matter. To hook it to this urgent bill dealing with European recovery seems to me not to give adequate time to study it out and to be quite sure that we want it and that we want it applicable in all the areas where American products can go in the years ahead.

Mr. JAVITS. Mr. Reed, my time has expired, but perhaps one of my colleagues will get your personal views on what we should do about this phase of the Administration's program. Thank you very much.

Chairman EATON. Mr. Reed, do you not think it is a safe plan to have the Government guarantee General Electric's profit from abroad?

Mr. BLOOM. It does not say that. It does not guarantee profit.

Chairman EATON. It guarantees against loss.

Mr. BLOOM. It guarantees only 5 percent of the sales.

Mr. MALONEY. Five percent of the amount appropriated can be used.

Mr. REED. Of 100 percent.

Mr. BLOOM. That is what I brought up some time ago. Five percent of the full amount is \$340,000,000 or more.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. In regard to that question which Mr. Javits brought up it appears that the 5 percent is one of the most desirable features of the bill because it certainly offers an incentive to American business to go into this particular area, and if it is successful it will take that much of a burden off the shoulders of the Government. You were asked a question, if in your opinion the problem which faces us in considering the present situation in Europe is world-wide. Your answer was "Yes." Do you think that this country has the resources to go into a Marshall plan for the rest of the world?

Mr. REED. I never knew what the Marshall plan was until these bills began to spell it out. I would not have any more idea what you were thinking about when you said a Marshall plan for the rest of the world, so I cannot answer that question. I do not know how much we would accomplish by trying to answer it. These matters will come to us in sequence and it seems to me we have got to do what we consider to be urgent and doable on a particular program at a particular time. I don't mean that we must lose sight of the fact that there are other areas of the world that need our help, and in our own best interests we probably will have to take steps and provide things, but to delay what seems to be a perfectly clear need with a perfectly gain to us on the European program because of doubts as to our ability perhaps to implemenent some great need in some other area later on would simply let the whole thing fall. In other words, we would not even get the clear benefit of the program that is before us, and I cannot see holding that up or disapproving it simply because we might find ourselves unable to implement some other program in some other part of the world at some other time.

Mr. MANSFIELD. What I have in mind is this: Do you think that the western European area is the point which should be given immediate consideration along the lines suggested by the European reconstruction plan?

Mr. REED. Yes. I think it requires immediate consideration.

Mr. MANSFIELD. There are other areas in the world which are likewise being considered and the point that enters my mind is this: One, can we allocate money to those areas and at the same time do so without depleting our resources still further? Secondly, can we afford to appropriate funds for other areas without having in return some such sort of a specific proposal from those other areas as is contained in the proposals of the 16 western European nations? That is the question in my mind because I realize that the resources which this country possesses are not able to go on forever. We have to conserve them. We have to evaluate each step we make and as I see it that point enters in very much into this program.

Could we, in your opinion as a businessman and one vitally interested in this question, be able to carry on the ERP along the lines suggested by you with an initial appropriation of \$6,800,000,000, and at the same time reduce taxes in this country to the extent of \$5,000,000,000 to \$6,000,000,000?

Mr. REED. That is quite another question.

Mr. MANSFIELD. They are tied in together. Where is the money coming from, as Mr. Rich says?

Chairman EATON. That is high authority.

Mr. REED. I have not said that I was favorable to tax reductions.

Mr. MANSFIELD. I know you did not, but I am trying to bring in the two because we are faced with these two proposals.

Mr. REED. I quite agree that we must consider all of these questions—expenditure as well as income, before we deal with the tax-reduction program.

Mr. MANSFIELD. Would it be cheaper or to the better interests of our country to go ahead with a program of this sort and for the time being sidetrack legislation seeking to reduce the payment of income taxes?

Chairman EATON. That is a question which is up before the House at this time.

Mr. MANSFIELD. All right. I will pass it up then.

Mrs. BOLTON. One might say that it is undergoing bipartisan consideration.

Mr. MUNDT. I think you should have told Mr. Reed what the revenues are.

Mr. MANSFIELD. I think he knows it. You mentioned the fact that if this plan fails that the alternative would be an increased expenditure for military purposes. What other alternatives are there in your mind, as far as this country is concerned, in its relations with Europe as a whole?

Mr. REED. What other alternatives?

Mr. MANSFIELD. Yes.

Mr. REED. You mean either we do it or we don't?

Mr. MANSFIELD. That is right. Now suppose we either do not do it or do not go far enough. What is going to be the result of these European countries vis-à-vis in their relations to us?

Mr. REED. In my opening statement I tried to express my view on that. If we do not go through with this program, or, to put it in another way, if we say to Europe, "From now on you are on a cash-and-carry basis. We will ship to you and export to your areas only those things that you can pay for currently out of your current production." What would the result be? The result would be that there would be

a tremendous lowering of their standard of living right away in order to balance their imports with their ability to export, which at the moment is very low.

It seems to me on the food front and on the commodity and machinery fronts that the adjustment downward would be so drastic that it is very easy indeed to visualize Europe as an economic and political concentration camp. I doubt whether there is a government on the Continent that could withstand that rapid downward adjustment in their standards of living if we insist that from now on they pay us currently for whatever they get from us.

If that is so, then you can decide for yourself whether that is not exactly what Russia wants us to do and you can decide for yourself whether if there are changes in government throughout western Europe, those governments will not be Communist-dominated. If you decide they will be, then I think it follows instantly that the military needs of this country for defense and war preparation would be stepped up by an amount greater than what we are talking about spending for the European recovery program.

Mr. MANSFIELD. The result might be, you would say, an accentuation of the present trend toward a state economy and we might very well lose western Europe by default to communism and we would have deflation in this country because we did not find a market for our surpluses?

Mr. REED. Yes, sir; I agree with you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Reed, I have a statement that will take me a good 5 minutes to put to you as a question and it will not leave you much time for the answer. There has been considerable discussion about stock piling. Let me say first, the objection to acquiring stock piles has been that recipient nations have already figured that they will get so many dollars for the production which will lessen the need for dollars from us and, if we are going to ask them to give it to us, they will need more dollars anyway. It is not quite clear if they want to get that out of loans or out of grants.

As I see it, if they are going to get it out of loans there is no need of making any provision for it because the average country would be glad to pay in commodities rather than in dollars at any future time. It seems to me what the proponents are seeking to do is to save some of these grants-in-aid. We are told by the State Department that the loans will run from 20 to 40 percent. Let us split the difference and call it 30 percent. That leaves 70 percent of this \$6,800,000,000 that will be in grants-in-aid, of which of course nothing will come back to us.

The bills provide they should create a special account when we give to the government and they sell for local currency. This local currency should be put in a special account. There is further considerable difference as to what we are going to do with that money; 70 percent of \$6,800,000,000 would be \$4,760,000,000, or close to \$5,000,000,000. It has already been intimated that we should use this to stabilize the currency. In other words, burn it up and deplete the currency. Of course, they might replace it with other printed currency. However, after all it is \$5,000,000,000 there.

What I want to ask is, Would it be a feasible plan when that currency accumulates there for the United States to invest that local currency in additional enterprises?

Mr. REED. In additional private enterprises in those countries?

Mr. JONKMAN. Yes.

Mr. REED. I do not think so. As you said, that is an enormous amount of money and if the United States Government undertook to take the currency, the local currency proceeds of the sale of grants-in-aid and invested them in private industrial activities for the production of whatever those countries are able to produce, I think in a matter of 2 or 3 or 4 years we would find the American Government possessed of controlling interests in so many productive enterprises of those countries as to put us in an exceedingly embarrassing position. I think we would be charged with doing precisely what Russia is doing behind the iron curtain today. I do not think it would gain us in the end, because there is still the problem of getting those funds out in dollars.

It might be profitable in local currency, but I think it would be an invasion, if you like, by American imperialism, and it certainly would be classified that way, into the heart's blood and the productive facilities of these 16 countries to a degree so large that it would do us in the end a great deal more harm than it would do us good.

Now, if private enterprise as distinguished from the American Government developed our foreign interests, it would not go into any such quantities as that, and, if it were to find its way in smaller amounts into those countries, I would consider it a very healthy and desirable thing because our American technique would go with it. But for the Government to contemplate the investing in productive enterprise in those countries, to me is a flagrant thing and I think it would be a mistake.

Mr. JONKMAN. In a way you have answered the question with a statement I like.

Mr. REED. I am glad of that.

Mr. JONKMAN. You said it would result in so many profitable enterprises that there would not be any end to it. Is there something objectionable to increasing the production of Europe?

Mr. REED. But not to make the 16 countries subsidiaries of America.

Mr. JONKMAN. I realize that there is that one objection that we would be imperializing and it would be called imperialism.

Mr. REED. Yes.

Mr. JONKMAN. But nevertheless it would remain a revolving fund and all you could ever get out of it would be local currencies. You would not care about it but it would be a revolving fund that would be constantly encouraging production in those countries while your alternative is that you do not know what to do with that \$5,000,000,000 except to give it to the administration in power. In other words, to create revenue for them. That, at all events, is what we are doing if we let them keep that currency.

Mr. REED. I think we ought to retain the veto power on the use of those funds; very definitely. But that is very different from suggesting that the right to, and the interest and return from, those funds shall belong to the American Government and then shall be used for the creation of factories and productive enterprises.

Mr. JONKMAN. I do not say they shall necessarily belong to the American Government. I presume maybe that would be the result. My idea is to create a revolving fund where it is used continually for the investment in new enterprises.

Mr. REED. I think that might be done, without our having any connection at all in the situation. In other words, I think it is a good idea, but I would not make it a firm and absolute rule on the Administrator, but I think on occasion it probably would be a good idea for the foreign government in connection with this food and other materials that are given to them, as distinguished from that on the loan basis, to set aside the fair local currency value of that material in an account which the foreign government could not spend without our approval. The funds would not be our funds in the sense that we could use them independently of the foreign government, but a joint agreement must be reached as to their use.

The results of the expenditure, however, would be for the benefit of the country and not for the benefit of the United States. On that basis we could have the veto power and we could say on this productive enterprise, all right, and on that one, no. We would use our rights, but we would not be chargeable with attempting to enrich ourselves by infiltrating, through the productive mechanisms of that foreign country, officially as a government.

Mr. JONKMAN. I managed to get both the question and answer in. Thank you very much.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Reed, it came to my attention some months ago that certain electrical equipment which was going to Oak Ridge was also going to Russia. I make no comment as to whether that was desirable or undesirable, because I am not especially familiar with that particular electrical equipment. but I wonder if it would not be an indiscretion for me to ask you whether out of that 6 percent any equipment is going to Russia which has anything to do with nuclear fission?

Mr. REED. No. The answer is emphatically and positively "no." We have a technician of the Atomic Energy Commission in Schenectady where all of our foreign orders are screened, to be absolutely certain that nothing that has application to the development of the production of fissionable material is allowed out. We think we know something about the production of that material ourselves but, in order to be dead sure, we have a representative of the Atomic Energy Commission there just to clear that very point.

Mr. LODGE. I am very glad to hear that. I presumed, of course, there might be such items as generators which could be used either for that, or something else.

Mr. REED. General-purpose equipment; yes.

Mr. LODGE. There is some of that going to Soviet Russia?

Mr. REED. Yes. There is no new business coming in. But we have orders taken as far back as 1945 from Russia at a time when the policy of this Government was not simply to acquiesce in but to urge American business to enter into commercial relations with Russia.

Mr. LODGE. What would your opinion be as to the desirability of continuing to send any electrical equipment to Russia from General Electric?

Mr. REED. I can tell you what our viewpoint is with reference to the uncompleted portion of old contracts that we have with them.

Mr. LODGE. I would be glad to have that view.

Mr. REED. Those contracts were made at arms length, in good faith, and at more than the acquiescence—at the urging of our Gov-

ernment—and we believe there is still some importance in preserving the integrity of contracts. From the standpoint of the General Electric Co. the contracts we have calling for the completion of shipments to Russia, we are meeting, unless our Government says, "We don't want you to do it."

Because there has been too little, by and large for a good many years now, integrity in connection with the maintenance of contracts both on a public and private level, we think it is our job to complete those contracts. If and when our Government says, "No. For top policy reasons we reverse ourselves. We now don't want you to ship"—they can through the exercise of export license controls tell us not to ship—of course, we won't do it. But for us unilaterally to say, "No. We have made a contract but we are not going to keep it," would mean that we would be making the foreign policy of the United States, and we are not going to do that.

Mr. LODGE. That is an excellent answer. Are you contemplating any further contracts with Soviet Russia?

Mr. REED. No. We are not.

Mr. LODGE. Mr. Reed, you suggested the idea of internal force on page 8, where you made what I consider a very interesting statement:

Who can say to what extent these efforts will neutralize our program? This is war, gentlemen—

I think you are entirely right. That brings up the question of internal force, because strikes and riots contribute to the expense of the program, and I believe recent strikes and riots in France were estimated to have cost the French something under 3 months' production. This is a burden on the American taxpayer.

Do you feel that the European recovery program in and of itself will be enough to protect the Governments of France and Italy from these attempts to capture their Governments by internal force, and do you recommend that we use any means other than the ERP to help these Governments in that connection?

Mr. REED. I think ERP would be enormously helpful to those Governments. I know it would be helpful to them—enormously helpful in stiffening them and making it possible for them to deal with their own people and with their minorities. No one can guarantee that the program is going to assure the recovery of Europe or the prevention of infiltration.

Mr. LODGE. I realize that and I wondered if you thought we should take any other steps besides ERP?

Mr. REED. What type of steps do you have in mind?

Mr. LODGE. Well, there are other things we could do to help these governments and to help the police of these governments. You realize, of course, that the Communist Party in these countries is heavily financed by Russia and that the amount necessary to combat these communist disruptions would be but a fraction of ERP.

Mr. REED. I think I indicated at the end of my statement that I believe it is just as important as the ERP itself that we provide adequate appropriations for the United States Information Service Program.

Mr. LODGE. I should like to say, Mr. Reed, that I am in thorough agreement with your very eloquent statement in that connection. My thought is that, aside from the information program and aside from ERP, there are other things which could be done to meet a threat,

things which have nothing to do either with propaganda or with economic aid, but which have to do with brute force, exercised internally in these countries. I wondered whether you would care to comment on that.

Mr. REED. No. I do not care to comment on it. I haven't any view except what my reaction is, and that would be totally negative.

Mr. LODGE. That is the type of war the Russians are waging now?

Mr. REED. That is right.

Mr. LODGE. You feel that we must not use any weapons to counteract that particular aspect of the cold war?

Mr. REED. In the way of arming the police forces. Is that the sort of thing you are talking about?

Mr. LODGE. That would be one thing.

Mr. REED. As far as I know they have not even asked for it.

Mr. BLOOM. Will the gentleman yield for a question?

Mr. LODGE. I have only 5 minutes.

Chairman EATON. Your 5 minutes is up.

Mr. BLOOM. I mean to say, you could not do that under the United Nations Charter if you wanted to, anyway.

Chairman EATON. That question has been settled anyway. Now, Mr. Jackson.

Mr. JACKSON. Not permanently, Mr. Chairman, because I am going to revert back to that question. Is it not true, Mr. Reed, that we have been carrying on in Greece something in the way of a miniature ERP, and that we have been experiencing an organized attack by Communist-led bandit forces to take over the legal government of the country by extra-legal methods. If this is indeed a demonstration of what we may expect from ERP in the other countries to whom it is proposed aid be given, it raises very serious doubt in my mind whether or not the program can be carried forward successfully without augmenting the economic help with some other manifestations of assistance as may be found necessary to implement our assistance.

Chairman EATON. You mean by "material help," militarily?

Mr. JACKSON. By whatever means may be considered necessary to carry out what we are trying to do.

Mr. REED. If the western European countries were physically and temperamentally and spiritually in the condition that Greece is in I would share your doubts very much. I do not consider them to be in that shape and I do not believe we are going to have the kind of difficulty with guerrilla warfare, and so forth, and with the terribly weak government that we are confronted with in Greece. I think your question is a good one. I don't know the answer, but I am inclined to think that the differences in the facts, as they confront us with the western European countries, themselves distinguished between the problem there and the problem in Greece.

Mr. JACKSON. Although, as a matter of fact, the minority concerned in Greece is probably not greater, if as great, as the active minorities in France and in Italy. Eighteen thousand ill-fed and ill-equipped bandits have been able to keep Greece in a state of turmoil for many, many months, and have actually won considerable ground.

Mr. REED. Many, many years, I guess.

Mr. JACKSON. For many and many years, taking refuge in the mountains against oppression, real or imagined, has been considered

an ancient and honorable profession in Greece, but in the present instance I think that the possibility of like activity in other recipient countries should be given very serious consideration in connection with the passage of this legislation. With further reference to Mr. Jonkman's statement on strategic materials and the possibility of some return to us in the way of stock piles of such materials, I suppose you know that in many instances we are a have-not nation.

Mr. REED. I am not sure that I have your question in mind now. You say there are short-supply items?

Mr. JACKSON. So we are led to believe by all the witnesses we have heard.

Mr. REED. That would be moving abroad? Yes. Food also.

Mr. JACKSON. What would be your idea on what Mr. Jonkman was saying? I was thinking of inserting something of this sort in the bill:

In order to speed up the productive capacities of the countries concerned and in order to bring in and develop new media of production—

something along this line—

that not more than x percent of the funds herein appropriated, or its equivalent in local currency shall be made available to recipient governments, only for the purpose of exploration, exploitation and development of new sources of supply for production of minerals, ores, timbers, chemicals, salts, industrial quartz and diamonds, or any other item of a like nature in world short supply which may be mutually agreed upon between the Administrator and the government of a recipient country.

Mr. REED. Well, that is permissive, is it, up to that amount? Does it require that that amount be requested?

Mr. JACKSON. That it shall.

Mr. REED. If you apply that to each of the 16 countries I think you will find in some countries you would be just that much short of available funds, because there just are not the raw materials in which we have an interest or in which we would want to make that kind of an investment.

Mr. JACKSON. We may put through specific authority to do that.

Mr. REED. All right, but the bill may well contain it not in terms of peremptory and mandatory instructions, but in terms of strong suggestions to the Administrator and give him authority to do these things. Then, if appropriate, he can fit them into the pattern of the agreements with the 16 countries wherever they fit normally. But to make it a flat, straight-out horizontal requirement, is in my judgment a mistake as I think it will corset him in a way that is going to hurt the bill.

Mr. JACKSON. Thank you very much, Mr. Reed.

Mr. MALONEY. Mr. Reed, in my opinion this program has two phases: One, the rehabilitation of industry in Europe; and the other is the relief of the people of Europe. That is, furnishing them food.

Mr. REED. And building rehabilitation.

Mr. MALONEY. Yes; and building rehabilitation. Do you think it would be feasible to separate in the bill these two phases? That is, separating even the administration into the two phases?

Mr. REED. No; I do not, sir.

Mr. MALONEY. Why not?

Mr. REED. Rehabilitation of industry involves three things, it seems to me. First, a study of the plant necessities to put the machin-

ery into a position where it can function effectively; second, it means seeing to it that the people who are working or who are going to work in those factories receive adequate nourishment in order that they can function adequately; and third, it requires that the pipe line of raw materials and components which would be fabricated in those physical facilities shall also be provided. So that the thing is one task really and all you are talking about in essence is that you provide men able to work and you provide facilities which are designed to do the job and you see that the flow of materials into the plants is there and ready to be worked on and put into the machines.

I do not think you can separate them. You might say on a strictly relief proposition, in the nonindustrial cities, you might separate that, but I do not think it would gain you anything.

Mr. MALONEY. There is one other question here. On page 8 you referred to economic and political war. I am wondering whether the American public really realizes that, in your opinion, we are in an economic war?

Mr. REED. I think the appreciation is growing.

Mr. MALONEY. Is there any way that that can be accelerated at all? I believe if we were in a shooting war the American public would rise up with patriotic efforts to back everything that the Government would do. In this situation they do not seem to know what is going on. Is there anything that we can do to make the American public feel the situation as it exists?

Mr. REED. My own view is that Russia will do it for us. I think she will continue to make bad mistakes in terms of her relations with America and that if that is properly publicized it is going to continue just as it has in the last almost 3 years now to build a greater and greater and most unhappy barrier between us and Russia.

Mr. MALONEY. You do feel, however, that it is unfortunate that the American people do not realize that more?

Mr. REED. Yes, sir; I do.

Mr. MALONEY. That is all. Thank you very much.

Chairman EATON. Dr. Judd.

Mr. JUDD. No questions.

Chairman EATON. Now, Mr. Reed—

Mr. VORYS. Have we finished?

Chairman EATON. We have finished the 5-minute rule. I would like to say before anything overtakes us, that we consider your testimony in reply to our questions the most illuminating and helpful we have.

Mr. REED. Thank you, sir.

Chairman EATON. I hope they will increase your salary. Does anyone want to begin again?

Mr. VORYS. I have a couple of questions. Mr. Reed, on this matter of a corporate set-up, you are chairman of the board of the General Electric Co. That is the board of directors, isn't that correct?

Mr. REED. That is correct.

Mr. VORYS. And I presume that GE like any other corporation is run by its board of directors? That is, they lay down the policies. Is that correct?

Mr. REED. That is true.

Mr. VORYS. Does your board of directors cripple or hamper the necessary executive activities of General Electric?

Mr. REED. No; but they very quickly could and would if they should undertake to operate it.

Mr. VORYS. You have a working understanding of the kind of directives that a board of directors gives and the limits upon the amount of detailed direction they give to an executive do you not?

Mr. REED. Yes.

Mr. VORYS. Why could not that same mechanism which is so thoroughly understood by American business be applied to this program? Why could not the Congress set up a board of directors, let us say exactly the same number. Possibly not of the same caliber, but as near it as we could come, to the board of directors of the G. E. and have them proceed to guide the administration of this thing the way a board of directors should? How would that cripple anything?

Mr. REED. In that case you would not go to the President. You would go to the board—this bipartisan board—and get your clearance and approval from them.

Mr. VORYS. That is right.

Mr. REED. Rather than go to the President.

Mr. VORYS. That is right.

Mr. REED. It could be done. Personally I think it would be contrary to the whole theory of government operation, and I think the program would move less rapidly under that kind of a scheme than under the kind of a scheme I have suggested, but it could be done. There is no question about that.

Mr. VORYS. And it would have continuity, as Mr. Mundt was mentioning, far more than some activity that was just the activity of the administration, or as they say in Europe, of the government then in power. Is that true?

Mr. REED. If I understand your question, I cannot quite see the advantages of it or the need for it in this case, and not in a great many other cases of very important projects that the Congress has authorized. If you do this there will be many other occasions in which you will want to do the same thing and I cannot see why you should short-circuit the responsibility and the authority of the executive side of our Government. To me it is unsound.

Mr. VORYS. As you say, this might be different from anything we ever did. This Marshall proposal is different from anything we have ever done. Is that not true? Remember, we are not talking now, or at least I hope we are not, about some emergency situation in war-time. We are talking about something now where whatever we do is going to be a pattern and a precedent for the dim and distant future. Is that not true?

Mr. REED. I hope not, sir.

Mr. VORYS. Do you mean to say that you think there is going to be a time 4 years from now when we can then heave a sigh of relief and have our Government and the American people quit worrying about the rest of the world and their economic condition, and the combination of economic, political, and ideological developments all over the world? I do not think so. I think the trouble is that too many of us, and possibly you, are thinking of an emergency situation that is going to be over shortly. I do not think that is true. I think whatever we do here is going to be a pattern for years, and years, and years. I would like your comment rather than just mine.

Mr. REED. That may be, Congressman. I would hope certainly that America would grow up to the leadership that has been forced upon us, and literally it is that; and I hope that through the years we will most actively provide the leadership around the world, both economic and political, which will be needed. However, that we are going to have to part year after year with part of our production in order to hold on to that leadership, I do not think follows. I do not mean to say that I do not believe we are going to have to pay the price of leadership, because there is always a price attached to it.

Mr. VORYS. That is right.

Mr. REED. Even if it were only in maintaining a large Military Establishment, but I do not in my own mind contemplate an indefinite subsidy of the economy of Europe, for example. If I did I would be very much concerned about this whole program. I do not think it will be necessary. I think if we do not do something here pretty soon that we may have to do something of that sort, and do it through a military machine.

Mr. VORYS. You consider whatever we do here an investment, do you not?

Mr. REED. I consider it very importantly in the interests of this country. In other words, say it is a good investment.

Mr. VORYS. A good investment?

Mr. REED. Yes, sir.

Mr. VORYS. And on an investment you expect to secure returns of some kind, whether they are precisely measured in dollars and cents or not. Is that right?

Mr. REED. Yes. I do not regard it as an investment from the dollars standpoint at all. I regard it as an investment in the negative sense; that it will save us expenditures far larger and it will hold very real promise of providing a peaceful world and a successful United Nations, which I cannot see on any other basis.

Mr. VORYS. The board of directors of General Electric are not all elected at one time; are they? You provide for different terms of service so that you have a continuity of the board?

Mr. REED. No. They are all reelected each year at the annual stockholders' meeting.

Mr. VORYS. Then I am wrong about GE. You have a tradition, however, do you not, of not changing the whole board every year?

Mr. REED. Yes, sir. I hope that tradition continues.

Mr. VORYS. Particularly the chairman. One other question. You mentioned that we have to have 16 separate agreements.

Mr. REED. The problems, the conditions and the resources. I think those are the three words I used. They will in the various countries differ widely.

Mr. VORYS. When General Marshall made his announcement, on June 5, he talked about a joint activity over there. It was my hope that this time we would have not a whole lot of separate agreements such as we had under lend-lease, but a multilateral agreement with this new organization. Would there not be some advantage in pressing toward unity in Europe with that type of activity?

Mr. REED. I see exactly what you mean. As I understand it, steps will be taken in that direction and have been taken by the organization of a Commission—I forget what they call it—of the 16 countries, on which we will sit, and whose job it will be to try to

develop an over-all program to begin to integrate much more closely the economy of these several countries.

If it were possible to sit down and work out one multilateral agreement with all the countries, and with all of the conditions back and forth, and multilaterally set forth in it, I think there might be some advantage in it, theoretically at least. But practically I do not think it is possible. I think we have got to make our agreements bilateral agreements so that we can in the case of each individual country deal with them at the end of the 15 months or a year individually, and hold them responsible for their performance under that agreement.

If you have a great multilateral deal, I do not think you could hold anybody responsible really, except the whole group, and that does not make a great deal of sense. I think there are great advantages to having bilateral agreements, but having them consistent with and fitting into a pattern which is the over-all pattern of cooperation. You may well provide in each of the agreements that each country shall do certain things in relation to other countries that will help implement that cooperation.

Mr. VORYS. I am not sure that I see what you mean. What I remember is that lend-lease started out as a matter of separate agreements. We soon arrived at a master agreement, which was a stock pattern from then on.

Mr. REED. But bilateral. It was a master agreement, but it was entered into bilaterally.

Mr. VORYS. Yes. Our experience in settlements under lend-lease makes me hope that this will have a different type of result in the long run. I do not see where we get by having so many different agreements and by having each of 16 countries seeking a little different or a little better terms than the other country gets, dealing with the one supplying country. But perhaps I should not labor that point.

Chairman EATON. Will the gentleman yield?

Mr. VORYS. I yield.

Chairman EATON. I would like to have this cleared up in my mind. I got the impression that Mr. Vorys in the back of his mind had the notion if we could turn this whole thing over to the board of directors and the men of General Electric, that it would be well done. Would you be willing to take that responsibility?

Mr. REED. Mr. Vorys is not close enough to General Electric. With all the tasks we have here at home, I do not think he would vote for that if he were really close to it.

Mr. VORYS. You gained the correct impression, Doctor. Let me say one more thing, not to trespass on your time and that of the committee too much. You mentioned here that the board of General Electric, a private institution, in its dealings with reference to Russia will be guided by what the Chief Executive, the President, orders with reference to our foreign policy. Is that true?

Mr. REED. Yes, sir. Of course.

Mr. VORYS. Of course. Can you conceive of a government corporation where the Board of Directors would not also be, of course, subject to the foreign policy of the United States?

Mr. MALONEY. Mr. Vorys, will you yield on that point?

Mr. VORYS. I yield.

Mr. MALONEY. Right along the line you were speaking of, in Section 11 (b) of the Herter bill it says that—

The Council shall from time to time (1) advise and consult with the President with respect to the establishment by him, within the limits of available funds and subject to this act.

Now, it presupposes that the President will be advised and consulted with on all these matters.

Mr. REED. Yes, but his approval is not required. There is a significant difference there.

Dr. ELLIOTT. I beg your pardon, but may I set the record straight on a point of fact. In the Herter bill the President's approval is required. The language is explicit on that. All directives, all programs, all policies.

Mr. REED. The postulate here was that this was not so and that the Bipartisan Board would have the authority to make a decision as to a program quite apart from Executive approval.

Dr. ELLIOTT. I understood you were addressing yourself to the postulate, but I want to correct the impression that the Herter bill does not make that explicit that all programs, policy and administration shall be set by the President with the advice of the Foreign Aid Council which contains these principal Cabinet members, and the Chairman of which is the Secretary of State, as well as the directors of the corporations; and the directors of the corporations by the terms of the bill have no power whatever, except in the implementing of this policy.

Chairman EATON. That does not mean at this point that the Herter bill is 100 percent perfect.

Dr. ELLIOTT. No. It simply clarifies the language.

Mr. VORYS. Mr. Chairman, I think I should say my questions to you were not attempting to draw an analogy between a private corporation and a Government corporation. You are perfectly correct. I was not confining myself to the terms of the Herter bill.

Mr. JARMAN. This question may sound far-fetched at first, Mr. Reed, but I do not believe it will be when I comment further on it. How many men do you have on your board of directors?

Mr. REED. 17 currently. They are a variable number.

Mr. JARMAN. Do you happen to know offhand how many of them are Republicans and how many are Democrats?

Mr. REED. I have not the remotest idea.

Mr. JARMAN. That is exactly the way I want to see this. You do not know and you do not care.

Mr. REED. That is right.

Mr. JARMAN. I want to see this program run that way and I want to see Governor Griswold in it. He is doing a good job in Greece. He is a former Republican Governor of some State. That is the way I want to see this program run. Without stooping to what I regard as petty political considerations on a tremendous world program which is especially very beneficial to us, such as this is.

Chairman EATON. Are there any other questions? We will adjourn until 2 o'clock when we will have Mr. Hazlitt.

Mr. LODGE. I apologize to the chairman. That is, may I say, one of the disadvantages of juniority.

Chairman EATON. Yes.

Mr. LODGE. I simply wanted to ask Mr. Reed this: I am sure that you feel, sir, that foreign affairs are intimately and inextricably tied up with domestic affairs and therefore it is perhaps as important to be nonpartisan in our attitude in domestic matters as in our attitude toward foreign affairs.

Mr. REED. They are fairly general premises, but you are right.

Mr. LODGE. On that basis, Mr. Reed, I wonder if you would care to comment on this: If you were Administrator of this program, would you advocate to the governments of the countries participating that they should base their fight against inflation on the same principles as those advocated by the President of the United States for combating inflation within the United States?

Mr. REED. That is a rather political question, I think. Are you asking me if I agree with the President?

Mr. LODGE. It does not seem political to me, Mr. Reed, because I cannot for myself divorce foreign affairs from domestic affairs. I am impressed with the fact that this whole enterprise is part of a composite picture and I cannot seem to think of it piecemeal. I feel that you cannot think of it piecemeal either because in your large enterprise you must be constantly reminded of the interdependence of these various elements. I think you will agree with General Marshall that this program is impossible of success unless there is a certain amount of reciprocal self-help from these countries. This involves the reduction of trade barriers, the stabilization of the currency, the reform of the tax structure, and what not.

Mr. REED. That is right.

Mr. LODGE. These reforms are so necessary to their existence that they will be influenced by what the Administrator may recommend in that connection. Naturally, therefore, I am very much interested in what philosophy the Administrator might have with respect to combating inflation and restoring stability and achieving a maximum amount of reciprocal self-help. I would be tremendously interested in your view as one of our most eminent businessmen, on that particular subject.

Mr. REED. As I say, I hope that the Administrator's recommendations would receive the most careful consideration by each of these foreign countries in any matter relating to the recovery of their economy. That would include tax policy and anti-inflation policy.

Mr. LODGE. That is unquestionable. I think it will.

Mr. REED. Now, your next question, as I understand it, is whether the Administrator will follow the lead or the recommendations in these various countries that the President recommends with reference to the domestic situation. Do I understand you correctly?

Mr. LODGE. My question was whether you, personally, Mr. Reed, if you were the Administrator of this program——

Mr. REED. I am not, sir, and I do not expect to be.

Mr. LODGE. I would like you, however, to consider that hypothesis, if you do not mind.

Mr. REED. Thank you.

Mr. LODGE. Whether you would advise these governments to combat inflation, to restore fiscal stability, to reform their tax structures, and all these other measures which are proposed, on the basis of the same principles as those advocated by the President of the United States in his message on the state of the Union for combating

inflation and promoting economic stability within the United States. That is my question, Mr. Reed.

Mr. REED. Many of the recommendations which the President made at the opening of the emergency session and again in the opening message on the state of the Union, I do not agree with.

Mr. LODGE. Do you believe there will be any danger that the Administrator will have a tendency to follow the President's economic philosophy with respect to those internal problems?

Mr. REED. I do not know the answer to that. I would hope that the Administrator would, in consultation with his Board, approach the problems in each country on the basis of the conditions there. I think we all understand basically what the principles are and they are not going to have Presidential years in each of these 16 countries as these things are being worked out.

Mr. LODGE. You do not think you would necessarily advocate a \$40 tax cut as a method of combating inflation?

Mr. REED. I would very definitely hope not.

Mr. LODGE. Thank you very much, Mr. Reed.

Mr. JONKMAN. Are there any further questions?

Mr. KEE. Just a moment. Dr. Elliott made a statement awhile back about the Herter bill providing for the absolute approval of the President on the policies. I have very carefully considered the Herter bill and on page 4, paragraph (b), of section 11, it provides that—

The Council shall from time to time advise and consult with the President with respect to the establishment by him, within the limits of available funds and subject to this act, of the programs of United States aid to foreign countries * * *

That section does not provide for any approval by the President of any decision of the Council or the Chairman of the Council, but on page 5 in subsection (c) in defining what are the duties of the Chairman of the Board it says that in—

formulating for the consideration of the Council proposed programs of United States aid to such countries and proposed policies in connection therewith, and (3) providing for the efficient execution of any programs of foreign aid and policies in connection therewith by issuing, with the approval of the President and after advising and consulting with the Council—

directives not as to the policies but directives as to carrying out the policies which he formulates.

There is no place where it says in the bill that the President should approve the policies. He only has the right to approve the directives issued by the Chairman in carrying out those policies. I found no place in the bill where the President is required to approve the policies formulated by the Council and Chairman. I would be glad to have it pointed out.

Dr. ELLIOTT. I suppose that Mr. Reed may want me to answer that, since it was my language not his. May I suggest that if the language requires redrafting, and I suggest that it might, that that might be done, but the language was intended by the legal draftsman to accomplish that. It says—

with respect to the establishment by him—

that is the President, in subsection (b). I take it there is no question about that—

It says that the Council shall advise and consult with the executive director regarding the execution of such programs and policies, but the

language "by him" refers exclusively to the President, where it says, "the establishment by him" meaning the President, of programs and policies.

