

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

THURSDAY, JANUARY 29, 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 did not quite finish with Mr. Acheson yesterday afternoon, and he has very graciously returned this morning for further investigation by members of the committee.

FURTHER STATEMENT OF DEAN ACHESON, MEMBER OF EXECUTIVE COMMITTEE, COMMITTEE FOR MARSHALL PLAN

Chairman EATON. Who is the first one to question the witness this morning?

Mr. ACHESON. I believe we were going into this local currency matter with Mr. Lodge. But he is not here.

Chairman EATON. Have you questioned the witness, Mr. Smith?

Mr. SMITH. I have not.

Chairman EATON. Very well, we will begin with Mr. Smith.

Mr. SMITH. I have no questions.

Mr. JACKSON. I have no questions, Mr. Chairman.

Chairman EATON. Mr. Jarman.

Mr. JARMAN. As I said yesterday, it was my great misfortune to miss the very able testimony of the former Under Secretary, which I deeply regret. Having missed his testimony I am hardly competent to question him.

I know Mrs. Douglas missed it too.

Chairman EATON. Mr. Jarman, would you permit the chairman to present a question to you? Supposing as one good Democrat to another you would ask the gentleman as to which organization should handle this problem?

Mr. JARMAN. Very well. I imagine you mentioned that in your statement?

Mr. ACHESON. I made no reference to that, Mr. Jarman.

Chairman EATON. Have you any objection to discussing that with the committee?

Mr. ACHESON. No, Mr. Chairman. I will be glad to.

Chairman EATON. That is Mr. Jarman's question.

Mr. JARMAN. Thank you, Mr. Chairman.

Mr. ACHESON. Mr. Chairman, on all matters of organization I think that the way one has to approach it is to find that point where the

arc of perfection crosses the arc of the attainable. I don't think there is any perfect or ideal organization for anything in the Government.

Chairman EATON. Except the State Department?

Mr. ACHESON. There, there is room for improvement. I have had various ideas at different times about organization. It would seem to me, on reading the Brookings report—which I am sure members of this committee have all seen —.

Mrs. BOLTON. Mr. Acheson, would you yield at this point?

Mr. ACHESON. Yes.

Mrs. BOLTON. Did you find that simple reading?

Mr. ACHESON. No; I do not think it ranks with the best sellers.

Mrs. BOLTON. I mean it is most complicated, is it not?

Mr. ACHESON. I think they have compressed a good deal into a fairly short space.

Mrs. BOLTON. Is that it?

Mr. ACHESON. I think that is partly the reason for it.

Mrs. BOLTON. I do not want to interrupt your comments on it, because I am very much interested in it.

Chairman EATON. I read it, Mrs. Bolton, and I thought it followed the usual pattern, namely, using 1 word where 12 would do.

I would like to know what it is all about, and if you could unveil that mystery for us this morning, Mr. Acheson, it would be a great kindness.

Mr. ACHESON. I think the Brookings report sums up its conclusions on the last three or four pages of the report, beginning on page 15. What they suggest is that there should be created a new, separate, agency, and that that agency should be headed by an individual—administrator, or whatever he is called—and that he should report directly to the President.

They give the reasons why they think that a single head is better than a board, and they point out that the President, under our constitutional practice, is the head of the executive branch of the Government, and that this is a matter which will affect a great many different branches of the Government, and that it will also have a very profound effect upon the whole conduct of foreign affairs, and they think that has to be put directly under the President.

That conclusion seems to me to be sound.

I remember Governor Smith saying some years ago that a bipartisan board did not bring about nonpartisan results, but merely doubled the politics. That seems to me to have a good deal of probative value.

Also, from an administrative point of view, I do not think boards have ever been very successful. Boards can deal with rate making, the determination of cases—in other words they can do legislative and judicative work, but from the point of view of administration they are not very effective, and it is better to place the responsibility in one man who can be held responsible, and he should be under the President.

That is the first conclusion the Brookings Institution comes to.

Then they say it does not make very much difference whether this agency is a corporation or an authority, so long as, if you have that—a corporation—you do not have it run by a board of directors.

A corporation can be run by 1 man just as well as by 12. So they say that is a matter of form and not a matter of any great importance.

They then point out that this agency will have very important relations with a great many other agencies of the Government.

For instance, it will, obviously, have very close relations with and will affect, a great deal, the Department of State.

Insofar as that operates to get agricultural materials, it will have to operate through and with the Department of Agriculture and the Commodity Credit Corporation.

It will have very close relations with the Department of Commerce, which at the present time administers the export controls.

It will have very close relations with the Office of Defense Transportation in regard to internal transportation, and the Maritime Commission in regard to ocean transportation; with the Department of the Interior, in many respects, and so on.

The suggestion, therefore, is that the President should have the authority to determine the procedures as to how major matters of policy are to be resolved, and that in the last analysis any differences of view that arise between the Administrator and any other agencies of the Government have to be brought to the President and resolved by him.

There may be differences of view as to how much and what sort of agricultural materials can be produced, for example; obviously that decision cannot be made by the Administrator. He has to consult with the Secretary of Agriculture and if they have different views they will have to come to the President to decide.

Similarly in matters of far-reaching foreign policy. If there are differences of view between the Secretary of State and the Administrator the President is the only person who can resolve those differences.

When it comes to negotiations and operations, the Brookings report says that here again the President should have the authority to say who shall engage in what type of operation. They suggest that the President would be well-advised if put in the hands of the Secretary of State, with the participation of the Administrator, the making of the over-all agreements with the foreign countries involved. They think that he would also be well advised if he put in the hands of the Administrator all operations and all subsidiary negotiations and dealings with foreign countries, again with the participation of the Secretary of State so he will know what is going on.

That is very much the way the Lend-Lease Administration operated with the State Department during the war. The State Department negotiated the over-all lend-lease agreements with the various Allied countries. The State Department negotiated the concluding arrangements with those countries. But all the dealings with them, from the time that the over-all agreement was made until the matter was concluded, were conducted by the Lend-Lease Administrator.

Those involved thousands and thousands and thousands of transactions in which the Department of State had a very small interest. They involved knowledge of intricate things, such as ocean shipping, the manufacture of munitions, the supply of raw materials, fuel, petroleum—and in none of those matters was the State Department particularly concerned. It was kept advised, and if it had views of any sort they were taken into consideration.

That was the general method of operation.

Now, when it comes to organization overseas, the Brookings Institution suggests that the Administrator must have advisers and a voice in dealing with these countries, either individually or collectively, and they suggest that there should be organized in each

diplomatic mission abroad, a special mission which would represent the Administrator.

That mission may be small or large, depending on the extent of our dealings with the country concerned. It should be a part of the diplomatic mission, so that there would be only one American group abroad.

The head of it should hold a rank and have a position which would be as high as anyone in that country representing the United States except the Ambassador.

They do not suggest that the head of the special mission should be directed and controlled by the Ambassador. They say that he should keep the Ambassador fully informed of what he proposes to do and what he does. That if the Ambassador doubts the wisdom of any proposed step, or if the Ambassador makes a suggestion the wisdom of which is doubted by the special representative, that that matter be referred to Washington, settled by the Administrator and the Secretary of State, or if they still have difficulty, by the President.

Chairman EATON. May I interrupt with a question there?

Mr. ACHESON. Surely.

Chairman EATON. One of the proposals, at least, that the Administrator shall have an ambassador, one ambassador representing him, in the 16 nations. The proposal that you are discussing is to the effect that there should be 16 ambassadors representing the Administrator?

Mr. ACHESON. Not quite, Mr. Eaton. That proposal is also carried forward here in the Brookings report. The last paragraph says that there should be a special ambassador, a special man, with the rank of ambassador, who is appointed by the President, and reports to the President, but is in effect the spokesman* of the Administrator.

His duty is to work with the organization or organizations created by the 16 countries to direct, supervise, the whole program.

In other words, he will have his headquarters wherever the continuing organization of the 16 countries has its headquarters.

And there he will carry on the representation, which will attempt to pull together Europe and make it an economic unit.

Now, of course, in addition to that there must be a great deal of information gotten in the individual countries, and there may be special negotiations with France or Italy or Belgium or Holland. It is necessary that there be some people who understand the Ambassador's problem and his program, in each country.

They would be attached to the diplomatic missions. Their duty would be to service the central man, giving him all the information he wants, carrying out any instructions in cooperation with the Ambassador that have to do with a single country. But one of the great hopes of this program, and one of their great promises, is that it will bring Europe together, both economically and we hope from there politically, and it is most important that we stress the desirability of as much guidance and authority as possible being placed in a continuing organization which would be created by these sixteen countries.

And there we should have the ablest man we can get, who will continually pull them together, continually suppress any rivalries between them, and get all these countries working as one great group for the recovery of the whole area.

I think, briefly stated, that is the proposal of the Brookings Institution, and it seems to me to be a workable one and as good as any that I have heard.

Mr. JARMAN. Mr. Secretary, the history of such matters, in fact, all history, tells us that a board works more slowly, generally, than one man. In view of the fact that this program is proposed to commence on April 1st, and this is practically February 1st, in addition to the reasons you have already mentioned, we can hardly afford the luxury of a board being used, can we, under these circumstances, if we can get one Administrator?

Mr. ACHESON. I should think not. I think the whole trend of administrative thinking, in the last 20 years, has been, as I suggested a moment ago, that in action programs, in programs which require administration and execution, a board is not a good instrument. That there you want one person, and there has been a tendency, for instance, to take some of the purely administrative jobs, which the so-called independent agencies have, and put those in the hands of an administrator.

For instance, that was done in the aviation field. You have the Civil Aviation Administrator, and the Civil Aviation Board.

The Board does the regulatory work, the determining of rates, the issuing of regulations. The Administrator is the man who sees that safety devices are installed, that airfields are properly equipped, that the schedules of the lines are or are not operated, in dangerous periods, and so forth.

Mr. JARMAN. Mr. Secretary, as usual, there is talk of reducing the amount. I am wondering what your opinion is.

Let us assume that the amount of \$6,800,000,000 were reduced by one-third, which would mean reducing it to about \$4,500,000,000, roughly. I am wondering if you think that the 4.5 billion dollars, which would be about two-thirds of the amount requested and I think needed, would produce two-thirds of the result that the 6.8 billion dollars would.

Mr. ACHESON. I am sure that it would not. I discussed that yesterday, Mr. Jarman, and I can very briefly sum up for you the reasons why I think it would not so operate, and I should like to add one thing which I did not say yesterday.

In the first place, I am sure you all realize that a production program, a recovery program, a program which is destined to increase production in Europe, calls for different quantities and different types of goods from a relief program.

For instance, if we were engaged solely in relief, you can keep people alive on a diet of in the neighborhood of 2,000 calories a day. If you do that too long you will develop all the diseases which come from undernourishment—tuberculosis and diseases of that sort.

You can keep people alive. They cannot work on that diet, however. A miner cannot work on a diet of much less than 4,000 calories a day. People doing much less strenuous work than that require 2,800 to 3,500. Therefore a recovery program has different amounts and different quantities of food.

The same thing happens in regard to raw materials. If you are having a relief program—cotton, for instance, is provided in the amount necessary to make clothes for the people you are relieving. If you are having a recovery program, you have enough cotton to

operate the factories and to take care of exports, so that people can buy more cotton and more materials of other sorts.

Timber, in a relief program, is sufficient for shelter. That is all you are concerned with. In a recovery program you have to have props for mines, you have to have ties for railroads, you have to have packing cases for the transportation of goods, and so forth; similarly with fuel.

If you are having a relief program, fuel is provided sufficient to heat, light, and cook. If you are having a recovery program, you have got to run the factories and trains.

Perhaps the most outstanding difference is in equipment. If you are going to have a relief program, there is very little equipment required of any sort. If it is recovery, then you have to have a great deal more machinery and equipment to run the factories.

Now, what happens to the whole program if you cut it in the amount you say? In the first place, the total import program of western Europe is not the amount furnished by the United States.

That is only a part of it. Some of it will be financed by loans from the International Bank. Some of it will be financed by the action of other countries in this hemisphere. The amount included in the present estimate is \$1,200,000 for both those purposes.

But greatly more than either of those, it will be financed by the exports of these 16 countries. All together, the import program is between \$11,000,000,000 and \$12,000,000,000, of which we would furnish aid to the extent of 6.8 billion dollars.

Now, if you cut our contribution, you immediately affect all the other sources of financing. The International Bank only can lend, if we are going to have a recovery program, because the International Bank has no funds of its own. What it does is to go out on the American market and sell the bonds. Those bonds will be salable and will be bought by insurance companies, savings banks, and so forth, if there is a good prospect of recovery in Europe so that they will be paid off.

They will not be bought if there is no prosperity.

The other countries of this hemisphere will, I think and hope, regard favorably a contribution to a recovery program, because that restores all these 16 countries as cash-paying customers for them. They will not regard favorably a contribution to a relief program which goes on and on and on.

Similarly, so far as the exports of these 16 countries are concerned, insofar as you cut what goes into the countries, you cut what comes out. It is absolutely inevitable. Sometimes the very goods are processed and brought out; sometimes it is things like fuel to run the factories.

So I should say that if you cut this program by 2 billion dollars, you will probably over-all cut the entire import program perhaps in the neighborhood of five and a half or six billion dollars.

Therefore you immediately throw it back into a relief program, because every one of these items which I have talked about, from food down to equipment, will have to be cut in some degree.

If any one is cut, the interrelations are thrown off balance.

Mrs. DOUGLAS. Would you repeat that figure? If you cut it how much?

Mr. ACHESON. This is purely an estimate, Mrs. Douglas. There is nothing scientific about it. I was saying that if you cut, say, \$2,000,-

000,000 off the United States Treasury aid, you will probably find that the total import program will shrink in the neighborhood of between five and six billion dollars.

I think you will immediately lose the 1.2 billion dollars, which would make a total cut of 3.2.

I should think that exports would decrease, easily, by \$2,000,000,000. That is the order of magnitude. I could be out quite a lot either way. But what I am getting at is that you cannot say, "Well, the entire \$11,000,000,000 program will be exactly the same except for certain items granted by the United States which will be cut out."

That will not occur. It will be quite different.

Mr. JARMAN. And if it reverts to a relief program, which you indicate it would be, that would just mean a permanent proposition. I think it would just have to be done by somebody every year; would it not?

Mr. ACHESON. Yes.

Mr. JARMAN. There would be no hope for any ending of it. If we did not do it, and if there was some other country able and willing to do it, they would have to do it, or Europe would just crumble; would it not?

Mr. ACHESON. That is true. May I add one other thing to this answer. This has caused quite a lot of confusion and I think there has been some correspondence about it between Secretary Marshall and Senator Bridges.

In the President's expenditures budget he has included 4.5 billion dollars for expenditures through fiscal 1949 on the European recovery program.

The question is asked, Why put 4.5 billion dollars in the expenditures budget when you are asking Congress for an appropriation of 6.8 billion dollars? What has happened to the difference, the 2.3 billion dollars? Is it padding, or what is it?

The explanation of that lies in the operation of the expenditures of the Federal Government, particularly in regard to export programs, and to jump to the end first, the explanation is that the actual drawing of the checks to the extent of 2.3 billion dollars is not estimated to occur until after fiscal 1949.

Mr. JARMAN. But the orders will have been made—placed?

Mr. ACHESON. All the purchases have been made, all the orders have been placed, and much of the materials will be delivered.

Now, there is a lag which occurs. For instance, when you gentlemen in Congress authorize the program and then give them the money, it takes some little time to organize an administration and place some orders.

It takes a considerable time, on some of the items, to manufacture the goods.

Whether it can be purchased and shipped right away is a factor. Other things take some time to manufacture. So there is a lag in time there.

Also, some of the goods will be delivered after the end of the fiscal year 1949. But even as to goods which are delivered within 1949, the actual payment will not occur until later.

Now, why is that? That occurs because people have to furnish their bills for what they have done. Those bills have to be audited and approved, and finally checks have to be drawn.

Now, take a matter such as railway transportation. That occurs currently. At the end of the last part of the fiscal year of 1949, every day, the railroads of the United States will be hauling all sorts of goods to the seacoast, to be shipped. There will be very, very large charges to the railroads.

Now, the railroads ordinarily do not put in their bills to the Government for anywhere from 4 to 6 months after the actual service has been performed.

When these bills are put in, very complicated auditing has to take place. That takes several more months. And it is only after a period of 8 to 10 months after the actual freight train has hauled some goods that a check is drawn. So that it might be well into the fiscal year 1950 before you are paying out the money.

But nobody can incur that expense, nobody can ship the coal or the wheat, or order the goods, unless you ladies and gentlemen have made the appropriation.

So that if you say that because you will not pay out all of the money in fiscal 1949, you will not appropriate it, then it means that things will not happen at the end of the fiscal year 1949. They will not buy wheat. They will not buy coal. They will not place orders. They will not have transportation. Because they will have no legal authority to do it.

Mr. JARMAN. In other words, when there is any program extending over a year or 15 months, as in this case—any program of any size—it is absolutely impossible to spend all the money—to draw the checks by the last day?

Mr. ACHESON. It is absolutely impossible, Mr. Jarman, and experience has shown that in this type of a program, about a third of that goes over into the succeeding year.

Mr. JARMAN. I have just one further question. I don't know anybody more competent to express an opinion on this, or anybody whose opinion I, and I believe this committee generally and the people of the United States, value more. It is quite easy for those not too familiar with such programs as this one, outside and inside Congress, to say, "Oh, well, this will just be another UNRRA, another lend-lease. They weren't any good. You know how they were." A colleague of mine from my State, was quoted to me yesterday as having made a remark similar to that. You are very familiar with this program.

I have forgotten what the total expenditure for lend-lease was. Let's say it was \$30,000,000,000.

Mr. ACHESON. It was in that neighborhood.

Mr. JARMAN. Do you think we spent, during that war, any other equal amount—let's say \$30,000,000,000—which saved as many American lives as that \$30,000,000,000 did, or whatever it was?

Mr. ACHESON. Well, I agree with the result that you are suggesting. I wouldn't be technically competent to say that the B-29's did not save a lot of lives. I am certain they did. Expenditures of that sort, expenditures in the atomic bomb development, saved a great many lives. I would not be competent to appraise the degree of importance between the assistance to our allies and development of these new and highly effective weapons.

I think there is no question about the fact that without the expenditures which we made through lend-lease, we would have had very serious collapses on many fronts, and that the military task

of the United States would have been infinitely more difficult and infinitely more costly.

Mr. JARMAN. And the Russians, the British, and French aviators, who were killed piloting some of those B-29's—Americans would have been just as dead if they had piloted them and Americans would have had to pilot them but for lend-lease; would they not?

Mr. ACHESON. Yes, and they probably could not have done it in the areas where the others were operating. No one would have been there except the enemy if our allies had collapsed.

Mr. JARMAN. In other words, lend-lease was not a failure, but was a very valuable contribution to the victory; was it not?

Mr. ACHESON. A very important contribution.

Mr. JARMAN. Now, let's take UNRRA. Of course, there are naturally mistakes made in all great endeavors, but I do not go along with this general criticism in which it is so easy to indulge, particularly if you are unfamiliar with it, to the effect that UNRRA was just throwing money away and was a complete failure.

What do you think about that?

Mr. ACHESON. I do not agree that UNRRA was throwing money away or that it was a failure. I was looking in this speech of Mr. Bevin's before the House of Commons the other day, where he makes quite an extraordinary statement about UNRRA—because as you recall, the British were on the giving end. Yet here is what he says:

If you take the sequence of events in the United States from lease-lend in the war, and I cannot let it go by though I have mentioned it before, I think it is worth calling the attention of the House again to the tremendous work in connection with UNRRA. What sort of Europe we should have had without UNRRA I really do not know, it is too horrible to contemplate. I think it would have been swept with epidemics. Everybody had a share of UNRRA, including Soviet Russia and the eastern States—everybody—and it cost the United States £675,000,000, Canada £35,000,000, and it cost this country, even in our impoverished condition, £155,000,000. It was an event which stemmed the horrible disease we had following the 1914-18 war which most have forgotten. Therefore the European recovery program is a natural sequence in order to try to help rebuild.

I think Mr. Bevin is probably right, and even understates it.

Without the assistance that UNRRA gave to Europe, you would have had complete demoralization in those areas which received UNRRA help. Of course, the British were not one of them. Neither was France.

One of the things which has made an appraisal of UNRRA in the minds of many people difficult is that that whole idea was conceived, and the whole machinery was started at a time when it seemed possible to have complete unity among the nations in regard to relief and reconstruction. UNRRA was originally drafted and agreed on in 1943; all the procedures were laid out at that time; the Congress voted the first funds in the early part of 1944, and it was not for a year or 18 months that we began to see that it was difficult, if not impossible, to work out reconstruction and the settlements after the war, with the Soviet Union and the eastern states.

Events such as the furnishing of relief to Yugoslavia, at a time when Tito was shooting down our planes, have given many people the idea that UNRRA was a failure. It had nothing to do with UNRRA being a failure.

It had to do with the very plan which we had set up being frustrated by events. That is not UNRRA's fault. And UNRRA, I think, operated—taking it all in all, I think it is remarkable how efficient UNRRA was. If you gather together people from every one of some 42 countries, and try to build an organization out of it, it is an extremely difficult thing to do.

Mr. JARMAN. I thoroughly agree with you, and the thought occurred to me when you spoke of Mr. Bevin's reference to our contribution—how much was that?

Mr. ACHESON. About 3.2 billion dollars, I believe.

Mr. JARMAN. In addition to the result to which you refer, the chaos in Europe, I am wondering if one of two other results might not have occurred. I am wondering if it would not have been necessary or wise, or wise and necessary, for us to have commenced, if UNRRA had not been in existence, the very program we are discussing now, at least a year ago, and if it would not have cost more than 3.2 billion dollars more than it will cost?

Mr. ACHESON. I think that is right. I think it would have been difficult to commence this program several years ago, because you did not have the foundation laid.

Mr. JARMAN. I said a year.

Mr. ACHESON. I agree with you, Mr. Jarman.

FOREIGN AFFAIRS DEBATE

The following is the text of the speech delivered in the House of Commons by the Secretary of State for Foreign Affairs, Rt. Hon. E. Bevin, on January 22, 1948.

I realize that there is intense interest in the House in this debate which is to last 2 days. I am also so conscious that what I say can so easily be misinterpreted in other countries, that I propose to exercise very great care in the presentation of the Government's position.

We are indeed at a critical moment in the organization of the postwar world and decisions we now take, I realize, will be vital to the future peace of the world. What, however, I have first to put before the House is the factual background against which decisions must now be taken. I do not propose to weary the House with the long history because every Member is already conversant with it; there have been so many debates in connection with these problems. I must however recapitulate insofar as it is essential for an understanding of His Majesty's Government's proposals for the future.

The story begins with a series of conferences which were held during the war and at which many ideas were formed. Some were crystallized. Some were not. In this connection, of the political developments that have taken place, one of the main issues at that time affecting the line of subsequent policy which was connected with the future of Poland, the solution arrived at Yalta was looked upon by His Majesty's Government at that time as a sensible compromise between conflicting elements, but there is no doubt that as it has evolved it has revealed a policy on the part of the Soviet Union to use every means in their power to get Communist control in eastern Europe and, as it now appears, in the West as well. It therefore matters little how we temporize and maybe appease, or try to make arrangements. It has been quite clear, I think, that the Communist process goes ruthlessly on in each country. We have seen the game played out in Poland, Bulgaria, Hungary, more recently in Rumania, and from information in our possession other attempts may be made elsewhere. Thus the issue is not simply the organization of Poland or any other country, but the control of eastern Europe by Soviet Russia whose frontiers have in effect been advanced to Stettin, Trieste and the Elbe. One has only to look at the map to see how, since the war, Soviet Russia has expanded and now stretches from the middle of Europe to the Kurile Islands and Sakhalin. Yet all the evidence is that she is not satisfied with this tremendous expansion. In Trieste we have difficulties. We had hoped that the method of international agreement would be allowed to work but it has not been allowed to work, and so what should have been a great experiment

in postwar international collaboration has only been a continuing source of friction and bother.

Then we have the great issue in Greece, which is similar to the others I have mentioned. It has been assumed—in fact said—that the Soviet Union can wait; that the United States of America and Great Britain will get tired; and that the so-called government of Communist rebels can be recognized later on without danger; and then in the end that a Communist government will be forced upon Greece and she will be incorporated in the Soviet system of communism with the rest. Here let me make His Majesty's Government's position quite clear. We had hoped to have been out of Greece. We had hoped that after the first election a government would be formed and in time subsequent elections would take place and the whole process of democratic development would be allowed to function. But that has not been allowed because a state of virtual civil war has been perpetuated the whole time. So it is not a question of what sort of elected government there is in Greece—liberal coalition or whatever it might be—but it is a ruthless attempt constantly maintained to bring that country in the Soviet orbit.

Like Trieste, the Greek issue involves the signatures or treaties recently signed by all of us, all the Allies, including the great powers. I would remind the House that Greece had claims for an alteration of her frontiers. I came to the conclusion rightly or wrongly that probably Greece would be more secure if Great Britain did not insist upon that, and that the signatures on the peace treaty would have been a guarantee on our honor of her integrity and there would be no attempt to pursue and trouble her further. But that has not been permitted. I know that I have been pursued in this country on this Grecian question as if it were a question between a Royalist and a Socialist government or Liberal government. It is nothing of the sort and never has been. I beg all my friends in this House to face the fact; this is a dangerous situation. It is a case of power politics. We have been trying to leave Greece an independent country and to get out of it but we also want her northern neighbors and everybody else to leave her alone and to get out of it. We will do that immediately they lift their fingers and honorably agree.

I would remind the House that the United Nations have been brought in but they have been flouted by the Balkan neighbors of Greece. There is a very real danger that they and their Soviet mentors may make a great blunder over this business. In all solemnity I would advise great care. Provocations like these lead sometimes to serious developments which we, and I hope they, are anxious to avoid. It would be better to settle this matter in accordance with the decisions of the Assembly of the United Nations than in the promotion of civil war, or giving any kind of recognition to the Marcos Junta, or in attempting the methods which have been applied elsewhere. This is the Assembly's decision and if we accept Assembly decisions in other matters we should accept the decision in the case of Greece. I say no more than this, that it is dangerous in international affairs to play with fire.

We have had other examples since the war which I need not go into now, wars of nerves and pressure upon weaker neighbors. It is the considered view of His Majesty's Government that attempts to settle international affairs by political barrages and by wars of nerves, reduce the chances of finding acceptable solutions and make agreement difficult, if not impossible. Propaganda is not a contribution to the settlement of international problems. They are all so important that the only way to solve them is coolly and calmly to deal with them on their merits. So much for the brief background of eastern Europe.

I would remind the House that it is under 3 years since the war ended and I hope still, that with the right use of power and organization, these difficulties may be overcome. Meanwhile we must face the facts as they are. Our task is not to make spectacular declarations, nor to use threats or intimidation, but to proceed swiftly and resolutely with the steps we consider necessary to meet the situation which now confronts the world.

The problem in Germany.—Let me now turn to the background in Germany which has led to considerable difficulty. Here again there were recent debates so I will confine myself to a limited survey. There was a discussion at Yalta about the dismemberment of Germany. His Majesty's Government have always considered that dismemberment would inevitably start an irredentist movement causing a resurgence not of a peaceful Germany but of a spirit of war. For those reasons we have been against it. We therefore welcome the change of attitude that appeared to have evolved by the time we got to Potsdam. In a sentence I will make clear what it was. The proposal was limited to central agencies to the evolution of a new German state on a new basis; and to do it there was to be

economic unity and a gradual evolution on a four-power basis which would lead ultimately to a peace treaty and a German Government competent to sign it.

That, I think, describes in a sentence the approach to the whole problem. After we left Potsdam things began to go wrong. The central agencies did not materialize and it was not long before we discovered in the four-power conference in Berlin that the Soviet Government had taken to hurling accusations at the western Allies at meeting after meeting, instead of trying to evolve a common policy. Real progress seemed almost impossible. I do not deny that many things were done and I want to pay my tribute to the Russian representatives, who, when free to discuss things on their merits, are grand people to get on with but who, when it comes to this political business, are held up and this delay and irritation then proceeds. The military governors left to themselves could have settled far more than they did in Germany on the basis of Potsdam, if they had been permitted to do so. We have had discussions about these problems at the Council of Foreign Ministers where, at every step, we have tried to meet anything which might look like a legitimate claim. But the Moscow Conference last spring was certainly very revealing. We were there over 6 weeks. It is a matter of historical knowledge that His Majesty's Government devoted time and energy to trying to give that Conference a working basis; but any rational meeting where there was a will to do business could have done in a week everything we did in 6 weeks.

The European recovery program forces a decision.—It was very wearying and even difficult to keep one's temper at times, I must confess. Calm judgment in the conditions under which we had to work was very difficult. Then between the Moscow and London Conferences other events took place. I will not enumerate many of them but 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. That brought out what must have been there before. In other words this program brought vividly to light what must have been under the surface and what was responsible for these attitudes ever since the war and, if I may say so, for some of the remarks we had to face during the war. The conception of the unity of Europe and the preservation of Europe as the heart of western civilization is accepted by most people. The importance of this has become increasingly apparent, not only to all the European nations as a result of the postwar crises through which Europe has passed and is passing, but to the whole world. No one disputes the idea of European unity, that is not the issue. The issue is whether European unity cannot be achieved without the domination and control of one great power and that is the issue which has to be solved. I have tried on more than one occasion to set forth in this house and at international conferences, the British policy which has been carefully considered in connection with Europe. This policy has been based on three principles. The first is that no one nation should dominate Europe. The second is that the old-fashioned conception of the balance of power as an aid should be discarded if possible. The third is that there should be substituted four-power cooperation and assistance to all the states of Europe, to enable them to evolve freely each in its own way. As regards the first principle I am sure that 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. It is this which His Majesty's Government has striven, and will continue to strive, to prevent. With the old-fashioned balance of power, it was a question of having a series of alliances and so manipulating them as each state moved in a particular direction, it was counteracted. I have no doubt it led to intrigues and to all kinds of difficulties particularly for the smaller states, which often became the instruments of great powers. On behalf of His Majesty's Government I have stated we will not use smaller powers as instruments of policy to produce difficulties between the larger powers; thereby giving the smaller powers a chance to evolve, under the umbrella of the four powers, without the feeling of fear or conflict. His Majesty's Government cannot agree to four-power cooperation while one of those four powers proceeds to impose its political and economic system on the smaller states. On the contrary, as public opinion in those states changes, and as their economic and social development progresses, none of them will willingly submit to the great powers interfering and preventing the introduction of economic changes, or any other changes, which they deem to be for their own good.

The emergency of police states.—But there is another factor giving great cause for anxiety. It evolved largely with Hitler and Mussolini, and now, I am afraid, it has become an instrument of a very dangerous kind in Europe, and that is what

we describe as the police state. We did not imagine that this would be maintained after the war, but it is and it is carried out with ruthless efficiency. I must say, while we here talk about elections and democracy that where the police state exists, votes count for very little. It is true that the votes have not disappeared, but it is the voter himself who disappears, and the successful candidate if he dares to have an opinion of his own. As we saw in the press the other day, some Members of Parliament in Bulgaria said that they objected to the budget, and they were immediately threatened because they had objected to the taxation proposed.

The Americans and ourselves were immediately condemned and made responsible for these men's opinions about their budget. I have never known anybody welcome a budget especially when it involves increased taxation and all this is purely nonsensical. I regret these statements especially by a man like Dimitrov, the former hero of the Reichstag, who now seems to have taken to himself some of the characteristics of the bully and the braggart. This kind of thing creates very great difficulty. As another illustration we have the case of Jacob Kaiser, the leader of the German Democratic Party, the Christian Democrats, who has been prevented from leading his party in the Soviet zone of Germany for not bowing to the Soviet will. His friends have been visited in their houses and have been intimidated. The Social Democrats, I may add, had been dealt with and indeed suppressed in the Soviet zone much earlier. One would give hundreds of instances of the subtlety and cruelty of this police state instrument and I cannot see how a healthy democracy can grow up while it exists. If there was one thing that aroused Britain and made her fight so hard in the World War it was when she realized fully for the first time what the Gestapo meant. We hoped that the end of the war would mean the end of the police state as well as of all instruments of that character. We have always accepted—I would emphasize this and I repeat it now—that the friendliest relations should exist between Russia and the states on the Russian frontier—indeed not only on the frontier—we want these friendly relations with everybody. It is madness to think of anything else if we are ever to have peace.

"We have always wanted the widest conception of Europe."—That is quite a different thing from cutting off eastern Europe from the rest of the world and turning it into an exclusively self-contained bloc under the control of Moscow and Communist Party. The European recovery program brought all this to a head and made us all face up to the problem of the future organization. We did not press the western union and I know that some of our neighbors were not desirous of pressing it in the hope that when we got the German-Austrian peace settlements agreement between the four powers would close the breach between East and West and thus avoid the necessity of crystallizing Europe into separate blocs. We have always wanted the widest conception of Europe including of course Russia. It is not a new idea. The idea of closer relationship between the countries of western Europe first arose during the war and in the days of the coalition—it was discussed already in 1944—there was talk between by predecessor and the Russian Government about a western association. His Majesty's Government at that time indicated to the Soviet Government that they would put the establishment of a world organization first on their list. In any case they proposed to rely on the Anglo-Soviet alliance for the purpose of containing Germany and eventually there might be similar arrangements between France and Great Britain and France and the Soviet Union for this purpose. That was in 1944. We also indicated that it might be desirable to have defense arrangements with western Europe for the purpose of instituting a common-defense policy against the possible revival of German aggression and to determine what role each state should play in the matter of armaments and the disposal of forces. We indicated that when these matters arose we would keep the Soviet Government informed which we did. In 1945, however, there was a great deal of Soviet criticism, especially of this country, over the supposed formation of a western bloc against the Soviet Union which was quite untrue. At that time we had not even had a meeting with our western allies to discuss the matter and yet daily this criticism was poured out and the radio and in Pravda and the rest of it a constant repetition. When I was in Moscow, therefore, in December 1945 and saw Generalissimo Stalin, I explained that the United Kingdom must have security arrangements with France and other neighboring countries just as the Soviet Union had with their neighbors to which he raised no objection.

Soviet Agreement and Threats.—I stated that whatever we did would not be directed against the Soviet Union. To this he replied, "I believe you." Anything His Majesty's Government does now in this matter will not be directed against the Soviet Union or any other country but we are entitled to organize the

kindred souls of the West just as they organize their kindred souls. As late as January 1947 Stalin took a similar line with Field Marshal Montgomery. In 1946 I communicated to Mr. Molotov our intention of entering into negotiations for an Anglo-French treaty, Mr. Molotov expressed interest and asked to be kept informed. He made no comment. I kept him fully informed about the treaty of Dunkirk. I have had no communication since, about that matter. When the European recovery proposal was put forward in the same spirit it was offered to the whole of Europe including Russia. There were no grounds therefore for the fear that it was to be directed against the Soviet Union or used for any ulterior purpose. So clear was it that it was intended for the whole of Europe that in Poland we know that even the Communist Party were anxious to participate. So they were in Hungary and Rumania and Czechoslovakia even announced her intention to accept the invitation. About Yugoslavia and Bulgaria I never had any precise information; eventually all these states were ordered to abstain. What about sovereignty? We took no step to advise, we merely sent out our invitation for people to answer and come freely if they wished to. If they did not we knew they were not staying away of their own volition.