Mr. KEE. The policies are formulated by the Council under that section and it provides that the President only approves the directives issued by the Chairman for the execution of the policies.

Dr. ELLIOTT. The other language, in the section you read, says—and that is part 3 of subsection (c) on page 5—"with the approval of the President." No directive can be issued without the approval of the President.

Mr. KEE. That is right. The directive as to how the policies are carried out.

Dr. ELLIOTT. Yes.

Mr. KEE. But nowhere does it say that the President has to approve the policy.

Dr. ELLIOTT. The President establishes the policies in section (b). Isn't the language clear there? Perhaps it may need to be clarified there.

Mr. KEE. It says he shall—

advise and consult with the President with respect to the establishment by him,

By whom? The Council?

Dr. ELLIOTT. The President.

Mr. KEE. Oh, no.

Dr. ELLIOTT. The language could only mean the President.

Consult with the President with respect to the establishment by him,

As it is, up to that part there has been no mention of the executive director in any way. The language clearly refers to the President, but as I suggested in my staff reports it would have to be clarified and nailed down.

Mr. KEE. It will have to be.

Mr. REED. That was definitely the intention, was it?

Dr. ELLIOTT. Yes.

Mr. REED. There has been some doubt in the minds of people about it.

Mr. KEE. There was a very grave question in my mind.

Dr. ELLIOTT. Mr. Herter attempted to clear it up himself in a letter to the Washington Post.

Mr. KEE. I have that.

Dr. ELLIOTT. But there could be no question that the language of the bill up to that time never referred to the Chairman of the Board of Directors at all as the executive director so that that could only mean consult with the President with respect to the establishment by the President. It is just not thought necessary to repeat the phrasing. "By him" could only refer to the President, but I agree with you, sir, that any remaining doubts should be certainly clarified in the language of the bill.

Chairman EATON. We will adjourn until 2 p. m.

(Whereupon, at 12:35 p. m. the Committee recessed until 2 p. m. of the same day.)

AFTERNOON SESSION

Chairman EATON. The committee will kindly come to order.

I have to be outside. I will ask our distinguished colleague, Mrs. Bolton, to take the chair this afternoon.

Mrs. BOLTON (presiding). Should we go ahead?

Mr. KEE. Unless someone suggests the absence of a quorum, I suggest we go along.

Mrs. BOLTON. Mr. Hazlitt, we are very happy to have you here. We have been looking forward to this very much. You made your pronouncements on several occasions. We are looking forward very much to your development of your own ideas for us, knowing you will give us a great deal to think of.

STATEMENT OF HENRY HAZLITT, BUSINESS COLUMNIST OF NEWSWEEK MAGAZINE

Mr. HAZLITT. Thank you, Madam Chairman.

I am greatly honored by the invitation to testify on the proposed European recovery program before your distinguished committee. I have already dealt at length with the basic facts and principles involved in the proposed program of foreign aid in a book which some of you may have read called *Will Dollars Save the World?* I should like here, therefore, to confine myself to suggestions for a positive program, with only an incidental explanation of some of the reasons for these suggestions.

1. Marshall plan or no Marshall plan, Europe will not recover as long as European governments retain the economic policies they have been following since the end of the war. Europe has driven more of its own private capital underground than the total amount it is asking from us. As long as socialization, nationalization, unbalanced budgets, monetary debasement, general price fixing, exchange control, and the whole collectivist network of government prohibitions, permits, licenses, and orders are retained, any amount of dollars we pour into Europe will be more than offset and nullified by stifled production and chronic crises. Our experience with Great Britain will only be repeated on a much vaster scale. Europe will be in a much worse situation after our help is poured in than it was before it began.

Whether or not we decide to impose any conditions with our help, therefore, this basic economic situation must in some way be brought home by Congress to the American people and to the people of Europe. What is most important to the revival of Europe is not American loans but a complete change in the internal economic policies of Europe. Unless the political conditions of revival exist in Europe itself, Europe will not revive. There is only one way to restore production, and that is to restore the freedom to produce and the incentives to produce.

This is the central point that Congress must emphasize in its foreign-aid program. It is more important than any other. If it is thought impracticable to write this central point into the legislation itself, or in a preamble to it, the point ought certainly to be emphasized and underlined, for the sake of the record, in the report of this committee to the House.

Once we recognize this central point, we must recognize also the completely arbitrary and unscientific nature of the calculations of Europe's needs for American aid, either in their own figures or those of the State Department. It is frequently said that if Congress cuts down the \$6,800,000,000 that the State Department asks for the first 15 months, or the \$17,000,000,000 that it originally proposed for 4 years,

we should be giving only enough for "relief" and not enough for "recovery." Secretary Marshall has told Congress that it should "either undertake to meet the requirements of the problem or don't undertake it at all." The implication of this is that any sum under the amount requested by the State Department will not meet the requirements of the problem. But there is no real basis for this view. Whether or not Europe recovers economically in the next few years has little to do with the exact amount of money and goods we send her; it depends primarily upon the policies followed within Europe itself. If those policies continue to be those of the last 2 years, then even if we pour in the whole \$29,000,000,000 that Europe originally asked for it would not bring European revival; it would only weaken and imperil our own economy. Unless Congress recognizes this point in advance, and makes it clear in its legislation or in its reports, it will be blamed for any failure of the program. Congress will be told that the program failed because it gave too little, or because it did not accept the exact organizational set-up proposed by the administration. Yet the real reason for the failure will be the economic policies of Europe itself.

The State Department repeatedly contends that the dollar amounts it proposes to pour into Europe under the Marshall plan have been closely and scientifically calculated. The truth is, as I have already pointed out, that there is no scientific foundation whatever for these estimates. They are completely arbitrary. To recognize their a priori and arbitrary character, we have only to recall a little of the history of how they were compiled.

I might begin by reminding this committee of a fact whose significance seems to have gone virtually unnoticed. On June 12 of last year, just one week after Secretary Marshall's first hint of his plan at Harvard, Benjamin V. Cohen, then counselor to the State Department, and surely a responsible spokesman, made a speech at Long Beach, Calif., in which he declared that Europe needed from us \$5,000,000,000 or \$6,000,000,000 a year for the next 3 or 4 years. This meant a top figure of \$24,000,000,000 and a minimum of \$15,000,000,000. Now, all succeeding estimates since then have kept the Marshall plan figures precisely within that range. The 16 European countries asked for \$22,000,000,000; our own administration reduced the figure to \$17,000,000,000. The proposed life of the plan is still 4 years, as it was in Mr. Cohen's speech. All this may show remarkable prescience on the part of Mr. Cohen. But I suggest that there is a simpler explanation: The nations of Europe were publicly tipped off last June by an official of the State Department concerning how much they could ask for.

In putting together the total of their alleged needs, the European governments used what we may call the balance-of-payments approach. That is to say, they added up all the imports they thought they needed from us and the rest of the world, set against them the exports they thought they could sell; and asked us for the difference. I need hardly point out that this whole procedure was utterly arbitrary and unscientific. No nation, not completely totalitarian, can know exactly how much it is going to have to import or be able to export even a year ahead. As a statistician would say, there are too many dependent, independent, and indeterminable variables. There is no such thing as a predestined trade deficit independent of loans

from the outside, of internal inflation, of price fixing, of tariff policies, of trade controls, of domestic production, of price levels, and of foreign-exchange rates.

To take simply the first of these factors—loans from outside—it should be obvious that the economic causation is precisely the reverse of what the 16 nations' report tacitly assumes it to be.

It is only gifts, credits, or loans from outside that permit a trade deficit to continue.

Otherwise the only trade deficit that is possible is one that is paid for by the sale of foreign securities or foreign currencies previously held, or by the direct shipment of gold. In the long run imports and exports must balance, simply because people insist upon getting paid for what they sell. If we extend no further gifts or credit, the outside world cannot continue to have a trade deficit.

It is the loans and gifts themselves that will chiefly determine the future European net trade deficit with us.

In short, even if we accept all the economic and political assumptions of the Marshall plan, we must recognize that the \$6,800,000,000 figure is completely arbitrary. It is sheer guesswork. There is no foundation whatever for presenting it as a figure which represents the difference between chaos and recovery, or the difference between communism and free enterprise, or communism and democracy, or war and peace, or any of the other frightful alternatives that have been put forward as the consequences of not giving precisely this sum.

2. One of the most important controls in Europe, particularly as it affects the United States, is the pegging of exchange rates at levels far above the real values of European currencies. It is made a crime in Europe for anyone to buy or sell these currencies at less than their official value. The effect of this is systematically to stimulate imports to Europe and to discourage or prevent exports from Europe, by making them prohibitively high in terms of dollars. European exchange control has brought about the present chronic deficit in European trade.

Here is something that the United States does have some power to control. It would be folly to extend foreign aid even a month longer unless we first of all insist on the repeal in the Bretton Woods agreements of the provision (art. IV, secs. 3 and 4) which makes it obligatory for all member governments in the International Fund to prevent free markets in their currencies. The fund agreement, fortunately, permits any nation to withdraw from the fund at any time without advance notice. In insisting on minimum reforms, the United States could quietly point out to other governments the existence of this withdrawal clause. It would be a major error from our standpoint or from the world standpoint to retain the Bretton Woods exchange-control provision any longer. If the administration fails to act of itself, Congress should insist on this minimum reform in its aid program.

When I first analyzed the effects of this European exchange control in my book and in articles several months ago, it was receiving practically no attention whatever from supporters of the Marshall plan. Suggestions that this exchange control should be terminated were dismissed as irrelevant and even heartless. But now, fortunately, the subject is beginning to attract the attention it deserves. The harmful consequences of overvalued European currencies have since been

pointed out, for example, both by the Harriman committee and by Bernard Baruch. In their own interest several European countries have been moving toward reform. Italy, about 2 months ago, announced that it would allow its currency unit to seek its approximate free market level. France is now proposing to adopt a 2-franc system, with an official franc valued at 214 to the dollar compared with the former rate of 119, and a relatively free franc whose value would be determined in a free market.

We may question the wisdom of the particular shape that these reforms have taken. But they are significant as a recognition of the impossibility of retaining rigid control of European currencies at overvalued levels. The United States has been paying heavily, and under the Marshall plan it would continue to pay heavily, for the maintenance of this vicious exchange-control system which until now virtually all Europe has been imitating from the Schachtian system in Nazi Germany. The abolition of this system is one of the minimum reforms that America should insist upon immediately in return for its aid program.

3. For good or evil, the industrial heart of Europe before the war was Germany. The German economic collapse is one of the chief reasons for the present economic stagnation in Europe. But this collapse has been largely imposed, not only by the policies of Russia and of France and Great Britain but by our own policies in Germany. In addition to the misconceived level-of-industry plan, we have imposed on Germany a continuation of the Schachtian controls over wages and prices under conditions which paralyze German production. This paralysis of German production has not only been costly to us directly, by forcing us to support our former enemies, and to pour in hundreds of millions of dollars to make up for the imposed deficiency in output, but it is responsible for causing a large part of the demands for aid from us in other European countries.

By our own insistence, Germany is today, second only to Russia, the outstanding collectivist country in the world. Here, where we have control, is the place to show Europe, by an example in its very heart, what a return to private enterprise can do for recovery. Only the restoration of a free economy in Germany, subject to American oversight and reasonable income reparations, can solve this problem. Congress must insist that the Germans work and be permitted to work, not merely to support themselves but to help make restitution to the neighboring countries of Europe which they looted and to which they brought so much destruction. A reform of our policy in Germany would alone save us billions of the proposed expenditures under the Marshall plan. It would do more; for it would increase world production and not merely redistribute world shortages.

4. It would be a great mistake at this time to initiate any explicit or even implied "4-year program" for Europe. The situation is too unpredictable to work that far ahead. If European governments make the economic reforms they should, the present proposed 15-month aid program may be all that we reasonably need to undertake. In any case, we should not commit ourselves to European aid, either directly or by implication, for more than these 15 months. In order to exercise whatever control is reasonably possible, and to act in accordance with the situation as it develops, we should leave ourselves free to see how it looks a year from now before committing

ourselves further. If it is argued that European nations must know what our contribution is going to be for 4 years ahead so that they can "make their plans," the answer is that we must know what use they make of our first year's help before we can know whether it is worth while offering more.

The proposal for limiting commitments both legally and morally to no more than the first 15 months has already been made by the Harriman committee, by former President Hoover, and by many others. I think it advisable for Congress to go even further. It should explicitly state that this legislation is not to be taken to imply further aid at the end of the 15 months, but that the United States will wait to see what Europe has done for itself in the meantime and what its needs are at the end of that period. Congress is already being told that it must go through with the European aid program because that program has already been promised to Europe by the Secretary of State. There is certainly no good reason why this Congress should impose any obligation, explicit or implied, on the next Congress or the one after that.

5. In the demands of the 16 European governments upon us, we should separate their requests for food from their other requests. We should try to meet the food needs of Europe as far as we reasonably can. And we should meet these needs so far as possible by gifts, and not by loans. I am sure that no American would hesitate to make sacrifices to keep the hungry and distressed going as long as we have the food to share with them.

I feel bound to point out, however, that in recent discussions of the Marshall plan both our surplus of food and Europe's need have been overstated. Before the war the United States produced less than 9 percent of the world's food supply in terms of calories; it produces even today only about 12 percent. Before the war we were on net balance a food-importing country; in the years from 1936 to 1940 we exported an average of \$294,000,000 of foodstuffs a year; we imported an average of \$665,000,000.

On the European side, to cite but a single example, Secretary Marshall, in testifying before the Senate Foreign Relations Committee, made the astonishing statement that the war had "destroyed livestock herds" in Europe. "Destroyed" is a big word. Yet volume II of the report of the 16 nations published by the Department of State, shows among other things that cattle on the hoof in those nations is in excess of 64,000,000 as compared with an average of less than 62,700,000 in the 4 years before the war. Furthermore, though the European governments put the blame solely on the war and on bad weather, the truth is that a great part of the present European food shortage is the result of their own bad policies. They have not allowed the price system to work; they have destroyed the incentive of farmers to sell crops to legal markets or to produce them at all; they have made it profitable for farmers to feed wheat wastefully to livestock; and so on.

But the European food shortage exists, and we should do our best to alleviate it.

I suggest that the best agency to do this might be the International Red Cross. If this is not thought suitable, then we should set up a new American Relief Administration. This administration should distribute food in Europe directly, making use of private European

personnel as well as Americans. It should study the manner in which Herbert Hoover distributed American food in Belgium in the First World War.

Some European governments may insist that most or all of the food we contribute must pass through their rationing system, to be sold by them to their own people while the governments retain the monetary proceeds. In this case all that we would be doing would be to reduce the tax bill of Europeans, or to make available to their governments money for expenditures for other and perhaps undesirable activities. To the extent that European governments insist that they should sell the food our Government sends them, we should insist in our turn that the foreign currencies received from the part of our food contribution which the governments sell must be deposited locally to the account of the United States Government. These funds can then be used by us partly to make Export-Import Bank loans to European private industries and partly to buy European goods to import into the United States.

6. With the food problem thus taken care of, there is no reason why the rest of the problem of European rehabilitation cannot be dealt with on a strictly business basis. We are constantly told that the way to put Europe economically back on its feet is to lend its manufacturers raw materials on credit that they can turn into finished goods to sell to us and the rest of the world. If such loans would really do all this, then it would be sound for private investors to risk their own funds in them. It cannot be argued that private funds do not exist in sufficient quantities. Our own Government has no funds that it does not ultimately take from private funds. Congress should therefore do what it can in removing any remaining legal impediments to the restoration of private credits to Europe. It should see that any red tape or unreasonable requirements on the part of SEC, for example, are removed.

It will necessarily take time, even under the best conditions, for private lending in substantial volume to get under way. Therefore Congress may wish to consider bridging the gap in the following manner: It might enlarge and extend for 15 months the loan authorizations of the Export-Import Bank. It should do this only as a means of ultimately preparing the way, however, for private credits. Therefore it should make the requirements for obtaining such loans essentially what they would be for obtaining private credits. The Export-Import Bank should not be authorized to make loans to foreign governments, but only to European private industries or business firms, and only on the strictest business terms. If the bank were authorized to make any so-called "business loans" either directly to socialistic governments or to their nationalized industries, it would merely underwrite and subsidize the deficits of those industries. In this way we would be directly supporting socialization and so retarding European recovery.

Congress should write the basic conditions for foreign loans into the new Export-Import authorization. It should provide that the past record of the borrowing firm, and its existing facilities, must be such as to give reasonable prospect that the loan will be repaid. The American loan must be an obligation prior to other outstanding obligations except to the extent that the borrower is prevented by previous contract from making it so.

Even if loans are made only to private industries and firms, however—or at least only to such nationalized industries as can affirmatively prove that they are not operating at an open or concealed deficit—the government of the borrowers should be called upon to establish certain minimum conditions if their nationals are to be eligible to receive these loans. The governments must agree in advance, for example, not to socialize, nationalize, or expropriate the borrowing industry or firm during the life of the loans. They must agree not to prevent the conversion into dollars of any repayments on the loans. They must agree not to impose any fresh wage or price regulations which will imperil or wipe out the ability of the borrowers to repay the loans. They must agree to permit free exchange rates, so as to make possible free conversion of local currencies into dollars.

One further possibility that might be considered: On and after January 1 of next year, for example, the Export-Import Bank might not be authorized to make any additional loans in the following 6 months unless there were at least a 10 percent participation on the part of a European lending institution. In this way the American risk would be shared by European creditors who would know more than we possibly could about the individual credit-worthiness of applicants for loans.

I do not pretend to know what volume of loans would be made under these conditions. What we can be sure of, however, is that loans made without such conditions would not only be money thrown away by us, but would fail to bring the recovery we are seeking.

The committee will notice that the proposals I have made here are similar in important respects to the proposals of former President Hoover. They put gifts and loans into entirely separate categories. The gifts would be made by one organization, the loans by another. This is important. Any single organization will find it impossible to mix charity and business. The two things call not only for different techniques but quite different mental approaches. It will be fatal either to the aims of charity or to the aims of business to try to mix them in a single organization.

8. May I remind the committee, as a final point, that the International Bank for Reconstruction and Development was set up specifically to take care of everything that the Marshall plan proposes apart from its purely charitable aspects. To the extent that we now make use of both of them, therefore, the International Bank and the Export-Import Bank should be directed to clear proposed loans with each other so that they do not find themselves duplicating, overlapping, or competing.

I should like to end by underlining once more the point I made at the beginning—that the decisive factor in European recovery in the next year or 4 years will not be the amount of American governmental aid, but the economic and political policies followed by the governments of Europe themselves.

Mrs. BOLTON. That is a very challenging bit of work, Mr. Hazlitt, and I know we are very grateful.

Mr. HAZLITT. Thank you.

Mrs. BOLTON. We have a little system here so that everybody may question you. We have 5-minute periods for the questions from each one, and I am going to leave mine for later in the afternoon and ask Mr. Jonkman whether he will begin.

Mr. JONKMAN. Mr. Hazlitt, in the next-to-last paragraph of your statement, speaking about loans and grants you say:

To the extent we now make use of both of them, therefore, the International Bank and the Export-Import Bank should be directed to clear proposed loans with each other so they do not find themselves duplicating, overlapping—

and so forth.

Would you say that loans have no place in the Marshall plan? that they should be carried on by the International Bank and the Export-Import Bank?

Mr. HAZLITT. Well, it depends of course on how you define the Marshall plan. If you define the Marshall plan merely as the grant part of it, merely as the relief part of it, then this will be outside the Marshall plan. If you define the Marshall plan as a plan that originally contemplated both grants and loans, then this might be interpreted as a modification of the Marshall plan. I think it is just a question of definition of what is the Marshall plan.

Mr. JONKMAN. To get at what I want, may I carry the point further? Should the Marshall plan embrace the matter of loans where we have the Export-Import Bank and the International Bank?

Mr. HAZLITT. Well, if you are going to set out to increase the authorizations of the Export-Import Bank, then I do not see where you need any of the loan provisions of the plan as presently constituted.

Mr. JONKMAN. I would be inclined to agree with you. I think the loan element of the Marshall plan is really superfluous; in other words, should be handled by the bank. It, the bank, was created for that very purpose.

The committee has heretofore paid some attention to the matter that you dwell upon, the double standard of currency, illegal currency, and the free-market or black-market currency.

Would you care to comment on the effect of the devaluation of the franc by France in the last 3 or 4 days?

Mr. HAZLITT. Well, I think the most significant part of it is that it is the first major crack. Of course, the Italian situation was also one. But France is a much more important Nation in international trade. It is the first major crack in that respect in the whole system of control of overvalued currency.

Now, the French system is a complicated one, the one that they are setting up now. You cannot call it either a free or controlled system. It is somewhat an attempt to mix the two. It sets a value that is lower for the franc than the present value but that is not a realistic value any more than the 119 is. That is to say, I don't think the French themselves believe the franc has a real going market value of 216. The market rate might be 275, or something more like that. Why they changed the official rate at all I do not know.

They might have achieved their end just by having a free rate.

This "free" rate they have is not entirely a free rate because they are still going to have imports and exports subject to licenses, and so forth. So through their licensing system they will control the demand for foreign currencies.

So it is not a completely free system and it is a little hard to say what it will do. For example, it is a little hard to say whether this will actually lead to any substantial repatriation of French capital

because the people who are expected to repatriate may not have any faith in the value of the present franc, even of the readjusted franc.

They may not have faith in the policy of the Government and they have to pay in any case a 25-percent tax. So how much it will bring back is hard to say. But the chief thing about it is that it is a public recognition now on the part of the French Government that the previous rate of the franc was completely unrealistic, that it did not permit them to export. It made export prices prohibitive in terms of dollars, so it prevented French exportation. Now, the consequence of that was that imports were overencouraged by this artificial rate. Exports were also restricted. As to the difference, the 16 nations have come to us in effect and said "You have to make it up."

The United States has to pay the difference. If we get realistic exchange rates then the trade balances of these countries tend automatically to come to a balance, except for whatever securities they may have to offer or whatever gold they may have to pay for the excess of imports.

So that that in itself would make a tremendous difference in the demands upon us.

Mr. JONKMAN. In other words, you mean it will have a tendency to increase their exports and decrease their imports.

Mr. HAZLITT. That is right. So that the difference is that we will be called upon to finance less of their imports under such a system.

That is the chief result of it. Now of course you have the same problem here in France that you had with the British with sterling. The British objected to this devaluation principally because it will show up the pound. It will show up the fictitious nature of the pound value. It will put great pressure on them to reform.

Mr. JONKMAN. May I ask whether or not it would also create an unfavorable trade relation for the United Kingdom in that the tendency of France to increase exports or decrease imports would work also upon the United Kingdom?

Mr. HAZLITT. It will do that in a dual way. It is sort of a complicated thing. Dealers can engage in arbitrage transactions. The French can import from the United Kingdom at one rate, the official rate for the franc, and resell to us at the free rate. The exports of Britain might go out through that channel then.

In other words, it causes leaks in the whole British system, and the question of how Britain is going to keep those leaks in repair becomes a very serious question once the French do this.

Mr. JONKMAN. But all those leaks are fundamental fallacies in their set-up?

Mr. HAZLITT. They fundamentally result from the fact that the pound-dollar rate is a completely fictitious rate. That comes back to the point you raised a moment ago about the effect of this French reform. When the British made sterling convertible, the convertibility lasted for only 5 weeks. The reason for that was that they made it convertible at this completely fictitious rate of \$4.03 to the pound.

Now, that meant that anybody who had a pound wanted \$4 for it and nobody who had \$4 wanted a pound for it.

So the flow all went one way. It went out and had to be stopped. You cannot have a system half planned and half free. It does not work. It just leaks. So then the British blamed the convertibility feature, rather than the overvaluation feature. In the same way

this French system may possibly break down. They are trying to have a free market within a whole network of controls. Remember, they are still controlling their imports and exports; the whole thing is subject to licenses. It is a little hard to say in advance where the leak is going to come or where the thing is going to crack.

They either have to go further toward free markets or retreat, as I see it. It will be a free system or retreat back to controls.

Mr. JONKMAN. I think you would say it is the first step? A necessary readjustment that must come sometime anyway, before we can be of any help to them.

In other words, the bottom of the barrel is out as long as they have managed currencies?

Mr. HAZLITT. That is right, sir. We have in effect been financing overvalued currencies and helping to keep them overvalued. By keeping them overvalued we have helped to keep world trade unbalanced. We have helped to keep ourselves in a situation where we have to continue the aid.

Mrs. BOLTON. The time of the gentleman has expired.

Judge Kee?

Mr. KEE. Mr. Hazlitt, I understand this situation to be that Western Europe is sick. The United States feels that it is necessary to our safety and the security of our people that it recover.

We want to try to help it recover. You say, as I understand it, that it is impossible for Europe to recover unless the policies of her present governments are changed. Is that correct?

Mr. HAZLITT. Yes, sir.

Mr. KEY. How long do you think it will take for the policies of those governments to be changed, if at all possible?

Mr. HAZLITT. Well, of course, some of these changes come with dramatic suddenness, as the French exchange "decontrol" came, as the Italian changes came.

As I say, once they go to a free system in one place, then they are faced with a dilemma of either freeing more of their economy or going back and recontrolling again. We have a good chance. We have a fighting chance now of having them in their own interests go toward a freer economy.

Mr. KEE. Do you honestly believe that without any outside help whatever any recovery can take place in European affairs?

Mr. HAZLITT. Yes, I do. I am not myself suggesting no outside help whatever. I suggest we give them all the food that we reasonably can.

But answering your question I do think they could have a very great recovery without any outside help whatever, if by outside help you mean help from our Government, which I assume you do, and not private credits. Yes, I think they can. There is no reason, for example, why Germany cannot have an immense recovery if we just let her have the recovery.

Germany is the heart of Europe. Whether we like it or not, Germany has an immense effect on the other countries of Europe. The situation in Holland, Belgium, Switzerland, Sweden, and so on, all the countries surrounding Germany, might change overnight if the German situation changed. So there is a place where we are deliberately preventing recovery by our own policies or by insisting

the Germans follow completely unrealistic policies on wage fixing, price fixing, currency, and so forth.

Here again, there can be a great recovery in France with a free franc. They can give their exports great stimulation. I do not want to stick my neck out and say this thing will work out with the system they have because it is a very complicated arrangement, sir, that they have. It is a curious mixture of freedom and a controlled system. But the Italians have had pretty good results from their devaluation, or rather from their allowing a free market. Europe has been tied up in knots. The governments are tying their people also up in knots by the kind of regulations they impose. I have never argued, "Let them go to work." The people of Europe want to go to work. Their governments will not let them go to work. That is the thing I feel is important.

Mr. KEE. I beg your pardon, but it seems to me that when you say there is a chance of them recovering without any outside help, you are taking the position that we should help only when they change their policy and that if they change their policy they could recover without our help. Therefore what is the use of us doing anything except attempting to change their policies?

Mr. HAZLITT. Well, in the case of food their policies have been in large part responsible for the shortage of food. But the shortage does exist and therefore I feel that we ought to meet a need of that sort and hope that they will not get into it again.

Of course, if we give help and if they make drastic reforms to get our help, they will recover faster with our help.

Our original question was not how fast they would recover but whether they would recover. I can say they would recover. Of course, the amount of aid might control the speed. The chief thing will be the reforms they make to get the aid and not the aid itself.

Mr. KEE. My idea is that you are taking the position that notwithstanding the fact that Europe is sick, and needs help for recovery, yet we have no business going in there to help until she does recover.

Mr. HAZLITT. If you take the case of a dipsomaniac and you try to do something for him and he keeps secretly drinking himself to death, there is not much you can do for him.

My position is that they are doing so much to prevent themselves from recovery that they are going to block the effect of our help.

That is the real problem as I see it. We cannot help them as long as they continue these policies. We did that with England. We have already been through that. We lent the British three and three-quarter billion dollars.

We put conditions on it that they could not fulfill because they followed policies that made it impossible to recover.

As a result of their system they used up in a year and a half almost all that was supposed to last them 5 years and they were in a deeper crisis at the end of the period than they were when the loans were made. That is the prelude, I think. It is an indication of what will be the result of our aid unless they have very radical reforms in Europe.

Mr. KEE. You say in your statement here:

As long as socialization, nationalization, unbalanced budgets, monetary debasement, exchange control, and the whole network of government prohibitions, permits, licenses, and orders are retained, any amount of dollars we pour into Europe will be more than offset and nullified by stifled production and chronic crises.

Then according to your statement, until all those things are changed there is absolutely no use rendering any help?

Mr. HAZLITT. I did not quite say that, Congressman. I said as long as they keep this whole system, it will be more than nullified. If they remove a few of their controls, they will be a little bit better off than if they keep all of them. In other words, if they removed all of them they would be best off of all.

But if they remove a few of them they would be better off than with all of them. I see no contradiction in that.

Mr. KEE. According to your views promptness in going to the aid of these people is not essential. We must give them time to recover. Do you not feel if we take out time sufficient for them to recover they will all be dead before we get around to helping the sick?

Mr. HAZLITT. It is already more than 2 years since the end of the war. The European nations were better off in some respects at the end of the war than they are now. If their troubles had been caused solely by the war, then we would expect that you would see a gradual improvement year by year.

We have not seen that. The 16 European nations themselves in their report declared the condition was much worse than it was 6 months before.

In other words, they had failed to guess 6 months ahead what their condition would be and yet they went confidently on to predict what their condition would be 4 years ahead, after they admitted in the same report that they could not even guess 6 months ahead. The reason they could not guess 6 months ahead was not because of the war, for the war was over. Why were they worse off 6 months later? They were worse off in part because they did have very bad luck on weather. They did have a severe frost and drought. They were worse off mainly, even so, because of the policies they had followed in the meanwhile.

These policies of restrictions have not been discontinued. They have grown greater.

That has been the chief cause of the failure of Europe to recover.

Mr. KEE. Do you not think if we wait until those European nations change their policies there is going to be a hopeless task and a hopeless, chaotic condition over there?

Mr. HAZLITT. If we throw in our funds while they retain their policies there will be a hopeless, chaotic condition over there. I would like to say something about the extent of our funds. President Truman in his message to Congress said that it would equal about 5 percent of their national incomes, this money we were asked to contribute. In the State Department report they say maybe 5 percent but perhaps nearer 3 percent.

So what we are proposing to do is to reform Europe or to restore Europe by adding 3 to 5 percent to its national income. Now, it is quite obvious that what is most important is not what happens to that 3 or 5 percent, not whether that goes up or down a little bit, but what happens to the 95 to 97 percent that is within the European control—in other words, the market that they are creating themselves.

If there is a 10 percent increase in their home production that will be greater than the whole amount that we are asked to put in for 4 years in the Marshall plan. That increase in their own production cannot come except by a difference in their own policies. We cannot save Europe if it is determined to follow present policies.

Mr. KEE. That is all.

Mrs. BOLTON. Mr. Smith.

Mr. SMITH. Mr. Hazlitt, I am very much intrigued with your presentation, and I feel as you do about the general situation, that there must be governmental reform before we can pour our money in there so it will be effective.

You have emphasized this matter of private loans or commercial loans, but you have a big gap to make up in the matter of production, do you not? How about that?

Mr. HAZLITT. That is a very debatable point. Everybody has been arguing on both sides of that question. The supporters of the Marshall plan sometimes say that Europe deserves our help because it has done so well. Then they sometimes say that Europe deserves our help because it has done so badly. The indexes of production average something like 90 percent of the prewar figure.

Those indexes are not, I think, very reliable for all sorts of reasons. If you take the index of coal output alone, which I looked into at the time I was in France, it showed quite favorably at that time, I think, 85 percent of prewar.

But when you examined it you found the weight of the coal was 85 percent of prewar, but the burning power of the coal was not, because it had a lot of slag and they were washing it in poorer ways, and so forth.

So a lot of these figures have a large measure of debatability about them. But if they have already achieved 90 percent of their prewar production there is no reason to suppose that they cannot go on to achieve a higher percentage through their own efforts.

Mr. SMITH. Now, then, it is my understanding, as I read the report which these 16 countries presented to the State Department that up until the end of 1946 they had reached a prewar level of production in Europe.

Now, I do not quite understand how this severe deterioration set in during 1946 except at the end of the year when there was this severe winter condition.

Of course, last summer we had the drought situation. Have you any explanation of that situation?

Mr. HAZLITT. Of course, they did have this very severe situation in their crops. Whether it was sufficient to account for the downturn I do not know. I would like to point out something about these European crops. It raises an important question.

We ourselves had what we might call a crop disaster. Our corn crop fell from 3,200,000,000 bushels to about 2,400,000,000 in one year. That is a "disastrous" drop. It was due to the weather conditions. However, that 2,400,000,000 is only 200,000,000 less than the 10-year average preceding which was 2,600,000,000, and it is actually greater than the prewar 10-year average in this country.

In other words, we had a disaster in our corn crop. Nevertheless even with that disaster we had a greater-than-prewar production, the reason being that we started with very heavy plantings. We started with a big effort, whereas if you start with a subnormal crop, if you plant a subnormal crop, and have a disaster, then it will be a real disaster. That has been the situation in Europe. It does not take too much of a disaster to knock over a nation that does not start well in the first place. Take this whole British situation. In the coal crisis

they had last winter, before the winter started the coal stocks of October 1 of Britain were the lowest on record.

So they started with the lowest coal stocks on record before the winter came. Then with a severe winter it was more of a disaster.

That point has to be kept in mind in calculating the causes for this set-back. I think that in large part, a very large part of the set-back was due to their conditions of control.

Mr. SMITH. Thank you. That is all.

Mrs. BOLTON. Mr. Jarman.

Mr. JARMAN. Mr. Hazlitt, did you ridicule the possibility of the 16 countries stating exactly the amount of their imports and exports? Of course I cannot but agree with that because they could not do it exactly.

But you do not ridicule the idea of them on past experiences, resources, the experience of hundreds of years, the possibilities of assuming a normal weather and of course that might go wrong, but you do not ridicule the idea of them approaching the amount of their exports and imports, do you?

Mr. HAZLITT. Well, as I say, there is no such thing as a predetermined trade deficit, a trade deficit known in advance. It depends upon the conditions that you are going to have, that you are going to get to. Now, prewar Europe did not have, or these 16 nations did not have, a deficit in trade. A lot of them may have had a deficit in the visible trade balance, but they made it up in invisible items. In other words, a balance of payments existed. They are predicting an unfavorable balance of payments over the next 4 years. If you take this one item alone, it makes a tremendous difference whether France has a devalued franc or whether France has a franc at 119. If the French franc goes on the free market, let's say to 300, then we can buy French goods over here for a third of the price of what they now cost us.

That means an immense difference in France's exports.

Therefore the currency policy alone makes a terrific difference. It makes a terrific difference in the trade balance of these countries in the next 4 years. And they cannot predict what is going to happen, irrespective of that policy.

Again, if you take things like price fixing: When we had price fixing in this country, price fixing of lumber, for instance, a certain unit of lumber sold for a dollar here and you could get \$1.60 for it in exports. Then if we did not put on export controls the whole lumber supply might have moved out of the country.