The House will remember the conversations I had with M. Bidault and Mr. Molotov. At first I was reasonably hopeful that every one including Russia would play their part in this great offer. What was the idea behind this European recovery program? First we should do what we could for ourselves and in cooperation with one another and then secure from the American people supplementary aid.

If we want to maintain our independence we have got to do all we can for ourselves. I think it is quite right when all neighbors cooperate together to see what they can do for one another. Then if they find they are stuck they can go to a pal to borrow something to help them through. I do not think that that is taking away one's independence.

In the course of the discussions in Paris there came a change as it was decided by the Soviet Union (and I have very good grounds for accepting this) that rather than risk the generosity of the United States penetrating eastern Europe and Europe itself joining in a great cooperative movement, the Soviet Union preferred to risk the western plan or western union, that is to say they risked the creation of a possible organism in the West. My further opinion is that they thought they could wreck or intimidate western Europe by political upsets, economic chaos, and even revolutionary methods.

What Mr. Molotov said at Paris to Mr. Bidault and myself on the last day when we were there was that if we proceeded with this plan it would be bad for both of us, particularly for France. As the discussions went forward since the Paris Conference last June, we knew almost the precise dates as to when these troubles were going to take place and when these upsets were likely to occur.

I must say this is rather unpalatable for me to have to do, but I suggest the world will never get right unless the thing is seen in all its nakedness and probably we will get on a better footing then.

As I have already said, it is no secret that Mr. Molotov threatened both ourselves and France that we would have to look out for these squalls if we went on with the European recovery program. My answer to him, not boastfully but quietly, was that Great Britain had been accustomed to threats and that we should face them and that they would not move us from doing what we believed to be right. We have not, nor has France or any of the other nations who assembled in Paris, deviated from that course. The best evidence that what I am saying is correct, as I am sure the Honorable Member for Mile End (Mr. Piratin) will agree, is that the Cominform came into existence very quickly. M. Zhdanov and Malenkov are closely associated with it. It has been clearly stated that the object of that body and of Soviet and Communist policy is to prevent the European recovery program succeeding. I do not object to them coming to that conclusion but because they came to that conclusion, I do not see why I should be a party to keeping Europe in chaos and starvation. I cannot accept the proposition that simply because the Cominform says it in their proposals, then everyone must accept it. The fact is that there have been great political strikes in France. Who disputes that they are behind them? The intention of the Soviets was to anticipate the interim aid from America so that by the loss of production at home American aid would be nullified. That is not the way to express love of one's country and one's own people.

European cooperation in recovery program.—Now for the steps we have taken in connection with this European recovery program. As soon as I saw it I submitted it to my colleagues and we felt that there was an opportunity of really

trying to get Europe on its feet. The House will agree that we acted with promptness in order to get it going; we had no ulterior motive at all and we did not intend to attack anyone. I should like to congratulate the staffs of the various foreign offices and governments for the magnificent way in which they worked on this plan with vigor and agreement, which I think was amazing. When the plan was completed United States officials were prompt to render the friendly aid promised by Mr. Marshall. I should like to pay my tribute to everyone who worked for the practical realization of the ideas expressed in Mr. Marshall's Harvard speech. The issue is now before the American Congress and I say no more about it than that we in Europe are not holding back, awaiting the decision of Congress. We are doing our best individually and in cooperation to help one another. We shall be able to do it still more when we know the final decision of the United States Congress.

With all these influences, the London Conference was bound up in spite of what was going on—on which our information was very good—I still went on arranging for the London Conference. In November I confess that events were not encouraging. The flood of abuse against ourselves and the world by Mr. Vishinski in New York was calculated to rouse tempers but I am glad to say it fell very flat with no effect on public opinion anywhere outside the Soviet zone of influence. We still went on trying to get the Conference on a proper basis as I reported to the House before the recess but every day when there was a proposal discussed and an effort made to reach a practical conclusion we had to waste a whole day listening to the abuse of the western powers. It is all very well but everyone in this House is a public man. I ask each one here to try to imagine what it is like to sit there hour after hour and to have thrown at one almost every invective of which one can think and not answer back. I felt very often like the boy who was asked what he would do if he were hit on the one cheek by his school teacher. He said he would turn the other. His school teacher said, that is a good boy Tommy, but supposing you were hit on the other cheek, what then? The boy replied, "then Heaven help him." I must confess that I felt very much like the schoolboy and we had to suppress our feelings.

Now we have to face a new situation. In this it is impossible to move as quickly as we would wish. We are dealing with nations which are free to take their own decisions. It is easy enough to draw up a blueprint for a united western Europe and to construct neat-looking plans on paper. While I do not wish to discourage the work done by voluntary political organizations in advocating ambitious schemes for European recovery, I must say that it is a much slower and harder job to work out a practical program which takes into account the realities which face us, and I am afraid that it will have to be done a step at a time. But surely all these developments which I have been describing point to the conclusion that the free nations of western Europe must now draw closely together. How much these countries have in common. Our sacrifices in the war, our hatred of injustice and oppression, our party democracy, our striving for economic rights, and our conception and love of liberty are common among us all. Our British approach, of which my right honorable friend the Prime Minister spoke recently, is based on principles which also appeal deeply to the overwhelming mass of the peoples of western Europe. I believe the time is ripe for a consolidation of western Europe. First in this context we think of the people of France. Like all old friends we have our differences from time to time, but I doubt whether ever before in our history there has been so much underlying good will and respect between the two peoples as now. We have a firm basis of cooperation in the Treaty of Dunkirk, we are partners in the European recovery program and I would also remind the House of the useful and practical work being done by the Anglo-French Economic Committee. Through this Committee we have already succeeded in helping one another in our economic difficulties, though at first to tell the truth neither of us had very much with which to help the other. But it was useful and the work it did was useful at a very critical moment. We are not now proposing a formal political union with France as has sometimes been suggested but we shall maintain the closest possible contact and work for ever closer unity between the two nations.

Negotiations begin with Benelux.—The time has come to find ways and means of developing our relations with the Benelux countries. I mean to begin talks with those countries in close accord with our French allies. I have to inform the House that yesterday our representatives in Brussels, The Hague, and Luxemburg were instructed to propose such talks in concert with their French colleagues. I recall that after I signed the Dunkirk Treaty on my way through Brussels to Moscow I was asked by a newspaper correspondent, "What about a treaty with

other countries including Belgium?" My reply was—I will quote it—"I hope to sign a similar one with Belgium and with all our good neighbors in the West. The Labor Government will do everything possible to prevent misunderstandings arising from which aggressions might result. You have suffered from two wars, you have twice been occupied in two wars and England has twice had to fight very hard. Great Britain is still conscious of the great role she has to play. She will do everything possible to prevent a new conflict in the West whether it will come from Germany or elsewhere."

I hope that treaties will thus be signed with our near neighbors, the Benelux countries, making with our treaty with France an important nucleus in western Europe, but we have then to go beyond the circle of our immediate neighbors. We shall have to consider the question of associating other historic members of European civilization including the new Italy, in this great conception. Their eventual participation is of course no less important than that of countries with which, if only for geographical reasons, we must deal first. We are thinking now of western Europe as a unit.

The nations of western Europe have already shown at the Paris Conference dealing with the Marshall plan their capacity for working together quickly and effectively. That is a good sign for the future. We shall do all we can to foster both the spirit and the machinery of cooperation. In this context I am glad to be able to tell the House that as a practical immediate measure to make our relations with western Europe closer, His Majesty's Government are proposing to relax the ban on tourist travel. I shall have more to say on this subject a little later.

Britain cannot stand outside Europe.—Our formal relations with the various countries may differ, but between all there should be an effective understanding bound together by common ideals for which the western powers have twice in one generation shed their blood. If we are to preserve peace and our own safety at the same time, we can only do so by the mobilization of such a moral and material force as will create confidence and energy in the West and inspire respect elsewhere, and this means that Britain cannot stand outside Europe and regard her problems as quite separate from those of her European neighbors.

Now with regard to the tourist traffic. This is a step which we propose to take pretty soon, I hope in the early summer, providing such arrangements can be made without involving us in the expenditure of gold or dollars, and I believe that this is possible to negotiate. In our view, a system can be worked out bilaterally with different countries which will enable a start to be made in the early summer. We hope to be able to publish in March a list of countries to which travel will be possible, and travel would then resume about 1st of May. We are anxious to create conditions in which the peoples of the respective countries can associate, and I know of nothing more important to serve this end than the tourist traffic. I would like to make it clear that we are not doing this merely to cater for people with lots of money. Adults will be allowed £35 and children £25 per annum. In this connection, there are a number of organizations which provide cheap holidays abroad. These organizations have handled thousands of people and have rendered a great service in this field. I myself helped to create the Workers Travel Association out of almost nothing, and in the progress of years it has grown to handling the foreign travel of many thousands of people. There is also the Polytechnic and many other bodies of a similar kind.

Therefore foreign travel is no longer a privilege of the few, it is the desire of large numbers of people. We hope to allow this exchange to take place both ways at the earliest possible moment.

Europe's potential resources.—Perhaps I may now return to the subject of the organization in respect of a western union. That is its right description. I would emphasize that I am not concerned only with Europe as a geographical conception. Europe has extended its influence throughout the world, and we have to look further afield. In the first place, we turn our eyes to Africa, where great responsibilities are shared by us with South Africa, France, Belgium, and Portugal, and equally to all overseas territories, especially of southeast Asia, with which the Dutch are closely concerned. The organization of western Europe must be economically supported. That involves the closest possible collaboration with the Commonwealth and with overseas territories, not only British but French, Dutch, Belgian, and Portuguese. These overseas territories are large primary producers, and their standard of life is evolving rapidly and is capable of great development. They have raw materials, food, and resources which can be turned to very great common advantage, both to the people of the territories themselves, to Europe, and to the world as a whole. The other two great world

powers, the United States and Soviet Russia, have tremendous resources. There is no need of conflict with them in this matter at all. If western Europe is to achieve its balance of payments and to get a world equilibrium, it is essential that those resources should be developed and made available and the exchange between them carried out in a correct and proper manner. There is no conflict between the social and economic development of those overseas territories to the advantage of their people, and their development as a source of supplies for western Europe as a contributor, as I have indicated, so essential to the balance of payments.

British colonial development.—What is to be the best method of dealing with this matter? We have been considering and planning for the territories for which we are responsible so as to establish, particularly out of our capital production year by year, and also out of our production of consumption goods, a proper proportion in the right order of priorities to assist this development. Coincident with that planning, welfare and cultural development are being pushed ahead with great speed. Therefore, if we got the plan we intend to develop the economic cooperation between western European countries step by step, to develop the resources of the territories with which we are associated, to build them up on a system of priorities which will produce the quickest, most effective, and most lasting results for the whole world. We hope that other countries with dependent territories will do the same in association with us.

We shall, then bring together resources, manpower, organization, and opportunity for millions of people. I would like to depict what it really involves in terms of population whose standard of life can be lifted. We are bringing together these tremendous resources, which stretch through Europe, the Middle East, and Africa, to the Far East. In no case would it be an exclusive effort. It would be done with the object of making the whole world richer and safer. We believe there is an opportunity and that when it is studied there will be a willingness on the part of our friends in the Commonwealth to cooperate with us in this great effort.

Friendship with the Arabs.—In the Middle East we have pursued a similar policy. We have a long-standing friendship with the Arabs. The development of the Arab countries in the 30 years of their revived national independence has been remarkable, and our own country has made a very good contribution toward it. We shall continue these efforts of believing that a system of cooperation in the economic and social fields may carry with it responsibility for mutual defense on both sides. I have repeatedly said to representatives of United States and of the Soviet Union that the Middle East is a vital factor in world peace. In addition, it is a life line for the British Commonwealth. That statement has never been challenged. I think it is accepted by all. It is in that spirit that we have worked.

I think the House welcomes with me the recent treaty with Iraq, negotiated and signed upon a basis of equality. There has been a lot of excitement in the morning papers about the reactions to the treaty. There must have been some misunderstanding in Bagdad, but the Iraq delegates should be able to remove it upon their return. The Iraq Prime Minister, in a statement issued this morning, has said that that is his confident belief. Honorable members may not have seen the statement, so I will, with the permission of the House, read it. It is as follows:

"Neither I nor the Iraq Prime Minister would have set our signatures to any document which ignored the aspirations of the people of Iraq. We assure our Iraq friends that we intend to face the problems common to us, whether they are problems of defense or of social and economic development. I hope that the treaty, which has been worked out with such care, will serve as a model, when it has been carefully studied, for other Middle East defense arrangements. I am discussing the situation first with TransJordan, whose Prime Minister is coming here to talk with us in a few days. The Emir Feisal will be here at the beginning of next month, and we shall have a talk with him, and through him with his father, King Idn Saud. I hope that other such talks will follow."

I ought to say a word about Egypt, where a different set of historical conditions have to be taken into account. I want to get away from the atmosphere of past disagreements and to concentrate upon what is mutually acceptable in the interests of both countries. I am not without hope of being able to do so at an early date, but it may take some little time.

UN leading to world understanding.—Now I turn to the United Nations. All the steps I have mentioned, in the Middle East and in the western union, are in keeping with the charter of the United Nations. When the ideological quarrel

between the powers is set aside, and it will be sooner or later, and provided that the will to peace takes its place, all the things of which I have spoken will fit into a world pattern. They are all designed upon a regional basis to fit in with the charter of the United Nations. It will be remembered that my right honorable friend, the Minister of State, attended the General Assembly of the United Nations in New York. He will deal with matters relating thereto in his speech. He will deal also with any information that honorable members may want.

I have to confess however, that the United Nations up to now has been disappointing, but it might have been under any circumstances, and it may be better to have the disappointments in the beginning than to have the enthusiasm at the start and the disappointments later on. In any case, I do not despair. There is an enormous amount of work being done in the United Nations—economic, social, cultural, and so on—all of which is leading to world understanding. At the same time, the nations have collaborated in many fields, and they have collaborated a good deal in the settlement of disputes—none of them major disputes, as we understand them—and even in the Security Council itself there have been some very good discussions and good decisions taken. It has achievements as well as failures, but it is handicapped by this ideological thing that is constantly coming up, and the extensive use of the veto which was never contemplated, I am quite sure, by anyone who took part in its creation. There have been commissions in Greece and Korea. The tasks are hard. There is one going to India and Pakistan now, and I wish them well. At last the one in Indonesia seems at least to have created a truce which may lead to a settlement and I express the hope that, notwithstanding our disappointments at the beginning, the whole country will remain behind it because we have to have some world organization in any case. We must try to make it work if we can.

Tribute to great heart of United States.—Now I want to say a word about the United States, which seems to be a sort of bogey in the minds of a good many people. Everybody has the idea that the United States has a great fund of dollars which it is trying to hurl at everybody for some ulterior motive. All I can say is that if anybody follows the hearing in Congress to try to get these appropriations, I do not think they bear that interpretation. They are a democratic country trying to look where they are going and what responsibilities they are undertaking. Our primary task, as I have said, is to build up with our friends in western Europe. We have to get resources together and repair a war-damaged continent, and we have to carry out the development of these new resources overseas. The United States and the countries of Latin America are clearly as much a part of our common western civilization as are the nations of the British Commonwealth. The power and resources of the United States—indeed, I would say the power and resources of all the countries on the continent of America—will be needed if we are to create a solid, stable, and healthy world.

When I speak of the United States, I am not thinking of the country misrepresented in propaganda as a sort of Shylock of Wall Street, but a young, vigorous, democratic people. It is a country not only of great wealth and great resources but one whose people are moved by a good will and a generosity which many of us in the Old World are apt to take for granted. American policy, like the policy of all great countries, must have regard to American interests, but it has been so often traduced as purely selfish that I think it is time to pay a tribute to the great heart of the American people which found expression in the European recovery program. I was quite convinced, and I am now, that there was no political motive behind the Marshall offer other than the valuable human motive of helping Europe to help herself and so restore the economic and political health of this world. It is of course an American interest but it is everybody's interest, it is not exclusively American. This does not make the offer less unselfish.

After relief—recovery.—If you take the sequence of events in the United States from lease-lend in the war, and I cannot let it go by though I have mentioned it before, I think it is worth calling the attention of the House again to the tremendous work in connection with UNRRA. What sort of Europe we should have had without UNRRA I really do not know, it is too horrible to contemplate. I think it would have been swept with epidemics. Everybody had a share of UNRRA, including Soviet Russia and the eastern states—everybody—and it cost the United States £675,000,000, Canada, £35,000,000, and it cost this country, even in our impoverished condition, £155,000,000. It was an event which stemmed the horrible disease we had following the 1914–18 war which most have forgotten. Therefore the European recovery program is a natural sequence in order to try to help rebuild. It is true that the Americans are as realistic as we are. They see the greatest dangers to world peace in economic chaos and starvation. It was the argument used over and over again, that we made a mistake with Germany in

leaving her in such depression that it allowed a Hitler to arise. The instinct is that it is much better to spend money now on rebuilding a healthy and self-reliant Europe than to wait for the devil of poverty and disease to create again conditions making for war and dictatorship. It is sound sense and His Majesty's Government welcomes it.

Neither can I see anything wrong in America insisting that the nations of Europe should do everything in their power to put their house in order as a condition of American aid. If we are to look for hidden political motives, than I detect them much more clearly behind the attempt to sabotage the Paris Conference than behind the great Marshall offer.

Anglo-American partnership in Germany.—I am afraid I am wearying the House, but it is a very long subject (honorable members, "No.") May I turn as quickly as possible to Germany and German organization where we and America are in partnership? In this connection I would like to call the attention of the House to the conflict over the political organization of Germany which is bound up with the zonal problem. We stand for a united Germany, not a dismembered or divided Germany. We have been in favor of a centralized German Government but not an over-centralized German Government that, in our view, could be a danger to peace. On this, I believe, the Americans, the French, and ourselves, despite slight differences between us, can reconcile our views. On the other hand, the Soviet Government are pressing for an over-centralized government, which we know could be used in the same way to develop a one-party dictatorship as has been done in the eastern European countries, and we cannot agree to it. It became clear a year ago that Germany was to be made, as a result of the series of disagreements between the great powers, a terrific financial liability on the United States and ourselves. No food was to come from the East into the West, no exchange, and hence the burden would fall upon our exchequers. I indicated that we had to make it pay by hook or by crook. We really had to make our zone go and take the liability off the taxpayers here. Then the Americans offered fusion of the two zones in 1946 and negotiations for the first fusion agreement then took place in New York.

After the failure of the Moscow Conference I was pressed very hard to agree to some kind of parliamentary instrument in the bizonal area. I opposed it then because I felt that if the step was taken it would mean probably the creation of the final division of Germany and of Europe. We therefore kept our arrangements to the economic field. While it is not bound to succeed we have tried to make this fusion work and work better by setting up an economic council. We are still hopeful in Germany, and I hope I shall not be told I am too patient, because I am not waiting, we are going on with the work. By taking the right lines in our bizonal organization in Germany I believe that in the end we shall achieve a proper organization of central Europe. We have to get the organization on our own side efficient.

Trizonal talks.—Later in 1947 we proceeded with a new fusion agreement. Now, as a result of talks between the American military governor and our military governor we have improved, expanded, and extended the economic council on an interim basis. But that is an interim matter and in a few weeks' time it is intended that the British, French, and Americans shall have an exchange of views on the three zones as well as the two. Those talks will take place at a very early date. What we have done up to now has been done as an interim arrangement.

Another big problem for Germany which we are still trying to deal with on a four-power basis is currency reform, which is absolutely imperative but very difficult to arrange. We are not going to assume that the four-power arrangement is ended at all. We are going to make our three zones work economically in order to take the load off our exchequer here. But we will go on to try to see whether in the end we can make it work. The Germans have a part to play in this. After all, the Germans are more responsible than anyone else in the world for the mess the world is in and if they are to win the respect of the world again and come back into the comity of nations they must work hard and act and administer their decisions; it cannot be given to them. I had a sense of disgust when I read of German farmers holding back food from their own kith and kin, and I can assure the House that the most resolute steps will be taken to put an end to that. But we would like the German administration to whom we have handed powers to do it, because it is important if confidence is to be established to see that it is done. General Clay and General Robertson are to be congratulated on the work carried on in the two zones.

When the Frankfurt agreement is completed, I will circulate it to Members of the House so that they can see it in its detail and I will not weary the House with it now.

I must also say that in working for this Germany recovery we have to bear in mind all the time the countries which have suffered from her attack rather than put German recovery ahead of the recovery of those who were her victims, and this we shall continue to do. We are making trade agreements between Western Germany and Eastern Europe. All kinds of steps are being taken to develop the export trade and to put Germany back on her feet. But I must say once again that if the German people are going to rely on us or act as if we are to feed them all the time, they are suffering from a delusion. Germany must work and produce like other countries.

Mr. PICKTHORN (Cambridge University). Would the right honorable gentleman permit me—I am sorry to interrupt. I am not sure but I think he inadvertently said "eastern Europe" instead of "western Europe."

Mr. BEVIN. I said trade agreements had been made between western Germany and eastern Europe. There have been agreements made with Poland and we are going on with this policy which we think a right one to follow. We are doing nothing to break down the contacts in spite of all the political difficulties. Time will not permit me to go into all the difficulties associated with Germany and I must leave it to my colleagues who will speak later.

Treaty for Austria.—We have persistently endeavored to make a treaty for Austria. I cannot understand why a great nation of 200,000,000 people like Soviet Russia should find it necessary to delay a settlement with a small country of 7,000,000. Whatever the causes may be, I think this torturing of Austria for all these years is really reprehensible. However at the end of the conference there was a sign that there was a possibility of a settlement. I seized it at once and referred it to the deputies and I have been promised a new Soviet proposal in January. I hope they will do it and let us have a chance of settling the problem.

Conference on Japan.—One other matter I must mention in passing is Japan. There is a conflict again here because it is desired by the Soviet that we should refer the peace treaty to the Council of Foreign Ministers, not a very encouraging prospect. Really it is very difficult to agree to it. Here are Australia, New Zealand, India, Pakistan, Burma, and the the Netherlands, who were all in the Japanese war from the very day of Pearl Harbor, and while I am ready to admit that the maintenance of great Russian armies in the maritime provinces probably had an effect before they came into the war, the actual time that Russia was in the Japanese war was but a few days. Yet I am asked to agree that they should take a predominant position over the allies who fought in the Japanese war all the way through. Really we cannot expect people to accept that. What we propose is that the 13 or 14 countries which were involved should form the peace conference. In this way I think we are more likely to clear up the far eastern position and I hope the Soviet Government will see their way clear to accept it and let us get on with the business of at least making one good peace treaty. That of course includes the United States, Canada, and other countries.

Burma has already been debated in the House and our relations with Burma now become the responsibility of the Foreign Office. We are looking after their interests as well as those of the other Far Eastern countries by means of the system which has been developed there.

The Foreign Office staffs so often get criticized and we are always supposed to select the wrong people but I do not want to let this occasion pass without paying a tribute to the staffs of that great office. Since the war the work has been terrific. Recently, to give an example, with the break-down of convertibility practically every agreement that we have made had to be changed before the ink was dry. Otherwise there would have been no food and no exchange. I think the other departments of state will agree that the magnificent way the ambassadors and their staffs worked to prevent any serious disturbance, either in trade or exchange, as a result of the difficulty entitles them to the praises I am giving. They had a very difficult task and I am quite certain they will continue to serve with success. They certainly deserve great credit.

Spiritual union—if not of all Europe, then of western Europe.—To conclude, His Majesty's Government have striven for the closer consolidation and economic development and eventually for the spiritual unity of Europe as a whole, but, as I have said, in eastern Europe we are presented with a fait accompli. No one there is free to speak or think or to enter into trade or other arrangements of his own free will. The sovereignty of the eastern European nations is handicapped. What of the west? Neither we nor the United States nor France is going to approach western Europe on this basis. It is not in keeping with the spirit of western civilization and if we are to have an organism in the west it must be a spiritual union. While no doubt there must be treaties or at least understandings the union

must primarily be a fusion derived from the basic freedoms and ethical principles for which we all stand. It must be on terms of equality and it must contain all the elements of freedom for which we all stand. It is the goal we are now trying to reach. It cannot be written down in a rigid thesis or in a directive. It is more of a brotherhood and less of a rigid system.

In spite of criticism leveled at her, Europe has done an amazing job since the end of the war. One has to be conversant with it to understand just what it has been like with all the economic confusion which was involved everywhere. The countries of Europe are returning now to established law and order. There had never been a war like this before. Never had it been so difficult to make peace. It is not a question of sitting down together as it was at Versailles and then at the end signing a treaty. This time it is systems, conceptions, and ideologies which are in conflict. I do not want to take an irrevocable step which will make future generations pay just because I was overanxious to gain a settlement for settlement's sake. This time it has to be a real settlement which lasts for a long time.

In this new settlement Germany, like all other European nations, must find her place, but as I have said she must not come before her recent victims. As other nations settle down, Germany can settle down but she must be prevented from becoming aggressive again. We shall welcome her return as a democratic nation. In all our efforts this is the objective for which we have been working but I must repeat to the Germans that although I am not blaming the whole German people, they were the great factor which brought the world to this condition. They must realize that as a people they have got to work hard to get their own country and the world back to a proper equilibrium. I have been glad to note the growing realization of this fact among the Germans themselves.

Despite all the artificial barriers set up and the propaganda blared out, which no doubt will increase after this debate, we shall pursue a course which will seek to reunite Europe. If the present division of Europe continues it will be by the act and the will of the Soviet Government, but such a division would be inconsistent with the statements of the highest Soviet authorities and of Stalin himself. He told Mr. Stassen in Moscow, last April that for collaboration it is not requisite that people should have an identical system. Similar statements have been made on other occasions. We have always tried and we are still trying to cooperate with the peoples of eastern Europe on this basis although the activities of the Cominform like those of its predecessor the Comintern afford the greatest hindrance to mutual confidence and understanding. However, we shall not be diverted by threats of propaganda or fifth-column methods from our aim of uniting by trade, social, cultural, and all other contacts those nations of Europe and of the world who are ready and able to cooperate. The speed of our recovery and the success of our achievements will be the answer to all attempts to divide the peoples of the world into hostile camps. I may claim for myself at least that my whole life has been devoted to uniting people and not dividing them. This remains my objective and purpose now. This is the object and purpose that His Majesty's Government, of which I am the instrument, seek to promote in dealing with other countries.

(The foregoing verbatim text is cabled and consequently subject to correction.)

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Mr. JARMAN. In other words, as far as the United States is concerned, I believe that had we not had UNRRA, this program, which I think we must carry out in self-preservation if for no other reason, would have cost as much as this program will cost, plus what we have put into UNRRA?

Mr. ACHESON. I agree with you.

Mr. JARMAN. Thank you. That is all.

Chairman EATON. Mr. Jackson.

Mr. JACKSON. Mr. Acheson, is it not true that generally speaking, we are seeking to do with these 16 European countries, and through almost exactly the same methods, so far as the economic rehabilitation end of it is concerned, what we have been trying to do in Greece?

Mr. ACHESON. No; I think the problem is different in Europe than it is in Greece. The objective is perhaps the same, which is recovery, but the situation is different.

In Greece, we have a country which was utterly torn to pieces during the war, where it was extremely difficult to establish any sort of a stable government, and where actual civil war was going on, which civil war was instigated and aided by people from the outside.

You had very little to start with in Greece. In Greece, the Greek Government needed both military assistance in order to suppress the rebellion and safeguard its borders, and it needed economic help. In the 16 countries with which we are dealing, we have governments which are firmly established.

Mr. JACKSON. You mean the 15 and Greece.

Mr. ACHESON. Fifteen and Greece, yes, sir. You have governments running all the way from the very strongly established and solvent governments of Switzerland and Sweden, to governments which are subjected to rather severe attacks from the left, as in Italy and France.

But they are all established governments. There is no civil war. There is no military problem. There is no current attack on their borders, or current rebellion against the authority of the government. The problem there is entirely economic, industrial, agricultural, financial.

Mr. JACKSON. Well, is it not true, Mr. Acheson, that had it not been for this organized attack against the legal government of Greece by less than 1 percent of the people of Greece, that we might by this time have made substantial strides toward the rehabilitation of Greece?

Mr. ACHESON. Yes; I think that is true.

Mr. JACKSON. Well, is it not also the case that the minorities currently attacking the Greek Government are fewer, numerically speaking, than they are, for instance, in France and Italy?

Mr. ACHESON. A smaller percentage, you mean?

Mr. JACKSON. That is right.

Mr. ACHESON. I suppose there are a smaller percentage of guerrillas in the hills than there are members of the Communist Party in those two countries.

Of course, the members of the Communist Party are not yet in the hills with rifles and we hope they will not be.

Mr. JACKSON. We were told in Paris that there were 250,000 armed men in Paris—armed men of the left. If 18,000 can create the furore and defeat the purposes of our program of aid to Greece, is it not entirely likely that greatly increased numbers elsewhere could also completely stall this program?

Mr. ACHESON. I have no question about the fact that if there were armed insurrection against any of these governments it would be a difficult situation. I should imagine that the governments could suppress it and would.

Mr. JACKSON. What should our position be in such a case?

Mr. ACHESON. I beg your pardon?

Mr. JACKSON. What should our position be in the case of armed insurrection?

Mr. ACHESON. I should suppose that, like sin, we would be against it.

Mr. JACKSON. Would that be sufficient, to be against it, and see it entirely fail, see the program fail entirely, because we were opposed to it, as we are opposed to sin?

Mr. ACHESON. Are you getting at whether the United States should take military action?

Mr. JACKSON. Should we implement these programs, if it became necessary, in the face of armed aggression by minorities?

Mr. ACHESON. Well, I would not feel competent to speculate on what we ought to do. I have not the faintest doubt that if you do get the kind of coup d'état which will occur if we do not have this program, that the United States will be faced with some pretty serious situations.

Mr. JACKSON. I do not think there is any question about that. I am going further and assuming it happens in the face of what we plan to do, because the situation in Greece has been going backward, and instead of achieving the stability we had all hoped for—and I speak as a person who supported the relief bill, supported the Greek-Turkish aid and so forth——

Mr. ACHESON. Yes, I know.

Mr. JACKSON. But many of us are concerned with the very real problem, and the very real probability that there will be organized attacks, possibly in the form of armed attacks, against the purposes of this plan.

Mr. ACHESON. I should think that if you were estimating the possibilities, there is a much decreased possibility that there will be any armed attack or civil war in the 16 countries if this recovery program goes through than there is that there would be such an attack if the program does not go through.

I know you are agreeing with me. You are saying, granted that that is the case, but what should we do if that more remote possibility comes to fruition and there is an attack. Well, I suppose we would help in any appropriate way to support the authority of the Government.

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

Chairman EATON. Are there any other questions?

Mr. MANSFIELD. Mr. Acheson, in connection with the Marshall proposal, we hear now and again from different sources that it will be inflationary as far as our own economy is concerned, and I am prone to agree with that statement, despite the fact that insofar as our grains and other products are concerned, the Secretary of Agriculture has said that that need not be inflationary.

But suppose we have no European recovery plan? Is it not your opinion that under the process now in effect, inflation will continue in this country?

Mr. ACHESON. Well, yes, I entirely agree with that view. What is causing an increase in prices in the United States, as elsewhere, is excess of purchasing power over available goods.

Now, that purchasing power is created by our own tremendous internal activity. We have more investment, more employment than we have ever had in the history of the United States.

We have tremendous amounts of money which are available for purchase.

Now, the European recovery program is a very small part of that. A very small part indeed. Probably 2½ percent—something of that

sort. Now, one may argue, is it not the 2½ percent which causes the trouble? Then you say, what is 2½ percent? Why do you have to pick this 2½ percent out as the part which causes the trouble rather than some other element of purchasing power?

So far as this tending to bring about inflation is concerned, I suppose anything which increases purchasing power tends to do that. The purchasing power would exist whether you have this program or not. The only effect of it is that this withdraws some goods from the United States. Are those goods such as would otherwise be bought? They are, yes. To that extent it has that effect.

You have to choose between whether you think that is a detrimental result so serious that the United States should allow its most fundamental considerations of security, the only hope of developing any collective security through the United States, to go glimmering?

Mr. MANSFIELD. In my opinion, the political aspect of this proposed legislation is the most important by far, but if there were no ERP, would it not be logical to assume that the net result would be, instead of finding markets to get rid of our surpluses, and at the same time putting those countries where those markets are on a sound, stabilized basis, that those surpluses would pile up in this country and the result might be that we would have a very severe deflation, unemployment and all its concomitant ills?

Mr. ACHESON. I think that tendency exists, of course. I do not think that this program needs to be justified, or ought to be justified, as a way of getting rid of something we do not want. I do not believe that is correct. I think it is true that if you allow the catastrophe to happen to the world which will happen if these 16 countries really collapse from an economic point of view, that over a period of years we will be in a highly unfavorable situation economically.

Mr. MANSFIELD. That is right. Now, as you see it, Mr. Acheson, what are the alternatives, if this proposal does not go through?

Mr. ACHESON. I spoke about that for a little while yesterday. It seems to me that we are faced here with a decision which is perhaps the most important since the great decisions of the war, that this country has ever had. It is probably a decision that we will not have an opportunity to make again. I do not think the chance of rescuing western Europe is going to be offered to us again.

That raises the question of what is the significance of western Europe in terms of American security, and American well-being in the world. I believe it is quite vital. I think we are at a turning point, whence we may go to increasing friction and difficulty with the Soviet Union. We may go in a direction in which the tremendous resources of western Europe—which is the second greatest workshop of the world—the skill and industry of 270 million people, has a great chance of being included in a closed system, which will end irretrievably in hostility to us.

On the other hand, if we take a firm attitude here, and make it perfectly clear that we are doing our utmost to restore stability and strength to western Europe, I believe, as I said yesterday, that that strength and stability will be restored, that the Soviet Union, with complete realism, will adjust itself to it, that friction in Europe will decrease rather than increase between us, and that many outstanding issues between the Soviet Union and ourselves which now appear to be insoluble, can be solved.

The great danger which exists between us and the Soviet Union is in allowing situations of weakness and vacuum to occur in the world and not by pressing forward resolutely to restore strength to those areas.

Mr. MANSFIELD. Would you say, Mr. Acheson, that if this program did not go into effect, that you would see in the immediate future a decided increase in state-controlled economies throughout all of western Europe?

Mr. ACHESON. That would have to be. There would be no other alternative. Because the fundamental situation in western Europe is that you have a great many more people than can live on the indigenous resources of that area. They can only live by bringing in goods, creating manufactured articles out of them, selling those abroad and then buying more.

Now, if that process is made impossible, then the only way in which more people can continue in a state of some sort of order, in an area where they cannot all live, is to have some group impose on them, dictatorial regimes. That means that the dictatorial regime will select those who are going to get the rough end, and perhaps end their lives. It means that those regimes will have to look desperately for some sort of connection to supplement the resources they have. If they cannot do it in this operation, in connection with the free world, they will have to do it as Rumania, Bulgaria, Hungary, and Poland have had to do it, by making closed deals with the Soviet Union, and getting some articles for very excessive pay in manufactured goods, and so be brought within the system and made part of it.

Mr. MANSFIELD. That would tend to demolish the argument of some of those opposed to this proposal to the effect that if this ERP goes through, we will be helping governments which are socialistic, so-called, and we will be furthering those particular types of governments.

It would appear to me, on the basis of your argument, and I agree with it, that it might have perhaps the opposite result. Now, one more thing. If this program does not go through, what do you think would be our position from a military security point of view?

Mr. ACHESON. I think it would be greatly weakened. In the first place, I think that any development of the United Nations would be definitely not only halted but frustrated and reversed.

We were saying yesterday that it is impossible to consider a United Nations without Great Britain, France, Belgium, and Holland, Sweden—that just would not exist.

If those people, and all their skill and strength and resources, were included in a system which already has over 300,000,000 people in it, and already extends from the Elbe to the Pacific, you would have a colossal grouping of the human race and resources and skills, with which you would have to be able to deal.

You might also find that that great system opened on the Atlantic. That would be extremely difficult for us. The repercussions of that in Asia and South America would be very great. I should not care to contemplate the result of that.

Mr. MANSFIELD. Mr. Acheson, what I am interested in and have been interested in all the way through these proceedings is the basic concepts which attach to this legislation insofar as it affects us. Am I right in assuming that the failure of passage of such a program as this is would mean that western Europe would be lost to the demo-

cratic way by default, and through necessity would have to perhaps turn in the other direction?

Mr. ACHESON. That would be my view, Mr. Congressman. It would not happen overnight, but it would happen before very long.

Mr. MANSFIELD. Furthermore, if this program does not go through, as contemplated, would it mean that we would have to spend the proposed amount of \$17,000,000,000 in building up the defenses of our own country, and perhaps spend a great many billions of dollars more in taking care of our own security in a military sense?

Mr. ACHESON. Yes; I think it would mean that and I think it might mean things even more serious than the spending of money. I think it might have far-reaching effects on our whole life, both physically and in the institutions we have.

I think if we were faced with the possibility of trouble with an organization as vast as the one I have described, wisdom would dictate that you must do quite a lot with the industrial organization of this country, because it would be very vulnerable as it is now located in large centers.

I think our institutions would be under very great strain to maintain the liberties and freedom which we have, in a system in which we would have to devote so much of our time in dealing with fears.

Mr. MANSFIELD. Thank you.

Chairman EATON. Mr. Kee.

Mr. KEE. Mr. Acheson, speaking at least for the older members in point of service on this committee, I know that we are all very happy to have you here with us again.

Mr. ACHESON. Thank you.

Mr. KEE. It reminds us very much of old times when you helped us in the consideration of quite a number of the very important measures down through the years.

Referring to Mr. Jackson's expressed fear as to possible insurrection and trouble in the participating countries, it has always been my impression that this program, that one of the objectives of this program, really, is to prevent unrest and dissatisfaction and possible internal disorders in these countries.

Is that not correct?

Mr. ACHESON. Yes, sir; that is correct.

Mr. KEE. That is all; thank you.

Mr. JACKSON. Mr. Chairman.

Mr. LODGE. Mr. Chairman, may I ask a few questions?

Mr. ACHESON. I do not think Mr. Jackson differs with that at all.

Mr. JACKSON. Not at all.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Acheson, I direct your attention to page 9 of your statement, in which you indicate that these countries must increase their exports anywhere from two-thirds to doubling them.

I believe you mean over prewar exports?

Mr. ACHESON. Yes, sir; by volume.

Mr. LODGE. That suggests two questions, in my mind.

First, is it possible for them to do that with this aid we are giving them? Do you think that is actually possible?

Mr. ACHESON. The Paris report believes that by 1951 they can raise their exports to between 10 and 11 billion dollars of 1951 value. Now, their exports in 1938 were \$4,600,000,000, which was at 1938

values, and that is roughly \$8,500,000,000, something of that sort. It is 80 percent increase.

Mr. ACHESON. I believe, sir, they can do what the Paris report indicates by 1951. Now, I pointed out the other day that unless currencies are convertible by 1951, they still have not achieved balance, because the Paris report indicates that there would be a dollar deficit of 3½ billion dollars, and a sterling plus at about 1½ billion dollars.

So that they would be in the neighborhood of \$1 billion in the hole.

Now, in the event currencies are convertible, they can handle that. If they are not, they would have to immediately increase their exports still more, so that they would have to be up to the neighborhood of \$13,000,000,000 of 1951 value.

That is a very strenuous effort. Whether they can do it as fast as that, I would not be willing to say.

Mr. LODGE. The other matter that this question raises is that most of these exports will come into America. There are other countries, of course, but there will be an increase of imports into this country.

Mr. ACHESON. There will be an increase, but I should not say that most of them would come here. Most of them—we hope a very large part—will go to southeast Asia. Before the war, over a billion dollars of exports went to southeast Asia. Now practically none go there.

Before the war, a very large amount of western European exports went to eastern Europe. That is one of the most hopeful developments.

Mr. LODGE. That is a potential market?

Mr. ACHESON. Well, it was an existing market before the war. Now it is a potential market.

Mr. LODGE. Yes.

Mr. ACHESON. There is some—it is quite substantial—trade between eastern and western Europe at the present time. It seems to me that one of the great hopes of bringing about some change in stability in Europe is doing everything we can to encourage that trend. The eastern countries of Europe need it and want it very badly. They are discouraged, of course, by pressure from the Soviet Union. But I think it does not do any harm to encourage that conflict of interests as much as possible.

There will be a very considerable increase in western European exports to South American countries, which need these exports very much, and used to have them. But there will be—I hope there will be—a substantial increase into the United States as well.

Mr. LODGE. Would that increase into the United States be competitive with our industries here, to such an extent, I mean, as to harm our economy?

Mr. ACHESON. I do not think it would. Many of the imports will be of materials as to which we have a deficiency. So that will complement and not interfere with our economy.

Some will be of the types of goods which we do not manufacture to any great extent—high-grade textiles, for instance, which are not manufactured to any large degree in the United States, and things of that sort.

There will be some goods which are competitive. At the present time, certainly, we have such a shortage of goods that it is not really

a matter of competition. I think that the American industries can go ahead supplying everything they have and there still is a demand to be filled.

Mr. LODGE. But this is 4 or 5 years from now.

Mr. ACHESON. Five years from now the situation might be different but I should hope not. I should hope that the degree of prosperity which we have in this country will not decline.

Chairman EATON. The Chair would like to make a statement, if it is agreeable to the committee.

Mr. Elliott Wadsworth is here. I wanted to put him on yesterday, but it was impossible. As you know, he was the head of the Red Cross during the war and he is now with the International Chamber of Commerce. I was wondering if we could finish Mr. Acheson, close the questioning of Mr. Acheson at half past 11 and give Mr. Wadsworth a half hour?

Mr. JAVITS. Mr. Chairman, could I have about 3 minutes at the proper time?

Chairman EATON. Yes.

How long would you want, Mr. Wadsworth?

STATEMENT OF ELLIOTT WADSWORTH, OF THE INTERNATIONAL CHAMBER OF COMMERCE

Mr. WADSWORTH. Not very much, Mr. Chairman. I have been listening to these hearings with a great deal of interest and it reminds me so much of my Red Cross experience which began with running the Red Cross in the First World War. I would like to express some views.

In the first place, I think this perhaps is very well worth while, and I hope the money will be provided.

In the second place, I think, from what we have had happen in the Red Cross for the last 25 or 30 years, and all this emergency relief, foreign relief, that the men that go with the money are really more important than the money.

That is, if a commission of imaginative, active, strenuous men goes into these countries, with this money behind them, they can do a great deal to pick up the economies of these countries, and as Mr. Acheson said, that is what the idea is.

The things that will be done in each country will differ tremendously. I am not saying that the Red Cross ought to do this. It is the last thing in the world that they ought to do. Some of your witnesses have suggested that the International Red Cross ought to do it.

Of course, they are not equipped in any way to do it. They are just a small committee, in Geneva.

But when the First World War came on I was chairman of the Red Cross, and the public handed us about \$115,000,000, collected in a campaign, and said, "With this money will you please go out and do everything you can for the Army and the Navy, and to uphold the morale of the Allies?"

We set up a commissioner for Europe, and then a commissioner in each country, and they came back with recommendations as to what should be done.

They might want trucks in one place, serums in another, food in another—but anything that filled in some local need. All of a sudden

they found themselves with a need for equipment to supply the bottlenecks developing and that did have a tremendous effect on the morale of these countries.

These people would go in to handle the money. My other point would be that they should be just as free as possible. No restrictions. They would be entitled to go in and do whatever they could for Italy, France, Belgium, or whatever the country might be, and not try to bring any money back, not try to make any loans, not try to come back with stock piling, or anything—just get these countries on their feet. If you get them on their feet, as has been suggested quite often here, they will be good countries again, and which means they will do a great deal of business with us and with the world at large.

Those were the two particular points that I wanted to express, Mr. Chairman. I hope there will be no restrictions in this bill of any kind. I do not want to keep bringing up the Red Cross, but it has been running for 30 or 40 years—it is completely independent, except that the President appoints the chairman. Six departments of the Government were represented on the committee, so that gave us a tie-in to each department, and the other 12 members were elected. The point was the chairman was the dictator. He can do anything. But he is appointed by the President, he keeps in touch with the President; often he has the Secretary of State on the committee—at least the Under Secretary—and the broad policies are decided, but the Red Cross operates without any control from anyone at all.

I would think that some such set-up as that, for the commission that is going to handle vast sums of money, would be essential.

They are going to have to move fast, just as fast as they possibly can.

This is an adventure, and as has been often said, it is an investment, not without risk. Certainly there is plenty of risk, and nobody knows whether this money will pick these countries up, or whether they would pick themselves up if we just left them alone. But I just want to say, Mr. Chairman, that it is a great adventure for the United States. It is worth the money, if the money is handled right. If it is not handled well, aggressively, quickly, energetically, I do not think the money by itself will accomplish very much.

Chairman EATON. Thank you, Mr. Wadsworth. Now, Mr. Mundt.

FURTHER STATEMENT OF DEAN ACHESON

Mr. MUNDT. I will direct my questions to Mr. Acheson because it has been so long since I have heard him respond, and he responds so well. I am pleased to note that he has not lost any of his diplomatic suavity.

I would like to get your reaction to a feeling which I have which is contrary, I am afraid, to what the gentleman who has just testified said.

I do not want this Administration to be run by a dictator. I want this whole program to make dictators unpopular, wherever they are. I do not even want it to be run by one party. I want it to be an American adventure, an American project, in which the whole American population increasingly has confidence and which the Europeans feel is an American program, so that if there comes a change in ad-

ministration there will be no indication that the program is going to stop and dry up because of that.

For all of those reasons I feel that somewhere in this program there should be a Board of Directors, on which there would be bipartisan representation, and that this Board of Directors shall serve as counselors or advisers and work with the Administrator much as the board of directors of a bank works with the president of a bank.

If you do not feel that way about it you must have some good reasons for disagreeing and I would like to have them.

Chairman EATON. Before the gentleman answers that, would you permit me, as chairman, to ask you a question, Mr. Mundt?

The Board of Directors would be appointed from both parties. Would that Board of Directors do better if it were composed of businessmen, regardless of their politics?

Mr. MUNDT. I think the first part of that is certainly true. I think it would do better if it were composed of businessmen. I do not think you can find good businessmen who are not interested in politics nowadays.

Chairman EATON. Very well. Mr. Acheson, you may answer the question.

Mr. ACHESON. I think we went over this question this morning, but I will go over it again.

I was reporting on the studies of the Brookings Institution, which seemed to me a very good solution of the organizational problem. It was pointed out that one of the first recommendations of the Brookings Institution was that a separate agency should be created. With that I believe there is very little difference of view anywhere.

Mr. MUNDT. By "separate" do you mean outside the State Department?

Mr. ACHESON. Yes. The Brookings Institution makes a distinction between an independent agency, which runs itself, and one which is separate from other organizations in the executive branch.

The Brookings Institution points out that this activity is an activity of the executive branch of the Government. They believe that the authority should be vested in a single administrator. They recommend that he should have an advisory board which is appointed to consult with him and should include representatives of industry, agriculture, finance, labor, and perhaps some other groups which should be represented.

They do not believe that a board is a good instrument for carrying out executive actions. With that I agree. I think a board has an excellent place, in the field of Government, in dealing with legislative matters—such as rate making. I think it has a place where you have adjudicatory actions, such as decisions of cases. I do not think it works very successfully as an executive agency. Therefore, I am in favor of vesting the authority in a single person.

There are more than business considerations involved in the administration of this program. There are very important business considerations, it is true. But there are also others. There are important considerations of foreign policy and there are considerations dealing with the internal policy of the United States.

All of those can be better represented through the participation of the various agencies of the United States Government which are charged with the responsibility for the internal economy—transportation, agriculture, labor, and industry.

tation, ocean transportation, agricultural purchases, and so forth—than could be done by a board of directors.

That briefly sums it up.

Mr. MUNDT. Except that you have not gotten to my question yet, which deals with the bipartisan aspect.

Mr. ACHESON. When you come to the bipartisan part of it I think we want to stop and consider very carefully what we mean. So far as the constitutional practice of the United States is concerned, the execution of laws is placed under the President. There can only be one man who is President. As far as I recall, the last bipartisan President was John Quincy Adams, who was elected on both tickets. You cannot split a man. He has to be an individual.

To take this part of executing the laws of the United States out of the administration, it seems to me, would be very unwise indeed. I do not think you would achieve the purpose you have in mind by having a board, even one in which the politics of the members are equally balanced. A board has to vote. A board has to discuss and reach conclusions. I think those conclusions are better carried out by having the Congress put in the legislation what it wants to achieve, and the conditions and terms under which it wants to achieve it, and then having the President, whoever he may be, act in accordance with our constitutional system which has, in this respect, I think, operated satisfactorily for 150 years.

Mr. MUNDT. For 6 years, Mr. Acheson, I served on a board such as I have in mind for this task—the Game and Fish Commission of South Dakota. There are three Republicans and three Democrats and a director, and we never made a political decision. Every decision had to be made in the interests of conservation because we had to have a vote of four, which means a bipartisan decision. We had to have a project decided on its merits.

I do not think that you are departing at all from the American system of economic administration when you have a board of directors working with an executive. The executive could be appointed, and probably should, by the President. He would also select the board. But he should select, in my opinion, a board evenly divided between the two major parties. He would select his executive without regard to politics. He probably would select a Democrat, which would be perfectly all right. But I do feel that in this great adventure, as it has been called, there is room to recruit the best brains of the country, and I would like to see the three best Democrats in this whole field—industrial, labor, rehabilitation—and the three best Republicans in the field set up as a board of directors to work with the man selected by the President, which is in keeping with the constitutional aspect you have pointed out.

Mr. ACHESON. I have no objection to having the best people in the world in the administration or on an advisory board to work with this man. I think there are two things which I might amplify.

The decisions which are going to be made by this agency are not decisions which are going to be aided very much by having representatives of the American political parties consider.

For instance, one of the problems this administration has to decide and act upon is how to create enough energy in Europe to turn the wheels of the railroads, which is going to increase production. That

has nothing to do with Democratic or Republican politics or partisanship in any way.

There are very serious problems as to whether you shall turn to coal as the essential source of energy. And, if you do, whether you will develop the German mines or the higher-cost and less-efficient French mines. Also, to what extent you could get Polish coal in and to what extent you might want to supplement that by petroleum.

On the other hand, it may be, from an engineering point of view, that it is much cheaper and more effective to get energy from petroleum. If you take that course you immediately increase the refining capacity of Europe and you would operate out of the middle eastern oil-producing fields to produce more petroleum.

That is the type of question that will arise.

You will have questions about how you can get financial stability in Europe. Should the currencies be revalued in relation to one another? Should you have an over-all look into the currencies of Europe, or will you have to do it piecemeal? That does not have anything to do with internal American political considerations.

In the second place, I think you will be disappointed if you believe you can get very outstanding men to be on a board where six or seven or eight people are going to vote on matters of this sort. I do not see how any strong, vigorous executive people will want to do that. You will have very, very great trouble in getting qualified people to be the administrator in the United States and the special ambassador abroad. I have had experience in trying to get outstanding men out of industry or banking to take these jobs, and if you are going to do that eight times, I just do not think you can achieve it.

Mr. JARMAN. Will the gentleman yield momentarily?

Mr. MUNDT. Momentarily.

Mr. JARMAN. I want to compare these great endeavors. What was the appropriation this board had control of out in South Dakota?

Mr. MUNDT. We worked on the license fees. We did not have an appropriation.

Mr. JARMAN. Do you remember the approximate amount of it?

Mr. MUNDT. It was not quite as much as this astronomic figure we are dealing with here. It was a Republican State, and we deal with smaller figures out there.

Mr. JARMAN. How long was your tenure on that board?

Mr. MUNDT. Six years.

Mr. JARMAN. It was not quite as urgent as this 15-month program.

Mr. MUNDT. I have another line of questioning I would like to pursue now.

As I understand it, your major reason for supporting this program—and it certainly is mine—is that you feel that it will help curtail, or maybe completely curtail, what you once referred to very emphatically, I believe, as the “aggressive expansionist program” of our eastern neighbor; is that correct?

Mr. ACHESON. I should like to put it more positively. This is not a negative attitude. I think that if you go forward with this program you will restore the strength of western Europe. I think you will pull western Europe together economically and you will give the biggest spurt that possibly can be given to the political unification of western Europe.

If you do that, and have a strong, vigorous, unified western Europe, I think you change the whole aspect of the Soviet policy.

Mr. MUNDT. Do you feel that this program per se, standing on its own bottom and operating by itself, is sufficient to do that if you get \$6,800,000,000 and do nothing else?

Mr. ACHESON. Well, I suppose we would do everything we can to assist it and help it in every possible way.

Mr. MUNDT. Very good. Would you agree with me, then, that one of the other things we should do concurrently with this is to move forward in developing a program whereby the United Nations can operate effectively?

Mr. ACHESON. Most assuredly.

Mr. MUNDT. Along with it, would you have a vigorous information program to explain our purposes?

Mr. ACHESON. Certainly.

Mr. MUNDT. Would you agree, also, along with this, that there should be a reappraisal of our entire export policy toward those countries which have openly said that they are trying to defeat the success of our program in these 16 nations? To me it just is not at all consistent to be shipping things to countries who say, "We are trying to defeat the success of your program in western Europe." Helping those countries would be defeating our efforts in western Europe.

Mr. ACHESON. Surely I think we should have a reappraisal. I think that reappraisal has gone on for some time and is going on now. I think it must be clear that you cannot have two inconsistent things at the same time. You are not going to have a strong, vigorous western Europe without a revival of trade between eastern and western Europe. That is just quite impossible.

Mr. MUNDT. At that point, then, if the Soviets should decide that they do not want to revive that trade, do you argue that our whole program is doomed to failure?

Mr. ACHESON. No. I think the chances are very great that the Soviet Union will not be able to stop the revival of that trade; and if they exert pressure to do that they will greatly strain their relations with these countries.

Mr. MUNDT. If you argue that we cannot have a revival of western Europe without the revival of trade between East and West, you argue that the Soviet Union can defeat our program if they elect to do so. They have told the world that they elect to do so.

Mr. ACHESON. They have told the world that they do not want a revival of trade between eastern and western Europe.

Mr. MUNDT. They have told the world that they do not want this program to succeed.

Mr. ACHESON. Yes; but this is not going to be decided on the basis of dialectics in the Cominform. I am quite sure that the influence of Russia and her satellites is directed to preventing the program from going into effect.

Mr. MUNDT. Or succeeding if it does go into effect.

Mr. ACHESON. If it does go into effect you will have a great many forces operating which I think should be strengthened, and that is the intense desire of the countries of eastern Europe—to exchange goods which they have for goods which they can get in western Europe and cannot get anywhere else. There is a very strong pull, and one which is going on at the present time, at the present moment, between eastern and western Europe.

I think what you ought to do is do everything you can to increase that. Insofar as the Russians attempt to prevent it, you are putting a very great strain on Russian control in those eastern areas—a strain which is too great for them.

I think their control will break down—which I think is to the good.

But I do not have any doubt in mind that you can't in the long run, have recovery in western Europe without this revival of trade.

Now, as to the alternative. You say you are strengthening eastern Europe, and these people are hostile to us, and that is bad. The alternative is turning the whole thing over to those people and incorporating all those people, with all their skills, resources, and manufacturing efforts, sooner or later, into this closed system of the Soviet Union.

That, I think, is a worse alternative, unless you continue to have the thing drag along in a sick state for years and years, in which case you will have continued Russian pressure in eastern Europe which may, at any moment, flare up into active hostilities.

Mr. MUNDT. If I follow the logic of your argument, you disturb me about the success of this program, because, if I understand what you say, it is this: That this \$6,800,000,000 program cannot succeed in western Europe without a substantial amount of trade between eastern Europe and western Europe.

Mr. ACHESON. I do not say that it cannot succeed, but I say that unless that is recreated—that trade—then we have got to develop an equivalent amount of the same type of trade somewhere else.

Mr. MUNDT. That is saying something different from what I understood you to say first.

Mr. ACHESON. Well, I do not know where you would do it. Therefore, it is of the utmost importance—and if you read the Paris report you will see that that is one of the premises of that report. This is nothing new. This has been in the report since it was published last September.

Mr. LODGE. I think this is a very interesting point, and I believe that this trade with eastern Europe is a very important factor. The thing that worries me is, What is to prevent Russia from draining off the capital-goods surpluses which we and the 16 participating nations ship into eastern Europe? If they remain in eastern Europe, and if there is a revival in western Europe, I can agree with you 100 per cent. The thing that worries me is the capacity of the Russians to drain off those capital goods which would, in the end, come in large part from us.

Mr. ACHESON. I do not know what you mean by the "capacity of the Russians" to drain it off.

Mr. LODGE. The ability of the Russians to drain it off. Could they drain it off?

Mr. ACHESON. Not and have their system work at all. Trade, I suppose, is the exchange of articles of comparable value. If there is any magic by which the Russians could force western Europe to manufacture goods and send them to them without any return, that would be what you are talking about.

Mr. LODGE. Yes. I do not believe that is magic, Mr. Acheson. I think they have done that already, as you have doubtless been informed.

Mr. ACHESON. They have done that with western Europe?

Mr. LODGE. With eastern Europe.

Mr. ACHESON. Of course they have—because they have their armies there.

Mr. LODGE. I am afraid I have not made my point clear. The point I make is: If the capital goods surpluses go into eastern Europe in exchange for agricultural surpluses, what is to prevent Russia from draining those capital goods surpluses off?

Mr. ACHESON. Mr. Lodge, I do not think I understand what you mean by "capital goods surpluses." Do you mean goods or do you mean machinery?

Mr. LODGE. I mean industrial products as opposed to agricultural products, to use the term in the usual sense.

Mr. ACHESON. You mean this: Suppose Bulgaria, for instance, sells wheat to France and France sells them some trucks.

Mr. LODGE. Trucks which were manufactured, let us say, because we sent them coal, spare parts, machine tools, and so forth.

Mr. ACHESON. All right. The trucks are in Bulgaria. You say: What is to prevent the Russians from just coming in and taking them?

Mr. LODGE. Yes.

Mr. ACHESON. There is no physical force that will do that. But what I am telling you, I think, is the most hopeful thing in the world. If that kind of thing continues, then the Bulgarians are not going to send any wheat to France. They are not going to do it just for fun.

Now, if the Russians want to send wheat in return for those trucks, all right.

Mr. LODGE. In other words, we come down to the question of whether they can, in fact, keep that "iron curtain" fast or can they not. They will try to, but can they?

Mr. ACHESON. That is right.

Mr. LODGE. Thank you very much.

Mr. MUNDT. I think that is something we should explore carefully to make sure that we do not project a program the defeat of which we can make possible by an attitude on the part of the Soviets.

That is something that I have insisted on throughout—that this be a comprehensive program. My criticism of the State Department is that it relies too much on the \$6,800,000,000 without doing the corollary things, most of which I think you have mentioned today.

One other question on a different subject. I have a feeling that if we got into this as a teamwork program—the 16 countries and us, and perhaps Germany, which would make it 18—to revive and restore their economy and rehabilitate their politics, or make possible a foundation of politics over there which is stable, I wonder if you would agree with me that it is only right and equitable that, as one of the return considerations that we receive for our efforts, the countries can help make available to us such radio time as we might require on state-owned radio stations to tell the people, in their own language and on their own stations, why we are there and to do the thing that Mr. Wadsworth so aptly described, namely, what our men, with our money, are endeavoring to do to help them.

Mr. ACHESON. I have no objection whatever. In fact, I am entirely in favor of the most appropriate and simple methods of getting access to the means of telling the story in the countries involved. If that is the best way, I agree with you.

Mr. MUNDT. It would not cost us any additional money and it certainly would be a very fine gesture of friendship and reciprocity on their part.

Mr. ACHESON. I think it would be infinitely better if they themselves were to tell them what we are doing.

Mr. MUNDT. With a little nudging from us as to what they should say, perhaps.

Mr. ACHESON. If our own people, through our own broadcasting system, were telling us something in the United States we would believe it a great deal more than if some foreigner were telling us the same thing.

Mr. MUNDT. That is all.

Chairman EATON. Mrs. Douglas.

Mrs. DOUGLAS. Mr. Acheson, Mr. Lodge characterized as an interesting thesis your statement on the trade situation between eastern and western Europe. It is not a thesis but a fact that there is trade today between eastern and western Europe. Did not the Paris Conference include trade between eastern and western Europe as a necessary part of any rehabilitation program for Europe?

Mr. LODGE. Will the lady yield?

Mr. ACHESON. What you said is true; yes.

Mrs. DOUGLAS. Yes, I yield.

Mr. LODGE. I should be delighted to take part in a discussion of semantics with you at any time, but it seemed to me that it was a thesis insofar as satisfactory trade relations had not yet been achieved between eastern and western Europe because of the fact that western Europe hasn't sufficient capital goods surpluses and eastern Europe hasn't got sufficient agriculture surpluses.

If you believe that the trade already existing between eastern and western Europe is satisfactory within the terms of ERP, then you and I have entirely different hopes for this program. My hope is that it will go far beyond, and, insofar as it does, it constitutes a thesis at this time.

Mrs. DOUGLAS. I will not get into an argument with you because we will just waste time. I am not talking about satisfactory or unsatisfactory trade relations. I am talking about a fact which I think we must have firmly in mind before we go to the floor of the House. Suppose some Congressman on the floor asks, "What do you mean, trade between eastern and western Europe? Do you mean we are going to help those Communist countries? We won't have anything to do with it." How can we answer intelligently if we do not have the full facts? That there is trade between eastern and western Europe is a fact and not a thesis. I repeat that there is today trade between eastern and western Europe.

Mr. LODGE. But relatively little trade.

Mrs. DOUGLAS. That is right. But I think the average person in the street does not realize that such trade exists.

Mr. LODGE. It is quite inadequate.

Mrs. DOUGLAS. I am not talking about adequate or inadequate trade relations. I am saying that there exists now trade between eastern and western Europe, and I am also saying that in the Paris report the 16 nations felt that recovery of Europe demanded a continuance of this trade. I think we must recognize existing trade relations between eastern and western Europe before we go to the floor of the House.

Mr. LODGE. Insofar as the program is concerned, it is a thesis; insofar as it exists, it is a fact.

Mrs. DOUGLAS. It would be tragic if at the eleventh hour we threw the whole Marshall plan over because we suddenly discovered a fact that should have been self-evident from the first. The Marshall plan will certainly indirectly help Communist-dominated countries. To abandon the program for this reason is to turn all Europe over lock, stock, and barrel to the Communists. Mr. Acheson, you used the figure of 2½ percent for exports——

Mr. ACHESON. No. I said what we are talking about, in the European recovery program, is about 2½ percent of the gross national product of the United States.

Mrs. DOUGLAS. That whole 2½ percent is not financed by our aid program, is it?

Mr. ACHESON. Some of it is financed in other ways.

Mrs. DOUGLAS. Yes. And by a natural flow of exports.

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. Will you define a little more specifically what will be the powers of the missions attached to the embassies working for the aid program?

Mr. ACHESON. Well, I suppose that what they will be chiefly charged with doing is, in the first place, seeing what is being done in the countries with the aid which we advanced under this program. They will have to be reporting continually to the Administrator what is happening in each one of the countries. They will also be reporting on the degree of recovery, financial stability and intra-European trade which is going on. They will be the great source of getting all sorts of information on the actual operation of the program.

They may be required to take up with the countries certain things which the Administrator thinks should be done. It may be that in one country the Administrator will think that coal production is lagging, that that ought to be stimulated. It may be that factories cannot run because they are not getting enough power. Then, we may be sending too much material for factories and not putting enough emphasis on getting more power.

Mrs. DOUGLAS. Then they will be technical men.

Mr. ACHESON. They will be technical men in the very broadest sense of the word; yes.

Mrs. DOUGLAS. To get back to the board, in the administration of the program, the Brookings Institute suggests that the Administrator work with the heads of the bureaus and governmental departments.

Mr. ACHESON. Yes.

Mrs. DOUGLAS. If you replaced the heads of bureaus and governmental agencies with a board made up of businessmen, would they be as well informed as to the availability of foods as the Secretary of Agriculture and his staff?

Mr. ACHESON. They will have to go, in any event, to the departments of the Government which were dealing with these particular subjects.

Mrs. DOUGLAS. What will happen if such a board of businessmen outlines a program for the export of foods under the Marshall plan and the Agriculture Department, when questioned, disagrees with their figures? The Agriculture Department has one set of figures and the board of businessmen has another set of figures provided by experts

outside of Government. What will happen then? Will this make for the harmonious and efficient administration of the Marshall plan?

Mr. ACHESON. You are creating a very serious problem if you have a board. The action of a board is anonymous. A board can get all the information that exists about a problem from the Department of Agriculture or anyone else. Then the board votes. And the board may vote 5 to 3 to do something contrary to all this information. Nobody is responsible for that. Nobody is called up to explain why they should do something which everybody in the Government has said is impossible.

The chairman says: "All I know is that the vote was 5 to 3 the other way." There is no one to assume the responsibility. This has happened before. It is not merely theoretical.

Mrs. DOUGLAS. Europe recovered at a more rapid rate after this war than after the last war?

Mr. ACHESON. Yes.

Mrs. DOUGLAS. How much of that, would you say, was due to UNRRA?

Mr. ACHESON. Well, UNRRA, with the other assistance which came from the United States, was very largely responsible for it.

Mrs. DOUGLAS. It has been mentioned here today that we must have the support of the American people for this program if we are to continue and see it through to a successful conclusion.

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. Then it is very dangerous to go around, for whatever reason, continually attacking UNRRA, would you not say? Because the American people might well feel that if they had thrown their money down a rathole with UNRRA then there would be no hope of success with this program, which I think is the reaction of a great many people in the country at this moment.

Mr. ACHESON. I think it is a very great mistake to attack it unjustifiably. If it did any things which were inefficient or erroneous, I think those should be brought out.

Mrs. DOUGLAS. This program, in your opinion, will not hurt the United Nations, but indeed is essential if the United Nations is to survive?

Mr. ACHESON. That is correct.

Mrs. DOUGLAS. And it is not a United Nations problem because all the nations of the world do not go into a single nation—into France for instance—and help her work out a problem. She must work out her own problems. And we, unilaterally, are giving her the aid so that she can work out her own problems and so that they can be a member in good standing within the United Nations.

Mr. ACHESON. That is true, Mrs. Douglas. The fundamental problem here is that in order to furnish the necessary imports there has to be financing, which can only be furnished by the United States Congress. Therefore it is not anyone's problem except that of the United States Congress.

Mrs. DOUGLAS. Would you not say that in all our talk of communism, and the fear of Russia and what may lie ahead, we perhaps stress too lightly the fact that even if Russia were our close friend in the world at the moment and there were no fear of communism, we would be still confronted with a world which has been shattered by war and a world which must be repaired?

Mr. ACHESON. That is entirely true. The Russian attitude merely makes it more urgent and more difficult.

Mrs. DOUGLAS. More difficult, but we are still working out of the war picture into a peace picture, and we are the only nation in the world that can give the help needed at this time.

Mr. ACHESON. I agree entirely.

Mrs. DOUGLAS. Thank you.

Chairman EATON. Mr. Javits.

Mr. JAVITS. Mr. Acheson, it is a fact—I assume we all agree—that the European recovery program will be made or unmade by the technical skill of the people who administer it on the ground. Do we agree on that?

Mr. ACHESON. That would be very important. I should hope that, insofar as administration in Europe is concerned, there will be as little as possible American administration. The actual translation of goods into productive activity has to be done by the countries themselves.

Mr. JAVITS. Well, this is essentially an engineering job, a job of making production. We can agree on that.

Mr. ACHESON. That is the ultimate goal. It has a great deal to do with how you appeal to the people, and so forth, however.

Mr. JAVITS. Is it not a fact that the most successful agency which was able to enlist the technical brains of trade and industry was the War Production Board?

Mr. ACHESON. I should say the War Department did a pretty good job.

Mr. JAVITS. Well, the WPB was the War Department's arm.

Mr. ACHESON. It was part of it.

Mr. JAVITS. Well, when we get to the grass-roots administration of the European recovery program—I am not talking about the high-level policy—should we not follow as closely as we can a proven model?

Mr. ACHESON. If that is the model, we ought to follow it. I think the job you have here is somewhat different to that which the War Production Board was doing.

Mr. JAVITS. Will you tell us why?

Mr. ACHESON. The War Production Board did not have the job of acquiring and shipping to the various parts of the world a whole series of goods and determining what should or should not be done. All of those things were done by what were called the claimant agencies. The War Department developed what it needed to fight the war. The Navy Department developed what it needed to fight the war. All of those people carried on their operations with the factories that were producing. The War Production Board was an agency to resolve the conflicts when too many people wanted the same thing and also to stimulate production.

Mr. JAVITS. That is it; to stimulate production, that is the fact. Thank you very much.

Chairman EATON. We will recess until 2 o'clock.

Thank you very much, Mr. Acheson. We have enjoyed having you with us.

Mr. ACHESON. Thank you, sir.

(Whereupon, at 12:30 p. m., the committee recessed until 2 p. m. the same day.)

AFTERNOON SESSION

Chairman EATON. The committee will please come to order.