They have those sorts of things. Price fixing has a tremendous effect on the trade balance. Any one of these things that I mentioned makes more than incidental and minor changes in the trade balance. They are of the first importance. Internal inflation is of the first importance, in the effect that it will have on the trade balance, tariff policies, and of course, direct trade controls. Here these countries put direct prohibitions on imports from America. That has a tremendous effect on trade. The domestic production, of course, what that is going to be, has a tremendous effect. In other words, you have to try to predict too many things at once and there isn't anybody smart enough to do that.

Mr. JARMAN. Is there anybody smart enough to predict positively anything? Nobody could predict how long I live or you live, but

they can take actuary reports and estimate how long we should live on past experience.

Mr. HAZLITT. Well, what they can predict is that if you take good care of yourself you will live longer than if you do not.

Mr. JARMAN. Speaking about this policy: Is it your thought we should dictate the policies of these countries internally?

Mr. HAZLITT. No, I think that is impossible. But we can set eligibility requirements, which are a quite different thing. Not only does a private bank set eligibility requirements but Government banks do so. If you want to borrow or a private firm wants to borrow from the RFC it has to go through a pretty tough inspection and it has to hypothecate almost everything it has to get a loan from the RFC.

If a government wants one of its nationals to get a loan he has to be eligible. We have certain requirements that he meets. That is all I am suggesting. We give them certain requirements that they meet. If they say "We cannot meet those requirements" we will say you do not have to; only if you want to meet them do you get the loans.

We are just offering loans to industries and to nations which will meet these eligibility requirements.

If they say "You are trying to dictate our internal affairs" we will say, "Nothing of the kind. You can have any internal affair you want."

But we are not subsidizing those.

Mr. JARMAN. You could say you do not meet the requirements and you cannot have the loan. But you have this question. I notice you emphasize the humanitarian phase of it. Am I correct in getting the impression that you do not think this country is going to profit by this endeavor any more than just doing a good turn to starving people in a humanitarian way?

Mr. HAZLITT. You mean by giving the food?

Mr. JARMAN. No, the general approach. I had in mind the other, more than the food. I mean, is the only purpose or benefit that we as a country are going to obtain from this program just the humanitarian good that we do by keeping some people from starving?

Mr. HAZLITT. I am analyzing this program in its economic aspects. Considering its political aspects, I did not mean to go into political aspects of the question, but it seems to me that the Marshall plan considered in its political aspects is an attempt to implement a foreign policy that is so vague that nobody knows exactly what it is, and it seems to me that the real requirements are a much firmer and more definite attitude toward Russia, for example.

I do not think we can buy friendship by this plan. We did not buy British friendship by our loan. The leading economic journals of Britain have denounced the loan from one end to the other. They have attributed their lack of recovery to this loan. We did not make friends of the British with our loan. We certainly did not make friends with the Russians by giving them 11 billion dollars of lend-lease.

We did not make friends with Yugoslavia by throwing in hundreds of millions of dollars of UNRRA.

Mr. JARMAN. That lend-lease was war. We were looking for victory, not friends. Russia contributed per part of the victory finally on account of that \$11,000,000,000.

Mr. HAZLITT. But we could have put some conditions on that if we had not been so tender. We could have gotten a great deal more out of that \$11,000,000,000.

Mr. JARMAN. I know my time is up but I have one more question. I do not mean to impose. I have two questions. You referred to our letting Germany have her recovery. I judge you mean the United States. I want to say I cannot help but believe that Russia has had something to do with that.

Mr. HAZLITT. I mentioned Russia in that.

Mr. JARMAN. Russia may also have had something to do with not agreeing to the peace treaties, and so forth, with the fact that conditions in Europe were better 2 years ago than now.

Do you not think Russia had something to do with that?

Mr. HAZLITT. Russia did have something to do with that, but we are also responsible for part of it and particularly responsible for letting Russia have so much to do with it.

Mr. JARMAN. My time is up.

Mrs. BOLTON. This I regret for you are asking very interesting questions.

Dr. JUDD. Mr. Hazlitt, I was interested in your suggestion that we ought not to make any commitment beyond 15 months, except in return for certain changes on their part, or progress, as you would call it, in that period. On the other hand, do you not think there is a real danger in setting a termination date? As you yourself have just well said, what happens to the 95 to 97 percent of the production in their own country is infinitely more important in the long run than the 3 or 5 percent that we put in. And can we actually, knowing human nature, expect them to make an all-out effort to release the hoarded-up resources, or the held-back human energies, unless they are sure that we intend to stay in and win, jointly with them? I think that is almost the most important requirement for the success of the program: Their willingness to put their shoulders to the wheel. Will they do it on a 15-month basis?

Mr. HAZLITT. I think there are really two questions involved there. One is the economic question, and the other is the political question. I will take the economic question first. My own opinion is that if we give aid for 15 months, with no commitment on our part whatever to go any further, and with an explicit denial that there is a further commitment, then it seems to me their energies will be greater rather than less because they may think at the end of 15 months: "We may have to stand on our own feet. So the nearer we come to doing that the better off we are." They do not have to do that. If we think it advisable, based on their effort, we can again give them aid. They will have in mind the fact that they will have to stand on their own feet perhaps at the end of 15 months so they had better well try to get in that position as soon as they can.

Second, they will say to themselves, "The better effort we make, the better appearance we make, the more we do, the more America is likely to think that this program is effective."

Then the more likely they are to get further help. So those seem to me to be very strong incentives to go on. Whereas on the other hand if they have a 4-year commitment they are apt to rest on that, and say, "Well, we are going to be taken care of nicely for 4 years anyway. We do not have to make such a great effort."

I admit in dealing with the psychology of other people there are a lot of debatable elements. That is the way it strikes me. Another part of your question seems to be a political question, that is, of our

staying in there politically. That is entirely a different thing. But that is something we cannot do with the Marshall plan. That is something we have to do with our foreign policy by explicit affirmation of our intention to stay in Germany and by a policy of agreements with other nations. That seems to me to be a separate question from the Marshall plan itself.

Mr. JUDD. Are we not more likely to get success if we follow some middle road, not making any commitment beyond 15 months, but if possible, saying in the report, if not in the legislation, that we look with sympathy upon further aid, if there is evidence that it is needed and that they are making progress in the first 15 months sufficient to justify aid? I am thinking when we were in Greece; one of the chief weapons of the Communists in their propaganda was to say:

What is the use of you Greeks down in the Greek Government making an all-out effort to go along with America? There is a deadline in the bill that says this aid will end on June 30 of this year. All we have to do is wait until they have pulled out and we will take you over.

One of the ways they were keeping up the morale of the Greek guerillas was to say:

Just hang on until June 1948, then America pulls out and we can march on Athens.

I can see a disadvantage in putting a firm termination date. On the other hand I agree with you as to the disadvantage of letting them rest on us indefinitely. It seems to me if we had somewhere written in a recognition of no commitment after the 15 months but that the Congress will make its plans for the period following that 15 months in large degree on the basis of the showing that is made.

That would hold out hope and give incentive and at the same time protect us from overextending our commitments.

Does that make sense?

Mr. HAZLITT. I would see no objection to that whatever, provided the language were quite unambiguous. What I had in mind was the fear that we will be told that we have a moral commitment which we cannot escape, that this is not only a commitment to continue, but a commitment to continue with the same general terms, the same general dimensions in volume of aid.

We have gone through this now twice. You remember that after lend-lease was over, or most of us thought it was over, we learned later that the State Department was continuing to send lend-lease supplies to Russia.

Well, when Congress asked what was going on here, they said, "Why, yes, but we had a commitment."

No matter how much the Russians repudiate their commitments we live up to ours, so even when they are making a cold war on us we still give them lend-lease.

That was because of a mistake in ever making that commitment. The commitment should not have been made. Now we have the same thing happening again when Secretary Marshall makes this speech on June 5.

Up to June 4 of last year, Congress was free to decide what it wanted. But after June 5, it was not, because the Secretary of State, on behalf of the American Government, in effect promised aid, and Congress is being told now that one of the reasons it has to do this is because it cannot repudiate or let down its Secretary of State.

It seems to me that one of the corrolaries of that is that the Secretary of State should have consulted the congressional leaders before he made the promise.

But anyway, I am only making that point for this reason, that we do not want to get into any more of these promises. We do not want to get into any of these things that wrap us up in the future.

As long as we are free I think that a statement of your sort would be valuable.

Mr. JUDD. His statement was not unconditional. It was a promise of assistance providing they meet certain conditions. I have one further thing on this matter of commitments. Although we fulfilled all our commitments to Russia, over public protest, the Government did not hesitate to interrupt our commitments to China. The President said we suspended those commitments. We did not want to offend a strong power, but apparently it is all right to offend a weaker power.

Mrs. BOLTON. Your time is up.

Mr. Mansfield.

Mr. MANSFIELD. Mr. Hazlitt, in listening to your statement I get the impression that you are for the Marshall plan—but—what you really advocate is another relief act with any real, sound assistance to be given in rehabilitating Europe to be done by American private enterprise.

Now, what we are trying to get away from is this idea of relief bills time after time, and to do something which would lay the foundation for a real economic rehabilitation of Europe, so that it can get on its feet and be able to take its place in the scheme of the world's economy. Is that correct? That is as regards the first part of my statement: Are you really more in favor of a relief bill than a rehabilitation or recovery proposal?

Mr. HAZLITT. I would say that the State Department has been arguing that any amount less than the 17 billion, or any amount less than the six billion eight, will be in effect mere relief and not rehabilitation.

Now, that seems to me to make the difference between relief and rehabilitation depend upon the size of the sum we give.

My own feeling is that it has very little to do with the size of the sum we give. It has to do mainly with the policies that European governments follow, after the sum has been given.

That will determine whether it is relief or rehabilitation. Europe will determine whether it is relief or rehabilitation. We cannot determine whether it is relief or rehabilitation. So it does not depend upon the size of the sum we give.

It depends upon the reforms they make. That depends in part of course on the conditions of eligibility we set up.

But it depends more on their own efforts to help themselves.

Mr. MANSFIELD. Personally I would be against the voting of any relief funds as relief funds because I feel that we have appropriated enough money in that respect. I think also that insofar as these European countries are concerned that they made very marked advances since the Secretary's speech at Harvard last June, which indicates to me at least that they are trying to do the right thing to bring about some sort of economic stabilization.

For example, you have the Benlux convention, which I will admit was thought up long before the Marshall plan, but which has come into effect recently.

You have this proposed customs union between Italy and France, and talk among the three Scandinavian countries of another customs union.

You have the recent action of the French Government in devaluating the franc. All those things indicate to me that these nations in need are making an effort to achieve economic stabilization. It is only a start. We cannot lay down all the conditions.

I think we should lay down some conditions so we will make absolutely sure that this risk which we are asked to assume will have the best possible chance for success.

You mentioned something about the decline in the British coal pile a year ago last fall. Would you blame socialization for that British coal shortage?

Mr. HAZLITT. I would blame the general controls. They had a great deal to do with it.

Mr. MANSFIELD. How would you reconcile that with the fact that prior to the war, when you did not have a socialist government in Britain, you had a type of coal economy that made it extremely difficult for it to flourish in a healthy condition? According to my information, 70 percent of the income taken out of coal mines went into the operators' pockets, and something between 20 and 30 percent went back into the mines to modernize them to a certain extent and to pay wages.

That is just the exact opposite of conditions in this country where the owners put back in, I understand, about 70 percent and the rest of it stays in their pockets and is used for other purposes.

Now, would you not say that the obsolescence of British mining machinery, the antiquated methods used, the small veins, and in a certain sense the opposition by labor against mining machinery—do you not think all those things helped to create the British coal situation as it exists today?

Mr. HAZLITT. They did. But I should like to point out that the coal production of Great Britain, poor as it was before the war was better than the present coal production. It made enough of a difference to make a tremendous difference today if Britain could restore, let's say, the 1938 coal production. Of course, it is a long history as to why the British got into this condition. One reason I think they got into it was because of the threat of socialization. That has been discussed for years in Britain. The British operator or mine owner had the feat that any capitalization he put in might be seized by the Government at a rate which he would not have much to say about.

I am not saying that is the sole factor but I think it is a factor in the situation.

Mr. MANSFIELD. Do you think the British coal system could have continued in the postwar period for an indefinite time as it had worked in the period before the war?

Mr. HAZLITT. No; as a matter of fact, the British situation has been getting steadily worse for some time, for quite natural reasons.

Their coal supplies are giving out and they have to take worse and worse veins all the time, so it is an increasing problem, sir. I do not think socialization has at all solved that problem.

The way that wages are regulated in Britain and the inability of the British miners to get goods for their pay, and so on, have reduced incentives.

That is a long story to go into.

Mr. MANSFIELD. My point is that, socialism or not, you very likely would have had the same situation as far as the coal industry is concerned that we have at present.

Mr. HAZLITT. I do not think we would have had it if we did not have the very tight controls which the British unions, for one thing, have imposed on the British economy. The union rates are not at all decided by the market there. The market has nothing to do with it. The unions decide these rates among themselves and often they do not get enough of a differentiation between coal wages and other wages.

Mr. MANSFIELD. Thank you.

Mr. LODGE. I was tremendously interested in your statement.

Specifically, I would like to refer to the statement you made on page 9 with respect to the exports and imports of foodstuffs from 1936 to 1940. With regard to the figure of \$665,000,000 of imports, to which you refer, would you not say that that figure included a great many items which are not properly foodstuffs, such as copra, palm oil, linseed oil and other oils for industry, paints, and so forth, and that the real foodstuffs imported were mostly items such as sugar and coffee?

Mr. HAZLITT. Well, these figures include both what are called crude and manufactured foodstuffs. This is not my own classification, but the classification of the Department of Commerce. If you take something like sugar—to take your example—in 1940 we exported about \$31,000,000 worth of wheat and flour and we imported, in that same year, \$137,000,000 worth of sugar. So we imported several times as much sugar alone as we exported wheat.

We tend to think of the wheat we export and forget items like sugar. I could not say offhand what items are included or excluded in these crude and manufactured foodstuffs. I do know that in both respects, both crude and manufactured foodstuffs, we imported more than we exported. As I say, the classification is that of the Department of Commerce; it is not my classification.

Mr. LODGE. I see.

I understood you to say that these participating nations are less far advanced economically now than they were at the end of the war. According to the CEEC report, by the end of 1946 industrial production in France, Belgium, and the Netherlands had recovered to 85 or 95 percent of the prewar level, while Italian industrial production was back to 80 percent of the prewar. I was wondering whether you felt that this report was inaccurate.

Mr. HAZLITT. No; I do not feel that. When I say they are behind where they were I am thinking about a lot of special situations. I am thinking of the British, for example, who are, in some respects, on their own testimony, in a worse position than they were before the loan was made. I believe the London Economist said a few weeks ago that in some respects "we are worse off than we were when the loan was made."

Professor Lionel Robbins a month or so ago said the British were worse off, in some respects.

Mr. LODGE. You do not think that applies to all countries?

Mr. HAZLITT. It depends on which index number you take. As I say, I haven't too much faith in these index numbers. They look better the farther you are away from them.

Mr. LODGE. I would like to point out one further thing. I think Mr. Jarman touched upon it. It has been estimated—and I do not know how reliable the estimate is—that the strikes and riots in France during the last weeks of last year cost the French almost 3 months' production.

Now, if we take the attitude that they must accomplish overnight what they have not been able to accomplish in centuries, and that these governments, threatened as they are by continuous Communist aggression must, under the shadow of those threats and without our aid, do things which may be unpopular in the first instance, we are going to be setting conditions which they will not be able to meet.

Therefore, I propose that we examine this thing in the light of American security. We are faced with a certain number of alternatives. It seems to me that the weakness of your thesis is that while you can perhaps prove it out on an economic chart, you fail to take into consideration the political cloud which hangs over Europe as well as over us.

What will be the net effect of our saying, "We will continue to bring you relief, but we will do nothing for recovery beyond what the World Bank, the Export-Import Bank, and private American enterprise will do"? Do you believe that these governments in these countries will be able to maintain themselves if we adopt that approach through ERP?

Mr. HAZLITT. Well, if we adopt that approach in ERP—and I think you are talking about this business of giving enough for food and making the rest available under the Export-Import Bank—I do not know what the total would be.

Mr. LODGE. My understanding is that you suggest that we should treat this legislation as a relief bill, and then, as far as any loans were concerned, they should be processed either through the World Bank, the Export-Import Bank, or by private American enterprise. I do not know whether I understood that correctly.

Mr. HAZLITT. That is right. I do not think we can make it relief or rehabilitation by naming it relief or rehabilitation. I do not care what it is named. If they do not reform, it will be relief; if they do, it will be rehabilitation. It is the consequence of the relief that is important.

Mr. LODGE. But I would point out to you that if you were in the position of De Gasperi in Italy or Schuman in France you would have to be guided not entirely by what you think is the proper medicine at that time, but which medicine you think the patient is willing to take. If the dipsomaniac to whom you referred makes the slightest bit of improvement, even though he may take an occasional drink, you may be completely warranted in helping him out.

These governments are under a constant threat. They cannot overnight make these Draconian changes which you, from your great knowledge of economics, recommend. They would be jeopardizing their whole government if they did so.

If we say we will not undertake this adventure unless they do these things first, then their governments are almost sure to collapse and you lose the opportunity to do anything.

Mr. HAZLITT. I would like to say this, Mr. Lodge: That when they do take what you call a Draconian step we are the ones that object to it. Now, here are the French, who want to reform and want to reform in the direction of free enterprise, and what happens? We object. We say, "Here, this is a bad thing. This is upsetting things." We are supporting the bad situation.

Mr. LODGE. As far as the French devaluation of the franc is concerned, I agree 100 percent. However, the State Department has I believe announced its approval. The International Monetary Fund has disapproved it. I think you are entirely right. Coordination and cooperation along these lines should be achieved.

I personally feel that it is very important to hold a conference, an international monetary conference. My only point is: Can we be so absolute as to say, "Either you do all these things which we know are good for you or we will not help you to recover. We will only feed you."

Mr. HAZLITT. I am not suggesting that we have any absolutes whatever. I am suggesting that we make loans available to Europe under certain conditions of eligibility. If they do not fulfill those conditions of eligibility we will not only not get the loans back, but the loans will not do them any good.

If the measures they take in order to be popular are the kind of measures that do not bring recovery, then they will not recover, whether those measures are popular or not.

You asked a question about the economic side of it. I have confined myself to that side because that is the side on which I mainly write. I did not want to get into the political side because it is a little bit out of my own bailiwick. But my own feeling is that, on the political side, the Marshall plan is an attempt at a substitute for what we ought to be doing vis-à-vis Russia.

Now, what we ought to have done long ago, for example, was to have taken a much firmer stand against Russia, and that is far more important than our lending money under the Marshall plan. If Russia gives me a kick, and I say, "You can't intimidate me; I will give Mr. Lodge \$5," and, if they give me another kick, I say, "I will give him \$10," that looks to me like an irrelevant answer to the Russian oppression.

Mr. LODGE. My time has expired.

Mrs. BOLTON. Mr. Colmer?

Mr. COLMER. Mr. Hazlitt, I want to specifically agree with you in that last statement. Some of us tried to get our State Department, some 2 years ago, to follow that policy—a firm policy—with Russia, which would have obviated a lot of this necessity for aid. I want you to know that I, as one member, am thoroughly in accord with that statement.

What would you think of the proposition of this Government making grants or loans the repayment of which would be by materials that were necessary for us in our stock-piling program, either now or later?

Mr. HAZLITT. Well, I do suggest something like that in relation to foodstuffs which pass through the rationing system and which are sold by the European governments. I think that those funds ought to be credited to the account of the United States Government. Of course, they would then be in the foreign currency. If France, for

example, sold our foodstuffs—the French Government—what they deposited would be francs and not dollars. If that were to our account then those funds would be available either for export-import loans by us or they would be available for stock-piling purposes, as you suggest.

I should like to add that the whole stock-piling question would not even arise if there were realistic exchange rates, because if there were such exchange rates then the goods would be purchasable at their market prices. They would not be blocked. It is because this whole system of export licenses for Europe to sell anything is involved that we are prevented from getting the materials. They would flow to us to any extent we wanted them if it were not for this whole network of controls.

Mr. COLMER. But, since our dealings with the particular governments are concerned, why could not a bartering arrangement be entered into whereby they would turn over so much materials that we needed for so much assessments?

Mr. HAZLITT. I tried to suggest here that in effect we try to bypass the governments of Europe as much as possible. If we give relief needs, the food needs, directly, we bypass them. If we make the loans to private industry, we bypass them. The reason for bypassing them is that it is so difficult and almost impossible to impose conditions of any kind—conditions that are worth anything—on the government because the government resents them.

Mr. COLMER. You suggest, though, that the way to do that is by having them change their systems and come in in accord with ours?

Mr. HAZLITT. No; I would just suggest about three or four reforms—just those necessary so that we could get our money out.

Mr. COLMER. Is that not what we did in the British loan?

You say that proved to be unpopular. We insisted on certain specifications being written into the British loan. A good many men, high in the affairs of Great Britain, objected to those provisions and said they would not work and said they would rather not have the loan. They got it, and just to what extent that contributed to the failure of the loan I do not know. I am asking you.

Mr. HAZLITT. We insisted, in that case, on the wrong conditions, to a large extent, and we did not recognize what the effect of those conditions would be, nor did the British.

In other words, asking for sterling convertibility was not a wrong condition, but a right condition. But in order that sterling should be convertible all sorts of other reforms had to be made. You cannot make sterling convertible and keep it at a fictitious rate. The two things do not go together. So as soon as they tried to make it convertible and keep it at a fictitious rate, it broke down. You cannot say 75 cents is worth a dollar and then expect that people will not exchange the 75 cents for a dollar as soon as you make it convertible. That is what happened to the British pound.

Mr. COLMER. Of course, no one can say that the prescription we write would be the proper one now, in advance. We look back now and see, possibly, these errors. But what assurance do we have that the prescription we now write would be the proper one? I make that as an observation.

Mr. HAZLITT. We cannot have absolute assurance. That is to say, there is no argument against it, as there is none for doing it.

Mr. COLMER. The big question in my mind about this whole program—and I would like to have a brief comment on it, if time will permit—is the popular objective, in a way, of the Marshall plan for the rehabilitation of Europe as a means to the stopping of pressure, not the stopping of communism but stopping totalitarianism, because that is what it is. Now, the big question is whether we can afford to go all overboard on this gigantic scale and run the risk of destroying our own economy, with the chance of gaining that objective, or will we destroy our own economy by doing so and defeat the very purpose that we seek?

In other words, if we destroy our own economy we play into the hands of Russia, which is their one hope.

Do you care to comment on that aspect of the problem?

Mr. HAZLITT. That is a very broad question, of course.

I think that there is one aspect that you raise, and that is our belief that we counter Russia by bringing economic recovery in Europe.

As I say, any economic recovery will be brought about by European policies rather than our aid. But, if you grant that, it is doubtful whether such recovery would be very much of an assurance of an anti-Russian policy on the part of Europe.

In yesterday's New York Times, after the British made the statement about a union—a western European union—there was a comment from official sources in Italy, and they said they thought it was a nice thing that Britain wanted to have this resistance to Russia, and so forth, but it would be very inadvisable for them to count on Italy because Italy was too weak a country to do anything. As a matter of fact, under present conditions of their military establishment, they would be more of a liability than an asset in any alliance. Therefore, they would beg not to be included.

I think here is a case where it is not the recovery of Italy that matters but their military preparedness, their military state.

Now, only insofar as the two things are closely connected would it help. It seems to me that as a policy against Russia the Truman doctrine was a much more realistic one, even though it had a lot of weaknesses, than the so-called Marshall plan.

Mr. COLMER. If I have time for this, I would like to ask this question: Specifically, as an economist, what is your reaction to the question that there is a danger of this country destroying its own economy in this all-out attempt to help rehabilitate Europe?

Mr. HAZLITT. Well, I think there is a great danger of our hurting ourselves, not perhaps so much in the direct way that is usually imagined but in a more indirect way.

For example, there is no doubt that our exports of foodstuffs have been one of the major causes for the rise in prices in recent months. The rise of wheat, of course, from \$2 to \$3 is one result. Now, then, we are trying to counter that here—at least the President has recommended that we counter that here—instead of by letting prices go up, by holding them down. If we put in price control in an effort to prevent this from having its effect on prices the result is going to be to unbalance and restrict our own production. Also, it will be to bring us to the very controls that have put Europe in a straightjacket.

Mr. COLMER. Are we not almost going to have to put on controls if we go out on this program?

Mr. HAZLITT. No; I do not think we have to do that. I think that the effect would be to have soaring prices. I think soaring prices would be less of an evil than controls would be because they do not distort and disrupt and restrict production. We just simply add to the evil, as I see it, when we put on price controls. But we can counter that if the program is held within certain restrictions and if the monetary policy does not allow prices in general to soar so much.

Mrs. BOLTON. The time of the gentleman has expired.

I have just one question.

I assume, from your general argument, Mr. Hazlitt, that your idea would be that if we desire the stabilization of the currencies of Europe you would wish it done by freeing them, whereas some people, when they use the word "stabilization" mean an arbitrary fixing and control of the rates, as is done in some places?

Mr. HAZLITT. Yes, Mrs. Bolton. There is a great deal of confusion of thought, it seems to me, about that subject. The only way you can stabilize rates under a free system, as I see it, is under a world gold standard.

You have a choice of only two other things. You have a choice of fluctuating paper currencies, which are bound constantly to vary with each other, bound constantly to be subject to the play of the market every day, or the choice of trying to have an appearance of stability where it does not exist by using the state's police power.

In other words, the pound is not stable at the \$4 rate. It only appears to be stable because anybody who pays less than that for a pound can be put in jail. Now, that is not my idea of stability. That is merely the fiction of stability, enforced by state police power. To substitute that for stability is not the way to bring world stability. Stability is desirable, but it can only come as a result of confidence in a currency, not as a result of a police power applied to a currency. They can only get confidence in a currency, finally, by restoration of a world gold standard.

Mrs. BOLTON. So that is your ultimate goal?

Mr. HAZLITT. Yes. But, as a transitional move, the only way a country can find out how it can stabilize its currency—what it is worth—is to first see its level in an open market. In other words, it is less of an evil for the French to have a free franc, changing its value every day, and perhaps quite violently on some days. That looks like chaos to the ordinary official who wants to impose his idea of those things. It is much less chaotic because while the rate is fluctuating trading is going on, because people are paying for francs in dollars what they are really worth in their estimation. So this is a necessary transitional move toward a real stability based on confidence rather than a fictitious stability based on coercion.

Mrs. BOLTON. It is now a quarter before 4, and we are very anxious to have Mr. Wadsworth make the statement that he wants to make to us before we finish for the afternoon.

If there are questions, I think we should have a further questioning of Mr. Hazlitt rather than change our witness.

Mr. Jonkman, do you have a question?

May I ask that you all be very considerate, each of the other?

Mr. JONKMAN. On page 10 of your statement, Mr. Hazlitt—at the bottom of the page—you say:

To the extent that European governments insist that they should sell the food our Government sends them, we should insist, in our turn, that the foreign cur-

rencies received from the part of our food contribution which the governments sell must be deposited locally to the account of the United States Government. These funds can then be used by us partly to make Export-Import Bank loans to European private industries and partly to buy European goods to import into the United States.

What would be your reaction to going a step further on that and saying that these funds could be used to buy stocks in foreign industry to promote new industry in these foreign countries? And you could state, since it was local currency, that we could invest it all right. But couldn't that help the very movement we are seeking to help—to stimulate production?

Mr. HAZLITT. You are talking about making capital loans as well as processing loans for raw materials?

Mr. JONKMAN. Use this local currency they get back from selling our gifts, which is there to be used for some purposes.

There has been reference made, I think, by the State Department, to using it to stabilize currencies by burning up a lot or by paying debts. Now, instead of using that currency for that purpose—and there is going to be pretty close to \$5,000,000,000 of it because most of this is going to be gratis—suppose we use it to put it into local industries and promote them?

Here in this country we have often said that undertakings are made by the Government that private capital cannot afford. Now it is going to be tremendously helpful there if, for instance, part of the investments are made with these funds so as to encourage the others to put their money into it.

The question is, flatly, to use these local currencies to invest in local industries or promote local industries still to be controlled by the local government and the United States Government.

Mr. HAZLITT. Well, I am inclined to think that that is a rather dubious use of these funds; that the foreign government, if it is at the direction of the foreign government, tends always to favor industries that make the country strong in a military sense. They always have their own political needs as a government in mind. We would just be building up the military potential of Europe without recognizing that that was what we were doing.

If the loans are going to be directed by the foreign government, then they will want to build up the industries that either militarize the country or make it stronger in a military sense or that are insisted on by certain pressure groups.

If we did anything like that I think there should be a minimum safeguard of not going into any such situation except with some contribution from European private capital. And also, again, I think we should insist that the conditions be such that the governments permit European capital to go into it, because if it does not, the thing is no good and will not bring recovery. The European governments have driven more capital underground by their own actions than they are asking for from us. This would help them to get the capital overground, or help them to release that capital. Then you might achieve something with it, but only if you did it, I should think, in cooperation with the European capital taking some of the risks.

Mr. JONKMAN. That is my purpose—that part of the capital of a new venture, for instance, shall be taken by local people and part by this fund. Of course the capital stock would be owned by the fund. Perhaps some would be reinvested.

Mr. HAZLITT. One suggestion that was made to me by an industrialist was that American capital be invited to take the initiative in putting in risk capital while the Export-Import Bank put in the mortgage capital.

I am very dubious about that myself. I think that if the American capitalists made any money there would be a big howl about it. I do not think that would be something that we ought to go into.

Mr. JONKMAN. Just what do you mean by your last sentence:

These funds can then be used by us partly to make Export-Import loans to European private industries.

Mr. HAZLITT. I had in mind their loans for the purchase of raw materials, to be converted into finished goods, to existing organizations. In other words, they would be the equivalent of ordinary bank loans in this country for that purpose, rather than capital loans, to set up new plants, and so forth. Now, of course, I think Congress might consider it an additional safeguard, having some European capital contributions.

Mr. JONKMAN. Then I would like a little further comment from your statement on page 5, second paragraph, the first two sentences:

In short, even if we accept all the economic and political assumptions of the Marshall plan, we must recognize that the \$6,800,000,000 figure is completely arbitrary. It is sheer guesswork.

Then you go on to say that it is your idea that this is based purely on the balance of payments basis.

Mr. HAZLITT. That is the way the 16 governments set it up, and I think that is a very shifting and doubtful basis. Moreover, all those figures are hypothetical, of course. One may think that this is accurate because it is a big guess which is the sum of a lot of little guesses. My point is that the little guesses are all wrong. Therefore, the sum is meaningless.

Mr. JONKMAN. I have been of that opinion constantly. I also think there is a balance of payments proposition. Outside of that they do not know a lot about it. In other words, it is difficult for anybody to set what is the minimum subsistence for a whole people. Still there are going to be some that are going to live in plenty and others are going to have scarcity.

Mr. HAZLITT. All these countries are on different standards of living as it is.

Mr. JONKMAN. According to the CEEC report it started out with the need for 5 billion 900 million. The first item on that was food, feed and fertilizer, \$1,452,000,000. Then they went on, for instance, with coal, in a different category, 342 million; petroleum supplies, 512 million; iron and steel supplies, 370 million; and so on.

Now, I just received a break-down of the various countries in which I find that, for instance, instead of what I put in the category of food, feed, and fertilizer being 1 billion and 452 million, it runs over 4 billion out of the amount of 6 billion 800 million. Does that not tend to verify that that is merely guesswork? In other words, here is the Paris committee that puts down food, feed, and fertilizer at 1,452 million, yet in this report in the Marshall plan they are planning on at least 4 billion 100 million of food, feed, and fertilizer. It does show that it is complete guesswork.

Mr. HAZLITT. There have been a very large number of discrepancies in the individual figures. I am sorry I have not got in mind what

particular discrepancies are or any table in front of me. They shifted estimates a good deal.

Mr. JONKMAN. Assuming they begin with the balance of payments basis, you have had long experience in economic studies and you have been a financial writer for the leading publications in the country—Could you give us any idea as to how they can arrive at some basis of what, for instance, is needed in the Marshall plan other than after having the balance-of-payments basis?

Mr. HAZLITT. I think it has to be arbitrary. It cannot be anything else but arbitrary. The only way I can illustrate that is by perhaps a somewhat frivolous illustration.

If everybody around this table or in this room figured how much the difference was between his income and his needs, if his needs were greater than his income, he would arrive at how much his deficit was. And if he turned around and figured: "Maybe my income is greater than my needs; therefore, how much of a surplus have I got to give the other people in the room to straighten things out?"

I think if each of us made that calculation we would realize that it is a completely arbitrary calculation. Nobody knows where to draw the line of where his needs are. It is a subjective, not an objective thing. It only becomes objective when you get to the subsistence level, when the question is whether a man will live or die. Then, of course, you might have a certain number of calories you can figure as an objective. But, apart from that, the whole business is necessarily a subjective business and you cannot reduce it to an objective figure. You can, but it is an arbitrary thing.

Mr. JONKMAN. Nor could they arrive at any definite conclusion as to how many calories certain persons were getting because of that same thing—that some are way above their needs.

Take, for instance, in France and Italy. I understand it is true, if you have the money, that you could buy anything you want. On the other hand, if you go into England it does not make any difference how much money you have—your rations are absolutely applied to you. So you have no final basis for figuring.

Mr. HAZLITT. They are not quite as strict in England, as I found out. There were a number of black market restaurants.

Yet there is a big difference in the tightness of the controls.

Mrs. BOLTON. Mr. Kee.

Mr. KEE. Pursuing the line of examination followed by Mr. Jonkman, in the event that his ideas were adopted, using this fund to establish industries in these countries, wouldn't that be running into great difficulty by reason of placing the United States as a partner in an industry in a country—a competitive industry with the local industry, and as a partner with the other government?

Mr. HAZLITT. Yes; it would raise a very large number of difficulties of that sort, undoubtedly.

Mr. KEE. This act or bill provides for a payment or a guaranty to investors of 5 percent of the total authorization, that may be used to guarantee outside investors who would enter into these countries for the purpose of building industries.

Do you care to comment upon that provision, as to whether or not it would take care of the situation?

Mr. HAZLITT. Well, one difficulty is, of course, one that I have touched upon a moment ago—if there is any combination of private

capital and Government capital and if the private capital, let us say, is the risk capital and all of the Government capital is the mortgage capital, in other words, if the risk is so great that it eats up the private capital, then, if the thing is a failure, there will be no complaint about it here.

In other words, let us say that the General Motors Co. wants to establish a factory in France and they would put up 10 percent of the capital and the Marshall plan, or the Export-Import Bank, or what-not, would put up 90 percent. If the General Motors Co. lost their money there nothing much would be said about it here. If it were a profitable investment and \$100 of investment became worth \$110, then it means that the General Motors would have doubled their capital and the Government would only still have its 90 dollars. Everybody would object to that. That would be used and thrown all around—that we were using this as something for exploiting American industry. The Communists would pick it up all over the world as another example of American capital infiltration and the subservience to Wall Street, and so forth and so forth.