We have the very distinguished pleasure of welcoming as a witness today Mr. Martin, Chairman of the Board of Directors of the Export-Import Bank.

I will ask Mr. Martin to make his statement.

**STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN,
BOARD OF DIRECTORS, EXPORT-IMPORT BANK**

Mr. MARTIN. Mr. Chairman, in appearing before you to discuss the European recovery program, I believe it appropriate for me to indicate generally the function performed by the Export-Import Bank in the past and the function it should perform under the program which is now the subject of consideration by this committee.

The bank was created by the Government of the United States to fill a need in the world of finance resulting from the lack of adequate private capital facilities for financing trade between the United States and foreign countries.

From the time of its creation in 1934 until 1939, the bank operated on a limited scale and its activities were, for the most part, confined to short- and medium-term credits to finance the export of specific industrial products or commodities.

With the advent of the European war, in 1939, the United States Government was called upon by foreign governments, particularly in Latin America, for financial assistance to support their economies. Funds were voted the bank by the Congress for that purpose, and from 1939 until the end of World War II the Bank extended a number of direct Government long-term loans.

In July 1945, the Congress, anticipating the need of the war-torn countries for emergency financial aid from the United States, enacted the Export-Import Bank Act of 1945 and increased the bank's lending authority to \$3,500,000,000.

In the hearings and debates on the bill at that time it was made clear that the Congress expected the bank to aid in the reconstruction and rehabilitation of the economies of war-devastated countries through long-term reconstruction credits during the period between the end of the war and the time when the International Bank for Reconstruction and Development would commence operations.

Accordingly the bank, during the period from September, 1945, until the latter part of 1946 authorized large long-term credits to the Governments of France, Belgium, The Netherlands, Greece, Poland, Norway, Denmark and Finland. Dollarwise, these loans constituted the great bulk of the lending of the bank during this period.

After the International Bank had begun operations, the Board of Directors of the Export-Import Bank moved to bring to an end the program of large emergency reconstruction credits and to revert to the bank's more normal function of facilitating and financing American foreign trade by short- and medium-term credits for specific purposes. This action of the board was reported to the Congress in the published semiannual report for the period ending December 31, 1946.

As events developed, however, the need of foreign governments for financial assistance proved greater than had been foreseen; the Inter-

national Bank was unable to assume the burden to the extent originally expected of it; and the Export-Import Bank found it impossible to meet all demands made upon it for reconstruction assistance and financial aid, either because of lack of funds or because the credits sought would not meet the standards set up by the Congress in the Export-Import Bank Act of 1945.

The consequence has been that the Congress has had to vote additional funds for foreign aid and now is being called upon for still more funds under the European recovery program which has been submitted for its consideration.

The program contemplates that assistance may be extended by way of grants, cash payments, or credits. It is generally agreed that the Export-Import Bank is the agency through which the credits under the program shall be extended. It is an agency which combines financial, economic, and political elements essential to foreign lending and is administered by a bipartisan board. Except for certain specialized credits, it has performed, and is today performing, all foreign lending in which the Government has engaged. In its 14 years of existence the bank has acquired wide experience in developing and applying sound principles and practices in the consideration and administration of foreign loans under widely diverse conditions.

With an agency already in existence which has engaged in foreign lending and which will continue to engage in foreign lending under the Export-Import Bank Act of 1945, it would be most inadvisable to create another agency performing like functions. I do not need to describe to the members of this committee the confusion that results and the duplication of efforts involved in the case of two governmental agencies operating in the same or similar field. I believe it suffices to say that all foreign lending should be centralized in one agency of the Government.

Accepting this thesis, the problem which confronts us in formulating the foreign-aid program is to utilize the bank within the framework of an over-all unified aid program. The necessity for an over-all unified program is clear. There is no satisfactory or logical method by which one is able to say in advance as to what amount of the total aid extended should be by way of credit and what amount by way of grant. Nor is it feasible to determine in advance which products or commodities should be furnished on grant and which on credit terms. These and other considerations call for an over-all unified program which is controlled and directed by one entity.

I believe that the administration program now before you, as presented in H. R. 4840 introduced by your esteemed chairman, Mr. Eaton, achieves this end of utilizing the Export-Import Bank within the framework of an over-all unified program. By the provisions of the bill, the Administrator in consultation with the National Advisory Council would determine whether assistance is to be extended on grant, cash payment, or credit terms. Then, and I now quote from the bill:

When it is determined that assistance should be extended under the provisions of this act on credit terms, the Administrator shall allocate funds for the purpose to the Export-Import Bank of Washington, which shall notwithstanding the provisions of the Export-Import Bank Act of 1945 (59 Stat. 526), as amended, make and administer the credit as directed, and on terms specified, by the Administrator in consultation with the said National Advisory Council.

The bank, as the agent of the Administrator, would extend all credits that are to be made under the program except possibly those involving the sale of Government-owned property. The precise manner in which the agency relationship between the Administrator and the bank would function would depend, in the final analysis, on the working arrangement that is established between the two agencies. In the light, however, of the avowed purpose of all concerned that it is not intended to duplicate the facilities of existing Government agencies, it is assumed that the Administrator would utilize the services and facilities of the bank to the maximum extent consistent with his statutory obligations.

The obligations of the Administrator under the bill with respect to the making of credits are such as to permit him to consult and advise with the bank from the time it is determined that a particular request for assistance involves the possibility of a credit. It is to be expected that the bank working directly with the Administrator or, in any event, as a participant in the machinery of the National Advisory Council, would actively participate in the analysis of a credit and the determination of the terms on which it is ultimately to be established.

Likewise, in the administration of the credits, it is to be expected that the bank would play a full role subject only to ultimate control being retained by the Administrator so long as he has statutory existence. Thus, although there is no gainsaying the fact that the bank would be functioning in purely an agency capacity under the program, it is assumed that the role would be that of an active rather than a passive agent.

I would like to interject a comment in my written statement to the effect that in putting this sentence in we did it with full realization that it would be possible to bypass the Export-Import Bank in this operation, but it is assumed that the purposes and intention of the act are clear and that the Administrator would be just as interested in the success of this program as we would and that there would be no attempt or point in his attempting to bypass the bank. We would therefore be an active and not, as I say, passive agent in any sense of the word.

There is no conflict in the dual function that the bank would perform for the duration of the European recovery program—that of acting in an agency capacity under the program and of acting, at the same time, in an independent capacity under the provisions of the Export-Import Bank Act of 1945. Loans made by the bank as agent for the Administrator would be so carried on the books of the bank and loans made by the bank under the Export-Import Bank Act of 1945 would be carried as such type of loans.

If it be the decision of the Congress that there be an over-all unified program, the board of directors of the Export-Import Bank believes that the bank could appropriately and effectively contribute its experience and facilities in an agency capacity for the lending activities—whatever may be the form and status of the entity created by the Congress to control and direct the over-all program.

Chairman EATON. Mr. Martin, we thank you for this very suggestive statement of yours.

Would you clear up now how your statement of the position of the Export-Import Bank fits into the proposal of these two bills that are now before us—the Herter bill and the administration bill? How is it

going to work? Suppose Congress passes or authorizes an appropriation of so many billions of dollars. Where will those billions be placed for administration and use?

Mr. MARTIN. Under the administration act, the Administrator will take a look at the entire program and bring it to the attention of the National Advisory Council. It is decided there that some portion of the projected program for a given country could be made in the form of a loan. I would like to point out that I would represent the bank as a member of the National Advisory Council so I would be in on that determination for the bank.

After a determination has been made that it would be a loan, the Administrator, working in conjunction with the National Advisory Council, would set the terms and conditions of the loan and the funds would be allocated out of his appropriation to the Export-Import Bank and set up on the books of the Export-Import Bank as an ERP loan.

Chairman EATON. Both of these bills provide more or less for an organization under the ERP called a council or board. How would they function in relation to the National Advisory Council?

Mr. MARTIN. Under Mr. Herter's bill, he has a larger national advisory council, I take it, in the Foreign Aid Council which would comprise the members of the EFRA plus the members of the National Advisory Council and, I believe, one or two additional. But I assume that that council would act in the same relationship to the program that the National Advisory Council does now, although it would, if I read his bill correctly, have a little broader authority than the present National Advisory Council under the terms of the Bretton Woods Agreement Act.

Chairman EATON. Mr. Herter is here himself. I was wondering if the committee would permit Mr. Herter to ask a question at this time in defense of his child.

Mr. HERTER. I did not want to interject myself into this at all. I appreciate being given the privilege of listening.

Mr. MANSFIELD. I so move that Mr. Herter be allowed to testify as a witness.

Chairman EATON. If it is agreeable to the committee, all members say "aye."

(Chorus of ayes.)

Mr. HERTER. There is one question I would like to ask.

I take it that under either bill the Export-Import Bank would play the role of being the lending authority. That is generally agreed, as Mr. Martin has testified.

Chairman EATON. The only lending authority.

Mr. HERTER. In the case of the administration bill and the other bill, sir, the determination of terms and conditions of a loan is made by the administrator with the National Advisory Council. You, on the other hand, are still bound, under the statute, to make loans which, in your judgment, have a reasonable chance of repayment. And yet an entirely outside body is going to tell you what the terms and conditions of those loans should be. I wonder how you reconcile those two things.

Mr. MARTIN. Our approach to that has been the desirability of an over-all unified program, and the problem that has bothered us is how you make an evaluation of reasonable assurance of repayment when

there are several factors moving forward at the same time—relief, grants-in-aid, loans, all made at the same time—assuming that this program is going to move forward from the date that it is approved, if it is approved, by the Congress.

If the relief goes forward satisfactorily, and the grants-in-aid go forward satisfactorily, then the loan could legitimately be called a loan, in our opinion. But if the relief breaks down, or the grant-in-aid breaks down, then we question whether we would be justified in saying that the third prong is a loan at all.

Mr. HERTER. But, yet, under the bill as drafted, you are required to make that loan whether you want to make it or not. The funds are given to you. You are required to make it. Yet there still remains in the statute the provision that you can only make loans if you think you have a reasonable chance of return.

Mr. MARTIN. The loan is not made under our statute. That is waived entirely.

Mr. HERTER. That is waived entirely?

Mr. MARTIN. That is correct.

Mr. HERTER. So that, in effect, you are really a servicing agency for loans which you may or may not think are good loans.

Mr. MARTIN. That is correct.

Chairman EATON. Who would be responsible for making a bad loan, Mr. Martin or Mr. Herter?

Mr. MARTIN. I would like to let both of us out of that and blame it on the Administrator.

Chairman EATON. Or on the Congress?

I think we will ask Mr. Jonkman to take over.

Mr. JONKMAN. Mr. Martin, what is the objection to handling it on a business basis? For instance, let the Administrator handle the grants-in-aid and when he comes to a situation where he thinks they should not be grants-in-aid but should be a loan refer them to you, to the Export-Import Bank. Then, if it is not fit for a loan, you have a double check on that and it is sent back to him and he has to give grants-in-aid. What is the objection to having loans handled by a loan agency?

It has been explained here that you are not the loan agency under any circumstances. It is camouflage to me. All you do is hand over the money when they tell you to.

Mr. MARTIN. There is an implication of what you say in that, but the fact of the matter, from our point of view, is that the problem we are facing is a fluid, flexible problem, and there are elements that I have seen in the paper referred to in these hearings as "imponderables."

I come back to the only thinking that is clear to me in my own mind—that the justification for having it all as a unified over-all program is in the fact that there are contingent factors in making these loans to the extent that you can make them loans.

Incidentally, I do not think very much of it, in my personal view, can be in the form of loans. I think a great portion of it will have to be grants-in-aid or straight relief.

To the extent that you can make it a loan, it is not a case of whether you can build the foundation and then the first floor and then put the loan on top. If you could do that it would be simple. But here is a case where you have to build the first floor, the second floor, and the third floor at the same time.

I am using a sample of the approach that I have made to it in my own thinking—that if we could do it step by step that point you have would be perfectly valid. If you have to do it as a simultaneous operation there is a strong case that can be made that there is a portion of the credit that can be made as a loan—probably should be a loan. I feel quite sure that it should be made as a loan to the extent that there is a chance of it being repaid, but only on the condition that the first two of my three prongs are successful, and you would not know that until after the program is moving forward.

Therefore to put the responsibility on the board of the Export-Import Bank to assume that step 1 and step 2 are successful seems to me to put the board of the bank in a position that is quite difficult.

Mr. JONKMAN. I do not follow you on that step 1 and step 2. I do not see that it makes any material difference. Certainly the loans that are contemplated under this act have not the characteristics of loans or you could simply shove them into that category. If you mean by step 1 and 2 that the country must have one or two grants-in-aid before it gets sound enough for a loan, then all right. The loan would not be in order until the Administrator had done his work with grants-in-aid.

I just cannot see why we cannot have somewhat of a business application of this thing so that when you are going to call part of it loans they shall be loans instead of camouflaged grants-in-aid.

Do you not think that would be the sounder method, and if it were the case of loans the Administrator would say, "I think you are in a sufficiently sound condition, financially and what have you, to get a loan. You make your application to the Export-Import Bank." If you turn them down it has to be a grant. But if he is going to pass judgment on it and say, "This isn't a good loan; you couldn't get by the Export-Import Bank, but I will recommend you for a loan," what will you do?

Mr. MARTIN. I cannot say that that is not a way of doing it, and I cannot say that the Export-Import Bank could not operate under such a system. We would have to have additional capital, then, for whatever portion might be loans.

Mr. JONKMAN. Sure.

Mr. MARTIN. Now, how you determine the amount of that capital is something that bothers us, also, in considering it—how we can tell in advance what might be made as a loan at this stage of the game is very difficult for us to see.

Mr. JONKMAN. The administration is estimating the loans will constitute from 20 to 40 percent of the total amount. Why not give you, the Export-Import Bank, an additional 2½ billion or 3 billion and then make this a straight grant proposition for the other 4 or 3½ billion, or whatever it may be?

Mr. MARTIN. That, unquestionably, could be done. But it would just be taking an arbitrary figure and assign it to the Export-Import Bank for loans and might seriously handicap the Administrator in the problem that he will have of trying to utilize these funds as expeditiously and as intelligently as possible.

Let me just try to give you my point of view on the problem that the Administrator faces as compared to the problem of the Export-Import Bank 2 years ago, when we undertook this foreign lending program—reconstruction lending—prior to the time the International Bank had come into existence.

We then knew that there was a certain amount of physical reconstruction that had to be done—what I called “clearing away the debris of war.” Regardless of the balance-of-payments position of the individual country, and regardless of the normal factors that would be taken into consideration in considering a loan, it is very easy to see that here is a plant that has been destroyed—it must be replaced. Here is a community that is not working; you have got to get them back to work and get them started.

Well, I think we have made amazing progress on that. I covered all the major countries that we have made loans to this summer, as everybody else did, and I was amazed at the success, it seemed to me, of some of the reconstruction work that has been achieved.

Starting with the latter part of 1946 and the beginning of 1947, I felt that the situation had changed, that the problem was not physical reconstruction so much as it was financial and monetary reconstruction and the will to increase taxes and balance the budget and do the other things.

There was additional reconstruction needed and additional fuel needed because monetary factors cannot atone for the lack of vitality in workers if they haven't sufficient food to eat or for the lack of fuel to make a plant operate, if it is set up to operate but has neither the fuel nor the raw materials.

But apart from those things, which I considered to be relatively minor at this stage of the program, the main thing is to get these countries to help themselves through making it possible for them to comprehensively balance their budgets out of this additional assistance. This is the last chance they are going to have to balance their budgets. If they do not do it this time I think they are in serious trouble. I say the man who is tackling this needs as much support, as much latitude, and as much authority as you gentlemen can see fit to give so that he can move rapidly and courageously and intelligently on all fronts to meet this problem, which is entirely different, in my opinion, from the problem of physical reconstruction per se.

It is because of this point of view, and fully recognizing the merit of your position of placing the Export-Import Bank in the position where we would have to say “No; we can't do it,” yet, from the standpoint of the Administrator, it might be desirable for him to say, in a given situation, “I am going to give you so much food; I am going to give you so much in the way of raw materials; but I am not going to give you this, this, and this. I am going to set this up as a short-term loan, and if you do not repay it in 90 days or 120 days I am going to consider that you have failed in your program.” Or, “I am going to make it a 1-year or a 2-year loan. We will review it constantly.”

That is the technique that I think would be desirable from the standpoint of the Administrator.

Mr. JONKMAN. Would you add to that that if they do not make good he could charge it off to grants?

Mr. MARTIN. He might decide to do that.

Mr. JONKMAN. It must be within your program, if you say he is to use it that way—and if they do not pay, then do that.

Mr. MARTIN. That would be his problem. How he would meet it, I do not know. He would have, under this bill, the authority to change terms and conditions in the loans, of course, if he wanted to. I do not think he would turn it into a grant. If he made it, I think he might extend the terms or alter the terms.

Mr. JONKMAN. But it is your impression, as a banker, that this would be a better way to handle it under the bill than as I suggested, and that is to make the loans exclusively under the jurisdiction of the Export-Import Bank, looking at the objective of the program?

Mr. MARTIN. I have studied this question repeatedly and I have come to the conclusion that this would be the more desirable of the two methods.

I think it could work under either method. I believe there would be less risk, from the standpoint of the Administrator and the problems he might face, if it were done this way.

Mr. JONKMAN. Thank you, Mr. Martin. That is all, Mr. Chairman.

Chairman EATON. Mr. Kee?

Mr. KEE. No questions, Mr. Chairman.

Chairman EATON. Mrs. Bolton?

Mrs. BOLTON. Mr. Martin, my colleagues have expressed our pleasure at having you before us. I would like to add that we are delighted to have you because there are practical questions needing clarification that one puzzles over very much.

I do not know any economics except those I learned in my own home, so I am perhaps asking kindergarten questions. But in studying the whole set-up of the Export-Import Bank and the various monetary set-ups, the relation of the currencies abroad, and now the devaluation of the franc and the lira and the effort on the part of those countries to move toward the stabilization of currencies, combined with the insistence on the part of some of the Members of the House and some of the witnesses that until there would be stabilization there is no hope of recovery and that we are just sinking money down the drain and therefore one of the first steps must be efforts toward stabilization, would you be good enough to explain a little bit what the situation is in the matter of the pegging of the currency and this Monetary Fund which, as I understand it, was set up to do this very thing—stabilize currencies?

Mr. MARTIN. You have just had a good example of the problem in the case of the franc. There is no way I can express it better than to say that the monetary soundness starts from a balanced budget. It starts from a balancing of supply and demand, either internally or externally, in a way that the expenditures and receipts balance.

Now, most of the countries involved have had their situation unbalanced today for a variety of reasons. We all are familiar with the war, of course. We have been trying to fill in some of the devastated areas from the outside. Now, the natural tendency, of course, has been to live beyond their means. In living beyond their means they have wanted to import items that they did not have from the outside without correspondingly arranging for anything in their budget to make the offset. They have made a certain degree of progress in doing it. But there is a good deal of resistance. Internal taxation is not easy to impose, the marshaling of securities is not easy to achieve, and there is still an element where the law of supply and demand with stable prices is not met. It is met from the outside. You have what we call black markets and every other device to obtain the goods.

Now, when that gets completely out of hand, and there is no balance on either side of the ledger, then you have a monetary instability that grows worse because of lack of confidence on the part of the

people. I go back to my elementary economics, that money is a medium of exchange and a standard of value, and its basic ingredient is confidence.

Now, outside of gold, there has been a flight toward the dollar because the dollar is the only means of obtaining this outside assistance, and this disequilibrium in the balance of payments has occurred because there is a tendency to import more than they can possibly export.

Mrs. BOLTON. Particularly with the franc pegged?

Mr. MARTIN. That is right. Now the first steps have been taken toward correcting that situation.

Mrs. BOLTON. By France.

Mr. MARTIN. By France and by Italy.

Mrs. BOLTON. May I interrupt and ask you whether, in view of the fact that France has done that in spite of the regulations she agreed to with the other nations, we are going to go along as though she had kept to the line? After all, she has rather jumped the gun; has she not?

Mr. MARTIN. Well, she has not acceded to the requirements of the monetary fund.

Mrs. BOLTON. Is that because perhaps we should restudy the monetary fund and make it a little more realistic?

Mr. MARTIN. Well, that is a difficult question to answer, Mrs. Bolton. I am not really equipped to go into all the details of the monetary fund. I think what we are saying, when we come up to Congress for additional funds in the Marshall plan, is that there is needed a reevaluation of the British loan, the Export-Import Bank lending program, the International Monetary Fund, and the International Bank.

Mrs. BOLTON. That seems to me rather fundamental to the whole Marshall plan because maybe we do not need so much of the Marshall plan if we get straightened out in the way of currency. That is what I hoped you would say.

Mr. MARTIN. I think rather the reverse is true. I think that without the Marshall plan none of these things we have been discussing can possibly succeed.

Mrs. BOLTON. I understand what you mean and I am rather with you because I have developed a fondness for the Marshall plan, not necessarily as it is presented to us but as we hope it is to be effected. Surely what France did when she devalued her franc has not been destructive.

Mr. MARTIN. No; I would say that progress was made there. I think the Monetary Fund had some real reason to quarrel with some portion of the steps that France took, but I believe that the debate that has occurred with respect to the action that was taken has been beneficial to everybody involved and that after the first impact of it the results may be considerably improved by the fact that a great many countries thoroughly considered their currency problem, whether we agree with the steps the French took or not. There was a lot of intelligent work done with respect to currencies that I believe will prove beneficial.

Mrs. BOLTON. You are not afraid that it will upset the whole sterling end of it at this point?

Mr. MARTIN. Only the future will tell that. I question whether it will.

Mrs. BOLTON. The sterling block, after all, does not necessarily have a halo on it. It, too, might perhaps have a few things that needed changing for the general welfare of the world.

Mr. MARTIN. I think that is right.

Mrs. BOLTON. I think the chairman is looking at me. My 5 minutes are up.

Chairman EATON. Mr. Jarman?

Mr. JARMAN. Mr. Martin, you have referred several times to the over-all, unified program. Do you mean, by that, those three prongs, those three steps you spoke of?

Mr. MARTIN. Yes. That is just the convenient device I have of thinking of it in my own mind.

Mr. JARMAN. You said what?

Mr. MARTIN. Relief, grants-in-aid, and loans being the parts of the possible program.

Mr. JARMAN. Bearing those three in mind, and refreshing our memory on the basis of a business basis and your reference to helping them help themselves and the gentlewoman from Ohio's reference to sinking money, it will probably be proposed, as usual, to reduce the amount stipulated in this bill, which is \$6,800,000.

Now, if it were reduced to \$4,500,000,000 I think that would be about two-thirds—not exactly, but approximately two-thirds. Would that two-thirds accomplish two-thirds as much as the \$6,008,000,000 will, in your opinion?

Mr. MARTIN. I cannot answer that directly. The only comment I can make on that is that I consider the amount of money involved as capital for the program. I use this word "capital" not in a strict sense but in the same sense that the \$3,500,000,000 in the Export-Import Bank is the operating fund of the bank.

Now, in our operations we attempt to use as little of the money as possible. We are not trying to get rid of the money of the Export-Import Bank. If we reached a situation where we felt we needed more capital, of course we would come to the Congress with it. But if we have the program tied down so that we know that x amount is for this country and x amount for that country, before we start, there is no management judgment involved at all.

One of the things that worried me, looking at this question objectively, has been that we ought not completely tie the hand of the Administrator. The only answer that I can give to your question directly is that it will depend upon the Administrator's capacity and, also, upon some of the conditions with which he is faced.

If we have a much better winter, as we are having so far in Europe, and an improving situation on the crop front all along the line, at some point the bad luck turns, you know, and things can turn very quickly. But I think and I would say that the figure that we are talking about here—which is obviously put together on the basis of the best estimates that could be gathered in the time allotted—the figure is one that was considered reasonable, from the standpoint of capital, to give this individual to work with. Whether two-thirds of it would do or not will depend on a great many factors outside the control of the Administrator and, also, his skill and ability. It comes back there to that question.

Mr. JARMAN. I never functioned 1 day in a bank in all my life. But I regard this capital as you do. It is capital we propose to invest in world salvation and the national security of this country.

Now, back to your answer. I believe you expressed the opinion that comparatively little of this finally would be loaned. Am I correct?

Mr. MARTIN. You are correct, with this proviso: That as of today, I am testifying. I think that this is a current situation, and conditions could change.

Mr. JARMAN. Of course. What would you think of a purely relief program for Europe—no reconstruction, just purely relief—as compared with this program?

Mr. MARTIN. Well, I do not think it would do more than prevent some of our friends from going over the precipice quite as rapidly as they would otherwise. It would give them a little bit of a lease on life. Then they would go down the hill, anyway.

Mr. JARMAN. In view of your opinion that comparatively little of this will be loans, what else would \$4,500,000,000 do besides provide pure relief?

Mr. MARTIN. Well, that is the problem of the administrator. There are degrees. If it is just food given to somebody and consumed, that is one thing. If it is raw materials that can be fed into a plant, it may, as a grant-in-aid, achieve purposes quite distinct from what I call pure relief.

Mr. JARMAN. That is correct.

Mr. MARTIN. We would get the plan to operate, you see. I realize it is not very good, but I like my three-prong point. I like to think that the combination of these and certain bold strokes—courageous strokes that may be made in the early stage of this work, along with possible improvement in the situation in the hands of others than ourselves—might make it possible for a larger portion of this to be loans, or some type of loan.

Mr. JARMAN. You would hate mightily to eliminate that long prong, would you not?

Mr. MARTIN. I would, sir.

Mr. JARMAN. If the reduction of this amount by one-third were to be had it would at least tend in that direction, would it not, because relief in grants are going to come before the loans? Of course, they are all unified. I agree with you. But if there has to be a choice, if there is not enough money to go to the three prongs, would it not first go to relief and grants-in-aid?

Mr. MARTIN. That would certainly be the first tendency. In the current situation it would be because, as I testified last spring, I think we have been exporting a great deal more than we are importing, so that the general balance-of-payment situation does not favor loans.

Mr. JARMAN. Of course, it could but be a guess on either of our parts, but if the amount should be reduced sufficiently to eliminate that third prong and all of the money appropriated would have to be spent for relief and grants-in-aid, and assuming that two-thirds of the amount is given, it would not accomplish two-thirds as much, would it? I know there are a lot of "ifs" there, but my point is if we just furnish relief year after year and grants-in-aid, as we have been doing, and do not start recovery by loans and other means, we would not accomplish two-thirds as much as we would with the whole amount.

Mr. MARTIN. I am not trying to evade your question, but I can only answer it by coming back to the administration, I think the administrator would have to determine. I believe he still might have the three prongs with a smaller amount.

Mr. JARMAN. I thoroughly agree with your realization that the administrator must determine—but what I am trying to get away from is cutting the amount so we will just have a constant WPA, European WPA program from here on out.

Mr. MARTIN. I do not want the amount cut at all.

Mr. JARMAN. Thank you.

Chairman EATON. Mr. Jarman, your discussion that two-thirds is not as great as three-thirds runs counter to the most invincible faith of the American people, namely, that the part is greater than the whole. [Laughter.]

Chairman EATON. Mr. Smith.

Mr. SMITH. On page 2 of your testimony, you call attention to the fact that from 1945 until the end of 1946 the bank had authorized large long-term credits to certain governments. Now, you have just stated in response to a question from Mr. Jarman that you think the whole amount should be authorized. My question is how long can we continue this sort of operation? I think that is the question the American people are asking today, Mr. Martin.

Mr. MARTIN. Well, I think we should continue it until we achieve the result. I do not think anybody can say at this stage of the game that this amount of money, if you see fit to grant it, will necessarily put us on the road to prosperity and plenty. But I feel that the risk, the calculated risk we are taking here is very much in favor of our going forward at this stage of the game and attempting to not take a defeatist attitude toward it, but attempting to add something constructive to the picture.

Mr. SMITH. Have we not been doing that thing for a long time now?

Mr. MARTIN. I believe we have added a great deal to the picture. That is one thing I disagree with entirely when people say we have not accomplished anything.

Mr. SMITH. The Paris report states that recovery in Europe up until the end of 1946 had reached a prewar level. Now, we are confronted with the position or statement that it has suddenly disintegrated, and now the need for this aid. You, as a banker, having had some experience with these loans to these countries—I would like to ask you what has retarded a continuous march forward.

Mr. MARTIN. Well, I think the first thing that you have heard commented on many times that happened was the winter and the drought. Nobody can evaluate the impact of that on any economy. I made some travels this summer and did the best I could to try to think in terms of how much that may have hindered progress that was being made. I do not think I can come up with any economic evaluation of it. But I know it was substantial. In some places it was practically a catastrophe. You could go to a country like Finland to see what has happened to the water-power situation as a result of the drought. Those people have made heroic efforts at recovery and have achieved a great deal. What we have put out today has not achieved all of the things we hoped it would achieve. But it has made a tremendous contribution. The situation would be immeasurably worse if we had not done it. Not all of the funds that have been spent have been spent wisely. I could not testify here even in respect to the Export-Import Bank that all of the funds had been expended as wisely as they might have been expended. But

we certainly did what we could to follow them. I think that tremendous progress has been made.

Mr. SMITH. Then, do I understand your position is that in 1947 the situation was worsened because of the drought and the extreme weather?

Mr. MARTIN. The drought and weather was one important factor in it. The other factor is the one that I cited earlier in the discussion, that having covered a good bit of physical reconstruction.

Mr. SMITH. To what extent do you believe that certain governmental policies of those nations have interfered and retarded recovery?

Mr. MARTIN. I think at the current time quite a number of their policies have retarded recovery.

Mr. SMITH. Do you not think they should put their houses in order and comply with certain conditions that we might write into this legislation in order to be eligible for the aid we propose to give?

Mr. MARTIN. I certainly think they should put their houses in order. I question the wisdom of writing specifically into this act any more conditions than you have to write. I realize your responsibility as Congressmen in this situation because of the fact that I hope the administrator will have as much latitude as you can possibly give him. He will need the help of every last one of us. We will all have to get behind this fellow: Congress, business, everybody. That is because it is a really heroic struggle being made to right the ship. I believe it can be righted.

Mr. SMITH. I hope you are right.

Mr. JARMAN. In addition to the drought and the weather and the policies of the Governments, did not the Communist-dominated strikes have something to do, too, with reducing production?

Mr. MARTIN. It had a great deal to do with it, sir.

Mr. JARMAN. Thank you.

Chairman EATON. Mrs. Douglas.

Mrs. DOUGLAS. I am delighted to have you here. Following the questioning that has just been going on, it was not in the Paris report, was it, that Europe had recovered to the point of production it had before the war? In some cases it was 80 percent of prewar production and some cases 90 percent. It varied in different countries. It had not surpassed prewar production any place, had it?

Mr. MARTIN. I think that is true. I am sorry I just cannot tell you, Mrs. Douglas.

Mrs. DOUGLAS. Mr. Smith, do you have any figures showing the increase of population of Europe in the last 7 or 8 years? Even where production has been brought up to 80 or 90 percent prewar figures, such recovery in certain industries does not begin to make up for the loss of productivity because of war devastation, disruption of the financial circulatory system and the fatigue of the people, does it?

Mr. MARTIN. I have no figures, but I can say that when you consider the devastation that occurred in 5 years of warfare and the horrible psychological as well as physical destruction that was wrought, the recovery, in my judgment, that has occurred in the countries under discussion is little short of amazing. There are, of course, a number of black spots. There are a number of situations. Take the Netherlands, caught between the German vacuum on one side and the East Indies on the other side, that makes their situation

very difficult. But when you go through and see Rotterdam and Amsterdam and Arnheim and the fact that all these buildings have been patched up and here are little plants that are getting ready to work again, and think of the fact that they had been occupied for a long period of time, and apply that test to all the countries, or go up to Finland where, to me, the spirit and atmosphere of the people is really amazing, you come out with a much more hopeful picture than I think has been pictured to us. The fact that we have so many difficulties ahead of us, I think, has made us think more woefully about the picture than we are justified in thinking.

Mrs. DOUGLAS. That is what I am trying to get at. I want to see the Marshall plan succeed. I think that we view the European picture too woefully. I also think that we have not reported accurately on previous investments with the result that people today are doubtful as to the advisability of future investments. Will we be throwing our money down a rat hole? Have our investments gotten us anywhere? If you listen to some people talk, you certainly wouldn't think so. If we want to see this program succeed, the American people must have confidence in it. I think there are two points that we should highlight: (1) Recovery following World War II has been miraculous—greater than after World War I. The investment in UNRRA was well made. (2) World War II was so much more destructive than World War I and the countries of Europe have been so drained of their resources, that it will take them years to build back a sound economy. England and Europe are so close to complete economic bankruptcy and chaos that any relatively minor misfortune such as a loss of a crop because of frost or drought becomes an economic crisis. That part of the world that has been torn by the war has no backlog of money or resources to draw upon. Is that not true?

Mr. MARTIN. That is correct.

Mrs. DOUGLAS. The recovery of England and Europe has been wonderful but we might compare this recovery to some one who has had pneumonia and was on his death bed. Everyone thought he was going to die. The fact that he is back on his feet is miraculous but he must be very careful not to stand in a draft. If he does, he will be back down again because of his very weakened condition.

Mr. MARTIN. I agree with that completely. I realize all the difficulties that are in front of us. I think it would be an unfortunate thing for us to turn back at this time. I think we have very little to apologize for in the work that is being done. With respect to the Export-Import Bank loans, I am glad to have an opportunity to tell this group that I found in talks with the finance ministers of all the countries involved that they have incorporated in their budgets a place to repay these loans. They have accepted them as loans. They want to do everything in their power to repay them.

Mrs. DOUGLAS. You say they are long-term loans here. What is the average length of the loan?

Mr. MARTIN. I would say 20 years. I think that it is just good banking business, where people want to repay their loans and are doing everything they can to meet their obligations, to do everything you can to keep them solvent debtors. That is my idea of good banking.

Mrs. DOUGLAS. Thank you, Mr. Martin.

Chairman EATON. Mr. Lodge.

Mr. LODGE. Mr. Martin, we are very pleased to have you here, sir.

I wondered, in the first place, whether most of the loans that you are making are made to the governments of the countries, or whether some are made to private enterprises.

Mr. MARTIN. Almost all of the loans that we made in the early part of this reconstruction period were to the governments. It has been our intention to revert to short- and medium-term loans for specific purposes, with every emphasis on doing it to private concerns in preference to the government.

Mr. LODGE. I am glad to hear that, because during my travels abroad I came across some information which seemed to me to indicate that it might be a good thing for the Export-Import Bank to deal with private concerns to some extent at least. That would be true particularly in western Europe, France, and Italy.

With respect to repayment by way of strategic materials, you mentioned that it would be your hope and it is the intention of the administration bill that all loans should be channeled through the Export-Import Bank. Would that mean that where advances by us were to be repaid with strategic materials that that type of loan would also be channeled through the Export-Import Bank?

Mr. MARTIN. Yes, sir. The conditions of it would be set under the administration bill by the administrator and the National Advisory Council.

Mr. LODGE. You appeared to me to draw a distinction between relief and grants-in-aid. That rather puzzled me because I have been thinking of relief as being a grant-in-aid, and the recovery item as being as far as possible loans. How do you distinguish between relief and grant-in-aid?

Mr. MARTIN. I am glad you raised that. My distinction is that relief is almost entirely food—food and fuel in the sense of just keeping a community going. A grant-in-aid in my vocabulary here, which is just loose phraseology for my own thinking, of course, would be the supply of raw materials, where plants have gotten up to the point where they can produce, if they do not have sufficient fuel or sufficient raw materials, to produce, but there is no immediate likelihood of their being able to attain sufficient production to pay out.

Mr. LODGE. You might say that certain forms of grants-in-aid do not constitute relief. But you certainly could not say that relief does not constitute a grant-in-aid.

Mr. MARTIN. I could not, under that definition; I agree.

Mr. LODGE. Now, we have a number of categories here, then. We start with the assumption that the Export-Import Bank need never have existed if our private institutions in this country had been willing to extend sufficient loans. Therefore, we start with the assumption that the restrictions on the loaning power of the Export-Import Bank are somewhat less great than they would be with respect to private banking agencies. Now, we propose to have another category of loans which are even less bankable than the Export-Import Bank loans; is that correct? Would you say that this is a third category of loans, so to speak?

Mr. MARTIN. I cannot deny the implication that there is a third category of loans. But I think whether it really is a third category of loans or not depends upon the success of the program as a whole.

Mr. LODGE. But you have the power within this clause which you quote on page 5 of your statement. The provisions of the Export-Import Bank Act of 1945 are, to that extent abolished. At least, you need pay no attention to them as far as these loans are concerned. That means you would have much more latitude with respect to loans under ERP than with respect to the loans you now make; is that true?

Mr. MARTIN. The same test would apply—capacity to repay. There is more latitude with respect to judging that capacity to repay, because you are putting my other two there.

Mr. LODGE. They would have to show less capacity to repay under this than under the provisions which you now have governing you?

Mr. MARTIN. I cannot deny that.

Mr. LODGE. I am simply reciting the facts. I am not raising objections.

Mr. MARTIN. I agree with you.

Mr. LODGE. Would your point be this—that if the Export-Import Bank were restricted to its present provisions, then the Administrator of ERP would be faced with the choice of either treating the matter as an outright grant or having it fall within the provisions now existing, and that it is the hope of the administration that some of these loans though not as valid as the loans you are now allowed to make may nevertheless in the end be repaid; is that correct?

Mr. MARTIN. That is correct.

Mr. LODGE. You know when we had the foreign-aid bill before us during the last session, the criterion which we were faced with was this: Insofar as we were providing items which brought no dollars into these countries, but which were designed primarily to combat disease and unrest, they should be grant-in-aid items; and that, insofar as they did bring in dollars, they should be loans. Would you think that that criterion should be adhered to strictly with respect to the present proposal?

Mr. MARTIN. No. I would fall back again on the judgment of the Administrator.

Mr. LODGE. In exercising his judgment, he will be guided by certain criteria, and I have no doubt that he will be influenced by what you have to say. Accordingly I would be very much interested to know what criteria you would be inclined to set up if you were the Administrator of the program. Would you be inclined to take that measuring stick presented to us last year at the time the foreign-aid legislation was before us?

Mr. MARTIN. I would not want to accept any criterion at the present time. That is where I come out every time I try to go through this.

Mr. LODGE. In other words, in explaining this legislation to our colleagues on the floor, you would suggest that we say that no criteria can be set up as to whether an item is to be considered as a grant or as a loan, that we must leave that entirely to the discretion of the Administrator and there is no way of even guessing by what measurements he will act?

Mr. MARTIN. That is essentially my position. I think a hydro-electric plant in certain areas of the world must be given as a pure grant-in-aid. I think food and fuel and fertilizer in other areas of the world can be given as a loan, and that the type of criteria can

only be established in terms of capacity to repay, and that that capacity to repay in part is dependent on this concept of the degree of cooperation that can be attained among the 16 nations in helping themselves and the degree to which the Administrator can integrate this whole plan into a unit.

Mr. LODGE. Yes. In other words, you would say that we should throw overboard the criterion which was presented to us during the last session as to how to differentiate between when an item is to be given as a grant-in-aid and when it is to be given as a loan?

Mr. MARTIN. I would not throw it overboard, but I would not want it as a hard-and-fast rule.

Mr. LODGE. From our point of view, as legislators, we should exclude that from the bill according to your opinion.

Mr. MARTIN. I would rather throw it overboard, then.

Mr. LODGE. Are we under the 5-minute rule?

Chairman EATON. Yes, sir.

Mr. LODGE. Thank you.

Chairman EATON. Mr. Mansfield.

Mr. MANSFIELD. Your testimony has been most interesting. I assume that, generally speaking, the loans by the Export-Import Bank are put out on a sound business basis, with a reasonable expectation that the money so loaned will be returned in due course. Since you have been Chairman of the Board at the Export-Import Bank, has the bank made any political loans?

Mr. MARTIN. Mr. Mansfield, I insist that the line between politics and economics is so thin it is practically indistinguishable today. But I can truthfully say without any reservation at all that on the basis of the criteria, on the basis of what we believe to be sound criteria in relation to the broad picture, that every loan that has been made by the present Board of the Export-Import Bank has been made completely in accord with our injunction from Congress, a reasonable assurance of repayment, the expectation that there will be reasonable assurance of repayment. Now, I do not say to you that every loan that the Export-Import Bank has today is a sound loan. I say that at the time it was made we evaluated it in relation to the instruction that Congress gave to us, sometimes stretching the concept as far as we could permit our conscience to stretch it without having the rubber band break, to achieve our objectives. Subsequent events have occurred that have altered the situation. I cite one instance. Perhaps I should not call names. But I think it is all right. I would say that Greece is the situation. We made a loan to Greece in the early part of 1946 in the hope that there would be a broad revival of multilateral trade throughout Europe. We made it for specific purposes, to improve a railroad and a port. We were never able to get off first base with it. Today we have suspended 11 million of that 25 million. We have stopped any further commitments under the credit and we think the situation in Greece—the warfare that you know about, and everything—would make it look like perhaps we were unwise in having made that loan. But at the time we made it, it was not political—it had an element of politics in it in the sense we wished the Greek people well and we hoped that their Government would improve—but it was based on our belief that they would be able to repay, and it was limited to specific equipment and services which we could follow.

Mr. MANSFIELD. Mr. Martin, I appreciate your candid statement very much. I do not think that the Greek loan, in the sense that you described it, could be considered as a political loan, except in very, very minor part; because, certainly, in view of the fact that the Greek fleet, the merchant fleet, was coming back into being on a large scale at that time, there were good possibilities that a loan of that nature could be repaid within a reasonable length of time. However, there were circumstances which have appeared since then which have put a different complexion on the picture. What I had in mind was the \$100,000,000 loan made to Italy about a year or a year and a half ago, which I approve of, by the way, but which I have been led to believe was a political loan, and because of pressure on the Export-Import Bank that money was sent to Italy; is that correct?

Mr. MARTIN. The Export-Import Bank refused to establish the Italian loan as a political loan, and the Export-Import Bank has repeatedly refused to make political loans. The Italian request was entirely different than the one ultimately approved. When it was approved—it was not approved as a political loan, in our judgment.

Mr. MANSFIELD. As a banker, then, you can come before this committee with a very clear conscience in that respect?

Mr. MARTIN. I certainly can.

Mr. MANSFIELD. Thank you.

Chairman EATON. Now, having established the clear conscience of Mr. Martin, it would be a good time for him to escape.

Mrs. BOLTON. We are having no further chance to question Mr. Martin?

Chairman EATON. We have another witness. Mr. Taylor has been delayed. We would like to have him on this afternoon.

Mr. Martin, if we feel the need of your counsel again, can you come back?

Mr. MARTIN. I am at your service at any time.

Chairman EATON. Thank you, Mr. Martin. Goodbye and good luck to you.

Mr. Jonkman, will you take the chair?

Mr. JONKMAN. The committee will come to order.

Our next witness is Mr. Henry J. Taylor.

We will be pleased to listen to your statement and then perhaps ask you questions, Mr. Taylor.

STATEMENT OF HENRY J. TAYLOR, AUTHOR-ECONOMIST, NEW YORK CITY, N. Y.

Mr. TAYLOR. Mr. Chairman and ladies and gentlemen, I appreciate your invitation to be here today. I apologize; I was caught in a conspiracy by the Pennsylvania Railroad which made my train 4 hours late, so I only arrived in Washington at 1 o'clock.

I have been going back and forth to Europe as a newspaperman and economist—of course, I speak here only as an individual—ever since the German inflation in 1923. It made a tremendous impact on my having been a student of economics at the University of Virginia, because it elevated the subject of economics from its textbook atmosphere into the question of how people live together and what happens when great economic problems just simply sweep a nation. So far as I have been able to see in Europe—and I worked there in

32 countries during the war—these problems are simply gigantic. In any one of these nations, the economic question or military or the religious, which is very important in some areas, is actually enough to stump the wisest man I know. When you put them all together they become literally astronomical; and in this Marshall plan, and the hopes I think people have for it, there is ample room for honest disagreement of opinion.

This is a little embarrassing for someone who has no official position, because we have had a tremendous number of very high echelon leaders appear before this and the Senate committee, and I feel a little like the mouse at an assembly of the lions. But the mouse can speak, I think, primarily the standpoint of what I am convinced is in the mind of a great many of our people across the country, and from the very disturbed feeling about the matter in which the thing is being presented.

In respect to this statement, I will condense it and attempt to define it to each member of the committee. It seems to me the first thing we have to realize is that the subject of Europe's troubles will be with us for a long time. In the past years of war, unnumbered men have died there to give humanity another chance, and we who remain cannot say good-bye to their efforts, not when we humbly remember that they said good-bye to life itself. The problems we face are, I think, a residual part of a tremendous endeavor in human uplift, and that, I believe, is the inner meaning of what average folks in our country try to do for people abroad today.

In 4 years, or in any number of years, there are no ends and no terminals in human uplift, and no ultimates in the advance of human progress, and no final goals that cannot be made better. I am convinced that our hearts are in the right place regarding aid to Europe. Humanity and the people in our country cry out for peace and for the assurance of peace and are willing to go to any length to try to bring that about.

The will of the country is for food and fuel, and peace, for a better living for everyone. No other major nation in history has ever regarded the rest of the world in this light, so far as I have been able to find out, and I think that is another reason why we can be proud that we are Americans.

Certainly we are entitled to know the plain, unvarnished truth insofar as it can be found.

I would like to tell you, ladies and gentlemen, very frankly, that to me, as a citizen, it is wonderful and reassuring and stimulating to notice the news reports and hear that this committee and other committees in the House and in the Senate—and I have appeared before the Senate Foreign Relations Committee as of last week—are very definitely out after the facts and propose to get them, because I am convinced that, by and large, we have not been getting them before.

It is my business to go where there is trouble, and I have found trouble and have been sent to see it all over the world. After being in the Far East, I come now fresh from the impact of Europe, as so many men do in the House and Senate.

I have come back from a 5,000-mile automobile trip, probing around the grass roots of Europe, England, France, Italy, Greece, Switzerland, Belgium, Holland, and Germany.

I think anyone would agree that to see a lot, driving around in the highways in a little car does not match up with high-level discussion

of Government officers, which is also the function of a newspaperman or with propaganda.

As a citizen, may I again say that this committee should be thanked for the patience and vigor in getting at the facts in the interest of the American working people who were called on to pay the bill.

I am not convinced that both here at home and abroad in economic matters disproportionate emphasis has hitherto been put, not on the reality of the European situation, but on how to propagandize a distracted and worried folk here at home into action from our hearts instead of allowing us to think with our heads.

Accordingly, what do you find in the people across the land? Suddenly there is a feeling of frustration about sending new billions abroad. We want to help Europe, but we feel we are getting a hooking—like a fish—all the time we are doing it.

Now, I don't agree with this; but there must be a reason why the feeling is so widespread. To the extent that the reason is because the appeal is to our emotions, instead of to our brains, I submit that this is grossly unfair as a way to treat ordinary people who have to work each day and earn a living, and who are the ones who finally pay the bill.

Our problem and our duty as a good people—and we are good people—is to help Europe, not according to our desires, but according to our careful judgments and to our powers, and I do not believe we are looking at this picture or the problem in a large enough way.

The proposed legislation as written carries, to me at least, the implication of potential world peace. That is what I am interested in. But however it deals only with the aspect of European recovery in western Europe, which is of itself only one of the disastrous centers of the world picture of which I, by personal visits, am intensely conscious, to the degree that our people's hopes for world peace are lifted by emphasis, placed on western Europe alone through this legislation, and America will be clearly called upon to absorb another failure in world affairs because certainly the entire global situation is involved in any true achievement of world peace.

A war that comes to us from Europe, or a war that comes to us from Asia, is nevertheless a war, and it is a basic avoidance of war that has the great hope, I think, at the final human level in what we do.

To the degree that the public sentiment is rallied behind the Marshall plan and leaves behind it a feeling that if we do this, then we have really done something to pin down world peace, whereas a little more thinking might indicate it is only a step, to that degree the finality inherent in the present situation disturbs me very much.

However, taking this limited peace of proposed legislation alone, the same implication of solution in Europe alone disturbs me as well. In the legislation, this is the implication once we adopt this subsidy theory, if all goes well, it is a 4-year run, and that is that.

Now that may not be the intention of the planners, but it is certainly the impression created by the 4-year presentation. Yet an unfavorable balance of trade in these 16 countries has been a fixed condition for nearly, in fact, for over 50 years. Before the war these same 16 countries of western Europe imported about \$6,600,000,000 worth of goods and commodities annually and exported only \$4,600,000,000. That, my friend, is the historic pattern.

Thus a balance was attained by income from foreign investments, most of which were permanently liquidated before the war, and other invisible balances.

The normal expectancy is that even under this plan there will be the same \$2,000,000,000 deficit as prewar, as extending back for a period of 50 years.

Accordingly, in the face of European realities, this draft legislation submitted by the State Department actually becomes more a proposal for stop-gap aid—simply extended over a longer period of time—than a potential solution to the degree that may be supposed.

America is a world power, but we became a world power because we were strong at home, and in no other way. We must remain so, or there is no other hope for world peace.

But remember, there is also no guaranty on our ability to remain strong, staying No. 1 in the world. In our quickly changing day, everything is quickened, the rise and fall of nations included—quicker than ever in history.

When home power is lost, world power is lost—not slowly these days, but rapidly. Why cannot England defend Greece? I have been in Greece, and the British are pulling out of there. The reason is because England is weak at home. This is not through recognition of their own self-interest in Greece. This is not through lack of courage. The reason is because England is weak at home.

Why cannot England take an effective stand in the Far East for a free and independent China, where England's interests are fully as great as ours? Because England is weak at home.

Why cannot England modify and give balance to contrary elements on the continent of Europe only 23 miles away? Because England is weak at home.

And how long ago was England as strong in world affairs as we consider ourselves to be today? Less than 50 years ago. What man or woman anywhere on earth, alive only 50 years ago would have dreamed then for a minute that the great England of only 50 years ago, the greatest of all the great powers of all times, standing astride the world, the power that could afford to do anything, would be the England of today that can afford to do so little?

Regardless of our desires, our leaders must decide what our country can do in Europe and the world and what it cannot do.

I was impressed by the question that Congressman Smith asked, "How long?" That is very pertinent. They must analyze our actions in terms of our powers and again, not of our desires. They must decide we cannot do everything.

There are a hundred places to start, and there is no place to stop. Human nature being what it is, I do not think we should blame European politicians too much for asking us for so much.

It is a lot to expect of them or any other people in governmental life and any country, including our own, to ask for less when they think they can get more. But as you prudent people know, I think we should look back and see what we have already spent, or misspent, some \$22,000,000,000 since the war. How good have our planners, calculations been to date?

In 1945 you will recall that our country was told that the world economic problems would be solved by an International Bank, costing a mere \$635,000,000, and an International Fund costing America

2½ billion dollars more. We were told that if this were done, loans to Great Britain would not be necessary. It was done, and what happened? In spite of such assurances we were soon confronted by new instances for a stop-gap loan of \$4,000,000,000 to Great Britain. As a newspaperman I had no sooner got through sitting on hearings on that than I found myself sitting through the hearings on a British loan. In spite of such assurances, we were soon confronted by a new loan to Great Britain. Once more great and widely publicized testimony was presented to committees like this and to the country to convince us this would and could save the world, but surely, I hardly need remind you of what has happened to the British loan. It has gone down the drain.

I might interpolate. I, for one, do not agree that it has all been wasted at all. But insofar as one of its most important features are concerned, it is mishandled.

Has England been saved? Has the world been saved? Apparently not. Otherwise, what are we talking about?

Other items intrude themselves into our recollections: \$3,000,000,000 was furnished to the Export-Import Bank. Another 3 billion American dollars were drained into the darkness and confusion of UNRRA and I might add by way of UNRRA into the darkness and confusion of the Soviet Union and Russia's puppet states.

Now, I have here, if I might respectfully submit it to the committee, a list of all the items we have appropriated since VE-day, May 1945, taken only of the known aid of \$300,000,000 or more, per item in this list of which eight represent a billion dollars or more, and to which the total through the latest appropriation of the Eightieth Congress, and stop-gap aid, totals \$22,136,000,000, in items of \$300,000,000 or more:

| | |
|--|--------------------|
| British loan..... | \$3, 750, 000, 000 |
| Export-Import Bank loans..... | 2, 931, 000, 000 |
| International Monetary Fund, United States share..... | 2, 750, 000, 000 |
| UNRRA shipments continuing to date..... | 2, 700, 000, 000 |
| Lend-lease—still emptying pipe lines..... | 2, 271, 000, 000 |
| Grants by the War Department..... | 1, 771, 000, 000 |
| Surplus property disposals abroad..... | 1, 148, 000, 000 |
| Forgiven debt of Italy to the United States..... | 1, 000, 000, 000 |
| Aid to Philippines..... | 640, 000, 000 |
| International Bank, United States share..... | 635, 000, 000 |
| Relief in occupied areas..... | 600, 000, 000 |
| Stop-gap aid voted in December in the special session..... | 540, 000, 000 |
| Greek-Turkish aid..... | 400, 000, 000 |
| Relief in war devastated areas..... | 350, 000, 000 |
| Reimbursement to Italy for invasion currency..... | 350, 000, 000 |
| Other foreign relief appropriations, 80th Cong..... | 300, 000, 000 |

Known total, only in these big items..... 22, 136, 000, 000

Now, no one honestly attempting to give a picture of Europe today could say that these funds were entirely wasted or that they were entirely unnecessary. Certainly, I would not say that.

That is in the face of what I have seen and places I have been. But I do say, and it is a point I would like to make to this committee, that these vast funds were agreed to by the American people through Congress because of high pressure propaganda without proper consideration, they were unsuited to their purposes, the proper limitations were not applied, the amounts were excessive, the proper administration was not required, and a large part of the money was wasted.

I am convinced we have got to do better from here on out. But now they are at it again for a new \$17,000,000,000. There is something in the atmosphere as if this were for the first time, as if there was the discovery of an opportunity to pioneer in world aid under the Marshall plan.

Now, I think there is a widespread feeling across our land that we are still caught in the clutch of a spending philosophy. This spending of itself is a good thing, just so long as the people are taxed enough to pay it back. I think that shows up in our foreign affairs as well as domestic matters.

In our opinion, and I am only giving my own, this thought should be retired into the obscurity from which it is a pity it ever emerged. But it is still with us, and I consider this fact to be of small consolation to American working people or enterprisers who foot the bill. It is like the wife saying to her hard-pressed husband when he comes home tired at night from work, that it doesn't make any difference how much she spends as long as he doesn't spend more than he earns.

This philosophy seems to have been communicated very emphatically to the many, many government people I have seen abroad. The theory, if we didn't export after the war nearly as much as we exported lend-lease during the war, even if we had to give it away, that America would face a great depression, is here. Now, how the planners ever reached that conclusion with 142,000,000 Americans needing everything under the sun, I do not know. It was one of the most gigantic miscalculations in the Government level in history.

Anyhow, it certainly made a big impression on lots of people in Europe.

I think that is a very sad frame of mind for them to be in when they add up lists of what they need from us. In fact, the whole Marshall plan as a relief and recovery operation is in fact brought into a different perspective when you inspect the belatedly released break-down of amounts to go to each of the countries scheduled to get aid, all or nothing.

A break-down by countries actually left out of the official 131-page presentation to this committee requesting consideration for the appropriation will reveal that.

They must have had the figures or they could not have arrived at the calculations. If they had the figures, one of the most pertinent things about the figures was who was going to get the money.

I was in Paris when these figures were prepared. It was in connection with making the Paris report. It was my business to be there and observe the making of that report. Mrs. Douglas was absolutely dead right in her recollection or impression of that report in respect to recovery features. Where they did go above the board, they had to go there anyway. You use the analogy of a child that caught cold. He partially recovers, stands in a draft, and has a relapse.

But in this case, in introducing this on the heavily weighted feature of communism, I am afraid the presenters of the plan ran themselves up a blind alley in that they could not effectively reveal what people will get the money because so many of them do not know anything about communism.

That was a public relations error. It was very serious, it seems to me, in trying to educate the American public.

I am told they took a public relations poll, a Gallup poll, though they didn't choose Mr. Gallup, last summer and discovered that

insofar as getting it through Congress, it would be overwhelmingly better if they gave it an over-all tint of anticommunism.

Now, that was pertinent to some of these countries, specifically to Italy, and to France, but it was not pertinent to a lot of the countries, including Ireland.

However, there is a great deal of flavor in there of the Luckman committee, where you decide on how the soap will sell best: you say "bubbles, beauty, or price." We will count noses and it is bubbles. So out it goes that way as a "bubbles" campaign.

This question of the presentation of the Marshall plan for the purpose of stopping communism in Europe simply does not hold water except in a fraction of the fund. I am convinced, because I have a wholesome respect for the complexity for the European economic system that the planners in the State Department conceivably have made. They conceivably could have made a sound presentation for this fund to these 16 countries.

But not on an anti-Communist basis. As long as they did make it on an anti-Communist basis, they could not produce the names of the countries that were going to get the money.

Here they are: England, \$5,348,000,000, 32 percent of the entire 17 billion dollars to be paid for by every man and woman who works in America, on top of the latest grant of \$3,750,000,000 consumed there since 1945.

Now, England may need this money, and it may be a good thing to send it to them. I do not think in any such scale, however. They do not need it to keep the people from voting Communist, and they do not need it to keep western civilization from crumbling in England.

France will get \$3,701,000,000. Italy, \$2,913,000,000. The American and British zones of Germany, \$2,499,000,000. Holland, \$2,436,000,000; Belgium and Luxemburg, \$1,419,000,000. Germany comes as a great surprise to me. How many people in our country have felt that there was a last gasp against the crumbling western civilization in Europe, and the fact that the people might vote Communist if we did not give them this aid would imagine for a moment that in Holland, where the Communist vote is less than 7 percent, there is to be an expenditure of \$2,436,000,000?

I do not think that is properly presented to the people that have to pay the bill.

Then we come to Belgium and Luxembourg. Belgium is in the middle of a good recovery. She gets \$1,419,000,000. Then we have Austria; there is a legitimate feature there on the anti-Communist angle: \$713,000,000. Denmark gets \$582,000,000. There is a vote of 4 percent communism.

Ireland, \$497,000,000. A billion dollars will go Ireland and Denmark alone, and if there is a Communist in Ireland, my friends, no Irishman knows it.

Greece, \$473,000,000. There you are getting back on the track. Norway, \$234,000,000. Portugal, which has a Fascist dictator and has had for 22 years, and there resides Dr. Salazar. If you are a Communist in Portugal, I assume you get shot. If you don't get shot, you get locked up. Portugal gets \$150,000,000.

I have been to Portugal many times. Portugal is a Fascist state. That is where we get so fussy and that is why I think that the Communists and the Fascists alike in Europe sneer at the moral level of

our foreign policy. In one breath we say we fight communism. I am for that. In another breath we say we are against totalitarian states, and we get cozy with them when we feel we should.

You have self-interests.

I claim that if we are really going to say that we have a high moral policy, we should be consistent, or we cannot expect our moral intentions to register, which is my complicated way of saying that I think the moral policy sponsored by the average fellow in America is more moral in their hearts and intentions than is executed by our State Department.

Next we have Iceland, and you can imagine how much western civilization is crumbling in Iceland; they get \$38,000,000.

Turkey; I went to Turkey, too. There is one party in Turkey. Turkey gets \$18,000,000.

Sweden and Switzerland, praises be, ask for nothing and may, in fact, end up with a favorable balance totaling \$176,000,000.

Interesting enough, Finland, which is the only country which paid its debts at all, is not in the Marshall plan.

Now, whatever their needs may be, and some are very real, I am convinced that European politicians and in a most human and understandable way, nevertheless consistently and systematically overstating to us their country's requirements and understanding their ability to pay.

I think we have to approach aid to Europe with that understanding, no matter who says "all or nothing."

Now, let me remind you of a little episode that happened in regard to the stop-gap aid of last December, as an example, because I think that is a pretty serious charge for an observer to make, and I would like to document it because I do not believe in just general statements.

I do not think it is honest to let it hang there.

When I was in Paris, and the 16 nations were calculating their requests for long-term aid, several also asked for stop-gap aid. The amount they requested was \$685,000,000 American stop-gap aid for France and Italy; \$227,000,000 to Italy, \$485,000,000 to France.

I do not know whether those figures were communicated to our country, but those were the figures they settled on at the Paris Conference when I was there.

You will remember a very dramatic call was made for a special session of Congress to act on this urgent need for what was defined as being chiefly, "food, fuel, and fertilizer."

Suddenly our people's hearts were torn by the prospect of the terrible weather and all the rest in Europe, and especially by the strikes and so forth.

Well, the French part was reduced to from \$458,000,000, to which level I had seen it padded in Paris, to \$328,000,000; the figure finally presented to Congress.

Of this \$131,000,000 reduction, \$80,000,000 had been included for balance of debt payments between France and Belgium, another \$20,000,000 for an old debt France owed England, and finally an item of \$15,000,000 which also was an old debt.

Under Secretary of State Lovett testified, as I believe he should, that he agreed that those items totaling \$115,000,000—or over a quarter of the entire French amount asked for so dramatically from Uncle Sam as stop-gap aid had nothing whatever to do with urgent

needs for "food, fuel, or fertilizer"; not the life, health, or well-being of a single Frenchman was at stake, and none of it could be classified as anti-Communist effort of any kind. It was a straight paper padding, marked "Urgent".

We must realize at the same time, and in the same connection, the immense administrative snafu and statistical uncertainty represented by the national socialist experiments in England and France, and the absolute absence of trustworthy statistics in a place like Greece.

I was in Greece with Ambassador Griswold, who I think is doing a good job there as best he can, and he was running ragged, trying to find out the elements of the thing.

Again, to document that on a matter of statistics which after all show up in dollars and cents we have to pay, I would like to cite an experience I had in Greece.

I went to see the Minister of Health, and he told me that the people were down to 1,800 calories a day in respect to food.

Now, the food situation in Greece is very bad. It is not nearly as bad as it is painted from our viewpoint, because Greece and the Balkans is a poor country at best, and I think it is very unfortunate to compare it with Hutchinson, Kans.

There are terrible shortages in some particulars, like milk. The delivery of our milk to the kids is a tremendously inspiring thing. It is wonderful.

Other programs have been overlooked in the praise I think should be given them.

There was a program that carried no glamor, but important, carried on by UNRRA. It was a wonderful thing in Greece. But the statistical level, as in these other countries, is just no good. It is an example.

I asked how he got the figure of 1,800 calories.

"Well," the official said, "we took the food production and then we took the population, plus imports, and we arrived at the 1,800 calories."

Well, they haven't had a census in Greece for over 20 years. The Greek Government has no more idea of how many people live in Greece than you or I have—which I think is very remote.

They have had influxes of Armenians and exfluxes of other people for 20 years, and they just don't know how many people there are there, but he was willing to say that they took the population, as they conceived it, and used that as a basis.

Now, naturally, the last thing in the world that the Greek farmer would do would be to tell the Government agent how much food he grew, because he knew it would be either taxed or confiscated.

So there the whole thing is arrived at, and we received these statistics in our country, and we base national policy on them—on two basic figures, both of which are just pulled out of the air.

Such statistics should be given a complete second look by competent men who understand production; for the problem of European recovery is primarily a production problem.

I do not think we should base our outpourings on the judgments of people who are looking at these countries from a dozen different angles and on a conglomeration of incentives. We have social purposes and humanitarian objectives and military advantages badly jumbled nearly

every place I have been. The Europeans see this and, to a degree, impose on it.

Just a few minutes ago Mr. Martin himself stated that the line between politics and economics is so fine—I think those were his words, as I jotted them down—so fine today as to be indistinguishable. That is exactly what I mean. You must distinguish objectives, or you cannot properly prepare to meet and create the achievements that you are looking for. You cannot afford to design something along the lines of social value, then when it fails to have a social value, you say, "Well, it is a military value." Or if you design along military lines you say that it had a social value.

There is no way to pin the planners down when they become sufficiently confused. Regardless of what we do and regardless of what incentive should dominate in different areas, and I should think it should be different in different areas, the delivery end of our aid in the future needs vigorous and intelligent correction and at once, or we should not spend another penny because once you vote the money, it is good-by.

At least that is the way it looks to me over there, and I subscribe completely to the proposal for an American organization to be established here and abroad on the pattern outlined in November by the Herter committee, and ignored in the present bill known as the Marshall bill offered December 19.

May I respectfully applaud and respectfully endorse the statement of the chairman of the Senate Foreign Relations Committee in regard to this proposed legislation?

I quote, of course, Senator Vandenberg in his public statement speaking, I believe, to Secretary Marshall:

You must create a system in which the American people have confidence or you will all be sunk without trace. They have a feeling that the administration of foreign grants-in-aid since the war has been pretty sterile of results * * * they want a new element of business responsibility that will give them a reliance that this program is to be conducted in a businesslike way. Otherwise you will fail and fail miserably.

That is exactly my view.

I wrote a book one time, in 1940 about Europe, and what they were going to mean to us. The title of the book was "Time Runs Out."

I think time runs out now, and we haven't any more time to monkey around and not gain knowledge and improvement from the mistakes of the past.

This draft legislation submitted by the State Department for the use of this Foreign Affairs Committee—and to be specific, on pages 4 through 10, sections 4, 7, 8, 9, and to a degree section 10—makes the Administrator what Mr. Arthur Krock called a prisoner of the State Department. I cannot possibly supply a more apt and accurate description.

Nor could I supply a more fatal one, under such a set-up. This is a point I am afraid has been too widely overlooked, although perhaps not, under such a set-up and unless the set-up is right, no really top-flight production-minded high-caliber production executive I can think of would take that job.

Now, I am going to speak Mrs. Douglas' language for a moment. We have got a casting job to do here. Unless the script is suitable for a top-flight performer, they can hawk that script from one end of the United States to another, and they won't be able to cast it.

That will be the ultimate problem.

Finally, the competent actors have to show up on the stage, and do the performance. And the getting of competent actors and actresses to do anything depends on the part you write in there for them.

That fact seems to me to have been tragically overlooked. It isn't just enough, suitable as it might even be, to write the specifications for this job.

I was again impressed by what Mr. Martin said and what Secretary Patterson said the day I appeared on January 22 before the Senate Committee. It isn't just enough to write this job from the standpoint of the suitability and the Government viewpoint any more than it is satisfactory to write a play from the suitability of the author's viewpoint.

This place must be filled by men who believe they can succeed in it, and that means it has got to conform to the yardsticks of top-flight fellows that are going to be asked to assume, what I believe is the most gigantic production problem of modern times.

After all, this place must be designed to conform, not alone to the wishes of the Government people, but in a pattern as well to meet necessary sound yardsticks for possible success that certainly would be placed on it by the kind of men who would have to be attracted in order to agree to serve just as the author must have in mind the agreeableness of the people he is going to cast.

Now, the call for brains, production brains, is the real call for this place. If the job is not designed right, there will be no respondents. There isn't a whisper of such a proper design in this plan.

May I repeat, I was invited to testify before the Senate Foreign Relations Committee on January 22, and did so, and at the conclusion, Senator Vandenberg, as chairman, stated publicly—and I was certainly glad to hear him say it—that insofar as his committee was concerned the administrative provisions insisted upon by the State Department would not be approved, and that was a public statement.

We are all familiar with that now. My own feeling is that we must not miss the significance of the fact, however, that the group of planners which presented the Marshall plan must nevertheless be held responsible for lack of vision and understanding about their own undertaking, or the impossible administrative provisions would not have been put in in the first place.

My wife and I, for instance, were to commission an architect to make a house for us, and he forgets to put in the front door. So the house becomes an unworkable thing.

I then must reconsider all the blueprints to see what this fellow is designing from beginning to end, not just the evidence of the omission of the front door, which is the thing I can put my hand on.

A proposal so unreliable in that direction must be presumed to be equally unreliable in other directions, and the validity of the whole concept must be reviewed in that light, as well as the amounts asked for, in my opinion.

But on the administrative phase, because it is so vital, let us go further. Even the recommendations of the Brookings Institution insofar as I have been able to study, hardly seem sufficient, if the needed kind of Administrator and associates are to be attracted to serve.

I would not only urge an independent agency such as a European Reconstruction Authority, but I would streamline its set-up beyond the Brookings report. Surely on the Board there should be representation of the State Department, but most importantly the other Members of the Board must be individuals of known accomplishments in industrial production, finance, and in industrial management and organization, who would on their public record have public confidence.

No lame ducks of either the political or business variety wanted. The Board, I think, should consist of not over nine men, and better only seven, and be vested with absolute authority and responsibility to meet the needs which are constantly changing.

Individuals selected should give their full time to the gigantic project requiring 3 or 4 years. No headlines about the choice of the Administrator on one day and then a polite letter some months later that he has fulfilled the major part of his duties and is bowing out, will suffice.

If anything is done it will be the nature of this administrative set-up, and the brains attracted into it, along with the freedom of those brains to function, which will make this "operation constructive" or "operation failure."

And there is no time for more failures, not as things look in the places abroad where I have been.

The incompetency of our present program is simply appalling. With world conditions as they are, America cannot afford to be incompetent on such a scale today. We have the competence to do what we should do, whatever that may be. We simply do not use it.

The Russians give France a little wheat—much less than they promised—and get more credit for it than we get for \$2,000,000,000 worth of materials we have shipped France since the end of the war. Thus it goes.

The simple fact is that for their own internal political purposes, political leaders actually hide where this aid is coming from, and we let them get away with it, year after year.