Therefore, my own feeling is that American capital ought to be kept out of it. American private capital ought to be kept out of any mixture with Government capital.

Mr. KEE. You spoke of our permitting, instead of our entering into those countries with funds, and inducing the construction of new industries. You said that you would leave that to private capital and private investors. How many private investors do you suppose we could induce to go over and invest in any of these countries under present conditions?

Mr. HAZLITT. Well, I think there are American industrialists and big industries here who would like to set up plants abroad.

Let us call it United Motors, so as to be free of anything specific. They might want to set up a motor industry there because it is better for all sorts of reasons to have a local motor industry. Now, they would be willing to go in, I think, if they had certain protections and certain guaranties against seizures, against having their money blocked inside the country so that they could not withdraw the local currency, and so forth.

I have no idea how firm a guaranty could be given to them. I think that when governments have constantly repudiated obligations, have constantly gone back on their word as the European governments have, as in recent years, that it takes a long time to restore confidence, even if you have a good-looking set-up so far as pledges are concerned.

But that, of course, is something that they have gotten into themselves. It comes back to the point that their own policies have prevented them from getting American capital, just as it prevented them from getting European capital. European capital would not go into new industry now because it has no assurance.

Mr. KEE. Granted it is the fault of those countries, that they have made their situation themselves, that does not lessen the necessity of help.

Mr. HAZLITT. They are going to offset our help the way they have offset their own capital in the past.

Mr. KEE. Have you read the provisions of the bill we have under consideration, the one called the administration bill?

Mr. HAZLITT. I have seen the administration bill. I have it here. I have not read it all. I read part of the explanation. I have not read the whole text. At least, I do not have it fresh in my mind now.

Mr. KEE. Have you noted, on page 17 of the bill, the provisions set forth there which would require certain things to be done practically as a condition precedent to the receipt of aid by the participating countries? There are nine clauses there. They provide for bilateral agreements between representatives of this country and the participating countries. They must assume to do certain things before they become participating countries and take part in this aid. Do you not believe that those provisions throw all the safeguards around this program that are necessary?

Mr. HAZLITT. I think you have to have provisions to safeguard the program. I do not think that these particular provisions throw all the safeguards necessary around it. For example, I do not notice that these provisions—and if I am wrong, you will correct me—say anything about the termination, let us say, of price fixing, which is one of the most essential things possible to get a restoration of private industry. I do not think they say anything about the promises not to start to socialize or nationalize an industry after it is started. I do not think they say anything about blocking currencies and not allowing them to be withdrawn, and so on.

These are the kind of things you have to have. You have to have these eligibility requirements, but it seems to me they have to be tougher and more of them than here and also more explicit obligations than there are here if there is to be real protection for the funds that are put in.

Mr. KEE. Whenever you incorporate into an act of Congress, however, these restrictions and provisions, if you incorporate a provision in that before it can be enforced—must be enacted by the parliament or the legislative body of another country, you are interfering with the sovereignty of the other country. We are never in position and never will be and do not want to be in a position of telling the parliament or legislative body of another country what they must enact into law.

Mr. HAZLITT. I do not see that we are interfering with their internal policy.

Mr. KEE. If you wrote into this act something they must do as a condition precedent which before they can do it requires an act of their parliament or legislative body, then, you would be interfering.

Mr. HAZLITT. I cannot agree with you entirely on that. Suppose we say we are making certain loans eligible for private European industries. These loans will be eligible if the private industry does A, B, C, D, E; they will be eligible in such countries as have made agreements or have made or given guaranties, that A, B, C, D, E, and F will or will not be done. We are not dictating to anybody. There is the law. They can ignore it completely if they want. We are not dictating to them. They do not need to borrow the money. They do not need to come to us. If they want to become eligible, these are the conditions. If they do not do that, then, we are going to treat Europe better than we treat our citizens any place. If the Reconstruction Finance Corporation makes a loan, it has conditions of eligibility. It is not interfering with the person who borrows. He does not have to do it. If he wants to borrow, he has to conform

with requirements. We do not interfere with a veteran who gets a loan. If he wants that loan, he has to adhere to requirements A, B, C, D, E. That is all we are doing. We are not dictating.

Mr. KEE. I am sorry, I cannot agree with you, Mr. Hazlitt, because we know that the need over there is there, and the need is a serious need. I would never be in favor, if we are going to meet that need, of writing into the act conditions which we know those countries cannot fulfill.

Mr. LODGE. Will the gentleman yield?

Mr. KEE. I yield the floor.

Mr. LODGE. I would like to say this, Judge, that the problem is somewhat complicated by the fact that when the question was put to certain members of the President's Cabinet as to how we could prevent this aid from going to countries which might become Communist, the answer was that the Communists would never consent to the conditions laid down. Therefore, it becomes a quantitative rather than a qualitative question. We must lay down some conditions, not only for our own protection but simply because we do not want to give the aid to Communist-controlled countries. It is a question of degree.

Mr. SMITH. I have no questions.

Mr. JARMAN. I might bring myself to agree with your theory about those restrictions, Mr. Hazlitt, if this was a strictly business proposition like the Reconstruction Finance Corporation loan is, wherein the only benefit to be derived by this country is the interest that we receive. Then, I would thoroughly agree with you. But to my mind there are so many other correlative benefits that our country derives that I am like Judge Kee, I cannot go along with you on that. However, that is something else.

You have talked a great deal about changing policies. How can a change of policy cause stabilization in a country which cannot produce enough to feed its people in order that they might be able to work or to buy raw materials in other countries for them to work with? How can a change of policy change that?

Mr. HAZLITT. What country do you have in mind, Mr. Jarman?

Mr. JARMAN. I would say half of these 16 countries: Italy, for instance.

Mr. HAZLITT. Well, they have already, I think, achieved some gain by freeing their currency, for example. They can achieve further gains by freeing their markets. I hate to seem almost fanatic on this, but we have treated free markets lately all over the world as if they were things of the past and sort of jokes and things that anybody could kick around any way he wanted to. We have forgotten that when we put price fixing in, allocations, controls, we simply distort and disrupt profit margins everywhere and we disrupt production all over the world, wherever we do it. The price system is a marvelous mechanism. It is really a miraculous mechanism which we take for granted because it has been there for so long and grown over generations. But that decides how much of those different goods are produced, what their exchange ratio shall be, how much the quantities shall change, not only year by year, month by month, but day by day, how this adjustment of supply and demand shall be made.

That is a marvelous mechanism and a very delicate one. When you step in and say that nails can only sell for a dollar or so much, and

this can only sell for that, and you can only have this much coal because that is what you had last year, and so forth, and wages have to be so and so much, you gum up the whole process. There is no adjustment that takes place. The thing is rigid, and has to crack and break somewhere. That happened in England. It happens in all these countries that use this process. The thing busts open. It is bursting open in France on the franc control. It bursts open one place or another. But before it bursts open, it just puts the whole economy in a strait-jacket. That is the thing we have to get rid of. Loans will not do it. They will be thrown down the rat hole as European capital went down the rat hole. As long as they have these policies, they are not going to recover.

Mr. JARMAN. How many of these controls were in existence before the war?

Mr. HAZLITT. You could not count the number of controls that were in existence before or after the war. There must be 50 times as much as before the war.

Mr. JARMAN. They resulted from the war, did they not?

Mr. HAZLITT. They preceded the war; 10 percent preceded the war, and the other 90 percent came after. As to the number of controls, when this country, under the Guffey Act, was controlling what we called "the" price of coal, Dan H. Wheeler, Director of the Bituminous Coal Division, was asked by a congressional committee how many prices of coal they were fixing, and I do not know of anybody who was not there who could remember how many prices of coal they were fixing. They were fixing 350,000 prices of coal. Because there are thousands of mines, there are thousands of destinations, there are all sorts of ways of taking coal, by rail, by freight, by boat, and so forth. They were fixing prices. They had an actual schedule of 350,000 different prices of coal, before we had general price fixing. When the Office of Price Administration was asked how many prices they were fixing, they put out a figure one day. They said 8 million. Then they recalled it a month later and said they did not know. So the people that control it do not know what they are controlling. They have no idea.

Mr. JARMAN. Speaking of coal, there was a discussion a while ago about the coal situation in England. The testimony before this committee from our Ambassador to Great Britain is—I am not sure I remember it correctly, but as I recall it—while the coal situation, we all know, has been bad, I do not know which target he was talking about, but he predicted they were going to exceed the target; I do not know whether he meant this year or not.

Mr. MANSFIELD. It happens I have the figure here. The Ambassador was asked a question about coal and he answered:

The present rate of production of coal in the United Kingdom is at the annual rate of approximately 215,000,000 tons. The British themselves, for the year 1948, have set a production target, as I recall it, of 214,000,000 tons. During the year 1948, they will continue restrictions on the domestic consumption in order that there may be available for export the amount which they undertook to export during the war, which is, to my recollection, 8,000,000 tons. It is likely they will export more than that. By 1952, their program calls for a production of 249,000,000 tons of coal a year, which is greater than the annual rate of production during the period 1934 to 1938. I believe they can achieve that goal if they attack the problem with vigor and determination.

That is Mr. Douglas speaking.

Mr. JARMAN. I construe that to result from the anticipation of the Marshall plan. But maybe that is a change in one of the policies you are talking about that is the cause of that.

Mr. HAZLITT. Of course, they did change one of the policies. You remember they had a 5-day week. They changed that recently, and these figures partly follow from the present longer week. Of course, the British coal problem is partly a long-range problem, but their controls go back pretty far actually. In 1913 Britain exported 93,000,000 tons of coal. In 1929 they exported 40,000,000 tons; then she was down to this 8,000,000-ton figure; then to practically nothing. Now, the last drop was more sudden than it had reason to be. But this is a deeper situation, of course, than her controls. It is because of the coal just giving out, for one reason. I mean it is got from deeper and deeper and poorer and poorer veins and gets more and more costly all the time. But I do not know how many months that rate was based on in Ambassador Douglas' testimony. Was it based on the rate of the last few weeks multiplied to get an annual figure? That might make the figure look much larger than if you took what they had actually produced in the last 12 months.

Mr. MANSFIELD. He was speaking on the subject.

Mr. JARMAN. Do not European countries need some kind of a system to procure fuel and fertilizer and perhaps seed as well as food?

Mr. HAZLITT. My own feeling is that that could be put under the loan system rather than under the grant system. Now, I know that Congressman Herter, and the Herter committee I think perhaps as a group, have put food, fuel, and fertilizer in a group by themselves. I have some doubts whether fuel and fertilizer belong in the gift group. Fuel and fertilizer are two things on which people can make money. We think of the fuel that goes into heating homes. I do not know what the European ratio is, but in this country 80 percent of the bituminous coal goes into industrial uses; perhaps the whole average would be 70 percent, including anthracite, that goes into industrial uses and only 30 percent for house heating. If a 50-50 ratio exists in Europe, they are certainly producing enough and far more than enough for heating their homes—that is, if they did not have the industrial problem to meet. The industrial problem is their big problem, in other words.

Mrs. BOLTON. I have not been in any heated home over there.

Mr. HAZLITT. That is because the coal is used up by industry. Suppose in France 90 percent of the coal supply goes into industrial uses. It does not matter whether we furnish 10 percent of the supply or 15 or 25 percent of the supply. It makes up the same deficiency whether we give it directly to the industrial side or to the heating side. So, if we lend it to industries, then that releases just that much coal for homes. It does not matter which channel it goes into. If these industries make a profit on the coal, then they might be the subject for loans. The same thing would happen with fertilizer.

Mr. JARMAN. I have gained the impression that even some raw materials and equipment might have to be obtained by some of these countries on terms that may be included in loans, but may be on terms that the Export-Import Bank lays down, for instance. That is strictly a business matter, and while I do not believe you agree with me, I see another angle to this, that it wouldn't be considered a business loan or would not be considered a good risk, in other words.

Mr. HAZLITT. I would like to say this about the business side of it—this is a rather technical point and I do not know whether I can make it clear—when any manufacturer borrows anything, raw materials, or borrows the money to buy raw materials and makes them into finished goods, the profit he makes is the indication of his success and also of the service he performs.

If a manufacturer borrows a lower value than the value of what he sells, or a value of less than what he sells, then he has made something. He has added something of his own and therefore he has made a profit. Out of that profit he can repay the loan.

If the value of what he sells is less than the value of what he buys and he has made a loss, that means he has wasted in effect the value of what he has borrowed. It has been thrown away. In other words, if the value of what you lend a man is more than the value, the final value, of what he produces, that means that there has been a net loss not only to him but to the world. There has been a net loss in production and a waste. So if the loans which we make to Europe are not good in the sense of being repayable, they are not good for recovery. They do not bring recovery.

That is a rather complicated question. I do not know whether I have made that clear.

Mr. JARMAN. That is clear. But the fact remains that Europe in order to get dollars has to export.

Mr. HAZLITT. That is quite true.

Mr. JARMAN. I suppose more than they import?

Mr. HAZLITT. That is right. The reason it has been exporting so much more than it is importing is because of the overvaluation of exchange rates. That has been changed in Italy and France in the last couple of months. Whether the reform is enough is hard to say at this stage. But it is the beginning of a very encouraging turn toward reality. The exchange rate has been a very great factor in preventing exports.

Mr. JARMAN. Thank you very much.

Mrs. BOLTON. Mr. Judd.

Mr. JUDD. Mr. Hazlitt, I want to get clear on one point. It is with respect to this taking off of controls.

The usual contention is that a country cannot take off controls until it has recovered and has achieved adequate increase in production. Of course, your contention is they cannot increase production and achieve recovery until the controls are off.

The question is the speed with which it is done. I am right, am I not, in the belief that you think that there ought to be drastic sudden removal of these restrictions that have been developed over a period of years and to which the people have become accustomed? Do you think the resulting economic benefits would offset the upset from the shock of a sudden change; or do you have in mind some gradual or progressive change?

Mr. HAZLITT. Well, the most we can hope for, Dr. Judd, is, of course, a gradual change. We cannot hope for a sudden change. We cannot try to impose a sudden change. All that I am suggesting here is that we impose certain minimum conditions of eligibility. Of course, even those conditions which I might think are moderate conditions, they will think are drastic conditions.

Mr. JUDD. You mean they must have these things done before we help, or that they embark upon a course at the same time we embark upon our help? That is, one contingent upon the other?

Mr. HAZLITT. Well, I should, think, of course, as I suggested that the food relief could be given whether or not they make any of these changes.

Mrs. BOLTON. Will the gentleman yield?

Mr. JUDD. Yes.

Mrs. BOLTON. In the item of food relief would you include fertilizer and a few machines, like plows, in those countries that would use plows and tractors?

Mr. HAZLITT. I feel this way about the fertilizer policy—and I hope I will be corrected if I am wrong. Most of the farmers of this country, wanting fertilizer have to buy it in the open market, and if they do not have the money, they have to borrow by going to a bank. They have a loan from the bank for the fertilizer.

The fertilizer is used to produce crops and out of the proceeds of the crops they can pay off the loan. I do not see why a European farmer cannot do the same thing as an American farmer is required to do. In other words, if a European farmer is going to make a profit out of fertilizer he should be able to repay a loan, and for that reason I do not see why fertilizer should be lumped with food.

Mrs. BOLTON. Only on this basis: That if, for instance, they received fertilizer in time to get a decent yield off their field this year, then our farmers would not be called upon to raise food to send over there. They would be raising their own food. Would you feel the first year's method would be a loan?

Mr. HAZLITT. There might be a combination of the two methods. There might be the ultimate intent to put the fertilizer under loans, but an authorization to the American Relief Administration, or whatever it is that carries out the gift part, to make a certain amount of emergency gifts.

Mrs. BOLTON. In order to get the load off the necks of our farmers?

Mr. HAZLITT. That is right. If they had this provision that they are ultimately to have to pay if off, it would have a good moral effect.

Mr. JARMAN. On the subject of fertilizer, the testimony before this committee, as I recall it, is that a ton of fertilizer produces sixteenfold. I reckon that is the value; I do not know what it is.

The theory that Mrs. Bolton and I have in mind is that if by sending that ton of fertilizer you can get 16 times its value in food, it is much better than to transport 16 times that much food over there.

Mr. HAZLITT. That might come under an emergency provision.

Mrs. BOLTON. Next year perhaps they could make their own fertilizer.

Mr. HAZLITT. If I am wrong on this I would be glad to be corrected. I think we have destroyed fertilizer plants in Germany, or we are not allowing them to operate. That is one of the reasons why we are called upon to supply fertilizer.

Mr. JARMAN. I can very positively tell you that you are wrong in the opinion that fertilizer plants have been dismantled in Germany.

Mr. JUDD. The biggest one had a capacity of 700,000 tons of nitrogen a year, and now it is producing 130,000.

Mr. JONKMAN. I think Mr. Jarman is talking about bimetalism.

Mr. JUDD. I should still like, if I may, to return to the question I asked.

I think it is very important that you be understood on this. Are you or are you not insisting as a condition that they make sudden changes; for example, where you say they must agree to permit free exchange rates? Do you demand that before any assistance is given, at one stroke they give up all these controls that they have become conditioned to, or do you contemplate an agreement to the effect that, "As you move in this direction, we will do this"?

Come back to our illustration of the drunk. He comes along and says, "Give me 10 cents for a cup of coffee." If he takes the coffee and goes back to the saloon, you have lost your dime and he is no better off. You cannot help him with loans until he is out of the saloon. On the other hand, probably he cannot stay out of the saloon unless you are willing to help him. If he wants to stay out and you help him, then you can gradually correct him. If you do not help him and he has no assistance in his discouragement, he goes back and borrows and buys or steals a drink. I think some people are like that.

They have been conditioned to these things. They are opiates, You cannot stop a drug addict suddenly or you may kill him.

That is what Judge Kee was talking about. We cannot insist on recovery before we help. On the other hand, it does not do any good to help if they continue the practices, which ultimately defeat them.

Can we work out a gradual accomplishment of these objectives? I want to be sure that is what you mean, if you do.

Mr. HAZLITT. Well, I have suggested here on page 12 that certain conditions be put in as eligibility requirements. There are only three or four of them. That is all that I would suggest. I do not expect them to change rent control, price control, and a hundred other things overnight. Let them change enough things so money from repaid loans could be withdrawn. Otherwise they will never get private capital unless the lender's money is withdrawable, unless he can get the money back.

The most drastic of the conditions mentioned here is to permit free exchange rates. Italy did it overnight 2 months ago. France did it.

Mr. JUDD. They did it one-half. Do you think it better to take it half at a time?

Mr. HAZLITT. We might have a provision that would permit this half. I do not know how this half-control is going to work out. I think it will be badly.

Mr. JUDD. You think it would be better if they took the whole thing off?

Mr. JONKMAN. I think at least you would want to see them going to a restaurant instead of a saloon.

Mr. JUDD. That is right. We have to take them in sometimes, hand in hand.

I wanted your opinion on that franc devaluation. Do you think this attempt to do it gradually may not have been as good a thing as if they had turned it completely loose?

Mr. HAZLITT. That is very hard to say. You build up tremendous vested interests with these controls that are hard to break down. For example, as a result of an overvalued franc the French have been getting their imports from this country at a low price, with certain exceptions like coal and so forth—things that are uneconomic to export in the first place. Most things they have been getting at a low price in terms of francs. They want to keep that. Therefore they have two rates, one to import and one to export.

That is a little oversimplifying it. Anyway, there are a lot of advantages they are trying to hold on to in this system. Whether they can or not, I do not know. All I am saying here is that the more thoroughgoing these reforms are, the better they will be. If Congress wants to ask a lesser reform for the loans, then it is more likely to get it done; but then it also takes the chance that the loans will do less for recovery.

Mr. JUDD. I am glad to have that clear.

Now I want to ask a different type of question. You have stressed particularly your attitude toward the changes you think are necessary in the policies of each nation individually.

Do you want to make any comment as to what changes you think are necessary in the policies of these nations collectively in their attack upon the problem? Do you think, for example, that it is possible for each of these nations to become self-sufficient and self-sustaining as a completely independent economic unit, as heretofore, or must there be some group attack upon the problem?

Mr. HAZLITT. I am not sure I understand your question about "self-sustaining."

Mr. JUDD. Suppose Belgium should wind up as she was before.

Mr. HAZLITT. Do you mean ability to support themselves?

Mr. JUDD. No; I do not mean completely self-sufficient. I mean ability to become a sound economic unit.

Mr. HAZLITT. Yes.

Mr. JUDD. Do you think that even if they make these changes individually which would take place within a country, western Europe can recover with 16 economic units, in the sense that we have in this country 48 political units, but only one economic unit?

Mr. HAZLITT. Yes. They do not necessarily have to have custom's unions, for example. They can have merely moderate tariff policies. They can end the present bi-lateral system of trade treaties, and so forth, and have a system comparable with that before the war, or let us say pre-1938 or pre-1935, or whatever time you want to set.

Of course, it would be ideal if they had customs unions because you cannot have a customs union without getting rid of all of these controls. That is why the customs union has been deadlocked for a certain amount of time between Holland and Belgium. If you unify your customs rates, it does not do any good unless you also unify your currency or unless the currencies are freely convertible into each other at a fixed rate. Otherwise one has a different rate than the other. It does not work, either, if you have price fixing in one country and an absence of it in another.

When I was in Holland I was told by several persons that there was an immense amount of smuggling of cattle across the line, the border, between Holland and Belgium. The border line goes through villages and village streets and cuts through and into individual houses, and so forth. They found it impossible to stop that. The reason that happened was because Holland had a price ceiling on cattle and Belgium did not, or Holland had a lower price ceiling on cattle than Belgium, and therefore all these leaks occurred. So if you are going to set up a customs union and it is going to be a real customs union, in order for it to work you have to get rid of these nationalistic controls. I would favor that, of course. It would be a wonderful thing. It is a long range thing. The 16 nations discuss

it as a rather academic subject here, although they are very sympathetic.

Mr. JUDD. I know I was asking your opinion as an economist, whether you think that even if they make these individual changes along the lines you have suggested they would wind up other than as 16 separate units, some of which are bound to be nonsolvent, like Italy and England, which have too many people for too little land and not enough food supply or natural resources. Some of our States are economically sound and some are unsound, but they are able to survive because they are part of a whole economic system.

Mr. HAZLITT. I think England and Italy would be able to survive without customs unions if they themselves and other countries follow not too drastic a control system. After all, we have had tariffs and so on for many years. We have been able to survive that. But you get to a point where these controls are not conformable with any sort of economic recovery.

Mr. JUDD. You think the most important thing is what a nation does within itself rather than what they do between themselves?

Mr. HAZLITT. Yes.

Mr. JUDD. Over on page 7 you talk about Germany, and you say that it is the outstanding collectivist country in the world, outside of Russia. They you say, "Only the restoration of a free economy in Germany, subject to American oversight and reasonable income reparations, can solve this problem."

The thing so many of those countries are afraid of, of course, is that allowing Germany to become a free economy will permit her to militarize and throw Europe into war again. Do you think you can get what you have in mind as a free economy, Germany back at work with her economy integrated and interdependent with the free nations of western Europe, or will it allow Germany to grow up as a great self-seeking power in the center of Europe, throwing everything out of balance and running the danger of her trading off to one side or the other and plunging Europe into war?

Mr. HAZLITT. Well, that opens up a great number of very serious problems of course.

Mr. JUDD. I know.

Mr. HAZLITT. Taking the most immediate problem, if Germany has a free economy and if, so to speak, a free economy is imposed on her, which is sort of a contradiction of terms, then Germany would be bound to be integrated in a world economy.

When the Nazis wanted to make Germany a great military power they imposed autarchy on Germany so it would be self-contained. If Germany had to be part of the world economy, dependent on the outside for raw materials, and so forth, dependent for exports, a country that had, as the prewar phrase went, a country that had to export or die, or import or die, if they were that sort of a country they could not make war independently. Yet they could be prosperous; the income level could be high. Reparations ought to be imposed on the income level on Germany. But if it were tied into the world economy that way, then it would be far less of a menace in a military sense than if we allowed it to have autarchy. If we make Germany a free economy and allow that, we build up vested interests in favor of a free economy. The vested interests of today are all built up in favor of retention of controls, but if we have an export industry

which needs to continue that volume of exports, import industries which need to continue that volume of imports, we get big vested interests within Germany, insisting on retention of the system they already have.

That only answers a very small part of the question you raised. But if I were to try to answer the general problem, I would say that from time immemorial there have only been two ways of dealing with an ex-enemy. One is to annihilate it and the other is to conciliate it.

The Romans followed that policy with Carthage. They decided on annihilation and they made the job absolutely complete. I do not believe that we in America have the kind of mentality that would want to make that job absolutely complete. Therefore, it seems to me that our only hope, although this should not be taken for granted because I think we should keep our army of occupation in there almost indefinitely, but nevertheless our hope is to conciliate Germany so it does not turn in desperation to Russia.

Mr. JUDD. So that there is more to gain by staying with the western Europeans than by going the other way?

Mr. HAZLITT. Yes, especially if you tie Germany by free trade into the western economy.

Mr. JUDD. Do you think that can be done?

Mr. HAZLITT. I think it can. We have a good deal of the power to do it now.

Mr. JUDD. I am glad to hear you say that because I think that in some respects is one of the two or three crucial points in the whole matter.

That is all.

Mr. MANSFIELD. Mr. Hazlitt, on page 5 you say:

If we extend no further gifts or credit, the outside world cannot continue to have a trade deficit.

You could add to that, "Nor can much of the outside world be able to eat or produce enough for recovery," so you would get a balanced international budget. You would have a balance of international payments, but what you would have in countries like France and Italy at the present time would be starvation and communism. Do you believe that countries like Italy and Austria, for example, can produce enough to live on during the next 3 years without aid?

Mr. HAZLITT. All these guesses have a certain element of the arbitrary about them. There is nothing scientific about them. On page 69 of the Outline of the European Recovery Program, printed for the use of the Senate Committee on Foreign Affairs is a statement to the effect that "Europeans will be able to pay for about two-thirds of their imports during the next 4 years through their own efforts"; but cannot pay for the other third.

I contend that that statement is a quite arbitrary statement.

The statement is made that they cannot yet pay for all their needed imports, but that they can pay two-thirds. I think that is an arbitrary statement. I think if they could pay two-thirds, 15 months from now they can certainly pay three-thirds, and they can pay three-thirds if they bring down their rates to realistic trade rates.

Mr. MANSFIELD. You are referring to Europe and I am referring specifically to Austria and Italy, which never did have anything approaching a self-sufficient economy. Now they are both war-torn. They have suffered great damage. Italy especially has undergone

communistic upheavals because we have, if not the largest, next to the largest Communist Party in Europe in Italy at the present time.

Now can those two countries, both of them, in which we have a peculiar interest because we are the mainstay of the DeGasperi Government in Italy and in the fact the mainstay of the Government in Austria, how can they get by without outside aid? What inducements are there for an American businessman to go in there and rehabilitate those industries, or to rehabilitate industries or bring in new industries and make a profit and help put those countries on their feet?

Mr. HAZLITT. Well, in the case of Austria, I do not think that as long as Russia is in there there is going to be any recovery of Austria, any permanent recovery of Austria, Marshall plan or no Marshall plan.

Mr. MANSFIELD. Take Russia out.

Mr. HAZLITT. She is there and that is one of the big things holding Austria down. Austria and Italy would be the two countries that would need most in the way of gifts of food. They are the countries that would probably get less, although I am not sure about that, of the loans from let us say the Export-Import Bank. If they conform with the conditions they could get a loan. Italy is nearer conforming with those conditions than most other countries because she has almost a free exchange rate. There are a lot of drawbacks, but it is as free an exchange rate as anybody has. They are in a better condition to get the loans than anybody else. If the individual industries within those countries could function, then they could recover. How could they recover under present conditions, when they have a law in Italy under which an industry is not allowed to discharge any of the workers that it had at a given time in the past, and they cannot produce anything at any value at which they can export it. That is a self-imposed condition. That is compelling these companies to hold men idle. The discipline has gone down terrifically in those factories. It is part of their own controls. How does the Marshall plan overcome that?

Mr. MANSFIELD. That is a good point, but of course answering the first part of your question, the Finance Minister is an outstanding individual who has stabilized Italian currency in a remarkable manner. Insofar as those informal measurements are concerned the De Gasperi government is in a position where it cannot do anything. You have been emphasizing the economic aspects of the Marshall plan. That should be done. But in my book the most important aspect of the Marshall proposal is the political aspect, and what we have to do as I see it are threefold:

One, take care of the humanitarian aspect to a certain extent in countries where that help is needed; secondly, we have to do it on as economically feasible a plan as possible, realizing we are taking a calculated risk; but third, and most important, is the fact that this is a measure designed to contain communism. That is the important thing, not the economics of the thing, although it enters into it.

Now we know that we are taking a chance. We realize that this proposal will keep inflation going in this country. But Marshall proposal or not, as an economist you know that inflation is going to continue in this country. We realize also that it is going to raise a number of other problems. But the way we are looking at this problem, at least as far as I am concerned, is primarily from the political point of view because that is the important factor.

You can raise lots of questions, but you always come back to this answer at least, as I see it, "What is the alternative to the Marshall plan?"

What would your alternative be to the Marshall proposal?

Mr. HAZLITT. Politically?

Mr. MANSFIELD. Any way.

Mr. HAZLITT. You are putting it up as a political plan.

Mr. MANSFIELD. That is right.

Mr. HAZLITT. I have suggested the economic alternative to it here. Politically I think that there are a lot of things that ought to come before the Marshall plan and the most important one is a completely unambiguous attitude toward Russian aggression. That unambiguous attitude does not yet exist. Nobody knows precisely what we are going to do in China today to fight communism in China. Nobody knows precisely what we are going to do if the Greek rebels begin to gain on the Government, or if a lot of the Balkan countries begin to recognize them, or if Russia recognizes them.

We have let our policy become completely ambiguous in that respect, and there is where I think we ought to drive in. I do not want to go into the political side, but it seems to me that for the last 2 years we have systematically allowed the Russians to insult us, to do everything possible against us, and we have made about one answer for every 25 charges.

When Mr. Vishinski comes over here and insults the President of the United States, we make a little protest, but we do not send him out of the country. When they do things to our Ambassador over there, we do not do the equivalent to their Ambassador here.

I do not want to set forth a program, but we could bring before the United Nations the whole problem of the Russian slave camps. We should have taken aggressive measures a long while ago on this. We should have withdrawn our recognition of the Polish puppet government.

There are about 20 things I could enumerate. It seems to me that these are the things that are prior to any Marshall plan. We do not solve the problem by giving away money. That seems to me an evasion of the problem—at least of the political problem.

Actually, historically, in origin the Marshall plan as I see it was a retreat from the Truman doctrine. When President Truman announced his doctrine on Turkey and Greece, he said that it was to counter Communist aggression. He made that explicit.

A month or so later Secretary Marshall said, "This was to come to the aid of a gallant ally." Then he invited Russia to come in and share our loans under the Marshall plan, and from all outward appearances he was aggrieved by the failure of Russia to do this.

It was not we who made the Marshall plan a symbol of anticommunism; it was Russia who made it a symbol of anticommunism by attacking it.

Mrs. BOLTON. Will the gentleman yield?

Mr. MANSFIELD. Yes.

Mrs. BOLTON. I do not wish to interrupt, but I would like to say that it is a refreshing thing to have a good citizen of the United States come up here and have the courage and the sense and intelligence to put these things right out in the open. You challenge our thinking.

We are very grateful to you, Mr. Hazlitt.

Mr. MANSFIELD. I will admit that Russian opposition did give a great boost to the Marshall proposal, but after all, I think in the minds of a lot of us, at least, it appeared to be the first sensible proposal put forth by our Government that had a great deal of merit, and which was not absolutely foolproof but had a certain good chance for success. I would say it would tend to rehabilitate Europe economically and put an end to these relief loans that we have been putting out to the tune of billions of dollars since the war.

No one can guarantee the success of this loan, but I think that it is a risk that we have to take, whether we want to or not, because if we do not then I think we can just get back in our own shell, as many witnesses have said, and start putting money into national defense to a far greater extent than we have put into the rehabilitation of European economy. We could start arming ourselves and lose western Europe by default. Then where would we be?

Mrs. BOLTON. Is your point that unless we do the thing intelligently we will lose anyhow?

Mr. HAZLITT. My feeling is that we are all clinging to the Marshall plan as the symbol of anticommunism because we have not been given much more to cling to, and that it is not the most effective way to fight communism. I do not think you are going to fight communism, even if you get your recovery in Europe. In other words, the belief seems to be that if we get an economic recovery in Europe you will then get an ideological recovery and they will turn away from communism.

My feeling is that the causation is the opposite way around; that we need the ideological reform first, before we get the economic reform. We need a collapse in the faith in planned economies. That collapse is about to come, I think. There are big signs of it, and the crack in the franc is one of those signs. The removal of the controlled franc is one of those signs. I am not sure that the Marshall plan, by holding up, by propping up, these governments—the governments of planned economy and so forth—might not prolong these planned economies and thereby retard European economy and recovery.

Mr. MANSFIELD. That is a possibility. I look at it the opposite from the way you do because I think the economic aspects come first and the psychological effect has been such as of the present time to stop the spread of communism in France and Italy. That is a difference of opinion.

Mr. LODGE. This has been a very stimulating meeting this afternoon, and I want to thank you for your very notable contribution, even though I do not agree with everything you have said. You have put out some very stimulating ideas.

On the question of Russian opposition to the Marshall plan, which I think is a very interesting point, may I suggest that perhaps we measure to some extent the validity of the idea by the violent Russian opposition to it.

Now, of course, it is barely possible that that is not so, but it seems to me that the fact that they have attacked it so violently is evidence they are sincerely worried about the ability of the Marshall plan to keep them from world domination.

Mr. HAZLITT. I am not at all sure about that, Mr. Lodge, because I think they would have attacked anything that we would have done,

or did, or contemplated doing. The whole purpose of the Communist propaganda is to discredit America and therefore anything we do or think of doing has to be discredited.

If they are determined to discredit anything we think of doing, and if we go ahead and do it because they oppose it, then we never get to consider anything on its merits.

Mr. LODGE. I do not believe we should do it just because they oppose it.

Mr. HAZLITT. I would like to make this point: That we are assuming here that the Russians have made a terrific mistake. In other words, if they really did not want the Marshall plan to be put through, the most foolish thing they could have done was to oppose the plan publicly the way they have done. There is not a schoolboy or a taxi driver or anybody else in this country that does not know that the Russians' opposition to the Marshall plan has been the biggest factor in building the Marshall plan and determining the country to go ahead with it.

Mr. LODGE. Are you suggesting that the Russian opposition to the Marshall plan is tactical and strategical rather than real?

Mr. HAZLITT. I am suggesting that that possibility exists.

Mr. LODGE. That is an interesting thought.

Mr. HAZLITT. It exists, because you will notice the timing, for instance. Whenever the Marshall plan has seemed to be on the verge of not going through, Vishinski has gone to work on it. More than one reporter has written that the Russian opposition to the Marshall plan has been so "inept" as to seem almost precisely calculated to make America go through with the plan.

Mr. JUDD. Do you mean you do not think it is just plain incompetence and bungling on their part?

Mr. HAZLITT. It may be, but if it is we are assuming, first, that they are making a terrific political error; that they are making an error that, as I say, any schoolboy has seen through in this country. That is, we are assuming that they do not even know enough not to make this error. We are assuming also that they are right in their belief about what the economic consequences of the Marshall plan are going to be.

I suggest the Russians are very shrewd politically, but very stupid economically. We have been assuming that they are very shrewd economically but very stupid politically.

When you are dealing with Russian Communists and their Machiavellian politics, you cannot speculate as to what their psychology is or their purposes are. I think we would be much more clear-sighted about this if we disregarded the Russian opposition. I have no doubt, for example, if we pulled our troops out of Berlin tomorrow, or out of Germany tomorrow, which is the thing that the Russians would most of all like to see us do, as soon as we were safely out they would denounce this action. They would say, "You see; this proves the United States is the same sort of nation it always was, and it always welches; it always withdraws and always leaves you in the lurch."

Their purpose is to discredit anything we do, whether it is in their favor or not. I do not think we should take too seriously their opposition to the Marshall plan as being a sign that it might be a good thing.

Mr. LODGE. That is a very interesting answer. I would like to suggest this: That I think we, all of us, have a tendency to over-

estimate the omniscience of the Politburo. Curiously enough, it appears that in spite of the many agents they have in this country the Politburo is a relatively badly informed agency with regard to American psychology for one very good reason, and that is that most of these agents are so anxious to retain their jobs that they transmit intelligence to Russia of the kind they think their bosses will like. Therefore, you find, curiously enough, that the boys in Moscow are not so terribly well-informed about the political psychology of the American people.

Would you say, then, since you attach little importance to Russian opposition, that the fact that the De Gasperi and Schumann and other governments of Europe attach such great importance to the European recovery program is also to be heavily discounted? Surely you do not think that they are playing for strategical advantage?

Mr. HAZLITT. Oh, no. From the standpoint of any government official in Europe it is obviously an advantage to have the Marshall plan. It is an advantage to that government. There is no question about that because even if they are following a bad policy, the Marshall plan funds will help to bail them out of the policy.

Mr. LODGE. May I insert there that the Italian question is one which has particularly held my attention because I feel, and many of my colleagues agree with me, that Italy is the most sensitive and the most dangerous spot right now with the exception possibly of Greece and China, and that if Italy goes, the European recovery program cannot possibly succeed.

Most of my colleagues were in agreement with me that the Italian Government was composed of some very first-class people who are sincerely trying to pull themselves out of a hole. They are not trying to socialize Italy, but they are up against all kinds of factors with which you are doubtless familiar.

De Gasperi feels, and his government feels, that if America were not to go through with some kind of a recovery program, he would not be able to keep the Communists from power in Italy. I would just like to ask you to consider for a moment what the consequences would be to our national security if a Communist government were established in the north of Italy. Consider what the consequences would be throughout Europe, the Middle East, north Africa, and ultimately in the West, if we were to announce tomorrow that we would bring only relief, and that we have given up the recovery aspects of the European recovery program; that it is not to be the European recovery program, it is to be another European relief program, and as far as recovery is concerned, "You will have to depend as in the past on the World Bank, the Export-Import Bank, and American private lending."

Do you believe that the De Gasperi and Schumann governments would be able to withstand the threat of communism if that announcement were made from this city?

Mr. HAZLITT. Well, I think this is probably a question of semantics. If we pass a program of this sort—in other words, if we make a very substantial gift of foods, which I assume we are going to do—and if we then made this eligibility for Import-Export Bank loans on a bigger scale than in the past part of the rehabilitation program, and if we called this the Marshall plan, then the symbolic part of the thing would be carried through.

If it is a question of how much economic recovery you are going to bring to Italy, my own feeling is that the Italian situation is not going to be solved primarily by the exact extent of the Italian economic recovery. It is going to be solved by what we do, what Britain does, what the western nations do when and if Russia makes an overt move in Italy. Now that is going to present a very nasty problem and my feeling is or my fear is that we are trying to tell ourselves here that the Marshall plan is going to solve this, because it is a nasty problem and we do not like to face up to it.

Mr. LODGE. May I say there that you are pushing in an open door as far as I am concerned on that issue. I have been hammering away for a long time at the fact that the European recovery program may very well not be enough to protect the Government in Rome and the Government in Paris from a threat by internal force.

I expect a very serious attempt along those lines to come in March or April, and it does not occur to me that the European recovery program will be able to do much about that. In other words, I would say that without some kind of a recovery program western Europe is almost sure of succumbing to communism, but with it and without other strategical measures, western Europe may very well succumb. So I do not contend for a moment that from the strategical point of view the European recovery program would be enough. It has been my constant effort to bring pressure on the administration to pay some attention to the question of internal force.

The point I would like to make is, however, that if you do not pass the European recovery program, or some recovery program, will it be possible for them to resist at all?

Mr. HAZLITT. Well, my feeling is that the European recovery program is at best not the spearhead of our foreign policy or our diplomatic policy. The spearhead is the diplomatic action we take vis-à-vis Russia and what we do on the next move, or, as a matter of fact, what we should have done in past moves.

The European recovery program is at best a subordinate and secondary part of a foreign policy. In other words, it is the rear end of the spear, not the spearhead. The spearhead is something much tougher and harder than that. We have not been willing to admit in this country that we have this very nasty decision to make. We have avoided nasty decisions in the past, and we think we can do it constantly.

It is the same position that nations in Europe were in, vis-à-vis Hitler, before. They did not want to face up to Hitler before and they thought he would stop of himself.

Mr. LODGE. In other words, you think the Administration under the Marshall plan is appeasing Russia?

Mr. HAZLITT. Well, its action is a little bit stronger than it has been in the past. Yet we constantly get reassertions of what seem to be essentially appeasement doctrines. We waited 2 years before we released the text of the agreement between Hitler and Stalin.

Mr. LODGE. I agree with what you say about the administration's attitude toward Russia in the postwar period, although that is water over the dam. It does not do much good to lament it. We must face the future.

Would it be possible for you to submit to this committee figures as to what you consider should be the saving, the deduction that could

be made from the proposed figure of \$6,800,000,000 if all the currencies of all the participating countries were to be devalued? In other words, if we were not called upon to fill in a gap between the legal and real value of their money.

Mr. HAZLITT. I would not undertake to submit such figures because my own position is that such figures are essentially arbitrary and that one person's guess is as good as another's. Ex-President Hoover has but forward the figure of \$4,000,000,000, of which I think about \$3,000,000,000 were in gifts and \$1,000,000,000 in the export-import loans. I do not know whether that figure is good or not. It is necessarily an arbitrary figure. So far as I am concerned, the amount authorized is not so important.

Let us say you authorized the complete \$6,800,000,000, and you allotted \$2,800,000,000 to food and \$4,000,000,000 to loans. If the conditions of those loans were of the type that I have indicated here, and if the Administrator conformed in those loans to those conditions, I do not know how many loans would be made or what the size of them would be.

We might have a fairly liberal authorization to take care of. For example, on the authorization of foodstuffs I see nothing else to do then just take the European nations' word for it. But also give the Administrator who distributes the food the discretion to redetermine whether they do in fact need that much. In other words, this would be the limit on what he would be able to give. He would be able to give a certain amount, and no more.

Mr. LODGE. There is no question that if you had devaluation of currency you would have an increase of exports on the part of those countries, and therefore on the balance-of-payments theory you would not have such a great dollar deficit. Therefore, you would be diminishing the load on the American taxpayer.

Mr. HAZLITT. That is right.

Mr. LODGE. I think that is one of the most important factors you brought out. Many of my colleagues will agree with you.

I thought you might give us your rough estimate as to the beneficial results of that in the near future or the next 15 months. I would like to ask one more question:

With respect to the instrumentality which you suggest calling the American Relief Administration, does that mean that you feel that we should adopt neither Mr. Herter's suggestion contained in his bill or the suggestion contained in the administration's bill with respect to the agency to administer this program?

Mr. HAZLITT. Well, I feel that the suggestion in the Herter bill would be better, other things equal, than the suggestion in the State Department bill. But I feel it would be a mistake to have any organization with the power both to make gifts and to make loans. I do not think they could mix. If you set up in private industry something called the United Charities Bank, and somebody came to the President and said, "What are you, a charity or a bank," and you said, "We are both charity and bank." He would say, "I had better take the charity." You would say, "That is very nice, but there is one trouble: we have \$7,000,000,000 for charity and \$3,000,000,000 for loans and we have used up the \$7,000,000,000 for charity, but we will put you down for a loan."

You would say, "You know it will be pretty much the same as charity."

You put a man in a spot if he has to do both things. He cannot switch from one to another. He cannot be a giver and a tougher-minded lender at the same time. I think these should be two segregated institutions.

Mr. JUDD. If you segregate them he would not go to the loan part of it at all.

Mr. HAZLITT. All you get from the gift place is food and food goes to private individuals as far as possible. If the loans go to industries, then you have made your segregation on a commodity basis, so to speak.

Mrs. BOLTON. Mr. Hazlitt, we are certainly very grateful to you. I am sure that those of the committee that have been here feel very much as I do, that there is nothing so good for us as to have all our thinking challenged.

Mr. HAZLITT. I want to express my appreciation to the committee for the very great courtesy and consideration you have extended.

Mrs. BOLTON. You were very gracious to us all.

(Whereupon, at 5:12 p. m., the committee adjourned, to reconvene at 10 a. m., Wednesday, January 28, 1948.)

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

WEDNESDAY, JANUARY 28, 1948

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

The committee met at 10:30 a. m., in the Foreign Affairs Committee Room, Capitol Building, Hon. Charles A. Eaton (chairman), presiding.

Chairman EATON. The committee will be in order.

We have with us today a very informative and important witness, Mr. Herbert H. Schell, who is a member of the International Relations Committee of the National Association of Manufacturers. He is a man of very wide experience, and has a very, very informative statement to make to you.

Some time ago I had a discussion with our members on the opportunity to act as chairman of the committee.

We will take one of the younger members today, and I have asked Mr. Lodge to occupy the chair this morning and preside with his usual grace and dignity and introduce Mr. Schell.

Mr. Lodge, it gives me great pleasure to present you with this difficulty.

Acting Chairman LODGE. Mr. Schell, we are very much honored and pleased to have you here with us to help us with this enormously complex problem. We are glad to hear from you at this time.

STATEMENT OF HERBERT H. SCHELL, MEMBER OF INTERNATIONAL RELATIONS COMMITTEE, REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. SCHELL. My name is Herbert H. Schell. I represent the National Association of Manufacturers, which represents 85 percent of the productive manufacturing capacity of the United States, with 16,500 members in every State of the Union.

I should like to identify myself further by saying that I am the president of Sidney Blumenthal & Co., Inc. We are textile manufacturers specializing in pile fabrics—velvets and velours.

I am appearing before this committee to register with you the considered judgment of the major body of American industry on the European recovery program, also known as the Marshall plan. American industry is enthusiastically in favor of the purpose and ob-

jective of the European recovery program. As defined in one of the bills before you, these are as follows:

It is declared to be the policy of the United States that assistance be given to those countries of Europe participating in a joint European recovery program based on self-help and mutual cooperation,

and further

by furnishing material and financial assistance to the participating countries in such a way as to aid them through their own individual and concerted efforts to become independent of abnormal outside economic assistance within the period of operations under this act,

1. By promoting industrial and agricultural production in the participating countries;

2. By furthering the restoration or maintenance of the soundness of European currencies, budgets, and finances; and

3. By facilitating and stimulating the growth of international trade of participating countries with one another and with other countries by group economies reflecting reduction of barriers which may hamper such trade.

I would like, at the outset of my testimony, to emphasize that the NAM views the European recovery program, as primarily a production problem. The greatest contribution our country can make is to assist the nations of western Europe in increasing their own production, and thus placing them on a self-sustaining basis. We feel that the record that United States industry has achieved, both during and since the war, does permit us to speak with some authority on production problems, and particularly on the climate that is necessary to achieve a high rate of production in any country. It is in the light of our experience as producers of goods that we offer to your committee the suggestions that we hope may be of some assistance to you in weighing the proposals that are before you.

Mr. Chairman, I would like to summarize, very briefly, the recommendations that the National Association of Manufacturers is offering:

That the participating nations evidence their intent to stabilize their currencies, balance their budgets, and place their fiscal policies on a sound basis.

That the countries take and enforce adequate measures to insure maximum domestic production.

That the countries work toward a restoration of free international payments.

That the countries make reasonable use of their own realizable gold and foreign exchange assets.

That the countries refrain from reexporting products received under the United States aid program, and from exporting identical products produced domestically.

That existing state enterprises in the participating countries should have a widespread measure of autonomy and not be subject to detailed political control.

That during the period of economic aid the participating countries should not undertake any further nationalization projects, or initiate projects which have the effect of destroying or impairing private competitive enterprise, and thus retard their economic progress.

That insofar as practicable, United States aid should be extended to private competitive enterprises in the foreign countries instead of to governments or their agencies.

That commodities and products advanced under the aid program should be produced in the recipient country or within the United States, except in instances where procurement elsewhere should be economically advantageous to the United States.

That countries participating in the program must accord non-discriminatory treatment to United States businessmen and investors, and also accord to representatives of the United States press freedom to visit their countries and report their observations.

That the extension of economic relief should be scheduled on a basis of ability to fulfill performance stipulation; for example, each installment of United States aid would be accompanied by a stipulation that if the recipient country did not use such aid to accomplish specified results in a designated time, further aid would not be forthcoming, and "performance" should include satisfactory accomplishment under agreement to modify and eventually eliminate price and other controls over commodity production and distribution.

American industry is convinced that there are specific conditions which should be met not only by recipient countries, but also by this country in administering the European recovery program. I shall attempt to develop these conditions in my testimony.

The recommendations I am offering were originated by the International Relations Committee of the National Association of Manufacturers, of which I am a member and a former chairman. Our committee was aided by an advisory group of authorities in the fields of international law, economics, banking, geography, diplomacy, and business. The International Relations Committee, itself, is composed of about 120 representatives of corporations having wide experience in world trade.

Their conclusions were adopted by the National Association of Manufacturers board of directors, of which I am a member, as its official position.

The National Association of Manufacturers has been actively interested in the postwar international economic situation since the early days of World War II. This interest was aroused by the firm belief that any international disorder in the postwar era would have a direct effect on our economy.

In 1943, the National Association of Manufacturers was the first to advocate the creation of an international trade organization, which is now being discussed at Habana.

In 1944, the National Association of Manufacturers was the originating sponsor of, and host to, the International Business Conference at Rye, N. Y. This conference brought together businessmen from 52 nations. Russia was present as an observer.

In 1945, the National Association of Manufacturers, by invitation of the State Department, served as industrial consultant at the San Francisco Conference, where the Charter of the United Nations was drafted. The National Association of Manufacturers, through the executive committee of its board, became one of the first organizations of this country to publish its recommendations that the Charter be approved by the United States, and this within 3 weeks following the San Francisco Conference.

I have given you this brief historical review of the National Association of Manufacturers' interest in international problems to show

you that the recommendations I shall present are based on several years' study.

There is no doubt in the minds of the great majority of the producers of this country that the United States should do everything within its capacity to assist in righting the economic disorders of Europe. American industry sees no alternative.

The National Association of Manufacturers is convinced that it is to the advantage of this country to have a prosperous Europe. There has been much discussion about the threat of communism. The best way to prevent the spread of communism and other undesirable forms of political organization and activity is to encourage political and economic security for the peoples of the various nations of the world, and to demonstrate by example that the system of free, private, competitive enterprise and its democratic basis provides such security and well-being more efficiently.

I shall not address myself to any specific bill, because, as I understand, there are now two bills before this committee, both of which support the principles of the European recovery program. They differ on the way it is to be carried out.

Without question, it is the desire of all responsible citizens and organizations of this country to make the European recovery program effective and productive. The National Association of Manufacturers believes that the success of any recovery program authorized by this Congress will depend upon those conditions which shall be written into the final act, as well as the administration chosen.

The United States is the outstanding leader in the world for free, private enterprise.

Ironically enough, other countries practicing other economic theories come to us for aid and ask for the goods produced by our system.

We must take no action which will jeopardize any part of our own political and economic freedom. This great country was founded by people who insisted on personal freedom. On this freedom our economy has developed. We are convinced that this freedom contributes most to our great production. Therefore, we are only consistent when we do everything in our power to encourage free economies in other lands.

While it has always been our practice to help other peoples, we must be cautious that this help does not weaken the very economy which has been able to provide it, and which has proven its productive ability.

To insure the success of the European recovery program we must do everything to encourage production—production, and more production, is the key to the solution of the problem at home as well as abroad.

Greater production is necessary to meet not only our increased domestic demands but also to fulfill our stated objectives in the European recovery program and to lighten the potential inflationary impact which will result. The National Association of Manufacturers believes it would be entirely possible for the United States to pay for foreign economic aid by cutting other domestic expenditures, at the same time providing reasonable allowances for debt retirement and tax reduction. This will permit capital formation which is necessary for continued United States industrial efficiency. Should

capital formation be retarded, our ability to play a constructive role would be impaired.

As I see it, you gentlemen of Congress must be more vigilant than ever before to arrest the inflationary spiral which has already started in this country. The National Association of Manufacturers has developed an anti-inflation program which it would not be appropriate to discuss at this time and which I understand has been scheduled to be presented to your appropriations committee within a week.

Briefly, we believe we must cut Government spending, reduce individual income taxes, adopt a systematic plan for paying off the public debt, stop inflationary monetary expansion, permit interest rates to seek their own levels free of Government control, and take such other steps as are calculated to put our own economic house in order, so that we may—

- (1) Provide the amount of foreign aid the Congress approves;
- (2) maintain the standard of living of the American people; and
- (3) arrest the inflationary spiral.

In other words, gentlemen, since it is my feeling that the key to fulfillment of European aid is production, so it is that a sound and permanent remedy of our economic ills demands establishment of sound fiscal policies.

Patently, then, our first step is budget reduction of dimensions sufficient to make possible the necessary tax reduction, debt reduction, and foreign aid within the framework of a balanced budget. This gigantic program places a great strain on the American system. We must gird ourselves for it.

No European recovery program should be developed without stipulating specific conditions which should be agreed upon before economic aid is granted. The National Association of Manufacturers urges that mutuality should prevail in any aid agreement, and the time for complete frankness is before an agreement is made—not later. It must be emphasized that this country has already granted very substantial aid to some of these countries since the cessation of hostilities.

In country after country, production is being hindered because there is no medium of exchange acceptable to buyers and sellers alike. In country after country, starvation is taking place because those who have food which they would be willing to sell for sound currency are not willing to sell because of lack of faith in the present currency. Country after country have artificial currencies that have no relation to realities. This has resulted in low production which, in turn, has the effect of increasing the demand on the United States' production and decreasing the ability of other countries to export to the United States.

Therefore the National Association of Manufacturers recommends that "countries receiving economic aid from the United States should be required to adopt and enforce currency reforms which will restore international confidence and local purchasing power to their currencies, on the basis of stable exchange value in terms of a fixed standard, as an essential and integral part of their economic reconstruction.

In this connection, it may be observed that, unfortunately, countries with shattered economies cannot hope to enjoy the benefits of low interest rates. Attempts by government to control interest

rates interfere with the creation and productive investment of capital. Economic aid from the United States might be dissipated or diverted from its optimum use in countries which employ the cheap money philosophy as an instrument of government policy.

The National Association of Manufacturers further recommends that economic aid should not be given to countries which show no evidence of intent or reasonable prospect of balancing their budgets. Such budgets should be in harmony with the national income of each country and not an obstacle to reconstruction and prosperity.

Budgets should also be unified so that the precise financial status of each country can be conveniently and currently known to the organization which has the responsibility of administering American economic aid.

The need for currency reforms and balanced budgets must not be underestimated in any plan to increase the production of these recipient countries. And it must be understood that this trend must be started before any loans are pledged by this country.

This Government should not dominate or interfere in the political life of any other government. Furthermore, we have no desire to manage the economy of recipient countries. All of this would imply a responsibility which we should avoid. However, the recipient countries must make such reforms as are necessary to put their own economies on a sounder basis. Otherwise no amount of goods or money provided by us will achieve economic recovery in Europe.

For that reason, the National Association of Manufacturers recommends that as a condition of economic aid, the nations receiving such aid from the United States should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free private, competitive enterprise.

The National Association of Manufacturers is convinced that Europe should produce more and experiment less. Information is coming to us daily indicating that industries which have been nationalized recently are operating at a loss. We cannot afford to have our aid subsidize these losses. Again it is reported to us that the number of people in European government employ have increased out of all reasonable proportions. While we are making great efforts, with some success, in this country, to reduce Government employees, we must see to it that our aid is not used to increase government employment in the recipient countries.

Since, as I have stated, production is the key to the problem, I have confined myself to those conditions of economic aid which would have the effect of increasing production. Every effort should be made to make it clear to the governments and peoples of such countries that our whole program and effort in this direction is designed to increase their own productivity and to make possible an increasing standard of living.

For that reason, I should like it recorded that the manufacturers of this country heartily approve the proposal before you which provides for the dissemination by recipient countries of full and continuous publicity regarding the purpose, source, character, and amounts of aid furnished by the United States where such aid is not on the basis of commercial loans or normal commercial transactions.

The United States Government should emphatically inform countries to which aid is extended that it considers uneconomic the forma-

tion or operation of cartels of every description, both private and governmental.

The producers of this country believe that extension of economic aid should be scheduled on a basis which makes continuation of such aid dependent upon performance. This might mean, for example, that the first instalment of United States aid would be accompanied by a stipulation that, if the recipient country did not make specified usage of such aid during some designated period and accomplish certain specified results, further aid would not be forthcoming.

Performance should include satisfactory accomplishment under agreement to modify and eventually eliminate price controls and other controls over the internal production and distribution of commodities, with such modification and elimination to take place in the degree and at times considered by those charged with the administration of the European recovery program to facilitate increased production, trade, and consumption.

Now, a few words on the German situation.

Aid to western Europe and the United Kingdom cannot logically be considered separately from the German economic situation, since that represents to a large extent the industrial core of Europe, and its economic status as both a purchaser and seller has tremendous potential repercussions on the other countries of Europe. Any consideration of the economic restoration of Germany or any part of it should, however, be strictly based on the extent to which such economic reconstruction will promote the economic recovery of those countries eligible under the European recovery program.

Though we hope that there will eventually be a united Germany, the economic and other reconstruction of Germany must now be proceeded with on the basis that it is composed of two separate territories.

The level of industrial capacity in western Germany should be permitted and encouraged to rise to a point which will make it possible for German industry to make its contribution to the European recovery program. At the same time every precaution should be taken that German production be adequately supervised.

It is uneconomic to remove entire plants from western Germany to other nations. The loss and economic waste involved only in the time required is extremely great, to say nothing of the inevitable damage to both plants and equipment. The removal of these plants will of necessity result in the decrease of German production necessary for the success of the European recovery program and it will tend to disrupt the economy of western Europe composed of so many countries which customarily buy from and sell to each other.

This brings me to the administration of the European recovery program.

The organization for administering such economic aid as the United States may provide should not be any existing department or agency of the Federal Government, but a corporation which is created specifically for that purpose. However, the corporation should be in close liaison with all interested departments and agencies of Government.

We recommend that a nonpartisan board of directors be appointed by the President with the advice and consent of the Senate. Members of this board should be men of outstanding experience and recog-

nized leadership in the field of manufacturing, fuel, commerce, transportation, communication, finance, and agriculture, and they should be nominated by the President from lists submitted by representative national organizations competent in those respective fields.

In addition, the Secretary of State, Secretary of Commerce, and the head of the Export-Import Bank and perhaps the Secretary of the Interior might very well serve as ex-officio members of this board.

The board shall be presided over by a chairman appointed by the President and he shall be the chief administrator of the European recovery program. Other members need not be full-time employees.

This board should be directly responsible to the President, but should also be required to send detailed periodic reports of its activities and recommendations to the Secretary of the Senate and the Clerk of the House of Representatives, with a copy to the chairmen of the Appropriations Committees of the Senate and House.

These reports should be made not less frequently than on a quarterly basis.

The corporation's board of directors should be given all necessary powers to carry out the economic-aid program, including application of the following conditions, as well as authority to select its staff and appoint and remove administrators and other representatives in countries receiving such economic aid. This corporation could deal on a business basis with the countries receiving economic aid, and extend such aid on the basis of conditions which would protect American taxpayers on the one hand, and on the other accomplish rehabilitation within the countries which receive such economic aid.

In connection with the actual obtaining of goods to be used for reconstruction and recovery purposes in nations receiving American economic aid, all purchases, either in the United States or other countries, should so far as practicable be made by the United States organization, utilizing, however, private channels of both production and distribution in the United States and recipient countries.

A word about the cost.

The State Department has suggested a figure of \$6,800,000,000 for the first 15 months. No one else has the information to check this figure. Certainly we cannot say whether it is too much or too little.

The only position we can take, as experienced producers, is that the appropriations should be made on the not-to-exceed basis and expenditures should be limited to necessary aid.

The National Association of Manufacturers is convinced that the cost of the European recovery program will be much less if it is administered by a board well qualified through long experience in production and distribution.

In conclusion, may I say the National Association of Manufacturers recognizes in the foreign situation today the existence of a very real threat to America's welfare and security.

Under our recommended approach to this matter—which could be termed an incentive approach—the continuance of aid to eligible nations would depend upon the results achieved by them.

Certainly, if the American people are to provide the resources, they are justified in insisting upon performance.

There is always the problem of inflation which has already risen to uncomfortable heights in Europe. Should the inflationary spiral continue, disaster would be the result, and I am convinced the repercussions would be felt here in America.

The National Association of Manufacturers is all for the Marshall plan, provided proper safeguards are included.

Thank you very much.

Acting Chairman LODGE. Thank you very much, Mr. Schell, for your very interesting statement.

We have a sort of custom in the committee to start off with a 5-minute period, to allow each member to ask questions.

I will first call on Judge Kee.

Mr. KEE. Mr. Schell, I was very much interested in your statement. I think it was a very fine statement, indeed.

In looking over the list, however, that your statement contains, of the things which you believe the other participating countries should be required to do. I note that you have quite a number of items there. Some are conditions precedent to the aid and others are things that should be carried out during the time the aid is being received.

I just wondered if you have looked through what we call the administration bill, we have before us, and have noted a great number of the conditions set out by you are already covered in the bill?

Mr. SCHELL. I have examined the bill, Congressman, and I believe that these stipulations which we make are the practical answer to the economic administration of this bill.

Let me emphasize that we believe the Administrator of this bill should be prompted by purely economic and business points of view.

We believe that there are certainly very strong political implications which necessarily the Administrator in all probability would not be competent to deal with.

We believe that foreign policy, for instance, which emanates from the President, should come down through the Secretary of State and really be presented to the Administrator of the European recovery program. That would give him a foundation of foreign policy to operate within.

Then his practical application of his administration would be on purely economic grounds.

Mr. KEE. I take it you agree that if any part of the program affects foreign policy, you believe those problems should be solved by the Secretary of State, speaking for the President?

Mr. SCHELL. That is right. We believe that this board of directors with the Administrator would pass on all problems, that the Secretary of State along with the Secretaries of the other departments will sit with the board ex officio, but without vote; that they will have complete freedom in the meetings to express themselves. Any intelligent Administrator would invite and would want that. They certainly can and will, in my judgment, in a practical way, always work out their differences.

Should, however, they come into a problem that they really cannot agree on, the basis of which is foreign affairs, then in my judgment it must go to the President.

I do not foresee much of that.

Mr. KEE. Of course, that is a provision, to make the President the final arbiter of foreign policy.

You understand, Mr. Schell, that in making stipulations or conditions upon which we are furnishing this aid, it is relatively easy to make negative conditions. We can present conditions and stipulations of things these countries cannot do, but we run into difficulties

when we make a positive condition of things they must do as a condition to receiving this aid.

Whenever we impose a provision that requires legislative action on the part of these nations, we run into difficulties there.

Mr. SCHELL. We are obligating ourselves to things which we must do, too.

We have no desire to interfere with the economies of these countries. As I said before, the implication is very clear that we would be assuming the responsibility for the economic operation of those countries, which we must avoid. However, I must point out that these European countries are interfering very much with our economy and we would be doing much better if those countries could take care of themselves. Their interference with us is very pronounced. We must negotiate our problems with them, in purely an economic way, to fit within the established foreign policy which is set down by the President through the Secretary of State.

Mr. KEE. That is true but the need for this aid in Europe is very urgent at this time and if we impose a condition that requires positive action upon the part of their legislative body, before they receive this aid, we are going to run into difficulties and it may be months before they can get their parliaments to act.

Would it not be just as well if we impose the condition and get the agreement of these countries in advance that they will do these things, and furnish the aid in the interim?

Mr. SCHELL. I do agree with you. However, we are obligating ourselves positively and there is no contract in American law that would ever stand up if it did not have mutuality and we must keep our eye on that.

American businessmen have successfully done a lot of business with all countries in the world and I for one have confidence, and I am sure you gentlemen do, in their ability to negotiate on an economic basis and still keep their confidence. We must place in the hands of competent businessmen to carry out what seems to me to be a business contract. I think they will work that out.

Of course they want the good will of these people; they have always had it and they have earned it. I do not see any great difficulty in that.

Mr. KEE. I agree with you.

Acting Chairman LODGE. Mr. Jonkman.

Mr. JONKMAN. I would like to pursue that inquiry just a little further. It seems to me you have stated it very aptly on page 9 when you say:

It must be understood that this trend must be started before any loans are placed by this country.

We have had considerable discussion here as to which comes first, the hen or the egg. However, there is a feeling that either you must not give them anything until they put their house in order, or just the opposite.

What you say there is, there must be some definite steps in that direction; isn't that right?

Mr. SCHELL. That is right.

Mr. JONKMAN. So as to give a sense of guaranty that it is going to be done.

In that paragraph you speak particularly of currency reforms and balanced budgets.

Would you say, for instance, in the matter of France, the devaluation of the franc is a step in that direction and some guaranty of an intention to put their house in order?

Mr. SCHELL. Yes; I would, Congressman. I spent a good deal of my life in these countries and I know them reasonably well and I guess I have a foundation of sympathy which is broader than that of a great many other people who have not had that experience.

I was in France last year, and many of you gentlemen were, incidentally, too, and I was glad to see that you were.

Anyone who has been over there in the recent past, knows how ridiculous the official rate of the franc was. I certainly feel devaluation was a step in the right direction. My only question in connection with it is, whether it was done quite properly, and whether it was a method of circumventing the fund, and something which might embarrass the operation of the fund. I say that is a question.

Mr. JONKMAN. In order for me to fully understand what you mean by that, let me put a hypothetical case to you.

Last week, before the actual devaluation of the franc, there was of course, opposition from the United Kingdom, to that, and the claim was made some time after the step had been taken that France did it to gain commercial advantage in the export world. Would you feel that the opposition of Britain toward France might be because of this commercial advantage in foreign trade and that in that way it is not a sound step in the right direction, proceeding from the right sources?

Mr. SCHELL. Well, I do not exactly know what you mean. France is dependent on foreign trade and the thoroughly impractical rate of the franc just prohibited foreign trade.

The vintner in France today has plenty of wine but he would not sell the wine for francs because after he gets the francs and the period between, the francs lose value, and the wine has a more stable value.

If you want wine now, you have to go to the vintner and exchange the bottle because the bottle is very important to him.

Those are practical problems.

Certainly there is a ready market waiting for French wine in this country, as soon as there is a more realistic rate of exchange, so the vintner is willing to exchange his wine for something better.

When you get to the currency problem, it is my best judgment, Congressman, that the problem there is production. After all, they cannot eat this money. They cannot clothe themselves with it. They can't do anything with it. It is like a cigar coupon. If you have a lot of these coupons called money around and you do not have the production to exchange them for, it will naturally result in inflation, so we must get production going.

Mr. JONKMAN. The premise upon which the Marshall plan is based is self-help and mutual help, related to each other.

Was the attitude of England and France, in this franc matter, one of self-help, and mutual help, or was it still the old struggle for economic advantage?

Mr. SCHELL. It was obviously not mutual. That is what I pointed out. If it had operated under the fund, then I think there would have been a general devaluation. I don't know whether the devaluation is going to succeed in the long run, although I consider it a good measure.

Let us go back a few years to the functioning of the reciprocal trade agreements. If we look into the record of that we find that in practically every case where a reciprocal trade agreement was completed, that within a matter of days and weeks, each country and practically every country without exception devalued its currency, to give themselves an advantage, which the other country did a week later.

We all know how Hitler's Germany set up some 28 different valuations for the mark, until it was so complicated that no one could follow it. That was all currency manipulation. We must get that straightened out, and it is not easy. The fund is the first international attempt to do it.

Mr. JONKMAN. We should not be too complacent about accomplishing through the Marshall plan in a year or two that which has not been accomplished during hundreds of years.

Mr. SCHELL. That is right.

Acting Chairman LODGE. Mr. Jarman.

Mr. JARMAN. I am glad Judge Kee asked you about the connection of the State Department with this program because I evidently misunderstood your statement. I gained the impression that this new bureau that you suggest was to function entirely independently of the State Department. It would have a group in each country, would have no connection with our embassy and they would be two different representatives of our country.

I believe from your answer to Judge Kee, that I was mistaken in that.

Mr. SCHELL. You are, and you are not. I will try to clarify it again, Congressman, if I may.

It should not be a bureau, it should be a corporation. It should operate completely independent of the State Department on all economic matters. However, it should operate with the advice of the State Department, and if any of its approaches in any way would embarrass our foreign policy, which the State Department is protector of, then the State Department must come in and discuss the thing. If they cannot compromise their differences, they go to the President.

Insofar as the important detailed operation is concerned, as I see it, in foreign countries, I believe that ERP should have its own office representation with the embassy or with the mission and certainly they, both having the same broad interests, would work very well together.

Businessmen are accustomed to doing that and I anticipate no problems at all. Businessmen would certainly lean on the embassies for their political views and there is a great amount of political implication in these things of which we are thoroughly aware.

We do not believe necessarily that political competence would rest in the Administrator at all. Therefore, we believe he should have nothing to do with it.

Mr. JARMAN. The Administrator should have nothing to do with what?

Mr. SCHELL. With the political affairs.

Mr. JARMAN. He would look largely to the State Department for that phase of it?

Mr. SCHELL. That is right.

Mr. JARMAN. I find myself in agreement with nearly all of the desirable recommendations for improvements that you make in those

countries. I also find myself in agreement with your statement to the effect that the American welfare and security is concerned. I feel we have much more than a humanitarian stake in this thing. I mean, we are looking out for ourselves, as well as toward doing some good for those countries.

You probably would disagree with my fear of the danger that some of your suggestions might slow down the progress of the program to such an extent that Europe would crash, be dominated by communism, and if that should happen, would we not be in a better position if we did not require so many improvements?

Mr. SCHELL. There is a danger in almost all of those things you have put in your statement. There is no question about it.