It works in approximately this fashion: You say to an American official of a country in Europe, "What is going to happen to all this material and these things after they get over there?" He says, "Oh, my goodness, I have nothing to do with that. I'm a diplomat, and I'm having all the troubles I can think about now, without having a lot of reconstruction problems." Of course, the commercial attaché can't handle it, either; he is making reports.

So you say, "Well, have you had any consultations with the cabinet of this government about what they are going to do to improve American relations and to contain communism by having the people of this nation know that it is the American people and the American free-enterprise system that is coming to their aid?" Then, he says, "Oh, I think that is a lot to expect. You see, they have to look out for their own political problems. They have their own votes to get, and if they emphasize to the people that America is helping them, it will make it appear as though they, themselves, are that much less valuable in running the country, so we really can't expect them to give us much aid along the lines of explaining to the people where the help comes from.

"Also, they have a Russian problem. If they emphasize to the people that they are getting the aid from us, it may damage their

Russian relationships; for that additional reason they wouldn't be able to thank us publicly."

Well, sooner or later, after you have heard that enough, you begin to wonder—not where the local politicians in Europe are going to come off with American aid, but what we are going to achieve out of this legislation in terms of results and, furthermore, results that are traceable by average European peoples to America and not to the Soviet Union.

Furthermore, I do not believe we have attacked in a hard-headed manner the ability to pay represented in United States dollar assets of those 16 countries, and their nationals held safe in the United States.

By our Government's own latest figures—these assets of the countries covered by this proposed 17 billion dollar legislation now total \$13,659,000,000. Of this amount here in the United States \$6,568,000,000 is in gold.

Obviously, this entire nest egg cannot be used, but I am certainly not impressed by complicated economic arguments that leave it intact. Certainly more of their own 13½ billions here can be used than our foreign friends imply and, as European self-help is presented as a fundamental of this draft legislation, I think a better outpouring by Europe's own governments and nationals—especially the very rich over there—is required before this legislation requests the working people of America to make up the difference and foot the bill.

My own observations abroad on this point of greater ability to pay were exactly the same as Senator Lodge reportedly expressed in the Senate committee hearings.

After all, you know, there is something wrong with the way we aid Europe, or the vast aid we have already given would have helped Europe more than it has. If we don't watch out, the new billions will simply be used up again, and leave us right back where we started.

That is not world aid, and that is not restraining Russia, or communism. It is simply taking one jump into the dark and looking around and then taking another.

In this manner we should not now begin to meet new, gigantic additional requests from abroad and ship free—"on the cuff"—gigantic new outpourings of items that are buried behind dollar signs and largely withheld from public discussion, resulting in a widespread lack of appreciation about the obvious effect.

The cost of additional foreign aid is frequently described to us as 2 or 3 percent of our average national production. This, I am sorry to say, is a misleading presentation of the facts. It draws our attention away from the shortages involved. By relying on an average of the national production it omits the fact that there are great differences in the depths of shortages. Is the demand for steel 2 or 3 percent of our national production? Oh, no, my friends.

Is the demand for freight cars 2 or 3 percent of our production? Well, hardly.

The demand for wheat is 30 percent of our annual production.

What is that 2 or 3 percent anyway?

It reminds me of the story of the man who was drowned crossing a stream that averaged 2 feet deep.

So far, only 4 years are included in the plan, and only a part of Western Europe. The bill: \$17,000,000,000 to be paid by every man

and woman who works in America. Other bills that would be set by this pattern: (1) Asia, (2) Latin America, (3) The Middle East, and (4) Indonesia are yet to be heard from.

That is what I meant when I said earlier in this testimony don't think we are looking at this pattern and setting the program in a large enough way.

Sooner or later we must figure the cost in terms of the basic stability of our own economy here at home.

We American people have already contributed to postwar relief abroad at the rate of \$553 per family. Under present official proposals for increased relief abroad the United States family bill would be built up to \$1,000 per American family by 1952.

From the viewpoint of the working man, that is a lot of money. But I would be less than frank with this committee if I did not tell you that as a citizen I, for one, resent the comparison of this fund for European aid with the cost of war.

I spent 6 years in this war, and by the time Pearl Harbor came and we were in it, believe me, this was a very old and weary and tiring war to me.

I had been in Finland and I was with the British Eighth Army in Egypt, and I don't know where else. Nothing is worse than war. It is an impertinence to compare the cost of any program with the real cost of war which is the lives and injuries to men.

There can never be a proper comparison made between these two, and to the extent it is suggested that \$17,000,000,000 is a cheap way not to fight a war, it seems to me there is an element there which is utterly distasteful from the standpoint of the injuries and the losses that have come to our homes and to our friends.

On the tax question alone, the latest draft legislation proposing aid to Europe means nearly \$7,000,000,000 of taxes in 1948 and all of us over and above what we would otherwise have to pay.

Lots of people aren't getting along so well, with the withholding tax right now. The elevator man in my building is paying a withholding tax of \$10 every 2 weeks because that is the law. The building is owned by the New York Central. He has the railroad pension plan, so that on alternate 2 weeks he pays \$9 into the pension plan. The pension plan is about the best chance for the future. He cannot give up the withholding plan, but if you are making \$50 a week, with a wife and two children, the cost of living like it is, you are paying the withholding tax and paying for your pension plan every other week, you have something on your hands.

The idea that, "Oh, well, these bills may be just part of our national production," leaves a fellow pretty cold if he only has the difference to spend for himself and for his family.

Some say that if a billion dollars of the aid is handled by the International Bank, the taxes may only be \$6,000,000,000 more than otherwise.

I call your attention to those words, "Only \$6,000,000,000".

Yet, who can even visualize what \$1,000,000,000 is? I think that is the trouble with the presentation of it. We do not ship dollars, we ship goods.

The dollars show up in the taxes. But as to the \$6,000,000,000 in taxes, or \$7,000,000,000 of this proposed aid, \$7,000,000,000 is two-fifths of the total sum paid in personal income taxes by the American people.

It is almost as much as the entire income taxes paid by all American corporations, and as far as the over-all 4-year \$17,000,000,000 amount is concerned, that in this boom year is as much as the entire profits of all the American industry, big and little, throughout our land.

You know and I know that the tax rate is already a dangerous feature in our economy. Our country has been taxed now by local, State, and Federal Governments, not just the Federal Government alone, but local, State, and Federal, at the rate of a billion dollars a week, \$52,000,000,000 in taxes collected last year.

Taxes now cost about 30 percent of the national income. It is a popular misconception that the rich pay most of these. Of course, there aren't enough rich to do it. If you took all of the difference of the income of people making \$50,000 a year, above the tax rate today, the difference would be \$638,000,000 which would not be enough to run the Government 3 days.

Common sense tells you who pays it. The working fellow and the working girl pays it.

All we have to do is to keep taxes at this rate long enough, spend enough and tax enough, and not get the desired results from it, and we will simply go into socialism through the back door, through the tax system, and there is where your production, I am convinced, will fall.

Now, we say that this is a fight against inflation, yet it is not explained that nothing could be more inflationary than vast exports paid out of the public purse, not repaid, and sticking us squarely in our shortages.

If there is to be a decrease in our exports, now is the best time to absorb that reduction.

In the year 1947 our exports totaled 14½ billion dollars. It was mostly free.

Our balancing imports ran only about 5½ billion dollars; a gap of 9 billion dollars. We know, or should know, that these exports are abnormal.

Furthermore, we are gearing our production to this rate of exports at these high prices—the inflation in farm prices and farm lands being terrific and the build-up on the inflation side of our domestic economy being immense in many classifications.

They will not be continued indefinitely and there, right there, our own town criers about the boom-and-bust philosophy are within their own export spending philosophy and their actions creating the worst fundamental of all in respect to boom and bust. There is a limit to the number of failures Americans can absorb.

At some point our leaders failed or we would not have suffered as we did in the depression.

At another point our leaders failed, or we should have been so strong on land, on sea, and in the air that there could have been no war.

And now they fail again, if they do not see that the future peace of the world depends on the internal strength of the United States, and if they squander that strength so that we have no strength, when the ships are down.

Thank you very much.

Mr. JONKMAN. Thank you, Mr. Taylor, for a very searching and challenging statement.

Now, I presume there may be some questions.

Judge Kee, do you have any?

Mr. KEE. Mr. Taylor, I think it would probably meet with the approval of the committee if you would identify yourself just a little further as to your background and experience.

Mr. TAYLOR. I would be very happy to, Judge.

My name is Henry J. Taylor. I live in New York. I graduated from the University of Virginia. I studied economics there in the graduate school. My life has been involved in a study of international economics, first, because I considered it a fascinating and important subject, and second, because having been in the newspaper business my business took me abroad very often.

Long ago I began writing for the economic publication, and journals in our country and abroad.

When the war came I was in Germany, in August 1939, when the Germans went into Poland.

I was making an economic survey of the totalitarian economics. I had been convinced as early as 1935 that the Germans would threaten the world and it would end in war and involve the United States.

I went on record with that in numerous ways. When the war came in 1939, what had been limited to economic writing, became supercharged in terms of public interest at home with the war material.

I was employed by the newspapers there for covering all over Europe. When we came into the war I was, I believe, the first correspondent that had the accreditation of the War Department to all theaters of the war.

When war was over in Europe, I was then sent to the Far East.

I returned here and I am an author and a writer and a radio commentator.

Mr. KEE. Do you today have any active connection with any newspaper?

Mr. TAYLOR. Yes. I work only, however, for the Scripps-Howard newspapers, whenever I have any writing to do of any interest to me and them.

Mr. KEE. You are not regularly employed by any newspaper at this time?

Mr. TAYLOR. No.

Mr. KEE. Do you in appearing before this committee represent any organization or any body of citizens, or do you speak merely for yourself?

Mr. TAYLOR. I hoped to make that clear in my opening remark. I not only represent no organization, but in an ordinary sense I have no affiliations. I have been for years a member of the board of directors of the Economic Club of New York; I am a member of the Pilgrims, a society for good relations with England.

I represent no one. I am just a free-wheeling, independent American citizen, and I appear here in that spirit.

Mr. KEE. I failed, because, perhaps, of dumbness on my part, to get your position with reference to this legislation. I would like to know whether or not you are for or against the proposal as outlined in the bill that we have now under consideration.

Mr. TAYLOR. I am for the Marshall idea as expressed on June 5, by Secretary Marshall, of European self-help with America to fill up the gap. As a matter of fact, it seemed to me quite an overdue suggestion.

If you do not mind my saying so, I concluded it as a major thesis in a book I wrote in 1943 called *Men in Motion*.

I think the Marshall plan or idea as suggested in the Harvard commencement speech, when finally reduced to a legislative proposal on December 19, is quite a different matter. I am for the idea, and I oppose this legislation as written.

Mr. KEE. Do you favor or oppose an appropriation to carry out a plan as outlined, by Secretary Marshall, or do you favor an appropriation to implement any plan?

Mr. TAYLOR. I do not think the plan as presented here, that any money should be appropriated for this plan as written. As far as I can gather that has already been decided insofar as the Senate committee is concerned.

I think the problem here, Judge, is a very interesting one. I spoke about it in this room to a friend of mine a little earlier.

A fellow might say that it would be a good thing if you and I went into a partnership, you know, some kind of a business, maybe a farm implement business in a small town.

Maybe you have the money and I was willing to go out and try to do my part, and it is a good idea. We took it to a lawyer and the lawyer would say, "You two fellows should draw up a partnership agreement now. I think it is a good idea, too."

Then we draw up the partnership agreement, or the lawyer does, or somebody else does, and a moment finally comes when that good idea you have and that you and I be partners reduces itself to a partnership agreement. From that moment on we have to live under that agreement.

You do not live under the idea, and if there is no provision that that agreement provides what happens to me in the event you die, or who puts up more money if I run out of money, or what the division of the profits will be, and so forth, the lawyer would say to us, "It is a swell idea for you two fellows to be partners, but don't either one of you sign that partnership agreement because it isn't workable."

Mr. KEE. You recognize the fact we have a very serious condition in Europe?

Mr. TAYLOR. Yes.

Mr. KEE. Do you favor the United States taking any part in relieving the situation over there and making any effort toward putting those nations on their feet again?

Mr. TAYLOR. Most emphatically; yes.

Mr. KEE. If you favor that, then what part of the present bill are you opposed to, the method of administering it?

Mr. TAYLOR. I don't think you have a plan. If it is administered under the terms described in this act, you have not. Certainly I have attempted to oppose the administrative features, and as emphatically as I can.

I (a) don't think they will work and (b) I don't think you will get anybody who is really a top-flight production man to take such a job under those conditions.

Mr. KEE. Would you favor the administrative provisions as set out and suggested by the Herter bill?

Mr. TAYLOR. I thought I said in my statement that I endorsed those heartily. I would go further than the Herter bill, however. The basic difference, as I read it, between the Harriman report and the

Herter bill is that the Harriman report comes closer to greater authority on the part of the Chairman, whereas the Herter bill has more of a committee flavor in it, a division of authority.

I would like to see the general concept, in fact the concept of the Herter committee, but with the elevation of the authority in the power of a Chairman to about the degree, or more than the degree, contained in the Harriman report.

My own intention, and I think it is entirely a detail, is that that committee is a little bit big.

Mr. KEE. If we would eliminate from the bill now under consideration here its provisions with reference to its administration and incorporate the Herter bill, would you favor the bill we have before us?

Mr. TAYLOR. Then you come to a question of for the first time qualifying, which is only my opinion, in being able to help at all.

I think then you would have a workable operation in the independent agency. Then I think you have got to go back and review, not so much the individual padding in the amounts from the standpoint of an extra dynamo or an extra thrashing machine, and so forth, but the concept.

The concept is very different, if you were in Paris. You know these countries were really told to write their honest and best estimates of what it would take to make business good in those countries in 4 years. That is a pretty big order. If somebody said what it would take to make business good in America in 4 years, we could go pretty far.

A lot of things we need here we don't have to have which are highly desirable. It is the projection that worries me in terms of the amount, not the individual padding.

I would have that reviewed. I would not tie the Administrator's hands too much on it.

Mr. KEE. There is no amount suggested that should be appropriated? Is that your view?

Mr. TAYLOR. I would proceed on the general assumption that any amount that was presented would be too big. If that sounds reckless, I would suggest that I think it is basically present in all foreign countries, that when any nation tells another nation they need money, there will be a lot of trading made on that.

Mr. KEE. You understand the object of evidence before this committee is to help the committee make up its mind with reference to this legislation?

Mr. TAYLOR. That is right.

Mr. KEE. What I am trying to get at is, have you any suggestions to make to this committee as to what amount, if any, should be appropriated to meet the condition that we are trying to meet in Europe?

Mr. TAYLOR. No; except the fundamental principle that when you suggest that you take the figures of \$6,800,000,000 for the first year, which after all you know is approximately the same amount as contemplated in the Paris figures. That figure of \$17,000,000,000 over-all, when they take the price tag off, if you put the Export-Import Bank loans in general expectancy, you get it up to \$22,000,000,000. That is the same figure they asked for after the first day. They first asked for \$29,000,000,000, and I saw them knock \$7,000,000,000 off that.

Mr. KEE. Can you help this committee by making a suggestion of what amount we should appropriate or authorize?

Mr. TAYLOR. I believe—would you not consider that it would be rather reckless of me to just pick a figure out of the air and say that this figure would do as well as another one?

If I were on this committee I would certainly cut that \$6,800,000,000 and I would cut it drastically.

By "drastically" I mean at least \$3,000,000,000 in the first 15 months, and I think you would find that we redound then with the speculation of improvement abroad, to all major aid that would really affect the stability of the countries and then if we needed more, I would give them more.

Mr. JONKMAN. The time of the gentleman has expired.

Mrs. Bolton?

Mrs. BOLTON. I confess to being a little confused at your attitude. I was interested to have you answer Mr. Kee as you did, that you were in favor of the Marshall idea because what I am left with is that you are in opposition to every idea that has been set forth.

I wondered what in your mind could be done? How can it be worked out? What is to be done? Would you not give your alternatives? I am quite confused.

Mr. TAYLOR. I will try to, if I may.

To begin with, I believe, at least I understand, that the function of the committee is to talk about the tangible legislation presented to this committee.

Mrs. BOLTON. I think there, Mr. Taylor, we perhaps should have told you that in the beginning when the committee met to organize these hearings, we passed a resolution to the effect that we were going to study this whole matter of recovery on a world-wide basis, assuming that the United States Government was trying to set up a new policy relative to its position in world recovery we would begin by studying the recovery plan for Europe. We are not restricted in any respect therefore to the two bills which happen to be on the table.

Mr. TAYLOR. Yes. As a witness I felt that I was testifying on these two bills.

Mrs. BOLTON. You were, of course.

Mr. TAYLOR. Therefore, I oppose these. I do not know what the two bills are, other than the one presented by the State Department.

Mrs. BOLTON. The Herter bills?

Mr. TAYLOR. I was testifying on the State Department's draft legislation.

Mrs. BOLTON. You see nothing good in it?

Mr. TAYLOR. I do not think it is workable.

Mrs. BOLTON. What alternative or suggestion would you give?

Mr. TAYLOR. I attempted to incorporate several. The plan, so far as I am concerned, starts and stops, but how it is run concerns me. I do not think any plan is a plan beyond how it is administered.

Mrs. BOLTON. I think we are all in agreement with that.

Mr. TAYLOR. So I think in discussing this legislation if you are going to testify about it, you have to start in what you believe to be the fundamental, and the fundamental in this legislation in my opinion would be if we passed it as presented we would find ourselves right back where we started with the same money having gone through these economies and not having produced.

I am opposed to that.

Mrs. BOLTON. What sort of an administration would you set up?

Mr. TAYLOR. I have tried to outline it here on several pages. I

went into it in detail. It consists of six pages, including the endorsement of the Herter committee as a substitute.

Mrs. BOLTON. You are quite satisfied then with the Herter committee set-up that there is no danger in a divided front being presented to the other countries of the world by the United States?

Mr. TAYLOR. I think that is reaching for it. We have, practically every place that I have been, numerous activities.

Mrs. BOLTON. We had six or seven fronts during the war.

Mr. TAYLOR. You have an example of it today. We have a very able man, a brigadier general, Gordon Seville, in charge of the Army Air Forces training program, an airfield development program in an advisory capacity in Brazil. He is out looking at these airfields all over Brazil. The Brazilians are saying, "We need a hundred bulldozers to make this field longer." He is saying that they don't need a hundred bulldozers down there. What is the reason for making the fields longer? They do not have the planes needed to make a longer field.

He would not approve such a requisition as that.

He sees a good deal of Mr. Pauley in the Embassy in Rio de Janeiro. He does not get in his hair, and if the Brazilians come up and say that Vargas wants this or that, he says that he is not working for Vargas, that he is there on the airport program.

I would like to feel that the recommendations contained in this testimony were very specific. Without them I do not think you have a plan.

I think the misunderstanding across our country is very real about this. It is we no longer have an idea. We are faced now with drawing a partnership agreement. We must all live under it, I think, for much longer than for 4 years.

In many more parts of the world than just western Europe we will have to live with this program. We should recognize that or else not suggest that the Marshall plan bring world peace.

Mrs. BOLTON. We are not suggesting that.

Mr. TAYLOR. But the proposal suggests. There is an atmosphere of that, not the guaranty, but the implication is that this is an important step.

Mrs. BOLTON. Not the implication from this committee!

Mr. TAYLOR. No; not from this committee, and I attempted here to suggest that it was the work of the committee that was enlightening.

Mrs. BOLTON. Maybe the implication lies in the way these things are given to the public, but that is something we cannot avoid.

Mr. TAYLOR. I congratulated the committee on getting the facts.

Mr. JONKMAN. Mr. Jarman?

Mr. JARMAN. You are quite definitely a man of broad experience and extensive travel. Do you think there is anything good about our State Department at all?

Mr. TAYLOR. Well now, that is kind of a touchy subject with me.

Mr. JARMAN. You do not have to answer, if you do not want to.

Mr. TAYLOR. I would be glad to. Practically every place I have been in the world, I have noticed, I think without exception, in the different countries, that you will find at least one, and more often than that several, wonderful Foreign Service officers who really know the score in that country, are good Americans, talented fellows, pretty lonely, and by and large, underpaid.

Customarily they weep on the shoulders of traveling newspapermen like myself because they are glad to see somebody from home who has been in other countries. By and large, I think they get crossed up at home base. Time and again I have been in areas of the world where it appeared at home as though we were simply improvising policies, where I know and have on occasions seen reports predicting it months and months, if not years, earlier.

Now, those people are all a part of the State Department, and I do not think they have received the credit they are due. But I do think the organizational nature of the State Department tends more to kill off these fellows than to bring them forward and give them their full cruising range.

So, when you ask me if I see anything good in the State Department, I think the State Department personnel in the field is far better than is generally supposed.

Nothing annoys me any more than to suggest ambassadors only go around drinking tea, and stuff like that. That is not true. I think the State Department has gotten itself into a position either by tradition or over a period of time, or possibly because so many things have been thrown into the State Department that were left over after the war, including economic warfare, and so forth, that the original concept of the State Department as a policy-making agency is not suited as an operational agency.

Mr. JARMAN. In other words, the gist of your idea is that the Foreign Service is all right, but the State Department here in Washington is not so hot?

Mr. TAYLOR. They do cross them up.

Mr. JARMAN. Since we are operating under the 5-minute rule, I will not have time to get answers to these questions, I have so many. I will comment as much as I can, and if you want to in the record comment on what I say, I will be happy for you to do so.

Mr. TAYLOR. Thank you.

Mr. JARMAN. You say another 3 billion American dollars would drain into the darkness and confusion of Russia.

I disagree thoroughly that all of the UNRRA fund went to Soviet Russia and Russia's puppet states.

Mr. TAYLOR. I did not mean to imply all. I think a substantial part did. Isn't it true that the majority did? All those—although, of course, not all.

Mr. JARMAN. I do not think so. However, if you will permit me to comment in the record because I would not otherwise get through, I want to give the gentlemen over there ample time for their questioning.

This item of Holland is \$2,446,000,000 and it may be a loan and not a grant. You spoke of the fact that Denmark had 4 percent Communists. I was going to ask you, but I will just state that I understand Russia has only about 5 percent.

Mr. TAYLOR. I do not compare Denmark to the Soviet Union.

Mr. JARMAN. Even with all its faults, somebody in the State Department did find \$131 million reduction in the French and Italian figure. You said it was reduced 131 million?

Mr. TAYLOR. Yes. There were other reductions. The reductions I referred to totaled \$115,000,000, and I attempted to place the credit for that reduction on the State Department where it belongs. I am trying to make fair testimony.

Mr. JARMAN. I am sure you are. I am glad they have found that.

As to this question you asked the Greek Minister, I do not know how else he could estimate the population except on the basis of his knowledge that immigration was so much, and other shiftings of populations that did not have a bearing on the census, as you say.

I do not see how he could have other than made the estimate that he did.

Finland, you say—and I thoroughly agree with your appreciation of Finland—is not included in the loan. But she was invited, you know.

Mr. TAYLOR. Oh, yes. I think she stayed out, don't you, in fear of the Soviet Union, or I assume she did.

Mr. JARMAN. I am sure of that.

Mr. TAYLOR. Or after the formula adopted by Switzerland and Sweden.

Mr. JARMAN. Now, speaking of Communists, too, you seem to make a good deal of the fact that the claim this is fighting communism is all so much talk.

Mr. TAYLOR. No. I said they applied it on the over-all presentation basis. I thought I went out of my way to try to emphasize it was pertinent to certain areas, but is not an over-all applicable label for the total amount.

Mr. JARMAN. In some of these areas. You kind of laughed at communism being in Portugal.

Mr. TAYLOR. Yes.

Mr. JARMAN. Your information is different from mine. I may be wrong. The information I gained there in October was that there is a very strong and dangerous Communist underground, regardless of whether Salazar is good or bad, and I agree with you he is a smooth gentleman.

Mr. TAYLOR. He is a dictator.

Mr. JARMAN. You referred to Ireland. My impression is that there is a strong Communist underground in Ireland, and that Mr. De Valera is well aware of it and that the IRA is riddled with Communists. Further, they will figure in the next election.

Mr. TAYLOR. Now, really, are we going to send a half a billion dollars all over the world in countries the size of Ireland on the local government's estimates that if we don't give them half a billion dollars, they are liable to vote Communist. We really have got ourselves into quite a proposition.

Mr. JARMAN. I do not know they estimated that. I am commenting on your testimony.

Mr. TAYLOR. I have only been in Ireland three times. Is this committee really worried about Ireland going Communist?

Mr. JARMAN. Well, we are worried a lot more than you are.

Mr. TAYLOR. If they are worried at all, they are worried a lot more than I am about that one.

Mr. JONKMAN. The time of the gentleman has expired.

Mr. LODGE?

Mr. LODGE. Mr. Taylor, I find your testimony very interesting and stimulating.

Of course, I think your views are entitled to a great deal of consideration. But I had a feeling as I listened to it that there was to some extent a kind of contradiction involved in your testimony. I can

join you in lamenting the waste and misdirection of much of the money that was poured out by this country, and I find that in one part of your testimony you say that we must realize that we are involved and that this is not the end.

Yet on page 11 you say, "Now we are in it again for a new \$17,000,000,000 as if it were for the first time."

Mr. TAYLOR. Yes.

Mr. LODGE. Perhaps that is not a contradiction in your mind. One reason we are in it again to this extent perhaps is because of prior inefficiency. But there are other reasons I think we are involved for quite a while, as you do.

Mr. TAYLOR. Yes.

Mr. LODGE. Therefore, I am a little surprised that you should be so surprised that we are in it again.

Mr. TAYLOR. You know, that seems to me to be a very interesting point. I am dealing here with a complaint that I do not believe can be overcome in any manner but by a redressing of the presentation of the Marshall plan. When I state "we are in it again", as if it were for the first time, what I mean is this:

We have been reading the advertisements in the newspapers. Many committees have been formed. The general implication is to the American working people or people in our country that do not have a chance to study these things as carefully as they might, who are distracted by other things, that the war is over and now we must help Europe.

You know, lessons in idealism.

Mr. LODGE. May I say there that I believe this administration has for many years made a mistake in presenting most of this foreign aid legislation on the basis of humanitarianism. I think it should have been presented on the basis that they are strategical measures with humanitarian overtones, let us say, with relief characteristics.

Mr. TAYLOR. I agree. But the ordinary fellow across our country, and I get it from a lot of places, there is a concerted effort to suggest that what we need to do is not let Europe down, you know, that now is a time when we have got to realize that we are a part of Europe, that the world is affected by these interrelationships.

We are kept so busy looking ahead that we forget that is exactly what we have been doing for nearly 3 years, and the Marshall plan is brought forward with an amazing amount of propaganda as if it were the first concerted effort by our Government to get at some of these problems.

Mr. LODGE. May we count on you to advertise the national security implications of the Marshall idea?

Mr. TAYLOR. The Marshall idea so far as I am concerned, Mr. Lodge, does not become national security until it is buttoned up to be run right. No. I am just adamant on the point that this is no better or worse a plan than the decision that it is finally made as to how it is to be run. The older I get the more I think nothing works without experienced brains.

You can take any business or any theater or store, or anything else, and if the management is not right you can put all the money there is in the world in it and it does not do the job.

Mr. LODGE. I will agree with you that the program will sink or swim on the basis of the quality of the administrator.

Mr. TAYLOR. And authority.

Mr. LODGE. Another point you raised with which I find myself in some disagreement, Mr. Taylor, is on this question of anti-communism.

I would personally be very much opposed to taking your view on that particular matter. In other words, as I understood your view, we single out Italy and France, let us say, and countries which are directly threatened by internal Communist force, and if it is entirely an anti-Communist measure we do not help England or Ireland. I do not see it that way.

Mrs. BOLTON. Will the gentleman yield, if the chairman gives him the time I take out of his 5 minutes?

Mr. LODGE. Certainly.

Mrs. BOLTON. I was a little disturbed by Mr. Taylor saying constantly that this was just an anti-Communist measure, because as I have read the bill, as I have read the whole business, it is not set up at all as a measure solely to be anti-Communist.

I think for the record's sake we of the committee should make it very clear that that is not the basis upon which this bill has been brought to us. The bill is the recovery of Europe.

Mr. LODGE. I think I know exactly what the lady has in mind.

Mr. TAYLOR. It was in the presentation.

Mr. LODGE. What Mrs. Bolton thinks, I think, is a more affirmative approach toward the restoration of Europe and by so doing, by spreading the free trade area of Europe, we will spread the area of freedom which will incidentally have the effect of holding back the Communists.

Mr. TAYLOR. When the British loan was proposed, it had one profound weakness—not the money, but a basic weakness. I am speaking now from the economist's viewpoint. It carried the implication that this major loan to England would of itself create a stabilized condition abroad. The objection to the British loan should have been that it was a treatment on a piecemeal basis. The fundamental value of the Marshall plan as suggested in June was that we were going to stop this piecemeal business and treat Europe as a coordinated unit, which it is.

Mr. Lodge. That is precisely why I find fault with your thesis on England. We must not treat it piecemeal.

Mr. TAYLOR. I would like to see the fight made on sound grounds, and they then took the \$17,000,000,000 price tag off it, they lose their sound position because what they might well have done, in my opinion, and believe me I would have been for this, that they could have said "Look here, you fellows, I know it is easier to vote \$6,800,000 than \$17,000,000,000 in an election year, especially an election year," but if we do that we are back where we start, on piecemeal aid.

We have a plan here that involves 4 years and \$17,000,000,000 because the true recovery of Europe is going to take (a) a lot of money and (b) time.

It will probably take more than 4 years. But the real way to go about this is to take the full leap, tie these countries together as far as you possibly can, spend the money as wisely as you can, and do not look for any results this side of 4 years.

Therefore, far from being willing to take off the \$17,000,000,000 price tag, and reduce it to 1 year, what we really are proposing to you is a 4-year plan that we are convinced under proper administrative management will do the job.

They could have made that argument. From my point of view as an economist it could have been made on absolutely sound grounds.

Mr. BOLTON. Would you guarantee that in 4 years it would be sound?

Mr. TAYLOR. The only possible approach is that.

Mrs. BOLTON. You put a time limit there?

Mr. TAYLOR. Instead of that when the heat went on, they pulled the so-called price tag off, reverted back to \$6,800,000,000 and no commitment for more than 1 year, which is why I attempted to say that this then becomes stop-gap aid. You cannot put it both ways, you know.

Mr. LODGE. May I comment on that? My comment on that is that it is still not stopgap aid even on that basis, for the following reasons:

In the first place, if you appropriate enough money, part of it is for relief and part for recovery. Insofar as it is relief, it might be considered stopgap, except that without relief no recovery is possible.

Insofar as it is recovery, it is certainly not stopgap aid by the very definition of the word "recovery."

Furthermore, even if you do not appropriate for more than 15 months—let us take the figure of \$6,800,000,000—nevertheless you may have an authorization which anticipates further authorizations. Therefore, it seems to me that your view is not necessarily true as far as the presentation of the measure is concerned.

There are certain advantages to doing it each way.

In the first place, these are estimates, guesses, to some extent. They are bound to be. They are based largely on dollar deficits, balance of payments. If there is an international monetary conference and these countries devalue their currencies, and there is a consequent increase of exports which results in a diminution of the dollar deficits, that will alleviate the burden on the American taxpayer since the amount we will have to pay will not be so great.

Or perhaps if we adopt the Herter proposal we will be bringing aid to Indonesia, in which case we might have to have more.

Mr. TAYLOR. What happens if Russia joins the Marshall plan? They can, under the first provision. Supposing these people in the Soviet Union or the Kremlin decide to show some sense after awhile. They have shown no indication thus far, but supposing they said, "For Heaven's sake, with all this stuff passed around, who are we to be so ideological?"

What do you think would happen if Russia joined the Marshall plan?

Mr. LODGE. My answer to that is that if Russia will be willing to sign the agreement which will be proposed by the State Department, pursuant to legislation which we will draft, she will be agreeing to conditions which would mean that it would be quite to our advantage to have Russia join.

Mr. TAYLOR. You certainly could not expect the Soviet Union to accept any other conditions than any other country; so, in the first page of the legislation, that is included.

Any other nations that are willing to conform to the articles of declaration will be included.

Mr. LODGE. Let me say that this legislation has not yet been reported out of the committee.

Mr. TAYLOR. Watch that one, if you will.

Mr. LODGE. I think the chairman will agree with me that it will be our effort to establish conditions which, were the Soviet Union to agree to those conditions, a happy situation will result.

Mr. TAYLOR. It would have to be uniform. We cannot maintain friendly relations with a power and give \$5,300,000,000 to one nation and then refuse it to another needy nation. You will find they will show as much need as another country.

Mr. LODGE. Do you think Spain should be invited in?

Mr. TAYLOR. I do not think Spain is in the picture. I think Spain has healthy possibilities for France, because the semi-closed border in between those countries is a very bad thing for France. Spain was not in the war, but Russia was in the war. If she, since the Marshall plan, signs the bill, then what do we do?

Mr. JONKMAN. Just go by the past experience, Mr. Taylor; would it be good business to accept Russia's acceptance under the Marshall plan?

Mr. TAYLOR. I should say not, but we have left the latchstring out; and if she pulls it, we have the whale by the tail.

Mr. JONKMAN. Would you care to comment as to your opinions as to why she did not accept it? That is conjecture. I wonder if you have any views on that? If you have any views on that, will you express them?

Mr. TAYLOR. I have. I think it is a typical case of the great snafus that come into totalitarian management and states where the bitterness and the confusions and the propaganda finally get all twisted up. It is the only possible account for the strategic blunders in the war that Germans made.

I think Russia has shown the same tendency of really not knowing what is good for them. They get so used to saying "No", they just take the party line, and they say "No" when a fellow was handing them something that is just swell.

Mr. JONKMAN. Is it possible they know very well, or knew very well, that if they came in under the Marshall plan, it would not go through?

Mr. TAYLOR. That would be a paradox, because it is claimed they are fighting the Marshall plan in Europe, a claim which leaves me with mixed feelings, because they are doing it so obviously that I am suspicious of the Asiatic approach.

However, if coming in would keep it from going through, and if they don't want it to go through, you would think there would be more reason why they do not come in. It was predicted in London that Molotov would walk out of the Paris Conference. I am perfectly certain that was no surprise.

Mr. JONKMAN. What do you think was our protection, that we put the \$6,000,000,000 in?

Mr. TAYLOR. Toward coming in?

Mr. JONKMAN. Yes.

Mr. TAYLOR. I think the Marshall plan as conceived before the Paris Conference of June, from which Molotov exited, should have recognized in its final presentation in December that we had gone then so far along the road of what is described informally, but not officially, as competition with the totalitarian states for the well-being of Europe that the plan should incorporate in it absolute provisions

that it would make it impossible for the Russian Soviet Union to come in and simply take this ride, but, of course, having done what they wanted to then do whatever they preferred to, to injure the world and us.

Mr. JONKMAN. That is all; thank you.

Mr. LODGE. May I say one more thing? I would like to return for a minute to a point you brought out in relation to this as an anti-Communist measure.

It seems to me we have to have a view of Europe as a possible federated economic community.

Mr. TAYLOR. Yes.

Mr. LODGE. Now, then, the question of whether these countries in which communism is not a menace—England, for instance—should receive grants in aid, is a matter for determination by the Administrator. It seems to me that it would negate the whole purpose of the hoped-for economic federation of Europe if this measure were interpreted solely in the light in which you appear to interpret it.

Mr. TAYLOR. Mr. Lodge, I am afraid you and I have a basic misconception about that approach. I am claiming in my testimony, or attempting to, that as a matter of impact on the American people and on Congress the propaganda line was set by the State Department as presenting this on an anti-Communist basis as a result of a survey indicating that that would contain the most "oomph," and I noticed that the proposers of the plan emphasized and reemphasized that this was an anti-Communist fund we were putting in there.

Mr. LODGE. What do you believe it to be?

Mr. TAYLOR. I believe it to be a recovery program for Europe, in which communism is only one of the features.

Mr. LODGE. But do you think that as Europe recovers the Communist threat will be diminished?

Mr. TAYLOR. Not nearly as much as many of my friends; because I noticed, for example, that there was nothing wrong with living conditions in Hungary when the Communists seized Hungary. There was nothing wrong in certain of our American cities when political leaders seized the city hall.

Mr. LODGE. Now, you are talking exactly my language. I have attempted to bring out during all of these hearings this fact—that the purpose of the Marshal plan, insofar as it has a political purpose, is to reduce the popularity of communism, the spread of the contagion of communism; and that in Poland, for instance, you have only 3 percent Communists. In France you have 30 percent, according to recent polls. So my question has been—and I have not yet had what I consider a satisfactory answer—even if the ERP goes through in time, will that be enough to protect the Governments of France and Italy from internal force, from extralegal attempts to demolish the legality of the Italian and French Governments?

Mr. TAYLOR. Absolutely not; and, accordingly, it is the implication, and unstated implication, of this insolvable relationship between living conditions in communism which leaves me cold. They are not related as both ends of a beam are.

Mr. LODGE. Communism is, to a large extent, brute force, and this should be simply regarded as one prong in our strategical arsenal.

Mr. TAYLOR. That is right. Then, Mr. Lodge, you begin to get the thing into the projection I would like to see it in. What worries

me so much is that this projection so far has been so wide of some of these marks you and I are talking about that the latent feeling that exists in our country—and it is very vocal right now—is that we get a hooking when we go into Europe. I said in my testimony I do not agree with that. That is a very widespread feeling. I think one of the reasons is because of the very things you and I are talking about. The actual purpose turns out to be different from the presentation; whereas, in many instances, the actual purpose could stand on its two feet, if properly exposed.

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

Mr. JONKMAN. If I understood your presentation, you expressed that the Herter bill does contain the machinery that would be most likely to accomplish the purpose; and if you criticize that, it would be that there should be more power in the Administrator under the Herter bill?

Mr. TAYLOR. Yes.

Mr. JONKMAN. If he was given practically a free hand, or it was taken into consideration that we knew he was responsible for foreign policy to the State Department, then the plan could work and you could attract men of the caliber that would be required to make it work?

Mr. TAYLOR. Sure; because I think Secretary Anderson testified what a difficult job it was to get competent men to come to Washington any more and stay here. I do not know; were you in business before you went to Congress, or were you an attorney?

Mr. JONKMAN. I was practicing law.

Mr. TAYLOR. All right. If you had been a production man, that would have been different. He will need quite a few people in this job. In the first place, the individual will have to take it up with his own company; and they will say, "Charley, what authority do you have?" You will not get a man to take the job unless he has a cruising range. They won't find a competent man in this set-up. How is he going to get other fellows? He will finally be convinced that he has the authority to do it, and he will pick up the telephone and call up some fellow that has been working for 20 years with him, and knows all about foundries, and he will say: "Bill, we are going to ask your company to let you go for awhile. I have got an awful big job on my hands, and have agreed to do it. I don't want to go to Europe for 3 or 4 years, but I am. We have got a tremendous amount of stake in this. If Mert will let you go and you quit your job and come with me, I will back you to the limit and we will get it done."

That fellow will get Bill, Frank, Joe, this fellow, and they will see what they can do.

Mr. JONKMAN. Have you thought of any provision to put in the Herter bill to accomplish that as to words, or phraseology?

Mr. TAYLOR. Amplification of the definition of the absolute responsibilities related to verbiage that shows that he must be able to assume responsibility and make decisions on his own authority in the face of changing conditions.

The theory that the Secretary of State will be able to put a stop on something is the equivalent of a veto power. No manager who faces veto power can manage. The fellow that really ultimately manages is the fellow who has the veto power.

Mr. LODGE. Do you think, Mr. Taylor, that you would have more chance of getting the American people to understand this measure and of getting outstanding talent to participate in it if you could destroy the superstition that there is a sharp dividing line between war and peace, if you could bring people to understand that wars are only extensions of peacetime confidence and that we are up to our neck in a conflict now?

Mr. TAYLOR. Of course, it is late in the day, but we are all talking about some vastly big subjects. It has never been clear, historically speaking, that good times brought peace. It has never been clear that commerce is the road to peace.

That is a cliché often used. It is far easier to demonstrate that where commerce has expanded, wars have ensued. Where there is no commerce—witness the Eskimo in his igloo—you have peace.

I, for one, am terribly disturbed about the great generalities brought forward. One is that if there are bad times, any place in the world, it means that it affects America.

Isn't it obvious that, far from that being true, the fact is that if there are bad times and trouble in some places in the world, this affects America, not all places? There will be bad times, I venture to suggest, in India, for many, many generations.

If we are to await stable economy in the United States until there are good times in India, my friends, we are going to have a very long wait.

Yet India is definitely a part of the world.

Mr. Chairman, you have been awfully kind to me today. I am very grateful to this committee for this opportunity to be with you.

Mr. JONKMAN. We enjoyed hearing you. You made a very interesting presentation and, I want to say, a courageous statement.

Mr. TAYLOR. Thank you.

Mr. JONKMAN. It is not many witnesses who have come here and gone as far as you have in saying what they really think about the weaknesses and frailties of the Marshall plan. It is those we must know, and you certainly have done your share as a citizen in informing this committee; and, to a large extent, you have shifted the responsibility to us.

Thank you very much for coming.

Mr. TAYLOR. That is all I tried to do. I think this is a pretty serious subject.

Mr. JONKMAN. I am sure it is.

(Whereupon, at 5:15 p. m., the committee adjourned, to reconvene at 10 a. m., Tuesday, February 3, 1948.)

(The following was submitted for inclusion in the record:)

THE MARSHALL PLAN

STATEMENT FROM HERBERT HOOVER TO SENATOR ARTHUR H. VANDENBERG,
CHAIRMAN, COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE,
WASHINGTON, D. C.

JANUARY 18, 1948.

Senator ARTHUR H. VANDENBERG,
Chairman, Committee on Foreign Relations, United States Senate,
Washington, D. C.

MY DEAR SENATOR: I have your request that I should present to the Foreign Relations Committee my views on the proposed Economic Cooperation Administration for aid to 16 western European countries.

First of all I wish to make clear my conviction that we should help to the full extent which does not weaken our own economy and thus defeat all world recovery.

There are three dominant reasons why we should do so:

First, the spiritual character of the American people has always led them, and will for all time compel them, to prevent hunger and cold to the full extent of their surplus, and even to the extent of personal self-denial.

Second, while the defeat of communism in western Europe is of vital importance to the preservation of moral and spiritual values for which we stand, it is also of vital importance to us that the economic and political unity of western Europe should be stimulated.

Third, the project builds for peace in the world.

DANGERS IN EUROPE

The dangers inherent in the project are very great. On one side is the possible failure of western Europe, now engaged in widespread experiments in socialization of industry, to secure the restoration of productivity; their possible failure to secure domestic fiscal and currency stability; their possible failure to secure economic and political cooperation with each other; and their possible failure to defeat the destructive politico-economic forces in their midst.

UNITED STATES DANGERS

On the American side, dangers are that the volume of exports and finance proposed may accelerate an already serious inflation; that it further delays our recuperation from the war; that it drains our natural resources and continues excessive taxation; all of which might bring depression and thus destroy the strength of the one remaining source of aid to a world in chaos.

We must take some risks, and I should have liked to be able to give unqualified endorsement of the ECA as presented to the Congress. I am compelled, however, by conscience to say that the plan as presented should have certain constructive modifications and more safeguards.

I suggest six directions of such action:

First, as to its organization.

Second, as to the scope of the plan.

Third, as to positive conditions to which the recipient countries should agree.

Fourth, as to the period to which we are committed.

Fifth, as to limits of burden upon the United States.

Sixth, as to some suggestions for lightening the burden to the American taxpayer and upon our economy, and yet preserve our purpose.

ORGANIZATION OF ECA

No one would contend that the political relations involved in this plan should not be controlled by the foreign-policy branch of the Government. *But this plan is far more business and economic than political.*

By this proposal, together with other authorities, and our other foreign aid projects, we are placing the control of the whole American economy in the hands of the organization which directs these operations. Its policies can determine the volume of exports, and thus prices, wages, rationing, inflation, and the progress of the incomplete reconstruction in the United States.

Beyond domestic questions, there are momentous foreign economic policies to be decided by the administrators of these powers. The need, finance, and source of supply must be determined for each recipient country. These operations must be coordinated with our exports to all other countries and with our other relief operations. Above all there must be continuous evaluation to determine whether the economic and social policies of the constituent countries are contributing to success.

Such power should not be placed in the hands of any one man or any one department of our government. Obviously the administrative work involved should be conducted by one man. But its policies should be directed by a group, no doubt including department heads, but also including nonofficial citizens. The proposals of Congressman Christian Herter insofar as they imply group conclusions come nearer to meeting this requirement.

I assume it is intended to carry out this operation as a bi-partisan enterprise, for only thus can we hope for success. There is far too much at stake to permit partisan approach. If these policies are to be bi-partisan, then the members of this board or commission should be selected by prior consultation with the congressional leaders.

SCOPE OF RESPONSIBILITIES SHOULD NOT BE LIMITED TO THE 16 COUNTRIES

Even if administration of these funds is limited to the 16 countries, the scope of policy determination must be far wider. The front against communism lies not alone in Europe; it stretches through Latin America and Asia. We have to bear in mind that the exports of the United States include also very necessary exports to those countries which supply us with essential imports and whose economies are positively linked with our own as, for instance, the Latin-American states.

We must, if we pursue this national policy, include aid to China and other nations, together with the occupied territories of Germany, Japan and Korea. There are thus not 16 countries directly under relief, but 20, and possibly more.

The food supply and reconstruction of industry in Germany, Japan, Korea, and China are inseparable from the 16 countries. Both logic and administrative management suggest that they be placed in the hands of this commission.

We cannot separate a 20-nation segment of the world from the other 20 friendly nations and give it priority over them. Any undertaking to use American resources to the full extent to bring about stability of the world implies coordination with other countries.

CERTAIN CONDITIONS WHICH SHOULD BE AGREED TO BY RECIPIENTS OF E. C. A.

The plan presupposes certain basic conditions of cooperation between the countries to be aided which are essential to the success of our efforts.

One of the hopes of the world is economic and political solidarity of western Europe.

Internally in each country the plan envisages an increase in productivity by abandonment of restraints upon enterprise and economy. It envisages balanced budgets and checks on inflation. Above all there need be abandonment of their wholly fictitious basis of foreign exchange. Were these things assured and were exchange based upon realities, private Western Hemisphere funds would pour into those areas; their domestic hoards of gold and currency would begin to come out and the demand for their exports would increase. All of which would decrease the drains and strains upon the United States taxpayer.

Moreover, the reopening of German and Japanese industrial plants is not only essential to provide needed materials in Europe and Asia, but the situation is at present an "operation rat hole" to the extent of a billion and a half dollars for each year of charitable food from the United States to keep these people alive. With restoration of their production, and exports, that sum could be applied to reconstruction by ECA, not used to keep idle thousands of German and Japanese plants and workmen. Specifically, those of the 16 countries concerned should agree to the trizonal economic union of western Germany; a peace with Japan; a cessation of plant destruction and removal; and abolition or increase in "levels of industry" in these two countries.

No one expects all these things to happen overnight, but unless they are begun quickly our service toward world recovery will be largely in vain.

OUR COMMITMENTS SHOULD NOT BE EXTENDED TO 4 YEARS

The plan originally proposed an authorization to ECA of \$17,000,000,000 and a 4-year program. The first 15-months' appropriation is proposed at 6.8 billion. But in addition to this, we are committed to western Germany, Japan, Korea, and possibly China, and perhaps others, for supplies amounting to about 2 billion in this same period of 15 months, or a total of nearly \$9,000,000,000.

It was prudent not to require that commitments be made by the United States at the present time for more than the first 15 months, until July 1, 1949. We cannot even hazard what the export and financial possibilities of the United States will be for more than a year in advance. Food being the largest item in the whole program, we can only judge from harvest to harvest. Nor can we long forecast our industrial production. Furthermore, we cannot tell in advance the requirements of each of these countries to which it is proposed to extend aid. They, too, are dependent upon their harvests; they are dependent upon cooperation between governments, and upon their labor and many other elements for which we cannot fix a financial or commodity commitment.

Even a moral commitment to a 4-year program is unwise. We cannot enforce ideas upon other self-governing peoples, and we should keep ourselves entirely free to end our efforts without recrimination. The United States will at all times aid against hunger and cold. The fact that we have already spent probably 20 billions upon this purpose since this war and over 5 billions after the last war

should be sufficient assurance that we will continue to support right-thinking peoples in the future.

THE BURDEN UPON THE UNITED STATES

Whether the American economy can stand a burden of 9 billions of relief in this 15 months must arouse great anxiety.

It amounts to about 18 percent of our whole Federal tax income during such a period. It amounts to 36 percent of all the personal income taxes. Yet the country surely needs tax relief if its productivity and employment are to be sustained.

Another disturbing question is the effect upon prices, wages and inflation generally of the volume of exports and finance here proposed. In the fiscal year 1946 we exported 4.4 billion dollars more goods than we imported. In the fiscal year 1947 we exported \$7,000,000,000 worth of goods more than we imported. (In both cases services are omitted.)

These differences were represented by gifts and loans to foreign nations. They were bumper-crop years, yet the volume of exports in fiscal year 1947 and since have undoubtedly raised prices and started inflationary spirals. It seems difficult to believe that we can continue at the rate now proposed and not produce the same effect.

It is not an answer to say that under this plan large amounts of American money will be used for purchases of commodities in other countries on behalf of recipient nations and thus relieve export pressure upon the United States. These other countries thus receiving our money will wish to transform that money into goods from the United States. If we refuse export certificates for all or part of their demands because we do not have the goods, either our money will go to a discount, or we will necessarily enter obligations to pay those nations at some future date. Thus the United States will in effect be borrowing money abroad to finance this program.

It is an illusion that scarcity and thus increasing inflation can be more than temporarily retarded by compulsory fixing of wages, prices and rationing. Aside from the reduction of primary freedoms involved, history and our national experience prove that any such course sets up chain reactions which ultimately decrease production and defeat their very purpose. A part of western Europe's present difficulties is due to these practices.

The only safe road for us is not to overexport. We can to some extent increase the amounts available for export and hold prices by adopting strong voluntary conservation measures; by using voluntary restraints on prices and wages; by doing more and harder work with uninterrupted production. Such voluntary organization, if vigorously and systematically administered, avoids most of the evils of the coercive system.

SOME SUGGESTIONS FOR LIGHTENING THE BURDEN UPON THE AMERICAN TAXPAYER AND UPON OUR ECONOMY

If some of the imported quantities scheduled be reexamined in the light of supplies, if certain principles were established by Congress, if certain requirements were fixed, and if an effective business organization were set up, I am confident that the burden upon the American taxpayer could be lessened and our essential purpose accomplished.

European proposals on which this plan is based have undoubtedly been formulated in good faith but some suggestions seem permissible.

First. The food programs when correlated to the needs of the rest of the world would appear greater than the world supply during the first period from April to June 1948, and at the same time maintain rations in the occupied areas and some "plan" countries at an endurable level. Further, these programs seem to imply a dependence upon world harvests much greater next year than last.

Second. The program for agricultural reconstruction seems imperative, but the program for industrial production implies not alone a restoration of prewar productivity but a great increase in such production above prewar. That is indeed greatly to be desired, but whether Americans are able out of production and taxes at this time to provide more than a restoration to prewar levels is another question.

Third. The program calls for export of about \$800,000,000 of capital goods including steel and machinery from the United States in the 15-month period. Both the Harriman and the House of Representatives reports cast doubt upon

our ability to supply this amount of steel production and to maintain our necessary exports to other vital quarters. A House report states that these demands are "a staggering deficit to impose upon steel in the United States * * * it is difficult to see how * * * it would be possible to fulfill this program without seriously weakening our economy." The capital goods programs of the 16 nations of necessity may need to be extended over a longer term.

In fact, our productive machine today is crippled by the insufficient railway equipment for the prompt delivery of goods; our food production is lessened by scarcity in agricultural machinery; we have sporadic oil famines due to lack of oilwell, refining and transport equipment; our automotive industry is short of raw materials; we are dreadfully short of building materials for veterans' homes. No further evidence of shortage is needed than the black market where steel is selling for over 100 percent premiums.

It would seem that the possibilities of early steel and machinery production in Germany should be more vigorously undertaken, obviously with readily effective curbs as to any munitions diversion. With removal of the inhibitions on these German industries, with vigor and working capital, a large segment of this program could be supplied from that quarter, instead of by increasing scarcities and delaying reconstruction and increasing taxpayer costs in the United States. It may be said that Germany cannot do this and export coal to the 16 nations. Pending increase in Ruhr coal, some increase in United States coal exports might be found to be better. The same policies should be applied to fertilizers and to oil refining in Germany.

In any event, it would appear that the 15 months' capital goods program must be extended over a much longer period.

Fourth. The estimates of over \$650,000,000 of petroleum supplies to the 16 nations for the next 15 months represent a considerable increase over the last 15 months and would seem to be greater than the supply. Pending development in the Persian Gulf, the world is already short of oil and there seems no source for any such an increase.

Fifth. Inquiry might be made into methods of relieving the United States Treasury of some of this cost through collateral loans by, say, the RFC, or by the Export-Import Bank.

There are citizens in some of these European states who have large private property in the United States and in other parts of the Western Hemisphere. Prior to the war, the British Government collected a group of such investments and borrowed money on them in the United States. There are large sums of this character still outstanding, and they could be collected by the various European governments, paying their citizens in their own bonds; these assets could then be pledged as security for loans in the United States. If there is protest that taking over these privately held resources is a hardship to the owners, it may be pointed out that the alternative is a far greater hardship for the American taxpayer. In the first instance, the owner would be reimbursed in full in his own currency; in the second, the American citizen would be taxed the full amount and never see it again.

Sixth. Some expansion of private enterprise in supplying of capital goods to the 16 nations, and thus relief to the United States Treasury, might be found in the use of foreign currencies realized from the sale by the recipient countries of United States goods coming to them as gifts or grants.

In April 1947 I recommended to the Congress, in connection with the relief appropriations then before it, that it should specify that the currency received from the resale of American goods to the populations in each country be deposited in their national banks to the credit of the United States. We should then set up a commission which, in cooperation with the government concerned, would use this money to promote productivity within that country. A form of that proposal was incorporated in the European Aid Act of 1947 and is contemplated in the present legislation.

My suggestion here is that if these funds were to be used in the aided countries to pay for labor and domestic materials in productive works, there should be thus created an equity upon which American private enterprise could furnish the necessary imports of capital goods.

Seventh. It is proposed that this nearly 9 billions in 15 months shall be by grants which are gifts, as well as by loans. I suggest the Congress should define some general principles of distinction between gifts and loans.

We must disillusion ourselves that loans from the United States Government, except where secured by transferable property, or other specific security, are real loans. They are gifts. There are economic as well as political reasons why

such "loans" will not, and cannot, be repaid. We will act more intelligently if within the minds of our own people and those of the recipient peoples we separate our gifts from our loans. We should separate charity from business.

That division can be made clear if we confine our gifts to the actual American surplus of consumption goods such as food, coal, fertilizers, and cotton (not for re-export), which are essential to maintain life. I believe the American people are perfectly willing to give these commodities as a gift to those countries which cannot pay for them. While giving these away will be privation, yet we can reproduce the agricultural products and we have ample future resources in coal and some fertilizers. The total of such relief goods from the United States during this 15 months might amount to \$3,000,000,000. Such an amount of gifts would enable participating countries to use their exports to pay for other goods in their programs.

The relief exports to Germany, Japan, and Korea should be a first charge on all reparations.

Eighth, I do not believe we should be called upon to make gifts or grants of steel and other capital goods. They can be paid for out of the increased productivity which they create.

In the program of proposed supplies to the 16 countries from the United States, nearly one billion dollars are capital goods. Aside from the portion which can be financed by private enterprise, such goods should be financed by the Export-Import Bank or the World Bank whose independence of decision should not be modified under the present set-up as they can continue to take specific and ultimately reliable securities payable from the increased production they create.

Ninth, I do not believe we should make gifts or grants of American money to pay for goods from other countries.

The program of supplies apparently calls for a large part of 3.5 billions of Western Hemisphere goods to be purchased with American money from Canada, Argentina, and other Western Hemisphere states. Of this amount, under 200 million represents capital goods, the rest being mostly agricultural products. As the latter represents surplus production of the other Western Hemisphere countries, it would appear that they should be anxious to sell and, no doubt, to cooperate in creating world stability. It would seem, therefore, that these states should extend credits to the 16 countries for such goods. A partial guaranty or advance, against such credits by the United States through the Export-Import Bank is the most that we should be asked to give.

CONCLUSION

With these various suggestions I believe it is possible considerably to reduce the burden upon our citizens and at the same time to assure the accomplishment of our national purpose.

Yours faithfully,

HERBERT HOOVER.

UNITED STATES FOREIGN POLICY FOR A POSTWAR RECOVERY PROGRAM

TUESDAY, FEBRUARY 3, 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, United States Capitol, Hon. Charles A. Eaton (chairman) presiding.

Chairman EATON. The committee will come to order.

If it is agreeable with the committee we will insert in the record at this point a statement from the Secretary of the Treasury which he wished to submit to us on blocked funds in this country, and also a letter from the State Department dated February 3, 1948, enclosing a chart showing the relationship of stipulated obligations, shipments, and expenditures from April 1, 1948, through June 30, 1949, with respect to the European recovery program.

(The documents are as follows:)

FEBRUARY 2, 1948.

HON. CHARLES A. EATON,
*Chairman, House Foreign Affairs Committee,
House of Representatives, Washington, D. C.*

DEAR MR. EATON: You will recall that in my testimony on the financial aspects of the European recovery program before your committee I discussed the policy which should be adopted respecting foreign assets in the United States and indicated that the National Advisory Council was giving further consideration to this problem.

I am enclosing herewith a copy of a letter which I am sending today to Senator Vandenberg, chairman of the Senate Foreign Relations Committee, which I think may be of interest to you and the members of your committee. It outlines the program which the National Advisory Council has approved for dealing with the above matter. I understand Senator Vandenberg will put this letter into the record of his committee at today's session and will release it to the press at noon.

With cordial personal greetings.

Sincerely yours,

JOHN W. SNYDER,
*Chairman, National Advisory Council on
International Monetary and Financial Problems.*

FEBRUARY 2, 1948.

HON. ARTHUR H. VANDENBERG,
*Chairman, Senate Foreign Relations Committee,
United States Senate, Washington, D. C.*

MY DEAR SENATOR: You will recall that when I appeared before the Senate Foreign Relations Committee to discuss the financial aspects of the European recovery program I indicated that I would soon be ready to report the results of the National Advisory Council's consideration of the extent to which this Government should assist countries likely to receive financial assistance under the European recovery program in locating the assets of their nationals concealed in the United States.

On that occasion I discussed the extent to which the dollar and gold holdings of the participating countries could be integrated with the European recovery program. In that connection I stated:

"Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States, and by liquidating the American investments of their own citizens. I need not labor the point that the European countries must have some gold and dollar reserves to finance their international trade if they are to return to normal operations after 1952. It should be kept in mind that the European recovery program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate through ordinary commercial and financial channels. By insisting that the participating countries exhaust their gold and dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

"When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the program, and which will be used in the future to meet part of the cost of imports after the program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to force European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

* * * * *

"Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States. * * *

I emphasize again that, in the judgment of the National Advisory Council, it would not be wise to force countries likely to receive financial aid from the United States (referred to hereafter as "recipient countries") to liquidate the private holdings of their nationals as a condition to receiving such aid. But the problem of assisting these countries in locating the private assets of their nationals is separate and distinct. It is this problem which the National Advisory Council and the executive departments concerned have been studying for some time.

The problem stems from the fact that nationals of some recipient countries have for many years followed the practice of concealing their assets in the United States. Some hold property directly in their own names; others hold indirectly through intermediaries in third countries, notably Switzerland. These assets are concealed in this country despite the fact that the foreign-exchange laws of the recipient countries typically require that foreign-exchange assets be declared; some also require the turning over of liquid dollar holdings in exchange for local currency; practically all require that licenses be obtained for the expenditure of foreign-exchange assets.

It is important to distinguish between two categories of assets: blocked assets and free assets. By blocked assets we mean those which are frozen in the United States under the Foreign Funds Control of the Treasury Department. It will be recalled that as a wartime measure the President, pursuant to section 5 (b) of the Trading With the Enemy Act, blocked, under control of the Treasury, the private and public holdings in the United States of all of the European countries except the United Kingdom, Eire, and Turkey. Beginning in October 1945, machinery has been put in effect which provides for the unblocking of assets of persons in most of the formerly enemy-occupied and neutral countries if the government of the country where the beneficial owner of funds resides certifies to the private American custodian holding the assets that there is no enemy interest in such assets. The primary purpose of this procedure is to find concealed enemy property. The procedure is now applicable to all the recipient countries whose assets were blocked. However, not all the nationals of these countries have availed themselves of this procedure, which has the incidental effect of disclosing to their respective governments the ownership of assets in the United States. As a result the Treasury through Foreign Funds Control is still controlling a fairly substantial amount of blocked assets.

Free assets include all the dollar assets owned by nationals of Britain, Turkey, and Eire, for these assets, to repeat, were never blocked. In addition, free assets

have accrued in the United States on behalf of residents of the other recipient countries since December 1945 when controls were lifted from all current transactions between the United States and nationals of these countries.

It is obviously impossible to ascertain accurately the amount of private dollar assets owned by resident citizens of recipient countries which are unknown to their governments despite the reporting requirements of such governments. Moreover, we have no controls which require complete and continuous reporting of foreign-owned assets. However, we have made certain estimates based on an analysis of the best facts and figures available to this Government.

As far as the free assets are concerned, we have concluded, as a result of investigations and consultation with the various governments, that they are for the most part known to the governments of the recipient countries. We have estimated that as of June 30, 1947, private persons, including noncitizens, residing in the recipient countries, had free assets in the United States approximating 4.3 billion dollars. Of this amount 2.3 billion dollars represents holdings of nationals of the United Kingdom, which has adequate information respecting these assets. In addition, from Foreign Funds Control operations we know that about 1.3 billion dollars represents assets of residents of recipient countries which have been certified for unblocking and hence are known to those governments. The balance includes proceeds from the liquidation of securities which has taken place in the United States with the knowledge of the appropriate governments, accruals from current transactions which are subject to control by the governments of the recipient countries, and assets of noncitizens resident in these countries. Some free assets may have accumulated here unknown to the respective governments, but we consider that the amounts are probably insignificant.

We come now to the question of the blocked assets held directly in the names of citizens of recipient countries and indirectly for their benefit through Swiss intermediaries. These assets are for the most part unknown to the respective governments; otherwise the appropriate unblocking certifications would have by now been obtained and the identity of the respective owners disclosed. Precise figures on the amount of these blocked assets are not available. Under the existing certification procedure, as has already been indicated, the certification is made directly by the foreign government to the private American custodian holding the assets and no report is made to the Treasury other than general summaries which have been obtained from the countries concerned. To have maintained current records on changes in blocked accounts would have subjected American financial institutions and the Government to unjustifiable costs and difficulties.

According to our best estimates resident citizens of recipient countries hold in the United States approximately \$700,000,000 of blocked assets which are in a form readily available for meeting the balance-of-payment problems of the recipient countries. Of this amount, about \$400,000,000 are held here directly in the names of the resident citizens; the balance of about \$300,000,000 is held indirectly through Switzerland. In addition, resident citizens of recipient countries hold blocked investments in controlled enterprises, in estates and trusts, etc., which cannot readily be liquidated, although most of them are valuable sources of current dollar income. We estimate that they hold directly in this nonliquid form of investment about \$400,000,000 and an additional small but unascertainable amount indirectly through Switzerland.

It appears that so far as the recipient countries are concerned the resident citizens of France have in the United States the largest amount of concealed private blocked assets in a form which could be used in meeting balance-of-payment problems or to supplement official reserves. We estimate that the amount of the directly held assets in this form of investment would run between \$100,000,000 to \$150,000,000. The French Ministry of Finance has estimated that these assets amount to about \$150,000,000. In addition, French resident citizens hold indirectly through Switzerland liquid assets of probably between \$200,000,000 and \$250,000,000.

The policy we should adopt with respect to assisting the recipient countries in obtaining control of the private dollar assets which are hidden in this country by their citizens has been a subject of much discussion in recent months. Representatives of financial institutions have urged that it is fundamental to our free private enterprises system and, in particular to our capital market, to respect private property whether or not it is held by foreign nationals. Some felt that the United States Government should not adopt the policy of cooperating with foreign countries in the enforcement of their exchange-control laws. Finally, it was argued that to adopt measures having the effect of forcing the disclosure to

foreign governments of private property held by their citizens in the United States would put this Government in the position of supporting partial confiscation of private property. This last point relates to those cases where foreign countries require the surrender of dollar assets, against reimbursement in local currency at unrealistic rates of exchange.

The National Advisory Council gave serious consideration to these views. The Council doubted that under ordinary conditions this Government should assist foreign governments in enforcing their foreign-exchange laws. However, these are not ordinary times. Some European countries are in dire need of dollars to permit their survival as free nations. American taxpayers are being called upon to make substantial contributions to European recovery. Moreover, most of the foreign governments have repeatedly asked our assistance in obtaining control of the holdings of their citizens, who have concealed them contrary to the laws and national interest of their countries. It is these circumstances, I am sure, which have inspired marked public interest in the problem and have produced various legislative proposals for action, such as the Kunkel bill (H. R. 4576) and the Norblad resolution (H. J. Res. 268).

The Council studied in detail many alternative proposals for dealing with this problem in an effort to arrive at a solution which would assist recipient countries to obtain the use of concealed private assets in the United States without doing violence to the traditional status of private property. None of these alternatives promised at the same time actually to protect the private interests of foreign nationals, to assist the recipient countries to mobilize the concealed dollar assets of their resident citizens, and to prevent the escape of concealed enemy assets.

The Council concluded that no action should be taken regarding free assets because the amounts which are unknown to the governments of recipient countries are probably insignificant, and in any event serious practical difficulties would be involved. Effectively to search out and take control of these free assets would require exchange controls and other measures which would do maximum violence to our position as a world financial center and to our policy of keeping the dollar substantially free of restrictions.

The Council also concluded, however, that this Government should assist the recipient countries to obtain control of the blocked assets in the United States of their resident citizens. Accordingly, it was agreed that the program described below, which has been developed by the Justice and Treasury Departments, should be put into operation promptly. In the opinion of the Council this program is the most effective way to accomplish the above objective and to prevent the escape of enemy assets.

The program provides that public notice will shortly be given that at the end of 3 months assets remaining blocked, including assets not certified by the appropriate foreign government as free of enemy taint, will be transferred to the jurisdiction of the Office of Alien Property in the Department of Justice. To permit this Government and the foreign governments concerned to concentrate on the areas where important results are likely to be obtained, accounts containing small amounts of property, say up to \$5,000, will be unblocked in the near future without requiring certification or other formalities except where a known German, Japanese, Hungarian, Rumanian, or Bulgarian interest exists. The Office of Alien Property will take a new census of the assets which remain blocked as of the dead-line date. In order effectively to help the recipient countries obtain control of the blocked assets of their resident citizens, the Office of Alien Property will then promptly carry out the following policies:

(a) To deal with the directly held assets by making available to governments of recipient countries the information from the new census of blocked assets of their citizens, including juridical persons, residing in their territories which remain uncertified as of the public dead-line date referred to above. Each country receiving such information will be required to investigate the beneficial ownership of property held in the names of its citizens for the purpose of discovering any enemy interest. Pending a reasonable period for such investigations, such property will not be vested but will remain blocked under the jurisdiction of the Office of Alien Property. If these investigations show that the assets are owned by residents of the country receiving the information the assets will be released.

(b) To deal with indirectly held assets by a vesting program with respect to accounts which remain uncertified after the dead-line date. Processing of uncertified assets in Swiss and Liechtenstein accounts for vesting under applicable law as enemy property will be started immediately after the receipt of the census information by the Office of Alien Property. The vesting program will also be

applied to uncertified assets held indirectly through recipient countries where the program described in (a) above does not result in disclosure to the beneficial owner's government (e. g., French assets held through the Netherlands). In the absence of definite evidence of nonenemy ownership, full weight will be given to the presumption of enemy ownership arising from the failure to obtain certification. Evidence of nonenemy ownership or interest offered either before or after vesting will be checked in accordance with the usual investigative procedures of the Office of Alien Property. These procedures involve disclosure to the governments of the countries of which persons claiming legal or beneficial interests are residents. Of course, any vested assets which are proved to be nonenemy may be returned under existing law applicable to the return of vested property.

The Attorney General has informed the Council that there is adequate authority under the Trading With the Enemy Act, as amended, to carry out all aspects of the above program.

The vesting aspect of this program appears under the circumstances to be the most effective means of rendering help to countries with regard to indirectly held assets. There is no satisfactory alternative to a procedure which will compel foreign nationals either to disclose their concealed dollar assets to their respective governments or to forfeit them to the United States. To date the certification procedure, which applies to Swiss and Liechtenstein accounts, as well as to accounts of recipient country nationals, has not been utilized by many citizens of recipient countries to obtain the unblocking of accounts in the United States. This is so with regard to assets held through Switzerland for resident citizens of recipient countries because the owners of these assets know that Switzerland cannot, under the existing procedure, certify their assets without securing a cross-certification from the government of the country where they reside, thus disclosing their identity to their government. Actually, however, there is no effective way to ascertain whether property held in Swiss accounts is Swiss-owned, enemy-owned, or owned by resident citizens of recipient countries, except to rely on the Swiss and other interested governments.