My own feeling is, through experience in those countries, you must be very definite with them in your negotiations. These things in my judgment are all very desirable and should if possible be actually written into the bill. I have had a lot of experience negotiating with people over there and I know of the impracticability of a great many of those things in stipulating it beforehand, too hard-bound. However, I believe the key to this problem is selecting the proper Administrator with his advisers.

Mr. JARMAN. I thoroughly agree with you on that.

Mr. SCHELL. I have confidence in the American businessman to the extent that he can properly negotiate, because he has in the past properly negotiated and he has come out pretty well. I will place my confidence in him. He is in there on an economic basis and he will come out all right. I am not afraid of that.

Mr. JARMAN. I am in thorough accord with that.

Acting Chairman LODGE. Mr. Javits.

Mr. JAVITS. Mr. Schell, the motivation of this program being to restore European production to something in excess of 150 percent of 1939, do you see any threat to the American businessman, if we are successful?

Mr. SCHELL. No. After all, all our economies have risen tremendously. The world is progressing. There is no question of restoration over there. As you point out, you must go beyond it. You mentioned 150 as the figure. I don't know whether you mean that.

Mr. JAVITS. Of course, that varies.

Do you think we will have undue competition in the export market of the world if Europe is restored to the extent mentioned?

Mr. SCHELL. We are not afraid of competition. They are. That is why they have cartels. That is what has made American industry keen. That is why American industry can and does produce more than industry in any other country. Competition is the answer to it.

Mr. JAVITS. Do you think that marks a rather radical change in the world's economics, that the United States no longer feels it needs protection, but the Europeans feel they need it?

Mr. SCHELL. The United States does not fear competition but I did not say we did not need protection. That suggests a rather complicated tariff discussion which purely as a timesaver we should avoid I believe.

Mr. JAVITS. You feel we need have no fear of competing in the export markets with that restoration of European production?

Mr. SCHELL. Not at all.

Mr. JAVITS. Do you regard the International Trade Organization as an essential part of the European recovery program?

I noticed what you said about the NAM being in favor of that.

Mr. SCHELL. I am very much in favor of the International Trade Organization but to give you my own opinion of that, I think it has to progress slowly. I have been rather close to it. It is a tremendously complicated affair. I believe that it will accomplish a great deal over a long period of time and the greatest benefits that we will derive in the foreseeable future, are the benefits of sitting around a table, discussing our problems. However, I do not think we should come to a lot of specific conclusions for a while.

Mr. JAVITS. Do you feel it is necessary, in order to have some success with a European recovery program.

Mr. SCHELL. I think it would help a great amount, to continue.

Mr. JAVITS. I note what you say with respect to a commitment that the foreign countries will not undertake further nationalization programs. I ask you whether you would include in that, programs for the large-scale development of power, such as the French are now contemplating?

Mr. SCHELL. Of course, we industrialists in the United States believe in free private enterprise and we believe nothing should be nationalized. We have some nationalized power in this country, but we have the great majority of it in private hands. We believe and are convinced that it is far better to keep government out of active business, and to leave it to free competitive enterprise.

Mr. JAVITS. Would you have any suggestion for them if they would say, and it should appear, that they couldn't get private enterprise to undertake such a broad-scale project in that country? What could we recommend in its place?

Mr. SCHELL. I think again the businessmen of this ERP Administration that I set up, could give them very good information on that. I am convinced that there would be forthcoming from the United States, a great amount of investment willing to go over there. I refer to private investment. That is, as soon as they get their economies in some shape. We have proven that. We have private investments in other countries. I believe the American businessman is the first one to do that.

Mr. JAVITS. However, would our minds be open on that subject? In other words, we would not keep these countries from undertaking something they needed for their economies because it was just impossible to do it in the exact way we wanted it done?

Mr. SCHELL. Mr. Congressman, my experience with businessmen is that their minds are always open on every subject.

Acting Chairman LODGE. Mr. Gordon.

Mr. GORDON. Thank you very much for your statement and your views.

I have no questions, Mr. Chairman.

Acting Chairman LODGE. I would like to ask you a question or two, Mr. Schell.

On page 2, your recommendation 5, at the bottom of the page, states that the countries refrain from exporting products received under the program, and from exporting identical products produced domestically.

That raises a very interesting and complex question for two specific reasons. In the first place, it is my hope and I believe it is the hope

of many other people, that when western Europe has built up capital-goods surpluses, the agricultural surpluses of eastern Europe when they are built up will come and get those capital-goods surpluses, and in spite of the "iron curtain," a healthy restoration of trade can be achieved. ERP will have a much smaller chance of success unless that is true.

The British have negotiated an agreement with the Russians, providing for the exchange of wheat for capital goods. Would it be your intention that we could not replace those capital goods which the British deliver to the Russians or would you say that would be all right in that case, since the Russian delivery of wheat relieves us of the burden of providing more wheat, and we are in short supply of wheat?

My question is a double-barreled question; first, the general aspect of it, and secondly, the more specific aspect of it.

I would like to have your comment on that.

Mr. SCHELL. Mr. Chairman, in the first place, this paragraph means that we should not send over to England, let us say, a specific item which they would take and move to another country. We believe that that would be confusing, in taking out from our hands the actual negotiations because it is natural to suppose that we could have traded that article to that other country ourselves.

This "iron curtain" is a very interesting problem. To any student of the economies of Europe, it seems to me that it is perfectly obvious that Russia has carefully set up a division which is popularly known as the "iron curtain," between the east and the west. The east is the bread basket or food-producing area; the west is the industrial area.

The east has practically no industry. The west has practically no food.

Only one country, France, with the help of north Africa, can feed itself.

Germany had very little food and what she did have was in east Prussia, which has been amputated. So very carefully you will see that the division has been on the basis of food and industry.

I am a great believer in fundamental economics having their way, let us say, in spite of us.

Acting Chairman LODGE. Would you call yourself an advocate of *laissez faire*?

Mr. SCHELL. No, indeed not. I am not for *laissez faire*, at all.

I feel that if a fellow stands on the eastern border line with four ham sandwiches and a fellow on the other side has four hats, and the two would like to make a trade, they are going to make a trade and I do not think anything is going to stop them.

Now, this "iron curtain" affair brings this thought to my mind. I was very much in favor of the approval that came out yesterday on the "radio front," or whatever you call it, used in disseminating our information.

I think it would be a good idea to take about 50 B-29 bombers and go over every thickly-settled part of Russia, and dump tons of Sears Roebuck catalogs down to them.

I think that would be the greatest thing in the world for them.

Acting Chairman LODGE. May I say, Mr. Schell, that 1 and 2 of my colleagues here as members of the Mundt committee, will certainly consider that suggestion.

Mr. SCHELL. It seems to me a perfectly proper way of showing what available production is.

Acting Chairman LODGE. I was anxious, Mr. Schell, to raise this question. I sympathize with the preoccupation which you express in this particular paragraph, but I am inclined to think that if we were to interpret that as you have stated it, we might very well be handicapping ourselves and preventing what we, in fact, wish to accomplish. I am sure you will agree that one of the many causes which has brought Europe to its present prostration is the fact that they can no longer draw on the breadbasket of eastern Europe as they did.

Mr. SCHELL. I think we have a lot of things eastern Europe wants and if we trade intelligently we will come out all right. I have confidence in our traders if we select the right ones.

Acting Chairman LODGE. Do I understand that you would encourage the nations participating in the European recovery program, to trade their capital goods surpluses for the agricultural surpluses of eastern Europe, even though it would mean in the end—perhaps through substitution—an additional drain on our capital goods in this country? Would you subscribe to that?

Mr. SCHELL. The drain on our own capital goods in this country is set up by the limitations of the plan itself and those limitations will have to apply.

Acting Chairman LODGE. There is no obligation to spend the full amount.

Mr. SCHELL. No, indeed not.

Fundamentally, Mr. Chairman, it is a matter of foreign policy as established here today, as I understand it, that we are very much against bilateral agreements. We are for multilateral agreements. Unfortunately, there has been a maze of bilateral agreements going on all through Europe.

I was in Sweden when Sweden was negotiating with Russia, in the Russia-Sweden agreement, which of course was a bilateral agreement. However, definite and specific articles which we send to any of these countries in my judgment should not be traded out to other countries.

If, on the other hand, the Administrator—if this is set up as an economic and business administration—sees it wise in specific cases to have it done, I would feel he had good reason to do it.

Acting Chairman LODGE. If you had confidence in the Administrator, you would not write this in the legislation?

Mr. SCHELL. I do not believe so. I think these things must be accomplished through good negotiation. That is why I think it is so important for us to see that we do carefully choose the Administrator and his board.

Acting Chairman LODGE. I agree with you.

Thank you very much.

Judge Kee.

Mr. KEE. Returning to the question we were discussing a moment ago with reference to the stipulation you advise be placed in the agreement or, according to your statement, there should be changes in the governments over there before this aid is granted.

I notice you have 11 stipulations, beginning on page 2.

A while ago, I mentioned that some of these were provided for in the bill we now have under consideration.

As a matter of fact, there is only one bill providing for this program. That is what we call the administration measure, while the Herter bill merely provides for the administration of the program.

In the administration bill there are certain stipulations laid down, I think eight in number, providing for bilateral agreements to be entered into between the Administrator of the program and the various participating countries, before this aid is proffered.

The bill, I think, provides for most of the stipulations that you have here.

I think if you will read the bill carefully, you will find that the other suggestions you make can be arranged and put into the agreements bilaterally between the Administrator and these various countries. That is, where these countries cannot make the necessary changes by legislation of their parliaments, they will agree to make them, not pending the granting of this relief, but while they are receiving the relief.

Would that be satisfactory to you, do you think, to include those in the agreements?

Mr. SCHELL. As I have said, Mr. Congressman, if we choose businessmen who have had vast experience in negotiating their own business agreements there, and as I conceive this to be a business agreement, I see no reason why these fellows should come out second. I have confidence in them. I think they will do all right and I think they are going to explain these things very thoroughly and get good quid pro quo in their negotiations and agreements.

The protection they will have is definite performance. We have to start this thing off possibly with less in the way of assurances than we would want, other than with the results of their convictions of our arguments. However, after it gets going, we will have production goals which they will have to meet, I hope, and unless there is some real reason that had not been expected or anticipated and they do not make their production goals, then I think that the Administrator is going to say, "Well, now, we better get together and talk about country A, whether we will continue with them."

That is the time unquestionably that the State Department will contribute a lot from their point of view, whether there are other than economic reasons as to whether help should be continued.

Mr. KEE. That very action is contemplated in the measure. It provides for observation on the part of the agency of the United States Government and full reports of the performance under this act.

Mr. SCHELL. That is perfectly true but the big difference between our proposal and the proposal of the administration, we do have a board of directors of businessmen, per se, whereas the administration provides an advisory group including representatives of Government departments.

Acting Chairman LODGE. Will the gentleman yield?

Mr. KEE. Certainly.

Acting Chairman LODGE. I was going to ask you, Mr. Kee, whether you feel absolutely sure that the so-called Herter bill is nothing but an instrumentality bill, or whether it is not in fact a substitute for the administration proposal?

Mr. KEE. As far as the administration of the program is concerned, it is a substitute suggestion.

Acting Chairman LODGE. It covers the same field, only from a different approach.

Mr. KEE. As far as administration is concerned, it covers a different field.

Acting Chairman LODGE. You feel that it is just an instrumentality bill?

Mr. KEE. That is right. It does not cover the program itself at all, only the administration.

Mr. SCHELL. It seems to me that the economic problem is the real one in the administration, subject to the foreign policy set down by the President, through the Secretary of State.

Therefore we should reach out, in my judgment, for our best competency in business administration, which I further believe rests with industry.

Conversely, I feel that the administration, insofar as the political problems are concerned on foreign policy, the competency there rests with the State Department and with other branches of the Government. Therefore, I think they should control, insofar as foreign policy is concerned.

Mr. KEE. Then it is your opinion that as far as the execution of the program is concerned, the questions regarding foreign policy of this country must be taken through the Secretary of State to the President?

Mr. SCHELL. That is right. However, I feel the program will fail unless we have good businessmen operating the economic part of it and that is what we are trying to emphasize.

Mr. KEE. I get your idea there.

Now, specifically you are recommending the formation of a corporation; is that not true?

Mr. SCHELL. Yes, sir.

Mr. KEE. And have it chartered with all the powers of a corporation?

Mr. SCHELL. Yes, sir.

Mr. KEE. And not an independent agency of the Government?

Mr. SCHELL. No, sir.

Mr. KEE. Would you comment upon your reasons for having this instrumentality of administration, a corporation, instead of making it an independent agency of the Government, and letting Congress give it the necessary flexibility?

Mr. SCHELL. The reason we believe in having a straight corporation—which would be, of course, a Government corporation—is that we believe the administration is thoroughly an economic problem and that we should bring into that, businessmen who are accustomed to that type of negotiation. We believe that the competency rests there and we believe they are the ones who can make the administration of the ERP economically a success.

Mr. KEE. How many men would you have on its directorate?

Mr. SCHELL. I would suggest seven, representing the various branches of our economy. That is a flexible rule. You might want to add to that also. I have suggested also that there be representatives of the Secretary of State, the Secretary of Commerce, the Chairman of the Export-Import Bank, and in all probability, the Department of the Interior, as advisors, sitting on the Board without vote.

Mr. KEE. The seven Directors would be the voting section of the body?

Mr. SCHELL. That is right.

Mr. KEE. Would you make that corporation the policy-making body, as to the actual duration of the relief?

Mr. SCHELL. Oh, yes. Of course, it would be under instruction from the Congress, which will come through the bill. Anything having to do with economics, I would give them broad powers. I would recommend that.

In the last analysis, the bill that does come from the Congress will describe and circumscribe their powers.

Mr. KEE. Then your proposition includes making this Board of Directors the policy-making body in all things with the exception of questions involving foreign policy?

Mr. SCHELL. Yes, under the limitations of the act; yes, sir.

Mr. KEE. I think that is all, sir.

Acting Chairman LODGE. Mr. Jonkman.

Mr. JONKMAN. Mr. Schell, I would like to go a little further into your statements on page 10. It seems to me we will have to have a definite foreign policy there, which we have not had for a long time, or admit a contradiction.

In the second full paragraph you say:

This Government should not dominate or interfere in the political life of any other government. Furthermore, we have no desire to manage the economy. All of this would imply a responsibility which we should avoid. However, the recipient countries must make such reforms as are necessary to put their own economies on a more sound basis. Otherwise, no amount of goods or money provided by us will achieve economic recovery in Europe.

I am in full accord with that paragraph.

For that reason, the NAM recommends that as a condition of economic aid, the nations receiving such aid from the United States should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free private competing enterprise.

Now, one of the participating countries is going to receive just exactly one-fourth of this \$6,800,000,000, or in fact just a fraction more. It is \$1,720,000,000.

That country has embarked on a program of nationalization of industry policy. They have it under what they call the government there. We would call it the administration here.

Are you not vetoing the entire policy of that government with that condition and are we not getting ourselves into a difficult situation? In other words, are we prepared to carry that out and say, "No aid to any country that proceeds with nationalization of industry?"

What is your comment on that?

Mr. SCHELL. Well, Congressman, I do not think we are getting ourselves into any difficult problem. I think we are in one. I think we must leave it to these negotiators to go over there and try to sell them. I think the Americans are reasonably good salesmen. We must sell them on the idea that we are not getting our production in that way. We must urge them to stop what they are doing.

They have had little experience with this nationalization program because it has just been put into effect, and certainly they have not increased their production as a result of it.

England, to be specific, has increased her coal production from the low production of postwar. However, their coal production is not nearly up to the prewar production.

I believe that through negotiation, we have to impress our philosophies on them. However, in the last analysis, they will follow what they think best for themselves.

Let me reemphasize, however, what I said before: Production is the answer to this, and I am convinced that your negotiators, representing the United States, would set a production goal to be reached. If they reached it with their nationalization, well and good. We do not have that confidence.

If they do not reach it, then would be the time when your Administrator would get his Board together and discuss the problem of this country, and then naturally would discuss with the Secretary that if there are any other reasons to continue this, that is fine, but the economic reasons are now exhausted.

Mr. JONKMAN. I agree with your line of reasoning but are you not receding from your position that they should not undertake further nationalization programs or initiate projects which have the effect of destroying or impairing free, private competitive enterprise?

Are we prepared to carry that out, or should we be?

Mr. SCHELL. Yes; if the results do not deliver the production we anticipate and which will be a part of our contract, then if their results do not produce, then I think we should carry it out. In my judgment, this will be the reason. They may not think so but I am convinced that it will be the reason. I personally do not think you can produce under that and I think I voice pretty generally the conviction of the American manufacturer, that you cannot produce through nationalization.

Mr. JONKMAN. If we project that idea, are we not saying we are with the Conservatives and not with the Labor Party?

Mr. SCHELL. We want to change it, but we do not necessarily make it a definite condition of the agreement. We proceed with that, Mr. Congressman, by setting up our production goal. If they do produce under their nationalization program, that is fine. We are convinced that they will not.

Mr. JONKMAN. Mr. Schell, the point I am making is, when we start on a definite policy, the moment we find our policy is not being complied with, will we say, "We quit."?

Take in the Greek-Turkey loan agreement, a definite policy was announced, pertaining to Russia, yet in the Marshall plan we do just the opposite. We tell Russia, "You may come in if you want to and we will give you anything you want."

Mr. SCHELL. I believe that we should have production again as a yardstick. The whole problem to me is a matter of production and it does not matter to us how that production comes. If it comes through communism—and I for one hope Russia will produce—

Mr. JONKMAN (interposing). That is true if production was the whole answer but production is not the whole answer. I tried to state here the other day that the malady in Europe is commonly called a shortage of dollars. That has been analyzed as an excess of imports or exports. In other words, that they must be able to increase their exports and decrease their imports or bring them into balance.

Even if they had production in France, which they have not, because of price control they would still have to have this currency equalization in order to be able to export because under their present system they have to charge twice as much for their exports in dollars, which puts them out of the market.

There is another element that enters in. Then we will say, "Well, go ahead and nationalize. We will put our money in just the same."

Mr. SCHELL. I do not mean to infer that I encourage nationalization. It is quite the opposite.

On the other hand, we do not want to run their economies, because as I pointed out we do not want to take the responsibility of it, and we should avoid that.

We should be very careful that we set up a production goal which must be reached in order to get the part of the relief which is next coming.

It seems very simple to me to liken it to borrowing in the building of a house. When you make a loan to build a house, you get so much when the first floor is completed, so much for the second, so much when the roof is on, so much when the plumbing is in, and so on.

When you get the second story completed, you get your second payment and if you went then and tried to get the third payment, the bank will say, "Is the roof on?"

He will say, "No."

The bank will say, "Well, you come around when it is."

If you do it like that, and they can meet those goals under nationalization, let them do it. They will be satisfying us and we will not be interfering with them.

On the other hand, we will be encouraging them and exposing to them the way this production we are giving them or helping them with, has come about under our economy.

Mr. JONKMAN. You say "unless the nationalization programs produce more than the competitive free enterprise will do," when you know it can't.

Mr. SCHELL. I think from my testimony here, you know broadly how we mean it.

Mr. JONKMAN. I believe so, yes.

Mr. SCHELL. We should say, "You shall produce, regardless of how you do it. We think you are making a mistake in nationalizing and we will tell you why."

Their prerogative is to run their own country and if they still choose to nationalize and they do not produce in accordance with the stipulated schedule, then they are going to forego our further aid.

Mr. JONKMAN. I do not think we can get away from it and with that I will conclude the questioning. I do not think we can get away from the fact that we are, if we pursue that policy, taking away the basis of the entire present government in that country at the present time.

Mr. SCHELL. We do not quite agree on that, Congressman.

Mr. JONKMAN. Thank you very much.

Acting Chairman LODGE. Mr. Jarman.

Mr. JARMAN. It so happens that I see eye to eye with both of them. There is not anybody in this room, even you, Mr. Schell, who has less regard for nationalization than I do, I am sure. Yet I share the doubt expressed by my colleague down there.

Mr. JONKMAN. Will the gentleman yield to me?

Mr. JARMAN. Yes.

Mr. JONKMAN. You cannot look in two directions with those two eyes that you have.

Mr. JARMAN. I do not believe one particle in nationalization yet I share your doubt in carrying out what Mr. Schell suggested. I mean

I share your doubt as to whether it is to the best interests of this program to do it, under the present world conditions that we in this country did not have anything to do with; that is, as far as nationalization is concerned.

Mr. JONKMAN. It should be a matter of conversation and conciliation and reconciliation.

Mr. JARMAN. I agree with that, too.

Mr. SCHELL. It seems to me perfectly clear, however, that you have the protection of the stipulated production goal, and whereas you may warn them that in your conviction and your experience they will not achieve this goal under their nationalized program, that in the last analysis, when and if they do not reach their goal, then the aid will be withdrawn.

I think that is the protection which we need and on the other hand it takes us away from the responsibility to undertake to dictate to them how they should run their governments.

Mr. JARMAN. In other words, if they can do it under nationalization, that is all right.

Mr. SCHELL. That is all right, but I do not believe they will.

Mr. KEE. If they reach their goal, it should not matter to us which road they take.

Mr. SCHELL. It would not. I am for a strong Europe and I am for a strong Russia, if you can do anything with it.

Mr. JARMAN. You are for a strong Europe. You just said "business wants a strong Europe," and I certainly agree thoroughly with that, and I heartily share your confidence in American business, too, although I have not had nearly the experience in it that you have.

Now, this statement about your confidence in the businessman trading behind the "iron curtain," do we have much trade behind the "iron curtain" now?

Mr. SCHELL. Yes; we do have considerable trading. There are still some shipments going on. Amtorg has a purchasing department here and they buy. Of course, there are certain restrictions that have not been lifted since the war, and I think that our American businessmen have come out reasonably well on that.

Another reason, outside of any emotional or sympathetic reason I have for seeing these countries strong: After all, we are looking for foreign trade and we want strong customers. Everybody wants his customers strong enough to buy well from him and pay his bills.

Mr. JARMAN. If the "iron curtain" proceeds across the rest of Europe, what effect would that have on our trade?

Mr. SCHELL. As I have said, I have been over there a lot in the last few years and I have had a reasonably good background of many years of knowing those people, and so on.

Mr. JARMAN. That is the reason I am asking this information. I wanted to get your ideas.

Mr. SCHELL. Well, it is only my opinion.

Mr. JARMAN. I understand, but it is a competent one.

Mr. SCHELL. I am one who believes that this so-called communistic surge in these countries is very much exaggerated. I remind you that in every country where there was a free election, communism went down the other way. That is the first point.

The second point is, I have sort of a conviction that most of this labeled communistic strength or weakness over in Europe is really one of these "agin the Government" moves.

The instability of European governments is the most pronounced thing today that I can think of. We do not have a stable government in all of Europe, not one. With all due respect to our good French friends, every time anyone has a new idea in France, he starts a new political party. I think they are suffering from that. There is no place where political confusion does not exist.

Mr. JARMAN. Has there been a free election behind the "iron curtain"?

Mr. SCHELL. No; not behind the "iron curtain"; no.

I think you had one in Hungary and that went very much against communism, but they took over anyway. That was a matter of force.

Mr. JARMAN. It was just before the "iron curtain" surrounded the country.

You meant the elections outside the "iron curtain"?

Mr. SCHELL. Yes.

Mr. JARMAN. With your background and as a businessman, I would like to have your opinion on this: Several of us visited six countries behind the "iron curtain." If you meant that the main trouble with the Communists in the "iron curtain" countries was unrest with the government, I cannot agree with you. There is a natural reason for that unrest, but I think the NKVD is the one thing that produces communism more than unrest, behind the "iron curtain."

Mr. SCHELL. I am afraid we in our free economy, live in a sort of a goldfish bowl. We are open for anyone to examine it. We are dependent upon statements made by high Government officials to learn about the Russian economy. From that statement we must believe, or at least we have been told that Russia's economy is far more productive than our economy, yet we find ours is in the peculiar position of being called upon to supply the production for other countries, including Russia.

There has been built up over a period of years, in my judgment, a philosophy which has no logic and which is very confusing.

I am a member of the International Labor Organization, representing the American employer. I attended the conference in Brussels last year. I had been going around to many countries, talking on free private enterprise, as we in industry in America see it.

I spoke to a large meeting in Brussels of industrialists and they were good enough to invite the 22 nations that attended the International Labor Organization conference, and as you know that is composed of representatives of labor, government, and employers.

It gave me a pretty good audience to talk to regarding private enterprise.

My major impact on that discussion, of course, as I think I have said before, was the criticism of the cartel.

We are so convinced in industry in this country that if there is anything that will defeat free private enterprise, it is the cartel. A lot of people don't think industry thinks that way but industry is convinced of that.

That, of course, was the major push of my discussion.

After I had finished, a representative of the joint cartels asked a question which really was a defense of their whole approach and it lasted for about 30 minutes. I attempted to answer it as best I could.

Then there were some other questions.

Then the ex-Prime Minister asked me the following question. This is a question from a responsible man and a serious question. He said to me:

Mr. Schell, when you in America have your next depression, how are you going to help us Belgian people?

Now, that is a startling question to have a responsible man ask you.

Now, the implication is perfectly clear, that the taxpayer's money in Fairfield, Conn., belongs in part to the people of Belgium. I am sure he would be insulted if I ever suggested to him that the taxpayer's money in Belgium belonged to the taxpayer in Fairfield.

I answered him. I said, "Mr. Prime Minister, I have been going around through these countries talking free private enterprise for some time. I am an industrialist and I am certainly not going around heralding and forecasting depressions. We American industrialists do not think depressions are necessary. However, if one overtakes us, I am so convinced that the American people are going to be busy trying to get themselves straightened out, that they are going to have little time to take care of a lot of their friends in Europe."

That was the best answer I could think of.

The astounding thing is the honesty of his question and the fact that he was a responsible man. I think that our practices in not really rigidly writing business contracts based on economics, that this is the result of it.

That is why I would like to again emphasize that I think it is so important that the operative end of ERP, the economic end of it, be handled by competent businessmen who have had lots of training and experience in international contracts.

Mr. JARMAN. I believe everyone around this table thoroughly agrees with that, and not only do I agree with you, I believe that no matter which bill we pass, I believe that will happen, too.

That is all, Mr. Chairman.

Acting Chairman LODGE. Do you believe that this legislation should contain a provision that the agreements to be entered into should provide that when certain specified goals are not met, aid will not continue to be forthcoming?

Mr. SCHELL. On economic grounds; yes. I believe that should be. I do not know how you legislators would handle that. However, I would then yield to the over-all important foreign policy.

Acting Chairman LODGE. You do believe that we should provide in the agreements that unless they reach certain production goals, further aid will not be forthcoming?

Mr. SCHELL. That is right.

Acting Chairman LODGE. Suppose a certain country fails to meet a certain production goal but in spite of that it is felt at that time that it is still to our benefit not to allow that country to sink, would not such a provision bind us to do something which might be to our own detriment?

Mr. SCHELL. No; I think I have covered that, Mr. Chairman, when I said that from an economic point of view the Administrator would say, "No; we must stop."

Then the State Department and the President would come in on the political implications and make the over-all decision as to whether it fitted in with our foreign policy.

Acting Chairman LODGE. Would you try to make it a binding matter in the agreement?

Mr. SCHELL. I do not know legislatively how you would handle that. You legislative experts must find a way.

Mr. JAVITS. Would the gentleman yield for a question?

Acting Chairman LODGE. Certainly.

Mr. JAVITS. You certainly would agree, then, that we should proceed, if production goals were not obtained, aid would not be forthcoming?

Mr. SCHELL. Yes.

Acting Chairman LODGE. That would necessarily obtain.

Mr. JAVITS. Not unless we gave ourselves the option to terminate.

Mr. SCHELL. I think we must realize there are very complicated political implications here and that there may be a very good reason why the President of the United States in the final analysis would say that for furtherance of our established foreign policy we must go on somewhat longer, in which case the Administrator would go on.

Acting Chairman LODGE. The point I have been trying to bring out, and I believe Mr. Javits as a lawyer will be sympathetic with my point, is that we will not want to write things into the agreement which might later operate to our detriment.

We should make these things permissive rather than mandatory because it is hard to foresee what the circumstances might be at that time.

Although we might decide that there are certain conditions which are indispensable to success, there are others which are simply desirable and helpful but if they are not met it might nevertheless be better for us to keep on with the aid.

I think you agree with that, do you not?

Mr. SCHELL. I thoroughly agree with you, Mr. Chairman.

Mr. JAVITS. Accepting the desirability that production and therefore technical assistance from the United States is the big consideration, will you tell us to what extent you believe American industry would cooperate by affording for the use of this corporation, or Administrator, top-notch industrial and technical brains and how we could go about getting and soliciting that kind of aid in this program?

Mr. SCHELL. I am convinced that American industry will make available the top-notch people. American industry has a great deal at stake and it has the necessary competency.

When I agreed with the chairman a moment ago on writing this bill so it might not in any way embarrass us politically in the final analysis, I wanted to add to that that the whole problem as I see it is to get the proper administration. It must be top-notch administration. It is a gigantic test to properly negotiate.

American industry recognizes that and I am sure they will make available the proper men.

Mr. JAVITS. Will they make them available on a dollar-a-year basis or will they also be available if the men go on salary?

You remember the WPB in that regard. What do you recommend along that line?

Mr. SCHELL. Mr. Javits, I think you gentlemen should be careful in writing the bill, that you keep that door wide open. That varies so much with the individual. You do not want to rule out a man because he cannot afford to work for a dollar a year.

His corporation for some reason that I cannot foresee may not be willing or may not be able to afford to continue his remuneration. They might do it in part.

Therefore, it would seem to me we would have to get the administration we want and get it the best way we know how and I would certainly bait it out with the necessary pay to attract the men we want.

This think is so big that I would let nothing stand in its way.

Mr. JAVITS. You would be opposed to forbidding dollar-a-year men?

Mr. SCHELL. Absolutely.

Mr. JAVITS. Do you feel there is anything to the argument that those men whom you hire at only a dollar a year and who continue to draw a salary from their corporation have allegiance to their corporations that carries over into their work?

Mr. SCHELL. I do not feel that will be true of the type and scale of men we will get for this. I do not worry about that.

Mr. JAVITS. Do you think there is some figure we ought to set for the top man here, whatever he is called, which would exceed the \$15,000 or \$18,000 a year level? Do you think we ought to set a salary of \$50,000? Do you think that makes any difference in getting the best man?

Mr. SCHELL. I don't believe I would set it at any extravagant figure.

Mr. JAVITS. What would you suggest?

Mr. SCHELL. \$25,000, and if he needs supplementary aid, he can get it from his own connections and possibly he would have some himself.

After all, this is a patriotic duty, and I certainly think that industry, in speaking broadly, has such a tremendous interest that they are, just for pure economic reasons, aside from the patriotic reasons, going to come forward with their best.

We have never undertaken anything in my judgment as important as this and it must be administered by competent people.

Mr. JAVITS. At the foot of page 11, I see you make a statement about the dismantling of the German plants. You say that it is uneconomic to remove entire plants from western Germany to other nations.

We happen to be very much concerned with that program, Mr. Schell. I am wondering whether you have, in the National Manufacturers Association, any economic analysis of that, based on detail? If so, I would much appreciate your submitting it to us. It would be an analysis which would bear out in facts, that opinion.

Mr. SCHELL. I will see what I can give you on it, Mr. Javits. I will have to ask the staff, to see what they have.

You must understand, the National Manufacturers Association is not a full-time job with us. I was very much amused the other day when I saw a release on my appearance here, which described me in my connection with the National Manufacturers Association, and also president of Sidney Blumenthal.

I was surprised because I spend very little time in NAM.

Mr. JAVITS. Will you try to get that information?

Mr. SCHELL. Yes.

Mr. JAVITS. When Mr. Philip Reed testified here yesterday, we asked him about that part of the Administration's bill, which is before us, which deals with guaranties to American industry which

make investments in any of the countries we propose to aid under the European Recovery Program.

Are you familiar with that section of the bill?

Mr. SCHELL. Yes.

Mr. JAVITS. What I would like to know is what you people think about that and whether you have any more specific ideas on how it can be accomplished?

Mr. SCHELL. Mr. Javits, I cannot speak for the NAM on this because they have never made a study on it.

I have personally discussed this for some years. One of the biggest problems in doing foreign business is not credits, because we have reasonably good credit files, but when it gets away from the commercial and onto the political and the governments issue decrees prohibiting convertability or the transfer of funds.

Commercial enterprise or industry is not equipped to take that risk. I think a very exhaustive study should be made to see how it is possible to set up some sort of a fund purely to protect against those political acts that have happened.

Mr. JAVITS. Now, this paragraph to which I have called your attention, which is section 7 (b) (3) of H. R. 4840, it sets up 5 percent of the amounts appropriated under the act for insuring just such things as you refer to.

Mr. Reed did not think it belonged here, that it was too complicated an item and should be treated in a more specialized way.

Now, the NAM represents the people who would be benefited here.

Do you not agree, Mr. Schell, that it would be very valuable if they could express themselves on this particular proposition?

Mr. SCHELL. I do, Mr. Javits, but I am convinced they will not be able to properly express themselves in time to suit your calendar on this bill. I agree with Mr. Reed, it is a very complicated subject.

Mr. JAVITS. Would you prefer, therefore, to see it omitted from the bill now and dealt with in a special way, all by itself?

Mr. SCHELL. Personally, and not speaking for the NAM, I think that is the practical approach. I am most sympathetic to it.

Mr. JAVITS. I know I am and I think most of the committee members are, but we are troubled about its reception by business, what they would do with it and how they feel about it. We want to make it work.

Thank you very much.

Mr. KEE. Mr. Chairman, may I make an observation?

Acting Chairman LODGE. Certainly, Judge Kee.

Mr. KEE. Mr. Schell, my attention was arrested by a paragraph on page 7 of your statement, which I think presents a challenge to the Congress of the United States.

With the permission of the Chairman, I will read it.

Briefly, we believe we must cut Government spending, reduce individual income taxes, adopt a systematic plan for paying off the public debt, stop inflationary monetary expansion, permit interest rates to seek their own levels free of Government control, and take such other steps as are calculated to put our own economic house in order, so that we may (1) provide the amount of foreign aid the Congress approves; (2) maintain the standard of living of the American people; and (3) arrest the inflationary spiral.

I think that presents quite a challenge to the party now in power in Congress.

I want to respectfully suggest to my colleagues on the Republican side that they write that on the bulletin board and put it over on their side of the House and say to their colleagues, "There, gentlemen, is the target; shoot."

Acting Chairman LODGE. Will the gentleman yield for a question?

Mr. KEE. Yes.

Acting Chairman LODGE. Is it your view that the President of the United States would approve such a program, bearing in mind his speech on the State of the Union?

Mr. KEE. I think he would approve of your "trying" to put one through.

Acting Chairman LODGE. Do you believe that the Administrator of this particular program should present such a program for combatting inflation within these countries?

Mr. KEE. The gentleman himself would not advocate that, no.

Mr. JONKMAN. Mr. Schell, in the discussion I had with you, I meant to emphasize in my question to you, that sentence upon which it is based:

It must be understood this trend must be started before any loans are pledged by this country.

You differentiate, of course, between loans and grants when you use that statement?

Let me say this. On page 2, the paragraph that the Chairman referred to

that the countries refrain from reexporting products received under the United States aid program, and from exporting identical products produced domestically.

I take it there you are having reference to aid. In other words, they are not to ship out anything they say they can not produce themselves and that they need in the way of help?

Mr. SCHELL. That is right.

Mr. JONKMAN. But on the other hand it would be most difficult to stop them from exporting identical products. If it was a loan, they have to export, and if they exported identical products—as long as it is not aid but something they produce themselves, under loans, of course you would not have any objection to that?

Mr. SCHELL. Yes; I would. I do not think they should export anything we send them at all. If they add to it and use what we send them as a raw material then then they should be perfectly free to export it. However, it would take away from our own control, our trading this item, whatever it happens to be, to the eventual country.

Mr. JONKMAN. Are you speaking of aid?

Mr. SCHELL. I make no distinction between aids and grants.

Mr. JONKMAN. If we loan a country money, certainly what they produce with it is none of our business, because it will be repaid.

Mr. SCHELL. This doesn't involve production; this involves taking the package as it comes to them and moving it over to someone else for a consideration and I do not believe that should be permitted.

Mr. JONKMAN. I am in thorough accord with you on that.

When you speak of these other things, on page 9, are you speaking of grants as well as loans?

Mr. SCHELL. I think that has a general application all the way through. I make no distinction between grants and loans, in the end result.

Mr. JONKMAN. I wanted to know that, because when the Paris Committee made its report, as near as I was able to ascertain, only about 25 percent of the amount called for—that was \$5,900,000,000—was for foods, feeds, and fertilizers.

I think by the time we get through with this \$6,800,000,000, more than half of it is for grants in aid and I would not be surprised if it got up to two-thirds, leaving only one-third for loans.

The Administration, of course, tells us that 20 percent to 40 percent of this \$6,800,000,000 will be in the shape of loans. Split the difference and make it 30 percent, it would still be 70 percent in the nature of grants in aid or just gifts.

Mr. SCHELL. I am encouraged in seeing us face this a little more realistically than we have in the past.

I think at the time of the British loan that unfortunately we did not face it with much realism. I had many discussions with Secretary Clayton about that at the time.

Of course, you know the position that was taken by the British, that it should have been a grant in aid. Whether it should or not I am encouraged now that we are facing these things a little more realistically. We break down, in my judgment, the normal confidence in loans, if we freely make them and do not expect repayments, and I think it is wrong.

Mr. JONKMAN. That is all, Mr. Chairman.

Acting Chairman LODGE. If there are no more questions, the committee will adjourn. Thank you very much, Mr. Schell.

It has been a most illuminating and beneficial discussion.

Mr. SCHELL. Thank you, Mr. Chairman, for your patience, and I appreciate the opportunity which your committee has afforded me to appear before you.

Acting Chairman LODGE. Thank you, sir.

(Whereupon, at 12:20 p. m., the committee adjourned, to reconvene at 2 p. m., the same day.)

AFTERNOON SESSION

The committee reconvened at 2:20 p. m., at the expiration of the recess.

Chairman EATON. The committee will be in order.

We are very glad to have our good friend Dean Acheson with us.

This is not a very large number of committee members here, but it is a select group, Mr. Acheson. You can see the large audience you have, which is another tribute to your immense popularity.

STATEMENT OF HON. DEAN ACHESON, MEMBER OF THE EXECUTIVE COMMITTEE, COMMITTEE FOR THE MARSHALL PLAN

Mr. ACHESON. Mr. Chairman, and ladies and gentlemen of the committee. May I start with a less serious comment? I remember many, many years ago I used to inhabit the old boathouse at Yale University. There was an old boat rigger there, and when we would come in, he would greet us with enthusiasm and would say, "Well, well, it certainly is old-fashioned to see you."

It is certainly old-fashioned to see the faithful gathering in this committee this afternoon.

Chairman EATON. We are delighted to see you, Mr. Acheson.

Mr. ACHESON. Mr. Chairman, members of the Committee on Foreign Affairs of the House of Representatives, it is an honor to appear before you again.

This time, of course, I do not appear as a Government official, but as an individual and on behalf of the Committee for the Marshall Plan to Aid European Recovery. I offer for the record this pamphlet, A Statement of Purpose, that outlines our objectives and lists the members of our national council. As you will observe, our national council is broadly representative of all parts of our national life and all sections of our country.

Chairman EATON. The pamphlet will be included in the record at this point.

(The pamphlet referred to is as follows:)

COMMITTEE FOR THE MARSHALL PLAN TO AID EUROPEAN RECOVERY

A STATEMENT OF PURPOSE

"I am confident that if the issues are clearly presented, the American people will give the right answer."—HENRY L. STIMSON.

The committee for the Marshall plan to aid European recovery was announced on November 17, 1947. But it was started long before that—in the minds and hearts of men and women throughout the United States. Since last spring leaders in our Government, in business, labor, and farm groups, in our colleges, churches, and other professions have sensed the growing economic crisis in Europe. Many of these people have urged that we would have to play a larger role in helping the countries of Europe restore their war-shattered industries and farms and homes. They know that "the troubles of Europe are not other people's troubles; they are ours." They know that "there are no merely foreign dangers any more." And they were waiting anxiously for someone to express their deep desire for action. Henry L. Stimson provided this voice in his now famous article *The Challenge to Americans in Foreign Affairs* of October 1947.

Mr. Stimson's conviction that "if the issues are clearly presented, the American people will give the right answer" led him to accept the national chairmanship of the committee and to invite the membership of others who believe with him that—

"The reconstruction of western Europe is a task from which Americans can decide to stand apart only if they wish to desert every principle by which they claim to live. We must take part in this work; we must take our full part; we must be sure that we do enough."

The committee that has grown from this beginning now includes among its members over three hundred eminent Americans from all parts of the country. The committee is not yet complete; it can never be completed so long as there are other business, labor, farm, and community leaders who will add their names to the list of those who accept "The Challenge to Americans" and agree that "if we act now, with vigor and understanding, with steadiness and without fear, we can peacefully safeguard our freedom."

The committee does not conceive its function to be a concern with details or the espousal of a particular solution when several equally good ones are available. It will give its support to a program which is adequate enough and prompt enough to be effective and it will oppose restraints upon our assistance which seek to distort the program's proper purpose or endanger its success.

IN brief the committee believes:

That rebuilding the economy and civilization of Europe is essential to assure prosperity and freedom for the nations of the world, including the United States itself.

That this reconstruction will require further great efforts by the European countries individually and in cooperation with each other.

That these efforts can succeed only if they are supplemented by a large-scale program of American aid for Europe.

That prompt furnishing of aid and prompt avowal of our determination to see that the task of basic reconstruction is completed will reduce the ultimate time and cost of the program.

That in aiding nations who seek reconstruction in cooperation with each other and with us, we should found our assistance on the basic principles of human dignity and on a wise understanding of national differences, and should not attempt to impose our own particular ways of working toward the common end.

That in carrying out our aid program we should bear constantly in mind that our goal is the establishment of a world where stable economic conditions will allow peace and prosperity to flourish.

That in this joint task of European reconstruction the fullest feasible use should be made of the United Nations and its associated agencies.

And the committee also believes that to accept these principles is not enough. We, here in America, must also work for our beliefs. A committee on paper is a mere exercise; a committee in action can be a national force.

The committee already has begun to work. The members of the national council throughout the country are lending their support, and with the executive committee, whose chairman is Robert P. Patterson, we are engaged in presenting the issues to the American people so that they may understand the questions and provide their answers to the challenge.

The committee is distributing printed material, arranging for speakers, and working with other existing organizations for an increasing attention to the Marshall plan and support of its legitimate objectives. A petition to the Congress is being circulated calling for legislation to provide a sound and adequate program, in the light of Secretary Marshall's proposal, to aid European recovery.

But even this is not enough. Each of the members of the committee will also have to stir the minds of people in his own community and work for the achievement of an understanding deep enough to give the Marshall plan so firm a support that we will all "Think of our prosperity, our policy and our first principles as indivisibly connected with the facts of life everywhere."

COMMITTEE FOR THE MARSHALL PLAN TO AID EUROPEAN RECOVERY

National Chairman, Henry L. Stimson

EXECUTIVE COMMITTEE

Robert P. Patterson, Chairman
Hugh Moore, Treasurer
Dean Acheson
Winthrop W. Aldrich
Frank Altschul
James B. Carey
David Dubinsky
Allen W. Dulles
Clark M. Eichelberger
William Emerson

Herbert Feis
Alger Hiss
Herbert H. Lehman
Frederick C. McKee
Arthur W. Page
Philip D. Reed
Herbert Bayard Swope
Mrs. Wendell L. Willkie
John H. Ferguson, Executive Director

NATIONAL COUNCIL MEMBERS

Charles E. Adams, chairman, Air Reduction Sales Co., New York, N. Y.
Charles F. Adams, Jr., president, Raytheon Manufacturing Co., Waltham Mass.
James Truslow Adams, historian, Southport, Conn.
S. C. Allyn, president, National Cash Register Co., Dayton, Ohio.
Dillon Anderson, lawyer, Houston, Tex.
Charles W. Armstrong, president, Kiwanis International, Chicago, Ill.
George S. Armstrong, president, George S. Armstrong and Co., New York, N. Y.
Henry A. Atkinson, general secretary, Church Peace Union, New York, N. Y.
Frank Aydelotte, director emeritus, Institute for Advanced Study, Princeton, N. J.
H. S. Baker, president, Producers Cotton Oil Co., Fresno, Calif.
Thomas J. Bannan, president, Western Gear Works, Seattle, Wash.
C. Julian Bartlett, president, Bartlett Chemicals, Inc., New Orleans, La.
Robert P. Bass, industrial relations expert, Peterboro, N. H.
James P. Baxter III, president, Williams College, Williamstown, Mass.
Sosthenes Behn, chairman, International Tel. & Tel. Co., New York, N. Y.
Laird Bell, lawyer, Chicago, Ill.
R. G. Bellezza, president, Locke Insulator Corp., Baltimore, Md.
Barry Bingham, publisher, Louisville Courier-Journal, Louisville, Ky.
Harold Boeschstein, president, Owens-Corning Fiberglas Corp., Toledo, Ohio.
Cary C. Boshamer, president, Clover Spinning Mills, Inc., Clover, S. C.
Isaiah Bowman, president, Johns Hopkins University, Baltimore, Md.

- Henry P. Bristol, president, Bristol-Myers Co., New York, N. Y.
 Lee H. Bristol, vice president, Bristol-Myers Co., New York, N. Y.
 D. K. Brown, president, Neenah Paper Co., Neenah, Wis.
 Harvey W. Brown, president, International Association of Machinists, Washington, D. C.
 Rex I. Brown, president, Mississippi Power & Light Co., Jackson, Miss.
 Richard P. Brown, chairman, Brown Instrument Co., Philadelphia, Pa.
 Mrs. J. L. Blair Buck, president, Federation of Women's Clubs, Washington, D. C.
 Harvey H. Bundy, president, World Peace Foundation, Boston, Mass.
 Clayton R. Burt, chairman, Pratt and Whitney, West Hartford, Conn.
 Miss Sally Butler, president, National Federation of Business and Professional Women's Clubs, New York, N. Y.
 Charles C. Cabot, judge, Massachusetts Superior Court, Boston, Mass.
 Henry B. Cabot, chairman, New England Industrial Development Corp., Boston, Mass.
 Ward M. Canaday, chairman, Willys-Overland Motors, Inc., Toledo, Ohio.
 C. Alexander Capron, lawyer, New York, N. Y.
 Elmer T. Carlson, president, Trumbull Electric Mfg. Co., Plainville, Conn.
 Harry Woodburn Chase, chancellor, New York University, New York, N. Y.
 C. M. Chester, honorary chairman, General Foods Corp., New York, N. Y.
 Robert Walston Chubb, lawyer, St. Louis, Mo.
 Evans Clark, executive director, Twentieth Century Fund, New York, N. Y.
 Robert C. Clothier, president, Rutgers University, New Brunswick, N. J.
 H. D. Collier, chairman, Standard Oil Co. of Calif., San Francisco, Calif.
 Hugh M. Comer, president, Avondale Mills, Sylacauga, Ala.
 Karl Compton, president, Massachusetts Institute of Technology, Cambridge, Mass.
 James Bryant Conant, president, Harvard University, Cambridge, Mass.
 Emmett Corrigan, chairman, Albert Frank-Guenther Law, New York, N. Y.
 J. Cheever Cowdin, chairman, Universal Pictures Co., Inc., Universal City, Calif.
 Gardner Cowles, Jr., president, Cowles Magazines, Inc., Des Moines, Iowa.
 William W. Crocker, president, Crocker First National Bank, San Francisco, Calif.
 Richard J. Cronan, lawyer, New York, N. Y.
 T. Morton Curry, president, Belleville Woolen Co., Belleville, R. I.
 Robert Cutler, president, Old Colony Trust Co., Boston, Mass.
 Chester C. Davis, president, Federal Reserve Bank of St. Louis, St. Louis, Mo.
 J. Holmes Davis, chairman, Spofford Mills, Inc., Wilmington, N. C.
 John W. Davis, lawyer, New York, N. Y.
 Mrs. Henry P. Davison, philanthropist, New York, N. Y.
 John Dewey, professor, Columbia University, New York, N. Y.
 John Sloane Dickey, president, Dartmouth College, Hanover, N. H.
 William J. Donovan, former director, Office of Strategic Services, New York, N. Y.
 James H. Douglas, Jr., lawyer, Chicago, Ill.
 Arthur G. Drefs, president, McQuay-Norris Mfg. Co., St. Louis, Mo.
 Charles E. Dunlap, president, Berwind-White Coal Mining Co., New York, N. Y.
 Ralph M. Eastman, vice president, State Street Trust Co., Boston, Mass.
 Martin H. Eisenhart, president, Bausch & Lomb Optical Co., Rochester, N. Y.
 Charles P. Eisenhauer, president, Universal Tool Co., Dayton, Ohio.
 George Fielding Eliot, journalist, New York, N. Y.
 James A. Farley, former postmaster-general, New York, N. Y.
 George Field, executive secretary, Freedom House, New York, N. Y.
 Lincoln Filene, president, William Filene's Sons Co., Boston, Mass.
 Walter Fisher, lawyer, Chicago, Ill.
 E. D. Flintermann, president, Michigan Steel Casting Co., Detroit, Mich.
 E. H. Foot, chairman, S. B. Foot Tanning Co., Red Wing, Minn.
 Allan Forbes, president, State Street Trust Co., Boston, Mass.
 W. Cameron Forbes, partner, J. M. Forbes & Co., Boston, Mass.
 Harry Emerson Fosdick, pastor emeritus, Riverside Church, New York, N. Y.
 John M. Franklin, president, United States Lines, New York, N. Y.
 H. W. Fraser, president, Order of Railway Conductors, Washington, D. C.
 Joseph W. Frazer, chairman, Graham-Paige Motors Corp., Willow Run, Mich.
 Walter D. Fuller, president, the Curtis Publishing Co., Philadelphia, Pa.
 Thomas S. Gates, chairman, University of Pennsylvania, Philadelphia, Pa.
 E. L. Gerschke, president, Wisconsin Gasket Manufacturing Co., Granville, Wis.
 Truman K. Gibson, Jr., lawyer, Chicago, Ill.
 Samuel H. Goldenson, rabbi, Temple Emanuel, New York, N. Y.
 Frank Goldman, president, B'nai B'rith, Lowell, Mass.
 Arthur J. Goldsmith, director, B. G. Corp., New York, N. Y.

William T. Grant, chairman, W. T. Grant & Co., New York, N. Y.
 William W. Grant, lawyer, Denver, Colo.,
 William Green, president, American Federation of Labor, Washington, D. C.
 Joseph Clark Grew, former Under Secretary of State, Washington, D. C.
 S. Kendrick Guernsey, president, Rotary International, Chicago, Ill.
 Helen Hall, head-worker, Henry Street Settlement, New York, N. Y.
 Robert Hanes, president, Wachovia Bank and Trust Co., Winston-Salem, N. C.
 George L. Harrison, president, N. Y. Life Insurance Co., New York, N. Y.
 George M. Harrison, president, Brotherhood of Railway Clerks, Cincinnati, Ohio.
 Rudolph S. Hecht, chairman, Mississippi Shipping Co., Inc., New Orleans, La.
 H. J. Heinz II, president, H. J. Heinz Co., Pittsburgh, Pa.
 Oscar Heline, president, Iowa Grain Growers Association, Marcus, Iowa.
 Edward H. Heller, partner, Schwabacher Co., San Francisco, Calif.
 W. L. Hemingway, chairman, Mercantile-Commerce Bank and Trust Co., St. Louis, Mo.
 Charles W. Hendel, professor, Yale University, New Haven, Conn.
 Leon Henderson, economist, Washington, D. C.
 G. A. Heuser, president, Henry Vogt Machine Co., Inc., Louisville, Ky.
 Tracy Higgins, president, Higgins Ink Co., Inc., Brooklyn, N. Y.
 Melvin D. Hildreth, lawyer, Washington, D. C.
 John H. Hildring, former Assistant Secretary of State, Washington, D. C.
 Frederick J. Hoffman, president, Hydraulic Supply Mfg Co., Seattle, Wash.
 Charles R. Hook, president, the American Rolling Mill Co., Middletown, Ohio.
 Mildred McAfee Horton, president, Wellesley College, Wellesley, Mass.
 Althea Hottel, president, American Association of University Women, Philadelphia, Pa.
 Edwin Palmer Hoyt, publisher, Denver Post, Denver, Colo.
 Hubert H. Humphrey, mayor, Minneapolis, Minn.
 Alice W. Hunt, president, Consumers League of Rhode Island, Providence, R. I.
 B. B. Jennings, president, Socony-Vacuum Oil Co., Inc., New York, N. Y.
 George N. Jeppson, chairman, Norton Co., Worcester, Mass.
 Charles S. Johnson, president, Fisk University, Nashville, Tenn.
 Lloyd A. Johnson, president, National Motor Bearing Co., Redwood City, Calif.
 Robert L. Johnson, president, Temple University, Philadelphia, Pa.
 Eric Johnston, president, Motion Picture Association, Los Angeles, Calif.
 A. E. Jones, president, Irvington Varnish & Insulator Co., Irvington, N. J.
 Harrison Jones, chairman, The Coca Cola Co., Atlanta, Ga.
 Edgar J. Kaufmann, president, Kaufmann Department Stores, Pittsburgh, Pa.
 Henry Donnelly Keresey, president, Anaconda Wire & Cable Co., New York, N. Y.
 Stanley King, president-emeritus, Amherst College, Amherst, Mass.
 Allan B. Kline, president, Iowa Farm Bureau Federation, Des Moines, Iowa.
 O. A. Knight, president, Oil Workers International Union, CIO, Fort Worth, Tex.
 E. H. Lane, president, The Lane Co., Inc., Altavista, Va.
 Roger D. Lapham, mayor of San Francisco, Calif.
 Albert D. Lasker, advertising expert, New York, N. Y.
 David L. Lawrence, mayor of Pittsburgh, Pa.
 Mrs. Bradner W. Lee, Los Angeles, Calif.
 Samuel D. Leidesdorf, member, S. D. Leidesdorf Co., New York, N. Y.
 Louis Levand, publisher, Wichita Beacon, Wichita, Kans.
 William E. Levis, chairman, Owens-Illinois Glass Co., Toledo, Ohio.
 Sam A. Lewisohn, member of Adolph Lewisohn & Sons, New York, N. Y.
 James A. Linen, Jr., chairman, International Educational Publishing Co., Scranton, Pa.
 Richard O. Loengard, president, United Chromium, Inc., New York, N. Y.
 J. Spencer Love, president, Burlington Mills Corp., Greensboro, N. C.
 Ralph Lowell, chairman, Boston Safe Deposit & Trust Co., Boston, Mass.
 David L. Luke, Jr., president, West Virginia Pulp & Paper Co., New York, N. Y.
 Thomas B. McCabe, president, Scott Paper Co., Chester, Pa.
 Francis J. McConnell, bishop, Methodist Church, Portland, Oreg.
 Brouwer D. McIntyre, president, Monroe Auto Equipment Co., Monroe, Mich.
 John Finley McRae, president, Merchants National Bank of Mobile, Mobile, Ala.
 Ernest B. MacNaughton, president, First National Bank of Portland, Portland, Oreg.
 M. L. Madden, chairman, Hollingsworth & Whitney Co., Boston, Mass.
 Philip R. Mallory, chairman, P. R. Mallory & Co., Inc., Miami, Fla.
 George Meany, secretary-treasurer, A. F. of L., Washington, D. C.

Richard K. Mellon, chairman, Mellon Natl. Bank & Trust Co., Pittsburgh, Pa.
 Ward Melville, president, Melville Shoe Corp., New York, N. Y.
 William C. Menninger, Genl. Secy., The Menninger Foundation, Topeka, Kans.
 E. W. Middleton, Lawyer, Rochester, N. Y.
 Albert G. Milbank, Lawyer, New York, N. Y.
 Donald G. Millar, president, Greenfield Tap & Die Corp., Greenfield, Mass.
 H. L. Mitchell, president, National Farm Labor Union, Memphis, Tenn.
 R. V. Mitchell, chairman, Harris-Seybold Co., Cleveland, Ohio.
 Charles E. Moore, president, Moore Machinery Co., San Francisco, Calif.
 De Lesseps S. Morrison, mayor of New Orleans, La.
 Mrs. Dwight Morrow, former acting-president, Smith College, Englewood, N. J.
 Malcolm Muir, publisher, Newsweek, New York, N. Y.
 Charles H. Murchison, lawyer, Jacksonville, Fla.
 Philip Murray, president, Congress of Industrial Organizations, Washington, D. C.
 D. Hayes Murphy, president, Wiremold Co., Hartford, Conn.
 Reinhold Niebuhr, professor, Union Theological Seminary, New York, N. Y.
 F. E. O'Callaghan, Jr., president, Shuler Axle Co., Louisville, Ky.
 Peter H. Odegard, president, Reed College, Portland, Ore.
 William O'Dwyer, mayor of New York, N. Y.
 Edward A. O'Neal, president, American Farm Bureau Federation, Washington, D. C.
 Mrs. Abram Orlow, president, Women's Council B'nai B'rith, Washington, D. C.
 G. Bromley Oxnam, bishop, Methodist Church, New York, N. Y.
 Robert F. Pack, chairman, Northern States Power Co., Minneapolis, Minn.
 Carleton H. Palmer, chairman, E. R. Squibb and Sons, New York, N. Y.
 Henry Parkman, lawyer, Boston, Mass.
 Reginald H. Parsons, president, Parsons Investment Co., Seattle, Wash.
 Morehead Patterson, chairman, American Machine & Foundry Co., New York, N. Y.
 Mrs. Norton H. Pearl, former president, American Legion Women's Auxiliary, Detroit, Mich.
 A. Q. Petersen, president, Wesson Oil and Snowdrift Co., Inc., New Orleans, La.
 Howard C. Petersen, vice-president, Fidelity Philadelphia Trust Co., Philadelphia, Pa.
 Clarence E. Pickett, executive secretary, American Friends Service Commission, Philadelphia, Pa.
 Daniel A. Poling, editor, Christian Herald, New York, N. Y.
 Louis Polk, president, Sheffield Corp., Dayton, Ohio.
 Walter E. Poor, chairman, Sylvania Electric Products Co., New York, N. Y.
 Generoso Pope, publisher, Il Progresso Italo-Americano, New York, N. Y.
 George A. Pope, Jr., president, Pope and Talbot, Inc., San Francisco, Calif.
 Jacob S. Potofsky, president, Amalgamated Clothing Workers of America, New York, N. Y.
 Gwilym A. Price, president, Westinghouse Electric Corp., Pittsburgh, Pa.
 Redfield Proctor, president, Vermont Marble Co., Proctor, Vt.
 Joseph M. Proskauer, chairman, American Jewish Committee, New York, N. Y.
 Claude U. Putnam, president, Markem Machine Co., Keene, N. H.
 A. Philip Randolph, president, Brotherhood of Sleeping Car Porters, New York, N. Y.
 Frank P. Rhome, president, Lunkenheimer Co., Cincinnati, Ohio.
 Emil Rieve, general president, Textile Workers Union of America, New York, N. Y.
 Walter M. Ringer, president, Foley Mfg. Co., Minneapolis, Minn.
 Francis E. Rivers, judge, Municipal Court, New York, N. Y.
 D. B. Robertson, president, Brotherhood of Locomotive Firemen and Enginemen, Cleveland, Ohio.
 Nelson A. Rockefeller, former Assistant Secretary of State, New York, N. Y.
 Mrs. Kermit Roosevelt, New York, N. Y.
 Elmo B. Roper, Jr., publicist, New York, N. Y.
 Morris S. Rosenthal, executive vice-president, Stein, Hall & Co., New York, N. Y.
 Lessing J. Rosenwald, chairman, Rosenwald Fund, Jenkintown, Pa.
 Raymond Rubicam, New York, N. Y.
 Anson J. Sanford, president, Cleveland Hardward & Forging Co., Cleveland, Ohio.
 David Sarnoff, president, Radio Corporation of America, New York, N. Y.
 Luigi Scala, president, Columbus National Bank, Providence, R. I.
 William Scarlett, Bishop, Protestant Episcopal Church, St. Louis, Mo.

- Frederic A. Schaff, chairman, Combustion Engineering Co., Inc., New York, N. Y.
- Harry Scherman, president, Book-of-the-Month Club, New York, N. Y.
- Harry S. Scott, president, General Steamship Corp., San Francisco, Calif.
- W. H. Seaman, president, National Roll and Foundry Co., Avonmore, Pa.
- Clarence E. Searle, president, Worthington Pump & Machine Corp., New York, N. Y.
- Charles Seymour, president, Yale University, New Haven, Conn.
- Mayo A. Shattuck, partner, Haussermann, Davison and Shattuck, Boston, Mass.
- Henry L. Shattuck, lawyer, Boston, Mass.
- Bernard J. Sheil, auxiliary bishop, Archdiocese of Chicago, Chicago, Ill.
- John Ben Shepherd, President, Junior Chamber of Commerce, Tulsa, Okla.
- Boris Shishkin, economist, American Federation of Labor, Washington, D. C.
- George N. Shuster, president, Hunter College, New York, N. Y.
- J. A. Sisto, chairman, Barium Steel Corp., New York, N. Y.
- Fred W. Smith, president, International Association of Lions Clubs, Chicago, Ill.
- Herbert E. Smith, president, United States Rubber Co., New York, N. Y.
- Paul Clifford Smith, editor, San Francisco Chronicle, San Francisco, Calif.
- Tom K. Smith, president, Boatmen's National Bank, St. Louis, Mo.
- Brehon B. Somervell, president, Koppers Co., Pittsburgh, Pa.
- J. P. Spang, Jr., president, Gillette Safety Razor Co., South Boston, Mass.
- Charles E. Spencer, Jr., president, First National Bank of Boston, Boston, Mass.
- Robert G. Sproul, president, University of California, Berkeley, Calif.
- J. H. Stackpole, chairman, Stackpole Carbon Co., St. Mary's, Pa.
- Meier Steinbrink, chairman, Anti-Defamation League, New York, N. Y.
- Russell Stover, president, Russell Stover Candies, Kansas City, Mo.
- Arthur L. Strasser, chairman, Stein, Hall & Co., New York, N. Y.
- Roger W. Straus, chairman, American Smelting & Refining Co., New York, N. Y.
- Anna Lord Strauss, president, National League of Women Voters, Washington, D. C.
- Arthur Hays Sulzberger, president, New York Times, New York, N. Y.
- Raymond Swing, radio commentator, Washington, D. C.
- Gerard Swope, honorary chairman, International General Electric Co., New York, N. Y.
- Charles J. Symington, chairman, Symington-Gould Co., New York, N. Y.
- Charles P. Taft, president, Federal Council of Churches of Christ in America, Cincinnati, Ohio.
- Mrs. Mamie K. Taylor, corporation official, Atlanta, Ga.
- Reese H. Taylor, president, Union Oil Co. of California, Los Angeles, Calif.
- Barent Ten Eyck, lawyer, New York, N. Y.
- Ralph E. Thompson, president, Scott & Williams, Boston, Mass.
- Channing H. Tobias, director, Phelps Stokes Fund, New York, N. Y.
- Daniel J. Tobin, president, International Brotherhood of Teamsters, Indianapolis, Ind.
- Niles Trammel, president, National Broadcasting Co., New York, N. Y.
- John Twohy II, president, Commonwealth Sand & Gravel Corp., Norfolk, Va.
- Carl Van Doren, author, New York, N. Y.
- R. B. Von Kleinsmid, president, University of Southern California, Los Angeles, Calif.
- Walter Wanger, president, Walter Wanger Productions, Culver City, Calif.
- James P. Warburg, economist, New York, N. Y.
- Robert R. Wason, president, Manning Maxwell & Moore, Inc., New York, N. Y.
- Thomas J. Watson, president, International Business Machines Corp., New York, N. Y.
- Sumner Welles, former Under Secretary of State, Oxon Hill, Md.
- H. B. Wells, president, Indiana University, Bloomington, Ind.
- Grover A. Whalen, chairman, Coty International Corp., New York, N. Y.
- Walter H. Wheeler, Jr., president, Pitney-Bowes Postage Meter Co., Stamford, Conn.
- Walter White, secretary, National Association for Advancement of Colored People, New York, N. Y.
- Mrs. Norman De R. Whitehouse, president, Women's Action Committee for Lasting Peace, New York, N. Y.
- A. F. Whitney, president, Brotherhood of Railroad Trainmen, Cleveland, Ohio.
- John Hay Whitney, partner, J. H. Whitney & Co., New York, N. Y.
- Lewis B. Williams, chairman, National City Bank of Cleveland, Cleveland, Ohio.
- H. F. Willkie, vice president, Distillers Corp.-Seagram, Ltd., Louisville, Ky.
- Arthur L. Williston, engineer, Dedham, Mass.

John P. Wilson, lawyer, Chicago, Ill.

Charles Deere Wiman, president, Deere & Co., Moline, Ill.

David J. Winton, chairman, Winton Lumber Co., Minneapolis, Minn.

Stephen S. Wise, president, American Jewish Congress & World Jewish Congress, New York, N. Y.

James H. Wolfe, judge, Supreme Court of Utah, Salt Lake City, Utah.

Matthew Woll, president, The Union Labor Life Insurance Co., New York, N. Y.

Wilson W. Wyatt, former National Housing Administrator, Louisville, Ky.

Howard I. Young, president, American Zinc, Lead & Smelting Co., St. Louis, Mo.

Owen D. Young, honorary chairman, General Electric Co., New York, N. Y.

Darryl Zanuck, vice president, Twenty Century-Fox Film Corp., Beverly Hills, Calif.

Max Zaritsky, president, Millinery Workers Union, New York, N. Y.

James D. Zellerbach, president, Crown Zellerbach Corp., San Francisco, Calif.

Samuel Zemurray, president, United Fruit Co., New Orleans, La.

Mr. ACHESON. That is significant because it shows the profound conviction of the great majority of Americans that American aid for European recovery is necessary. American aid is necessary not as an instinctive response, or not merely as an instinctive response to suffering abroad; it is necessary because our life and the peace and freedom on which our life depends are intimately interwoven with European recovery.

In the world which confronts us in 1948, the European recovery program is the front line of American security. When I was a boy my elders used to say the Navy was our first line of defense. We have learned in the last quarter century that vital as is the role of our military establishments, or of international military forces, our security and freedom depend in the first instance upon the actions of other nations and other peoples. These actions may gravely prejudice our security or greatly strengthen it. These actions are often forced by conditions largely or entirely beyond the control of the nations and people who take them—such as the ability to produce enough to live on. The course which the people of western Europe must take in the next 4 years is the most important decision affecting our national safety which is still open in the world today. The elemental necessity of the situation dictates that it should be a course which both they and we want.

They and we want them independent of outside dictation and of inside dictatorship, self-supporting and healthy in their individual and national lives. Our own safety is immeasurably increased if this is so. It is immeasurably weakened if any of them are weakened and fall by internal action or external pressure, or both, into the closed police, military and economic system which already stretches from the Elbe to the Pacific. It can happen. It has happened to others.

At the end of the war we thought that everyone believed that enduring peace and economic recovery from the war was most assured by political settlement and economic programs which were firmly founded on agreement between the great powers. The United Nations would, it was planned, go forward from this start on the basis of principle and organization which would bring to the settlement of international questions the conscience of mankind and the justice of laws and procedures which dealt equally with the strong and the weak.

It is now plain that the Soviet Union does not intend to join in the task of political settlement or economic recovery on any basis which the other powers, or any nation wishing to maintain its own integrity, can accept. On the contrary the Soviet Union is doing its utmost to prevent recovery in Europe. The years of delay and obstruction have

contributed to the exhaustion of resources and people and brought western Europe to the crisis stage.

The question which the Congress is now considering is whether that crisis shall be permitted to develop, or whether, in the place of the long sought and unattainable great-power leadership and unity, we shall seek the recovery of Europe through combined European-American action.

It is well to pause for a moment and consider the deeper meaning of this decision. This deeper meaning, I believe, is to be found in the tendency of one course or another to make on the one hand for an improvement in great-power relations and in the probability of peaceful development, or, on the other hand, for an increase in friction and the development of situations which vastly enhance the possibility of war.

I think two things must be clear to those who have considered Soviet policy over the past three decades. The first is that the Soviet Union accepts with complete realism a strong and stable situation and adjusts its policy accordingly. The other is that the Soviet Union, with equal realism, accepts the opportunities offered by weak and unstable situations whether they result from defeat and occupation or from the exhaustion of an ally. It was the weakness of Iran and Greece which led to pressure upon those countries. It was the crisis of western Europe which led to internal Communist pressure in Italy and France, where the Communist parties attempted to capitalize on the difficulties of the people in an effort to overthrow the governments. Such efforts will continue until there is internal stability. On the other hand the Soviet Union will, I believe, accept the fact of stability in western Europe and will adjust itself to it.

I am convinced that with a recovered self-supporting and increasingly unified western Europe, there will come improvement in the relations between the Soviet Union and the west, including the United States, not only in respect to European problems, but in respect to other questions which now appear to be insoluble. I am equally convinced that with the crumbling of the economy of western Europe will come increasing impairment of American security and quite possibly the development of situations which will hazard the maintenance of international peace.

Why is this so? Western Europe, as I shall point out in a few moments, can only maintain its present population with a tolerable standard of living by bringing within its areas goods from outside western Europe, manufacturing these goods and with the proceeds of sale abroad, maintaining the life of its people and the soundness of its industrial, agricultural and financial systems. If this process becomes impossible the situation is immediately created in which the existing population cannot survive in a tolerable manner upon the existing resources. This leads to weakness and continual change of governments, unemployment, and the break-up of employer-employee relations, the collapse of the financial system, and the immediate disappearance of that large middle class upon which has been founded the stability of western Europe.

As this process takes place, succeeding governments are forced to take more and more extreme measures, both to maintain order and to seek for some solution. These measures in turn accentuate the process of dissolution. None of them can result in the one essential

result, which is to bring in more commodities. At length by some internal coup d'état a minority emerges in armed control which inevitably turns to the only alternative source of supply, which is the closed economic system which now extends from Poland to the Pacific.

The Communist area cannot solve the problem, but it can promise some amelioration of it. The result may well be, as it has already been with some of the countries of eastern Europe, the inclusion of still further areas within the Russian system and the extension of Russian domination still further westward.

It is obvious that such a process is highly detrimental both to western Europe and to the interests of the United States. Both the Europeans and ourselves wish to prevent it.

Thus I am convinced that the recovery of western Europe is basic for our security and I believe that most Americans share my conviction. There is, however, much uncertainty about what we must do to make European recovery possible.

There can be no clear understanding of what needs to be done without some understanding of western Europe and the nature of its economy.

Mr. Chairman, may I pause here to call to the attention of the committee the statement made by Mr. Bevin in the House of Commons within the last 10 days, which bears upon this question. Mr. Bevin in his speech said:

As regards the first principle, I am sure this House and the world will realize that if a policy is pursued by any one power to try to dominate Europe by whatever means, direct or indirect, one has to be frank—that you are driven to the conclusion that it will inevitably lead again to another world war, and I hope that idea will be discarded by all of us.

Mr. Bevin was talking in the utmost frankness to the House of Commons. I think his speech deserves the reading by every member of this committee. If there is any one thing that we can ever learn by history, it is that the attempt to dominate Europe by one power has always led to war.

Chairman EATON. And it always will.

Mr. ACHESON. It always will, I agree thoroughly.

That does not mean we accept the historic views of Europe. It means that we cannot possibly be indifferent to a consolidation of Europe under one power when that one power has shores that look across the Atlantic from the Azores to Iceland toward us.

That is the nature of the problem with which we are faced. It is not a matter of saying, as many people seem to think, that if the United States does not do what the European peoples hope they will do, the European peoples will rush out and vote the Communist ticket. That is not the situation at all. I have tried to trace out for you as calmly as I can the steps by which there can be deterioration in Europe and by which increasingly extreme governments, founded on minorities and founded on force, must turn to that great area which extends from Poland to the Pacific, for whatever hope there is; and that danger is what brings about the consolidation of Europe, the greatest goal we could achieve.

These 16 nations and the western zones of Germany before the war constituted one of the great work shops of the world—a work-shop second only to our own. Western Europe produced considerably more coal than the United States. Their production of electric

energy was 130 billion kilowatt hours as compared to 117 billion in the United States, their shipyards produced more than seven times the gross tonnage of American shipyards, and their production of textiles was considerably larger than the United States production. In the best prewar years, their steel output of about 55,000,000 tons almost equaled the very best of prewar American tonnage. Their output of machinery, electrical equipment, and the other tools of production was enormous. Their transport and their agricultural production, although not strictly comparable with that of the United States, was in the same order of magnitude. Of the basic commodities, only in such items as oil, some of the nonferrous metals, lumber, and cotton did the United States have a decisive productive advantage.

These nations had together a population of some 250,000,000 before the war, now increased to about 270,000,000 people. The committee of course realizes that that is twice the population of the United States. Clearly they could not maintain a standard of living similar to our own with a population twice as great as ours solely by use of their own natural resources. They supplemented their own resources by imports and they paid for these imports by exports of goods, by services such as shipping, and by income on foreign investments. Their imports were essential for two purposes: To augment the supplies for their own consumption, and to provide the materials which they reworked and sold to the rest of the world.

The exports of western Europe—including services and other income—balanced the imports. But this trade was not maintained by a balance of imports and exports with each country across the sea. Europe's existence expended on triangular and quadrangular trade. An unfavorable balance of trade with one area, as it is called, was balanced off by a favorable balance of trade with other areas. Western Europe was responsible for over half of all the international trade of the world.

Before the war, also, one-half of the imports of western Europe came from the Western Hemisphere, but an equivalent amount of its products did not come here. Instead, large amounts went to eastern Europe and southeast Asia which sent their products to this continent, as well as to Europe. In this way these areas paid western Europe, which could then pay us.

Now that is changed. Due to the war and the political changes and upheavals which followed it, the products of eastern Europe and southeast Asia either do not exist or are not available to western Europe. So now two-thirds of its essential imports come from the American continent and the trade which paid for them has disappeared.

But the war did far more than this to the plants and resources and people of western Europe. Its actual physical destruction was great. But even greater was the exhaustion of resources, plants, raw materials, and people. Beyond that was the disruption of trade and financial relationships that had been built up over the centuries within these countries and among them, and with eastern Europe. And the inadequate resources available to these people had to be shared among a population 10 percent greater than it was before the war.

In addition to these inevitable results of war, during the past 12 months western Europe has suffered from a series of climatic dis-

asters; flood and freeze last winter, and the worst drought in a hundred years last summer.

In spite of all these difficulties great progress has been made toward recovery.

Industrial production in 1947 equaled or surpassed 1937 production in the United Kingdom, Denmark, Norway, and Sweden. It approached 1937 production in France, Belgium, and the Netherlands. In Italy it reached about 75 percent. In Germany and Austria it lagged behind.

The recovery of exports has been equally promising. In the first 8 months of 1947 the United Kingdom was slightly above prewar, and Belgium, France, and Norway slightly below. Denmark, Italy, and Holland reached about 75 percent of prewar.

These figures show that it is false to say that the Europeans do not or will not work.

These figures also show that great results can be accomplished with our aid—for this recovery did occur with our aid.

We see then that, as a group, these countries are not far from their prewar levels of industrial production and exports. We see that they can and do work and that they have made good use of our aid.

Why then is more and larger aid needed?

First, because they have been using up their own resources and our loans. There has been a steady drain on their gold and dollar reserves until in almost all cases those reserves are at or even below the danger point. Without some dollar reserves they cannot carry on any international trade at all.

Second, because prewar levels of production and exports are not enough.

Prewar production means a catastrophic decline from prewar standards of living. Prewar production spells instability and eventual loss of freedom.

The reasons for this are not far to seek.

First: The population of this area has increased from 250 million to 270 million—10 percent. By 1951 there will be another 8 or 9 million mouths to feed. Production obviously must keep pace with population increases.

Second: These countries formerly paid for a substantial portion of their imports with income received from foreign investments, from receipts for shipping and insurance, and from tourist expenditures and emigrant remittances. Before the war they earned about one and one-half billion dollars a year in this way; now they are paying out more than half a billion dollars a year for shipping and other services.

Third: The great disturbances in southeast Asia have resulted in an annual loss of about \$1,000,000,000 in trade in that area, paid for by trade of southeast Asia with us.

Fourth: They are currently forced to obtain imports from abnormal sources of supply. These imports are expensive. For example, the French are presently paying \$25 a ton for United States coal laid down in France, whereas Polish or British coal, if available, would cost only about \$10 a ton.

Fifth: The destruction of war and the failure to maintain and replace capital equipment during the war have created a great need for imports of capital equipment. These abnormal imports, largely from the United States, should amount to more than half a billion dollars during the coming fiscal year.

I might pause here, Mr. Chairman, to say that not only did this destruction of war and failure to maintain and replace equipment cause imports from the United States, but it means that Europe must use its own production to plow back into capital equipment. Therefore, the prewar production is now drained off, in part to pay for additional imports, and expensive imports, to replace destroyed capital equipment.

Sixth. The prices of the goods that western Europe must import have gone up about 120 percent. The prices of the goods that western Europe exports have gone up only about 80 percent. In other words, a given volume of their exports brings one-quarter less of their imports than before the war.

I hope that is clear, Mr. Chairman. What it means is that in order to get the exact amount which they got before the war, they have to export a larger amount of goods to do it, because their goods are cheaper in relation to the goods they have to buy. All of this means that even though you have reached, as you almost have, the prewar production in Europe, all of these drains mean that out of that the people have a lower and lower and lower standard of living.

Some of these factors are, I hope, only temporary; for example, the situation in southeast Asia has started to improve. And an improvement there will benefit the inhabitants and simultaneously these European nations. Other factors, like the increase in population, are permanent.

If there is no improvement, except what can come directly from the efforts of these countries and ourselves, western Europe would have to double its prewar exports to maintain something approaching its prewar standard of living. If external factors do show a reasonable improvement, the volume of exports still must increase by perhaps two-thirds to four-fifths.

That is a tremendous effort for countries as devastated as those of Europe.

The progress in Europe since VE-day shows that the energy and the will to recover still exist. This winter we have seen courage and strength in the face of deliberate sabotage. Recovery to date is the result of European efforts and aid from other countries, particularly the United States.

Recovery to the point of self-support will require a further effort in Europe and further aid from the United States. We have not failed, but we have not yet succeeded.

You have now before you for consideration H. R. 4840. That bill proposes an initial appropriation for the 15 months beginning April 1, of \$6,800,000,000.

No one who has appeared before congressional committees as often as I have would be so naive or so irresponsible as to suggest that the Congress accept that recommendation without analysis or scrutiny.

I do not fear the result of analysis or scrutiny, if the objective of the program is kept constantly in view. The amount of United States aid has been screened, in Europe and here. I make no pretense to a special expertness on the figures, but I do know how the screening has been done. In a program of this magnitude, and in a world where conditions are in constant flux, any statistician can add dollars here and take them away there. But that the work is essentially sound seems clear.

I am impressed by the fact that this 15-month recommendation is the approximate equivalent, for the time period, of the Harriman committee finding—a finding substantially lower than the Paris recommendations. I am impressed by the fact that, as Mr. McCloy has observed, the staff of the International Bank has examined these figures and is concerned not that they are inflated but that they may be too low.

I have great faith that an impartial examination by the Congress will substantiate the validity of the recommendation, if—but only if—the objective of the program is kept in mind.

The arguments about the size of the program that we all read in the newspapers and hear over the radio are not really arguments about the cost of a recovery program, but about whether we should have not a recovery but a relief program. The program that has been submitted to you calls for a truly combined effort. The people and governments of western Europe will renovate and expand the workshop, turn out more power, more goods. They will put their finances in order. They will work together to do this. From us they ask help in getting for 4 years the additional food, fuel, raw materials, and machinery which will start and keep the wheels turning until the whole operation becomes self-supporting.

This is what recovery means—the recovery of self-support by producing more goods for use and sale. Relief is a wholly different operation. Relief does no more than keep people alive in an emergency. It does not bring self-support. It is costly because it may be endless.

The recommended amount of \$6,800,000,000 is intended to support the European recovery program. If enacted, this money will go to provide goods to supplement purchases which the European countries will make out of their own money, other purchases which they will make with funds advanced from the International Bank and private investment, and still other purchases which it is hoped will be financed by other countries in this hemisphere. The total import program is therefore much larger than \$6,800,000,000, and will amount to approximately \$11,000,000,000 worth of goods, much of it financed by other sources.

The goods which make up this import program have been carefully reviewed, first by representatives of the countries meeting in Paris; then by committees on which there sat most capable men outside of Government from American agriculture, industry, labor, and finance; and finally by various departments and agencies of the executive branch of our Government. The program has been reduced, either because goods were not considered available in the quantities desired or because it was thought that some of the goods could not be put to productive use in the time contemplated. The total reduction is a billion and a half dollars for the first year.

All of these goods, as I have stressed before, are for a production program. Such a program requires different quantities and different goods from a relief program. Take food, for instance. People can exist on approximately 2,000 calories a day, but they cannot work on such a diet. Therefore, a production program requires different foods and more foods than a relief program, and the whole production program will bog down if people do not have the necessary strength to work.

In the case of fuel, a similar situation exists. A production program requires that fuel be available so that factories, railways, and mines can operate. A relief program would include fuel for heating, cooking, and lighting. If the recovery fuel program is cut, production falters and may stop, since people have to be kept from freezing even though factories may not be able to run.

The same considerations affect the raw materials in a production recovery program. Here cotton, for instance, has to be provided not only to clothe the inhabitants of a particular country under consideration, but to permit the factories of that country to manufacture textiles which they can sell abroad in order to purchase more cotton and needed goods. Timber, in a production program, has to provide for pit props for mines, railway ties, packing cases for goods, as well as for shelter. If the quantity of timber is reduced, the production program suffers first.

Finally, in a production program equipment and machinery are essential. Without these items the production of more goods is impossible and self-support cannot be achieved.

In the light of these considerations you can see at once that if, as some have advocated, the amount of \$6,800,000,000 is reduced to, say, four or five billion dollars, the entire character of the program changes. It is not merely a recovery program reduced to two-thirds. It ceases to be a recovery program.

In the first place, a cut of two or three billion dollars in the help from the United States Treasury means a far larger cut because other sources of help will either be eliminated or reduced.

For instance, loans to the western European countries by the International Bank can be made only if the chances of repayment are good so that American investors will buy the bank's bonds. If items essential to bring recovery are omitted from the program, chances for repayment become poor, and the bank cannot lend. Similarly, other countries in this hemisphere will be asked to make funds available with which European countries may purchase some of their needs. These other western Hemisphere countries will regard quite differently a contribution to a recovery program, which will mean an end to assistance and a beginning of self-support, from contributions to a relief program, which might well be endless.

But the program would be reduced by even more than this if the United States Treasury aid is seriously curtailed. As I have already pointed out, much of the imports will be paid for by the European countries themselves with the proceeds of their own exports. These exports depend upon continuing and expanding production. If the amount of foreign assistance is reduced, the amount of European production is reduced, the amount of European exports is reduced, and again we descend in a vicious circle.

For this reason the argument is not really about the cost of the European recovery program, but about relief versus recovery.

The European recovery program has for its first objective self-support for the participating countries. But the more permanent results of success are even greater. For the European recovery program may well bring about the economic integration of western Europe and along with that a great measure of political union. This conclusion is not the conclusion of an American telling Europeans

what to do. It is a conclusion that the Europeans have already reached.

Last week Mr. Bevin said:

Perhaps the most important development which brought all this to a head and caused the whole issue of Europe to be focused, was the proposal by Mr. Marshall for a European recovery program.

Mr. Bevin is undertaking the formation of a European union, beginning with a Customs Union of Britain, France, and Benelux—the existing Customs Union of Belgium, Netherlands, and Luxemburg. Such a broadening of markets, such a pooling of resources cannot fail to attract other European countries, not by fear but by hope.

As I have said earlier, western Europe is a great workshop. It contains human and physical resources that if properly used can make this area one of great strength and stability. But our own experience teaches us and has taught our European friends that proper use requires union. Certainly one of the major factors in the astonishing development of our production and the gains we have made in raising our standard of living has been our great continental trading area. We live in a large country where men and goods and ideas can move without hindrance.

These European nations, if given the opportunity, may achieve economic and political union with strength and stability comparable to our own. But they will not only be comparable in strength. They will share the same beliefs in the basic freedom of men, the independence of nations, and the desire to maintain international peace and justice upon which the charter of the United Nations rests.

Chairman EATON. Mr. Acheson, we thank you for a very informative, comprehensive, and fundamental statement, which is worthy of you. That is the highest compliment I can pay you.

Mr. ACHESON. Thank you, Mr. Chairman.

Chairman EATON. I will ask Mr. Jonkman if he will begin questioning, and I see he has some questions already concealed upon his person.

Mr. JONKMAN. Mr. Acheson, I remember with approval and admiration that you blazed a certain trail in our foreign policy with the words "aggressive expansionism."

In connection with that I wonder if you would comment on your sentence on page 3, right near the bottom:

On the other hand the Soviet Union will, I believe, accept the fact of stability in western Europe and will adjust itself to it.

What is your belief on that matter?

Mr. ACHESON. First of all, what do I mean, and why do I believe it? I believe that is your question.

What I mean is, I think a study of the Soviet activity over the past 30 years indicates that the Soviet Union probes the soft spots. If there are soft spots, they continually move forward. It almost must do that from the very nature of its own organization and its own philosophy. Wherever it meets stability, it stops that effort and turns to fields which are easier and more productive.

It seems to me that you begin to see that situation coming about at the present time in western Europe, and since the war, we have seen it.

There was a very aggressive Soviet move in the direction of Turkey some time ago. That was met by quite clear statements by some of

the nations as to where we stood on the question of Soviet pressure against Turkey. Our attitude seemed to be firm and solid, and that area has not been entered by Russia.

The same thing occurred with regard to Iran. Perfectly unequivocal attitudes were taken by the various nations on the United Nations Security Council. That pressure has to a large extent relaxed, though it has not been abandoned.

I think we saw as the difficulties of the winter of 1946-47 developed, an increasing Communist pressure in Italy and in France. This came to a head as the meeting in Paris of the 16 nations took place. They were met with firmness in both Italy and France and I believe if we go further with the program which will now give those Governments more hope of obtaining stability, that that pressure will recede.

We see continued pressure existing at the present time in Greece. In other words, wherever there is an opportunity for probing, the Soviet policy seems to continue to be to continue that probing. When it seems to meet something solid, it turns elsewhere.

I think also that there is another facet of this thing I would like to present: One of the great sources of friction is to create areas of weakness or vacuums of strength in the world. If those areas do not exist, then there does not exist the opportunity of friction which they present. Anybody who is eager, as all of us are, to improve the relations between the great Soviet Nation and our own, must look, I think, if we have any realism, to the removal of areas of vacuum and weakness, rather than the continuation of those areas. If they continue, it is quite certain that trouble will grow out of them. If they disappear, then I think adjustment will bring about a new situation.

Mr. JONKMAN. You are considering the situation that as long as the Russian ideology obtains, the spirit of aggressive expansionism is going to be there, but you say if we stabilize those countries, it will, using the term relatively, have to adjust itself and not have the success it has had in the past 2 years. Is that your idea?

Mr. ACHESON. Yes.

Mr. JONKMAN. In other words, we should not mislead ourselves into believing we could absolutely stop Russia in a year or two, even if we were successful in western Europe?

Mr. ACHESON. Yes. I think, too, there are sources of movement in their foreign policy. One is the ideological cause or stimulus, and the other is the historic, immediate and practical operations.

I think of the two, the latter is the more immediate.

Mr. JONKMAN. That is the one you are aiming at?

Mr. ACHESON. Yes. We are not likely to do anything about the other, but the other only brings you to act when the opportunity occurs.

Mr. JONKMAN. Thank you.

I think on page 12 you cleared up a problem that I would like to have you dwell on just a little more: I have called attention to the fact that the Paris report, while it is not clear on that subject, seems to call for only about 25 percent of the amount—\$5,900,000,000 after our technical experts have gone over it for aid relief and the balance for economic relief. The result is that a lot of the 16 are being pooled and are receiving food that have not had it before.

Do you believe this is necessary, to bring up the economic production?

I wish you would clear that up, if you are sufficiently familiar with the relief given to the different countries.

You speak also in your report of the Harriman committee cutting down the amounts. They have cut it down only in the economic rehabilitation branches, such as electrical equipment. They cut the steel plants from \$100,000,000 to \$48,000,000, or something like that. They cut it \$367,000,000 in equipment.

Mr. Harriman told us that, as Secretary of the Department of Commerce, he controlled shipments of that kind.

I would like for you to dwell on the shipments to countries such as the Netherlands and Belgium which have not had relief from us, needing food—and they are getting a substantial amount of it—as a necessity to greater production.

Mr. ACHESON. I should say at once to the gentleman that I am not competent to testify about shipments to particular countries.

The fact that a particular country such as the Netherlands has not been sharing in the post-UNRRA relief, I think that is immaterial to what we are now discussing.

In the first place, you cannot separate these items and say “these are relief items, these are recovery items.” They are totally different programs. If you are going to have a recovery program, you must have, as I have tried to point out here, differences of food, fuel, and machinery, because what you are trying to do is increase the production of the country both in productive capacity and in the actual trading of goods.

A relief program is differently designed. It is designed to keep people alive. The post-UNRRA relief was intended to deal solely on the basis of relief, of getting food to the hungry. It was to deal with those countries having no purchasing power of any sort at all. That is why we went into that post-UNRRA relief bill of \$350,000,000.

This program deals with all the countries of western Europe. It makes a survey of their entire import programs and as I point out here, those will run almost double the amount of American aid. They will run between \$11,000,000,000 and \$12,000,000,000, and we are talking in the neighborhood of \$6,000,000,000 or \$7,000,000,000.

The rest of it is paid for in other ways. However, it is one complete and total program, and you cannot look at it in pieces or segments. You have to say “Will all of this work,” or “will none of it work?”

Some of these countries concerned will not be dealt with on a grant basis at all.

Switzerland, for instance, which is included in this survey and whose imports are considered as part of the imports of western Europe is entirely competent to pay for its own imports and no one suggests any differently.

Some of the countries, such as Portugal and Turkey can pay for their own. Others will finance them.

Others will have to have help and some will have to have grants.

You could not go very far on a loan basis with Italy, but later on it might be done.

The program set out here is separate from the method of financing. What is necessary to carry it out, that will be used in places where the countries themselves have no cash purchasing power, or where they cannot do it on a loan basis, in order to make the whole program operate.

Mr. JONKMAN. The \$6,800,000,000 includes both the loans and the grants?

Mr. ACHESON. That is the whole amount that cannot be financed by immediate cash available.

Mr. JONKMAN. It has been said here that for one agency to handle both the loans and grants, they will be under a terrific pressure to give grants where perhaps loans should be given. Would it be wise to separate the loans from the proposed administration and let the Export-Import Bank handle the loans?

Mr. ACHESON. I think it would be unwise to do that. I do not think the pressure would be any different in either case. There will be, of course, very great pressure in all cases upon whatever agency has the granting funds, to make grants.

For the purposes of administration, the administrator may choose, when he decides something should be done on a loan basis, to do it through the Export-Import Bank.

The great difficulty of trying to separate the items is that the program must be looked at as a whole. You cannot have two sides of the street. If a fellow calls one day and does not get a grant and goes over to the other side, he may or may not get a loan. It is essential that the thing must be done one way or the other.

The production of Italy keys in with what is done in France. Something concerning a loan in Italy is dependent wholly upon what is done on the basis of grants in Italy. What is done in Iceland will have a lot to do with whether fish go to Germany.

The whole thing is one entity. The whole purpose is to bring about the integration of western Europe. It seems to me you will be in very great trouble if you have more than one central point where this whole thing is surveyed, and there, at that central point they say, "This part of the program we will do by grants, this part we will do by loans, and this other part you fellows must finance with your own funds."

Chairman EATON. At 3:30, the Republican conference is supposed to meet. We have about 20 minutes between now and then. I presume the other members would like to join in the questioning, somewhat.

I wonder if Mr. Jonkman would be willing to yield to the others?

Mr. JONKMAN. I am very sorry, Mr. Chairman. I will be very glad to yield. I was taking too much time.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. You said that it was very necessary to keep in mind the objective of this whole program. You have just spoken of it as the integration of western Europe.

Would you define it a little more fully, what your understanding of it is?

Mr. ACHESON. I made this observation in relation to this consideration: I was saying that of course the Congress ought to examine with all the care that the Congress thinks necessary, this whole program. If the Congress is not convinced that any part of the program is necessary, it has the right and duty to remove it.

However, I was urging the Congress to make its judgment in the light of the program and not in the light of extraneous considerations.

Now, you may say "such-and-such is not necessary to bring about European recovery." If that is so, it may be eliminated. But to

say, "We are going to cut this out for some other reason," because it might be desirable to reduce taxes or something else, but that kind of reduction should not be made in the light of this program.

Mrs. BOLTON. I wanted to know if you could define the goal of the program?

Mr. ACHESON. The goal of this program is to bring about, within the period of time stated, a self-supporting recovery for Europe and an independent western Europe.

The fact we are talking about western Europe is not our choice, but the choice of the Communist countries, who have included themselves out.

We are trying to bring about independent self-supporting countries in western Europe. Although we are not excluding all humanitarian considerations, the thing that seems of paramount importance is the preservation of the peace in the world and the maintenance of these nations which are the very key nations in any kind of a United Nations Organization.

The United Nations is unthinkable without these nations of western Europe. The security of the United States depends on having in western Europe a stable, strong situation, and not a disintegrated one.

Mrs. BOLTON. You speak of the 4¼ years. That is an arbitrary figure, is it not?

Mr. ACHESON. It was the figure proposed to us by the 16 countries in western Europe. They have chosen it, we have not.

Mrs. BOLTON. That is purely an arbitrary figure, because it might be that they would come along faster than anyone might anticipate.

Mr. ACHESON. Let us say it is an estimate. We will not say that it is arbitrary, but all estimates are subject to error.

The period might be shorter and it might be longer.

Mrs. BOLTON. Would it be your idea that in order to establish these countries on a basis of security, it would have to be done on a basis of freedom? I am thinking of stabilizing currencies. Should that be done by freeing currency? There are two different ways to do it of course, the other one is by controls. Is our whole purpose freedom, as we understand it in America, and therefore is that a part of the goal, or is it not?

Mr. ACHESON. Do you refer to socialism as against individual enterprise?

Mrs. BOLTON. To a degree, yes.

Mr. ACHESON. I think that our whole goal is that these nations should be independent democratic and free nations.

Mrs. BOLTON. What do you mean by democratic? Russia says she is democratic.

Mr. ACHESON. I know she says she is democratic, but I would make a few simple tests of what a democracy is. One of them is whether you get a fair trial by jury, whether you are allowed to say what you want to say, or whether you are allowed to vote for whomever you want to vote for, and things of that sort.

They are perfectly simple. For example, whether you can work where you want to work, except in time of war or national crisis, or whether you have to do something else.

That is the kind of a country we want to create. We cannot do that by undertaking to dictate to these nations certain policies which they must lay down. If they accept that, they are either deceiving

us or they are not free nations. They must be guided by the will of their people. For France or the Netherlands or someone else to say "We will take some help from you, and we will do certain things internally," is, I think, not representing them as a true democratic nation.

What we can say is what we propose here: "You countries yourselves have laid out certain goals which lead to self-support and independence. We will help you as long as you are achieving and vigorously achieving those goals. If you are becoming self-supporting, increasing your production, stabilizing your currency, we go along. Now, what sort of internal ideas you have, that is your business. There is no American imperialism being used toward you. When you go to the real objectives, one of which is increased production, another stabilization of currencies and cooperation with one another, then we think the whole thing is frustrated, and we quit."

Mrs. BOLTON. If the Federation of Western Europe, of itself is set up, that should mean all the nations of western Europe, should it not?

Mr. ACHESON. Yes.

Mrs. BOLTON. What are you going to do with this little island of Spain?

Mr. ACHESON. Mrs. Bolton, that is a problem.

Mrs. BOLTON. Is it not a problem to at least be thoroughly gone into?

Mr. ACHESON. It has been gone into. In the 7 years when I was in the State Department, we went into it almost daily. You know the problems.

Mrs. BOLTON. I know several sides of the problems, I do not pretend to know them all.

Mr. ACHESON. Insofar as you attempt to put external pressure on Spain to get rid of Franco, you have the same situation as occurred with many of the States of the Union when an idea was once rampant concerning a purge.

In the case of our Senator, we elected him by the greatest majority that anyone ever got.

Mrs. BOLTON. We do business with nations that have dictators; and in view of the fact that Spain did do a lot of things for us and the Allies during the war, perhaps it is a moment when one should wash out the old and go along with what exists.

Mr. ACHESON. There is no embargo or economic pressure of that sort at the present time. We are permitted to follow out in good faith certain actions taken by the United Nations General Assembly. Whether those would be reconsidered or whether the Spanish people would take a different view and meet the United Nations halfway is something to be determined.

Mrs. BOLTON. Is it a question of the United Nations?

Mr. ACHESON. We are following the policy laid out in the last two general assemblies.

Mrs. BOLTON. You do not feel Europe would be thoroughly united until Spain comes in?

Mr. ACHESON. It would be a great absence. Spain should eventually be a part.

Mr. LODGE. Mr. Acheson, I join my colleagues in wishing you welcome here.

Mr. ACHESON. Thank you, Mr. Lodge.

Mr. LODGE. Do you consider that the Herter bill constitutes a recovery program?

Mr. ACHESON. The great difficulty in answering that question is that there is one very great lack in the Herter bill and that is that mystic figure which is left blank. We do not know how much money is involved in the Herter bill. If that was in there, I could answer the question. It might turn out to be \$3,000,000,000, \$4,000,000,000, \$6,000,000,000, or \$8,000,000,000; I do not know.

Mr. LODGE. Assuming an adequate figure.

Mr. ACHESON. If there was an adequate figure, the discussion of the Herter bill would not turn on the question of relief and recovery; it would turn on certain other questions. I could go into those if you wish.

Mr. LODGE. You would not object to the Herter bill on the ground that it was not in and of itself a measure which involved recovery as well as relief?

Mr. ACHESON. I would certainly say that—if the figure is adequate—that its objective is recovery. It would have one very serious defect even at that, because what is now provided in the Herter bill is that all of the funds which are to be made available, in one way or another, are charges upon these countries.

I believe with that provision in the bill, it just can never lead to recovery.

The Herter bill sets out in one section of it that certain items—food, fuel, fertilizer, and what is called a limited quantity of incentive goods and some other kinds of goods, production equipment—will be made available through this Corporation which is created.

For those, the United States must get equivalent value, either in strategic materials or in something else, or in local currency; but all that is to be paid for.

Everything else is to be done on a loan basis.

Now, what is to be done on a loan basis is the furnishing of those goods which are usually the subject of short-term credits.

Between the two series of commodities, some fall and are not dealt with at all. That is a minor difficulty in the bill which could be fixed up without much trouble. However, what is provided is that everything shall be paid for.

It would seem to me that any sort of an analysis of the European situation would show that you cannot have recovery in Europe if you are going to add to the burdens that the Europeans have anyway, anywhere between \$8,000,000,000 and \$17,000,000,000 of additional debt.

The most optimistic reports of the Paris Conference indicate that by 1951 they would hope Europe would be up to \$10,000,000,000 worth of exports.

Even at that, they will have \$3,500,000,000 of debts in their trade with the Western Hemisphere.

Mr. LODGE. What would you do with the foreign currencies?

Mr. ACHESON. In order to break even if currencies are not convertible, western Europe would have to get up to exports of some \$13,000,000,000 or \$14,000,000,000. They had \$4,600,000,000 before the war. Prices are nearly doubled, and they still have to double their exports.

To add to that another vast load of debt is utterly hopeless. Therefore, the fundamental repayment principal of the Herter bill would not be good.

Mr. LODGE. My understanding of the Herter bill is that this Emergency Foreign Reconstruction Authority would have the power to decide when these items would be handled as grants-in-aid and when they would be handled as loans other than Export-Import Bank loans and when they would be turned over to the Export-Import Bank as loans.

Now, there is a difference between the two bills in the handling of the block currencies. But in each case the currencies must be deposited. I cannot see how that adds to the balance of payments problem; because, after all, what we are faced here with is a question of dollar deficits and not deficits in local currencies, which they can always print, and indeed they have.

Mr. ACHESON. There is one simple fact that can be resolved between us by reading the bill, and that is: Does or does not the Herter bill require repayment of some sort for all items?

If it does, then my criticism is valid. If it does not, my criticism is not valid.

Mr. LODGE. I think the bill of the administration also requires payments in local currencies.

Mr. ACHESON. The Herter bill provides that those currencies shall be paid to the United States of America.

They belong to us. We will put them in a special account and dispose of them as the two governments agree, for the purpose of carrying out the purposes of the recovery bill.

Mr. LODGE. I do not see how that adds to the debts of the countries involved, in any greater sense than it would in the administration bill. It seems to me that you still have local currencies albeit under different regulations.

In one case it requires agreement and in the other it does not. In the administration bill we have a good deal of control in the sense that we do not have to agree.

Therefore, from the point of view of increasing their debt, the point you make is not quite clear to me.

Mr. ACHESON. Mr. Lodge, there is a difference between the United States owning the currency of France, which means that the United States is owed by France the equivalent of that currency, and an account being set up in the Bank of France by the French Government which would be disposed of as the two nations agreed.

Mr. LODGE. There is a difference, but not the difference that you mentioned, I think. There is a difference, I agree.

Mr. ACHESON. There is a difference under the Constitution of the United States and every other way.

I do not want to be technical about it.

Mr. LODGE. I would, however, just like to say this—that the thought that you hinge it on is that the purpose of this program is to relieve their debt in their own currencies and under the Herter bill we would be increasing that debt. I would like to suggest there that the debt we are interested in is the dollar deficit and not a debt that they owe to themselves in their own money.

I do not know whether you agree with that or not. I would like to know.

Mr. ACHESON. I do not know whether I do or not. I do not understand it very well. Let me go back to another thing about the Herter bill that I think shows the whole cast of what is thought of here.

Take, for example, strategic materials. The whole conception of the Herter bill is that strategic materials are to be given to the United States, in return for goods which are shipped to these countries.

That just seems to me to be fundamentally opposed to any sound recovery effort in Europe. I am all for saying to the Europeans: "We want you to develop the production of goods that we need and want in the United States. Develop more and more and more of them"; but it is only insofar as dollars are made available by our buying these things that they are ever going to be free, independent, and self-supporting.

Mr. LODGE. Do you assume that this Government is going to buy all these strategic materials which the Herter bill proposes getting under ERP, and therefore that they would get the dollars which under this bill they would otherwise not get?

Mr. ACHESON. If you ever want these people to balance their payments and get free, you will never do it any other way.

Mr. LODGE. Suppose these provisions for strategic materials were made, looking to a time, after the expiration of this measure, when there would not be dollar deficits in these countries.

Mr. ACHESON. This is the further thing that I am trying to say in answer to what Mrs. Bolton said. If Congress will make its decisions on the basis of getting recovery in Europe, it will not waste its time with things like this. This is a collateral issue. It has nothing to do with the point. There will not be any such time. Everybody is deceiving themselves by trying to believe we can make a cheap solution.

It is going to cost us some money; let us pay it and be glad we get those people on their feet.

Mr. LODGE. I am always interested in getting your views, but I would like to say that as far as I am personally concerned, you are pushing in an open door with me as far as the recovery of Europe is concerned. I am for the principle involved in the European recovery program.

I was immensely interested in your statement, but I think we have come to the questions of detail in this committee, Mr. Acheson. If we cannot discuss detail, I think we have a serious situation.

I believe we have reached the point where we have to discuss detail.

Mr. ACHESON. What detail do you want to discuss?

Mr. LODGE. I have already opened one facet of it. I am not suggesting that there is a cheap way to do this, but I think that there is a good way and a bad way, and I think it is a complex and not an easy problem. That is one of the aspects of it I wanted to take up.

Mr. ACHESON. Let us take up the things you have mentioned. There is nothing complex about these foreign currencies. We either own them or we do not. You have asked my view, and I said we should not own them. They should not be the property of the United States. The United States of America does not want to have great deposits in the Bank of France which it owns. It will make for ill will, it will make for confusion, we will not be able to realize on

them, we will have to be giving away property that belongs to us, and that will be as difficult as getting rid of the war debt.

Mr. LODGE. That particular detail is very important then, is it not?

Mr. ACHESON. It is very important.

Chairman EATON. I have been listening as a layman to these two lawyers, and I am in the exact position of the lady who attended a sermon at church on the existence of God. When she came out she said she still believed in God.

We will recess at this time. There is no more constructive or fruitful witness to come before our committee than Dean Acheson.

I believe we will have to have you back later.

(Whereupon, at 3:30 p. m., the committee adjourned, to reconvene at 10 a. m. Thursday, January 29, 1948.)