It must be recognized that resident citizens of recipient countries who hold their assets through third countries and who have not revealed such assets to their own government may choose not to declare their assets to their own governments for certification, notwithstanding the announced program to vest these assets and even notwithstanding any amnesty which countries may offer. These persons would, in effect, choose to forfeit their indirectly held assets to the United States rather than to disclose them to their governments. If this proves to be the case, consideration could be given at a later date to the allocation by appropriate congressional action of the vested assets among the recipient countries.

In conclusion, I want to call your attention to the fact that this program also provides for the orderly termination of Treasury's blocking operations. This follows from the fact that, in addition to specifying the treatment to be accorded the uncertified assets in recipient country accounts and Swiss and Liechtenstein accounts, the program calls for the transfer to the jurisdiction of the Office of Alien Property of all other assets remaining blocked as of the public dead-line date. Thus German and Japanese assets will be transferred and vested. Hungarian, Rumanian, and Bulgarian assets will be transferred and will remain blocked until a settlement of war claims with these countries is made. Finnish, Polish, and Czechoslovakian blocked assets, which do not exceed \$5,000,000, will be transferred and remain blocked for the time being. Yugoslavian, Estonian, Latvian, and Lithuanian blocked assets will also be transferred to the Office of Alien Property and remain blocked until various current problems have been resolved. Spanish and Portuguese assets are still blocked pending the completion of the current negotiations with Spain and Portugal covering looted gold and German assets. If these negotiations are successfully completed before the public dead-line date, arrangements can promptly be made for the unblocking of these assets; on the other hand, if the negotiations are not completed by that date, these assets would likewise be covered in the transfer to the Office of Alien Property and would remain blocked pending the conclusion of the negotiations.

It is the intention of the Treasury and Justice Departments to proceed promptly to carry out the above program.

Sincerely yours,

JOHN W. SNYDER,
*Chairman, National Advisory Council on
International Monetary and Financial Problems.*

DEPARTMENT OF STATE,
OFFICE OF THE COUNSELOR,
Washington, February 3, 1948.

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

DEAR MR. CRAWFORD: Enclosed are 25 copies of a chart on the European recovery program, showing the relationship of estimated obligations, shipments and expenditures from April 1, 1948, through June 30, 1949.

You may wish to distribute these to members of the Committee on Foreign Affairs and perhaps have one inserted in the record of the hearings.

Sincerely yours,

CHARLES E. BOHLEN, *Counselor*
(For the Secretary of State).

EUROPEAN RECOVERY PROGRAM

RELATIONSHIP OF ESTIMATED OBLIGATIONS, SHIPMENTS, AND EXPENDITURES APRIL 1, 1948, TO JUNE 30, 1949

The following table explains the relationship of anticipated obligations, shipments, and expenditures to the appropriation of \$6,800,000,000 requested for the first 15 months of the European recovery program.

In order to carry out the program, shipments totaling \$6,600,000,000 must be made in the 15 months from April 1948 through June 1949. It is estimated that \$600,000,000 of these shipments will be in the pipe line at the beginning of the period and will have been financed from various sources other than ERP funds. The ERP appropriation will be used to finance the balance of \$6,000,000,000 of needed shipments in the 15-month period. The difference between this sum and the requested appropriation, or \$800,000,000, is the gross amount necessary to cover obligations which must be made prior to June 30, 1949, for shipments which will not be made until after this date. This pipe line of \$800,000,000, amounting to less than 2 months average shipments, is regarded as the minimum essential to avoid an interruption in the flow of supplies. If the amount which has been requested is reduced below \$6,800,000,000, it will be necessary, therefore, either to allow the pipe line to become empty or to reduce shipments financed by United States funds under the program below the required level of \$6,000,000,000 during the first 15 months. Either course would jeopardize the success of the program.

Because of the necessary lag between the time of shipment and the time of payment, it is estimated that, of the \$6,000,000,000 to be shipped under the program during the first 15 months, final payments for approximately \$4,500,000,000 will have been completed before July 1, 1949. The remainder of the \$6,000,000,000 (i. e., \$1,500,000,000) shipped during the period will not be paid for until early in the fiscal year 1950. These \$1,500,000,000 together with the obligations entered into in fiscal 1949 for shipments after June 30, 1949 (\$800,000,000) equal the difference between the requested appropriation of \$6,800,000,000 and estimated actual expenditures of \$4,500,000,000 during the 15-month period.

Relationship of estimated obligations, shipments, and expenditures, April 1, 1948, to June 30, 1949

[In millions of dollars]

| Method of procurement | Estimated over-all obligations required ¹ | Estimated shipments required between Apr. 1, 1948, and June 30, 1949, which are to be financed from ERP funds | | | Estimated gross obligations in fiscal year 1949 for shipments after June 30, 1949 ⁵ | Total obligations required June 30, 1949, which will not be paid until fiscal year 1950 (column 4 plus column 5) ⁶ |
|---|--|---|--|--|--|---|
| | | Total ² | Portion covered by expenditures during 15 months' period (obligated for, shipped and payments made during period) (column 3 minus column 4) ³ | Portion covered by expenditures in fiscal year 1950 (obligated for and shipped during period but payments not made until after June 30, 1949) ⁴ | | |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| 1. Procurement through normal private trade channels in United States purchases from United States suppliers by importers or governmental agencies of participating countries, for which payment will be made direct to United States supplier or on reimbursement basis. Amount includes purchases financed by Export-Import Bank loans and private investments covered by guaranties..... | \$2,900 | \$2,495 | \$1,975 | ⁷ \$520 | ⁸ \$405 | \$925 |
| 2. Procurement both in United States and "offshore" by U. S. Government agencies..... | 1,600 | 1,455 | 1,155 | ⁹ 300 | 145 | 445 |
| 3. "Offshore" procurement through normal trade channels..... | 2,300 | 2,050 | 1,370 | ¹⁰ 680 | ¹¹ 250 | 930 |
| 4. Total..... | 6,800 | 6,000 | 4,500 | 1,500 | 800 | 2,300 |

¹ This column shows the total amount which must be committed from Apr. 1, 1948, through June 30, 1949, to permit actual shipments during that period (column 2) plus an uninterrupted pipe line into the next year and early placement of orders for "long lead" items. The division between methods of procurement is a very rough approximation and is used for illustrative purposes only.

² Shipments included in the program estimates during the 15-month period are about \$6,600,000,000, of which about \$600,000,000 will be in the pipe line at the start of the period and will have been financed from sources other than ERP funds. About \$100,000,000 of this will consist of shipments under the Foreign Aid Act for which funds will have been obligated prior to Apr. 1, 1948, and the rest will consist of shipments financed from existing loans and credits and from resources of the participating countries committed before Apr. 1, 1948. This leaves shipments of \$6,000,000,000 to be financed under the program. (See also last paragraph of note to column 5.)

³ Total expenditures during the 15-month period are that portion of total shipments (column 2) for which complete documentation can be obtained and payments completed before the end of the period.

⁴ Column 4 is an estimate of the shipments made before June 30, 1949, which cannot be paid for until after that date because of the time necessary for submission and review of the necessary supporting documents. These estimates are based on the average time lags shown in parentheses below each figure, which are derived from a comparison of actual experience under Lend-Lease, UNRRA, Government and Relief in Occupied Areas (GARIOA) and the current foreign-relief program with the commodities and procurement methods contemplated under ERP. The actual time lag for Lend-Lease and UNRRA was greater than shown in these estimates. For the current foreign-relief program, which is limited to a few bulk commodities, the time lag is slightly less. The figures given are averages for all commodities in each category, and for any one commodity the figure may vary considerably from the average. In making the computations it has been assumed that the rate of shipment during the last half of fiscal 1949 will be at approximately 1.5 billion dollars each quarter since the obligations entered into early in the program will result in a higher level of shipments during the last part of the fiscal year than in the early period. The shipments will be financed during the time lag (until reimbursement by the United States) by short-term credits extended by the suppliers, by commercial banks and to some extent by the use of the reserves of the participating countries.

⁵ Column 5 shows the amounts (totaling \$800,000,000) which must be committed in fiscal 1949 so that the flow of goods will not be interrupted by the end of the fiscal year. The figures for this year-end pipe line

Footnotes continued at bottom of page 810.

Chairman EATON. The committee is in possession of a letter from the National Grain Trade Council, dated February 2, 1948, which encloses a statement representing the views of the North American Export Grain Association. Without objection, this will be included in the record at this point.

(The document referred to is as follows:)

NATIONAL GRAIN TRADE COUNCIL,
February 2, 1948.

Hon. CHARLES A. EATON,
Chairman, House Committee on Foreign Affairs,
House of Representatives, Washington, D. C.

DEAR CONGRESSMAN EATON: The North American Export Grain Association has requested me, as its attorney, to submit the enclosed statement from the association to you for consideration by the Committee on Foreign Affairs, and for inclusion in the committee's record of hearings on the European reconstruction program.

Very truly yours,

WILLIAM F. BROOKS.

STATEMENT OF THE NORTH AMERICAN EXPORT GRAIN ASSOCIATION TO THE
HOUSE COMMITTEE ON FOREIGN AFFAIRS FEBRUARY 2, 1948

The North American Export Grain Association is a trade association of 36 grain firms whose activities include the export of grain and grain products. The association was founded in 1920. Its main office is at 2 Broadway, New York City and an office is maintained in Washington at 718 Mills Building.

The North American Export Grain Association wishes to record its agreement with the purpose of a European recovery program—the rehabilitation of the economy of the participating European nations. This rehabilitation is a necessary condition precedent to the establishment of world peace. It is vital to the restoration of world trade.

The proposed program cannot, however, be successful if the aid and assistance extended by the United States weakens, or even tends to weaken, our domestic economy. It cannot be successful unless the beneficiary nations recognize that our aid and assistance is possible only because of the work and production of free-men working and competing in free markets, in a free economy. And recognizing this, those beneficiary nations must remove the state imposed restrictive controls that have thus far curtailed postwar European production. Our hope is that in the administration of the proposed program, this need for reform abroad may be demonstrated by continued successful performance and production here.

Our suggestion, stemming from this hope, is that the administration of the European recovery program be patterned on the administrative machinery provided for the development and control of atomic energy. We are mindful of Secretary Marshall's recommendation that the program be administered by an individual administrator who in large measure would be subject to the State

are based on the average time lag between placement of an order and shipment, as shown parenthetically. These time-lag estimates, like those in column 4 are based on experience with Lend-Lease, UNRRA, GARIOA and the current foreign relief program modified to fit ERP conditions, and the same comments apply.

Line 1 of column 5 also includes certain key recovery items which take a long time to procure and for which orders should therefore be placed as early as possible. These "long lead" items include machinery, freight cars, and similar articles essential to the attainment of European production goals in the later years of ERP.

This table indicates that the requested amount of \$6,800,000,000 is necessary in order to make shipments financed by ERP funds of \$6,000,000,000 during the 15-month period and to have \$800,000,000 worth of goods in the pipe line on June 30, 1949. Inasmuch as the balance-of-payments deficit computations on p. 42 of the committee print of Outline of the European Recovery Program included total shipments during the 15 months' period, only the net amount of \$200,000,000 was included in the tabulation on p. 43 of the committee print (item 8) on account of requirements for forward obligating authority, in order to avoid duplication. This \$200,000,000 represents the net difference between the value of goods (\$600,000,000) assumed to be in the pipe line at the start of the 15 months' period and financed from sources outside of the program prior to Apr. 1, and the value of goods (\$800,000,000) estimated to be in the pipe line at the end of the 15 months' period and financed out of ERP funds.

⁶ These figures, the sum of columns 4 and 5, show the total of 1949 commitments which cannot be paid until 1950, either because of delays in documenting completed shipments (column 4) or because the shipments themselves will not be made until fiscal year 1950 (column 5).

⁷ 2 to 3 months' lag.

⁸ 4 to 6 weeks' pipe line except for "long lead" items.

⁹ 2 to 4 months' lag.

¹⁰ 3 to 5 months' lag.

¹¹ 6 to 8 weeks' pipe line.

Department's control. The recommendation appears somewhat similar to the War Department's suggestion in late 1945 that the administrative machinery for the control of atomic energy be placed under the control of the War Department. We recognize the need for machinery to administer the recovery program that will be consistent with our foreign policy. This policy today is the concern of the State Department; the Department of National Defense as to occupied areas; and the Department of Agriculture, as to encouraging offshore agricultural production in non-European nations. We recommend therefore that in an act to provide economic and financial assistance to foreign countries, there be established a Cabinet Liaison Committee with whom the Foreign Reconstruction Authority would advise and consult on all foreign restoration matters which the committee deems to be pertinent to its statutory responsibilities. The act should also provide, as does section 2 (c) of the Atomic Energy Act, for direct appeal to the President if the committee or any member thereof believes that action planned by the Commission is adverse to the responsibilities of the Departments of State, National Defense, or Agriculture.

We would suggest that administration of the reconstruction program be delegated to a bipartisan commission. We concur with the conclusion of the House Select Committee on Foreign Aid that "the problem is bigger than relief and smaller than war." The proposed program does add a new dimension or function. The Harriman committee stresses the magnitude of the problem. And all suggested methods of administration presuppose the need of a board or commission active in some capacity. Screening the commodity requests of all importing nations, European and non-European; deciding which of several importing nations should receive our goods; analyzing and acting on reports from abroad; and overseeing and correlating the expenditure of large appropriations are all tasks that seem to require continuous and active participation by more than one individual. The reports of the Atomic Energy Commission—the two thus far published—indicate that this agency, operated by a commission that delegates administrative and executive functions to a general manager provided by law, has struck a neat balance between decentralization and central responsibility.

Other provisions of the Atomic Energy Act might be incorporated in an act to aid foreign countries. A general advisory committee, and a joint Senate-House Committee on Foreign Reconstruction should be provided. And the act should provide for the use of ad hoc industry committees and the use of private trade facilities in the procurement and delivery of goods abroad. These last two provisions appear essential if the program is to achieve positive results.

Ad hoc industry committees are now provided for by section 2 (a), Public Law 395, Eightieth Congress, first session. To avoid weakening our domestic economy, the reconstruction agency should be required to seek the advice of similar, perhaps the same committees. The job to be done abroad has been described as 80 percent business, technical, and engineering. To require the agency to consult business and technical and engineering ad hoc committees would result in greater public acceptance of commission decisions particularly if those industry committees approached their tasks mindful of the need to avoid here the imposition of controls on our domestic economy. Their task would be twofold—how to accomplish the job abroad and how to avoid controls here.

To the commission also should be delegated the authority to control exports. And in delegating this authority, there should be added the requirement that export trade be not carried on by Government agencies—that this Government was opposed to State trading—that foreign trade be conducted by private trade groups.

Foreign trade in wheat with Europe is now a Government monopoly, the exclusive monopoly of the Commodity Credit Corporation. Subject to export control, and under the Second Decontrol Act and Public Law 395 subject to the Department of Commerce's licensing procedures, grain moves to Europe under the exclusive control of the Department of Agriculture. This procurement procedure is contrary to the provisions of the Second Decontrol Act; is costly to claimant nations; and contrary to the principles of the American system of government.

The Second Decontrol Act, extended by Public Law 395, charges the Secretary of Commerce with the administration of the export control law. This act requires him to report quarterly on operations under that law with detailed information on the allocation and nonallocation to countries of materials and commodities. The first, and only report under that act, notes at page 33, that export quotas for grain have been established by the Department of Agriculture under an Executive order. It develops that the Executive order by which Agri-

culture exercises this authority predates the Second Decontrol Act. Action under the order after approval of the Second Decontrol Act would appear to be contrary to the act's plain language.

And the absence of detailed information on the allocation and nonallocation of grain in the Secretary of Commerce's report appears to be at least most unfortunate.

On this general question, the Senate Committee on Judiciary, in its report on the Second Decontrol Act, recommended that a review be made of the Government's state trading activity. The committee further stated that it was of the opinion that the procurement of wheat should be returned to the trade at the earliest moment. The committee's recommendation for review and opinion on return to private trade was made after lengthy committee hearings. Senate Report No. 340 of the Eightieth Congress, at pages 15 and 16 summarizes the testimony and at pages 30 and 32 sets forth the committee's conclusions. No review has yet been made and the procurement of wheat is still in the hands of the Government—despite the expressed opinion of the Senate Committee on the Judiciary.

Under this state trading procedure, wheat procurement appears unnecessarily costly to claimant nations. The Under Secretary of Agriculture, in testifying last summer before a subcommittee of the Senate Committee on Judiciary stated that Commodity Credit's price to foreign claimants was purchase price plus cost of transportation to seaboard plus other charges plus 2 percent—the 2 percent being charged to cover "losses."

This is not the only cost, however. It appears that during the present fiscal year, this agency will receive, in addition to this 2 percent mark-up, slightly more than \$3,000,000 by transfer from UNRRA, foreign governments, and other sources for services rendered. The source of this information is House Report No. 450, Eightieth Congress, first session, at page 35.

The General Accounting Office, on January 20 of this year, commented adversely on the substantial gains realized by Commodity Credit from its procurement programs. This adverse comment may be found in a statement of Frank H. Weitzel appearing, in behalf of the General Accounting Office, before the Senate Committee on Agriculture. In this statement, after reviewing the variety of purchase and sale activities of Commodity Credit, the recommendation is made that these programs be conducted on a break-even basis. The statement, particularly at pages 5 and 6, appears to recommend that the procurement of commodities by Commodity Credit be limited to procurement for other Government agencies, such as the Army and Navy, and should not be extended to foreign aid programs.

In a speech delivered at Pittsburgh on January 15, Secretary Marshall stated:

"In the field of foreign trade, for example, this Government is pressing for international agreements to remove or minimize arbitrary restraints on business between nations and to eliminate harmful discriminations. Many of the restrictive practices we oppose appear in the system known as state trading, where the foreign commerce of a country is conducted by the government as the sole or dominant buyer and seller. We recognize that many of the present state-imposed restraints are defense mechanisms, resorted to as a result of abnormal conditions caused by the war, and susceptible of correction when stability is assured."

The activities of Commodity Credit in the grain export field square with the restrictive practice of state trading condemned by Mr. Marshall. We respectfully urge, therefore, that all commodities to be sent to aid in Europe's reconstruction be procured by the foreign private trade where possible and obtained in any event from private American business houses.

As to grains, we suggest that the European Reconstruction Act provide that on and after July 1, 1948, at the start of the new crop year, all foreign claimants procure grain and grain products from the American private grain trade and that prior to January 1, 1949, European governments return to private, as distinct from state, trading as a condition to further aid from this country unless, after consultation with the appropriate ad hoc American Industry Committee, the Reconstruction Commission finds that such return is not then practical.

It is our belief that those few countries that have obtained grain and grain products from commercial sources here, have effected a less rapid depletion of their dollar credits. It is significant that John R. Steelman, Assistant to the President, on July 17, 1947, stated, as to the procurement and shipment of coal for export:

"It is gratifying, therefore, that the United States in the fiscal year ending June 30, 1947, was able to ship abroad—and to the places where it was most gravely needed—record-breaking amounts of coal, and to do this in spite of production and shipping difficulties, without denying the needs of American consumers and

industry. This record was made with a minimum of Government participation and controls, through the cooperative efforts of the industries concerned, working under policies and programs set by the Government."

It is our contention that this same conclusion will be reached if the export of all commodities under the reconstruction program were to be the function of private enterprise. Even the need of state trading seems to us to be too dear a price for an European recovery program.

Respectfully submitted,

NORTH AMERICAN EXPORT GRAIN ASSOCIATION,
By WILLIAM F. BROOKS, *Counsel*.

Chairman EATON. Now, Mr. Armstrong, would you kindly tell us who you are, and why you are here?

**STATEMENT OF O. K. ARMSTRONG, MAGAZINE WRITER,
SPRINGFIELD, MO.**

Mr. ARMSTRONG. Mr. Chairman, and members of the committee, I am O. K. Armstrong. I live in Springfield, Mo. I am a magazine writer, and former member of the Legislature of the State of Missouri, a member of the Council of State Governments.

I recently toured the countries of western Europe, and spent considerable time in the occupied zones of Germany, making a survey of relief needs for the Council of Relief Agencies.

I consider it a great honor to be asked to appear before this committee and discuss certain phases of H. R. 4840, the proposed Economic Cooperation Act of 1948.

I should like to direct my remarks, first, as to the European aid plan generally, and secondly, as to its application to the occupied zones of Germany.

I come from Missouri, where, I believe, the people represent a fair cross section of the opinions of all the Nation. There is certainly little difference of opinion as to the necessity to prevent communism from sweeping over the countries of western Europe. But certainly, among my friends and neighbors, there is no clear-cut crystallization of opinion as how best to accomplish this. Therefore, let me say, such hearings as you are giving this important proposal serve a most useful purpose in bringing to the people of your districts and of the whole country information as to the importance and implications of the program set forth in this act.

One thing is certain: The people want our Congress to give the administration and distribution of any further aid to foreign countries much better control than they think such aid has been given in the war and postwar years. I have heard the expression many times, "They should tie some strings to this one." The people recall, almost with bitterness, that we doled out the billions in lend-lease, in order to help our allies win the war, but with no strings attached to protect our interests and to insure that we would have proper cooperation in creating a peaceful and orderly world after victory was won. They recall with severe disappointment that billions more have been poured out since victory, with practically no strings attached to those billions either, and consequently with little appreciation shown us and with little results that can be called assets for us or for the world.

Assuming that some act for European aid will be passed by this Congress and signed by the President, let us note how the purposes of this act may best be accomplished.

THE PLAN IN GENERAL

It seems to me that citizens of this country are practically unanimous in their support of the purposes of this act, except for those who have lined up on the other side in this warfare between democratic and totalitarian ideals. To accomplish those purposes, I strongly recommend the following:

(a) Administration through a bipartisan commission. Administration of the provisions of this act are vested by the bill in an Administrator. But note the further wording of the act:

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

Since everything done in this aid plan could be construed to affect the foreign policy of the United States, the Administrator would be working under the direction of the State Department. As one American citizen and taxpayer I urge that you not let this happen. I protest strongly that the State Department should not be given control of this aid program. The State Department is entrusted with the conduct of foreign affairs for our Government, but much more is involved in this plan than traditional foreign relations. Much of the necessity for this aid to countries of Europe is due to the miserable mistakes made in the conduct of our foreign policies during the recent war and in the nearly 3 years of stagnant peace that have followed. Certainly the State Department had a hand in the conferences at Teheran, at Yalta, at Potsdam; the State Department negotiated the treaties that called into actual participation in the governments of the little countries of eastern Europe and of Italy, the very forces of communism we are now asked to contain and hold in check in Europe and the world. The State Department formulated the policies that have made a vast slum of Germany, and thus helped wreck the economies of other countries of Europe or at least prevent their recovery from the destructive forces of war. After what I saw of the failure of our foreign policies to win the peace for which so many of our men of the armed services gave their lives, and for which so much of our resources were poured out during the war, in various countries of Europe this summer and fall, I would protest long and loud in my own State if Congress moved toward perfecting this act with the authority for spending the billions and administering the provisions, left in the hands of the State Department.

Instead, I urge that a bipartisan commission of four members be created, to administer this act. Members would be appointed by and with the advice of the Senate, with the hope on the part of American citizens that the expression "by and with the advice" of the Senate would be heeded by the members of that august body. They should consult with the President and assist him in making careful selection of the best, most capable, most experienced, and above all, most thoroughly imbued with American principles, that can be found in the United States.

I note that the plan of the distinguished Congressman from Massachusetts, Mr. Herter, would provide for a board of which only the chairman would be a full-time, paid administrator, the other members acting in an advisory capacity. In addition, there would be an advisory council of Cabinet members and other Federal employees.

Considerable experience in State governmental organization convinces me that such overlapping advisory groups would lead to conflicts of authority, to doubt as to who has the actual authority, and how it is to be exercised. By all means locate the authority for this act so definitely and explicitly that it cannot be misunderstood. Create a commission or not more than four members. Provide that one shall be chairman, but that they shall be co-equal as administrators. Under the democratic process, decisions of any three would be final. Make provisions, of course, that information and advice shall be given by the departments and agencies of the Federal Government.

(b) Allotment of the aid: Legislation should provide that the maximum of American aid should be allotted to private industries, and only a minimum as grants to the governments of the recipient nations. The aid should be given to industries of whatever nature—manufacturing, transportation, agriculture, and so forth—in each country, that show promise of being immediate factors in rehabilitation of production, sound investment of capital, reemployment of labor, and general support of that country's economy.

I believe that the majority of the American people are willing to sacrifice greatly to prevent economic collapse in friendly nations in Europe, but there can be no doubt that the majority emphatically oppose paying out any more of our hard-earned money to inefficient radical governments.

(c) Specific requisites for receiving American aid: This act should set forth specifically certain requirements that must be met by any nation receiving American aid under this plan. These should include:

- (1) Immediate moves toward stabilization of currency.
- (2) Reforms calculated to eliminate black marketing.
- (3) Agreements to break down excessive tariffs and other international trade barriers.
- (4) Programs looking toward the immediate formation of an integrated European economy.
- (5) Creation of an alliance of military defense, with the United States and with one another, pledging all possible resources toward the protection of one another from aggression or threats of aggression from any power. Thus would be brought into being the foundations of collective security which the United Nations is impotent to provide.

(6) Agreements for repayments in resources and materials of which recipient nations may have a surplus and which may be needed by the United States. For example, metals needed by the United States for industrial or military use.

The administering commission should be given authority to stop allocations of aid at any time that these or any other requirements fail to be fulfilled.

II. WITH RESPECT TO GERMANY

On page 3 of this act, provision is made that the occupied zones of Germany shall be considered as participating. Certainly it is a wise provision to include Germany in any plan to rehabilitate the peoples of Europe.

I hope that this committee, either in connection with this bill, or with other proposals which may be advanced to implement it, will give due consideration to sweeping and effective reforms long overdue

in our administration of the principal defeated nation. If the purposes of this act are to be attained, the following program should be adopted with respect to such areas of Germany as we control, or in collaboration with our friendly allies, and ultimately, after liberation from Soviet control, all of Germany.

1. Withdraw the so-called military government.

I believe that the American people have understood that the purpose of the occupation of Germany following defeat of the Nazi forces was (1) to restore order and peaceful production to a conquered nation and (2) to protect the interests of the United States and other friendly nations in that area of Europe. In the first category, military government has failed. This is no fault of military men. It is because military government was, and is, out of its sphere. In the American concept, the military fights and wins wars, and protects by its police powers the policies and interests of the United States. To ask military authority to "govern" a people or territory is a great mistake.

No power, military or civilian, could have brought order and peaceful production to Germany under the many conflicting policies followed. There has been constant conflict between the military and the State Department. There has been a conflict of major policy, whereby about half the military governmental personnel are engaged in imposing intolerable restrictions upon the German people while the other half try to cheer them up with free advice on health, education, welfare, and other matters.

The result is a vast, sprawling bureaucracy, implanted upon the local German governments. It is made up of many sincere men and women, trying to do an honest job; and also a host of misfits and incompetents, entirely happy in their new power. They are spread into every avenue of public and private life. Thousands are engaged in dictating, typing, and filing copies of useless information. Many others are sending out and collecting questionnaires on such subjects as what the Germans think of democracy. WACS, wearing their uniforms and fruit salad, make talks to German youth on "demilitarization." One officer told me he lectures to a group of businessmen, every one of whom, he said, knows more about economics than he will ever learn. One bureau has broken up a burial society for veterans of World War I and their families because it is a "military organization," and has arbitrarily frozen its funds. I challenge anyone to find a single civilian function of military government in Germany that could not better be done by intelligent and capable members of the indigenous population. It is time to pull out the costly bureaucracy and leave only such representatives of the State Department as are necessary to advise the military force until a central German Government is established.

2. We should implement our policies with an effective military force.

If a force bent upon aggression swept westward over Germany, it would meet with little opposition from the scattered and meager forces of the United States and other democratic powers. If this act is to have any meaning, Congress should provide an adequate military protection in Germany. It should include: An effective force of marines, our traditional occupying outfit; units of the air force; mobile army units; and as much of the United States Naval Fleet as is practicable, based at British ports and at Bremenhaven.

Needless to say, each unit would be armed with effective and modern weapons. Our purpose should be plainly stated to all the world, namely, to discourage any lawless aggression in this theater.

Too long our policy makers have preferred to keep up the fiction of four-power Allied control of Germany, when the very heart of Allied control was based on the agreement to treat Germany as an economic unit. The Soviet Union deliberately broke that agreement. Face saving by soldiers and diplomats no longer serves the interest of the Government and the people of the United States. The spending of billions to prevent the collapse of democratic nations harrassed by Communist pressure will be futile unless we are prepared to say, "At this point Communist aggression must stop."

In this connection, I hope Congress will look into the sabotaging of much of our military equipment in the occupied zone of Germany. Specifically, much, if not most of our airplanes, some used during the fighting and some new and never used, were destroyed. I visited several fields, where beautiful four-motored bombers were flown in, lined up and rendered useless by bomb charges. I talked to officers and men who were burning with indignation over this destruction. South of Munich there is a field about one mile by half a mile in area, filled with B-17's, all of them in working condition when they were flown in and all destroyed. I was told by military men that this was done by State Department officials, at the insistence of the Russians under the Potsdam agreement. If this is not true, the blame should be located where it belongs. If it is true, those responsible should meet with condemnation and punishment.

Reestablishing such proper military strength in Europe, and particularly in the occupied area for which we have definite responsibility, will serve notice that we have a big international job to do, and while we work we do not intend to be pelted with stones of disorder, violence, and chaos.

3. We should revive peaceful German industry.

To promote the welfare of any people you must lift their living standards, increase their capacity for self-help, and above all, create conditions of permanent well-being. This cannot be done in Germany under policies followed by our occupation authorities. The plan of "deindustrializing" the nation and turning it into a pastoral area was an inexcusable mistake. It has created an area of misery and degradation in the heart of Europe. It has produced its inevitable poverty, hunger, frustration, and immorality.

This policy, which is one of vengeance, should be repealed by positive legislation on the part of Congress. Surely we have learned that vengeance is not profitable; that it only lays the basis for new conflicts, and never the foundation of lasting peace. I have discussed this matter with Mr. Murphy, the representative of the State Department in Germany. He told me that this policy was adopted because a highly vocal minority called for the total destruction of the German Nation and life. It is a pity that matters of such terrible importance, affecting the lives of so many millions of human beings, were turned over to their hands. The American people never approved such a policy through actions of Congress.

Germany has always been an industrial nation, sending out manufactured products in return for food. To destroy German industry,

therefore, has meant cutting off much of the life blood of Europe. The big food-producing area has been cut off by the Soviets. Thus a major burden of supporting the German people has fallen on the United States. Surely it would be better to allow these people to get back into peaceful production and support themselves.

It is understood that this program of reviving peaceful German industry will not permit manufacture of war materials. This can be done by rigid inspection through our military. However, it emphatically does not mean the dismantling of machinery and equipment just because someone or some group decrees such is "war potential." In modern war, every building, every tool, every machine, even the soil, has a military potential. The idea that some nations can keep another nation deindustrialized and thus impoverished, as a means of maintaining world peace, is a tragic fallacy.

In the face of desperate need to get production going again in Germany, it seems a ghastly thing to be dismantling plants and property. It is not economically sound, for the cost of dismantling, shipping, and assembling is usually more than that of building anew on a different site. German steel plants, it is admitted, made war material, but now they can make the steel to build and sustain peaceful life.

During October I was given the copy of a directive listing the plants and facilities yet to be destroyed, or dismantled for reparations. It included schools, hospitals, and barracks which during the war had been used by the military. Also, plants and material were still being sent by our authorities into Russia. Surely here is a place where the authority of Congress, the policy-making body, should step in and at least coordinate the activities of our occupying powers to where they will conform to the interests of the United States, to say nothing of common sense.

Furthermore, I respectfully suggest that this committee look into the matter of the right of anyone to destroy or dismantle property in Germany at this time. The United States is signatory of the Hague covenant which specifically states that after the cessation of hostilities, the military of either belligerent power has no authority to destroy property; and that reparations must be decided as part of the peace settlement. Never in history was there a more marvelous opportunity than in postwar Germany to prove that with intelligent understanding and cooperation, swords can indeed be beaten into plowshares.

4. We should end the denazification program.

The crimes of the Nazi leaders are inexcusable. But our so-called denazification program in Germany places the cloud of guilt upon whole masses of people. The heart of this program has been the automatic arrest of whole categories of the population. This is so clearly a matter of battle-fever vengeance that it is difficult to understand why it has been allowed to continue so long.

Dozens of military and civilian officials in the occupation government, some of whom had sat as judges, vigorously denounced denazification in their conversations with me, as being in violation of every principle of American jurisprudence. The program is *ex post facto* in its entirety. It violates the principle that a man is presumed innocent until proved guilty. It ignores the bar against double jeopardy. I have gathered data on dozens of persons who have been

tried two or more times for the same "offense." Even if declared innocent by German courts, our American special services branch can declare the judgment "unsatisfactory." I have talked to some victims of the denazification courts who were actively opposing Hitler, even while some of their present persecutors were supporting him before his attack on Russia in June 1941. Here is a program cut squarely from the Soviet cloth. It should be abandoned once and for all.

5. We should solve the problems of displaced persons and mass expellees.

The whole economic and social picture of Germany is clouded by the problems of the displaced persons, citizens of other lands who refuse to return because of hope of being settled in the United States or elsewhere, or who cannot return without certainty of Soviet persecution; and by the millions of expellees, persons uprooted from their homes in various countries of eastern Europe and removed forcibly into Germany. Every activity looking toward betterment in education and welfare runs into this problem.

Congress is now considering appropriate legislation. As to the expellees, we have here a program of tragic proportions. Here were people of Czechoslovakia, Poland, Hungary, and elsewhere forcibly uprooted in the greatest mass expulsion in history. Their only crime was that they spoke German, or their ancestors were German. They were driven from their homes because of racial hatred and prejudice. Ancestors of many of them had been residents in their native areas of 300 to 750 years. If any action constitutes a crime against humanity, surely this is it. That any representative of the American Government, civil or military, could have put his stamp of approval upon this amazing atrocity, is more than I can understand.

About 12,000,000 people have been uprooted, or followed the expellees, so far. I have talked to scores of them, from every area affected. Their stories are all alike. The sudden appearance of armed men, the command to pack a few clothes and food, the forcible ejections, with death to many who rose to the age-old right of man to resist the violation of his person, his family and home; the loading into trucks and trains, the cruel hardships as they rode with no toilet facilities, heat or light; the indignities, the robberies of the meager possessions, the lack of care for the sick, the young and the aged; the arrival of the American zone, and the forced implanting into homes of the German population.

I have talked to United States Army officers and men who utterly loathe what they have to do to these expellees, which, they say, transgresses the sanctity of homes and the dignity of human life. I have seen as many as 20 men, women, and children living in one room, without so much as a sheet to protect any privacy. Never has degradation reached such depths under presumably civilized auspices.

The problems of Germany can never be finally solved until some provision is made to send the expellees back to their homelands, or resettle them in other lands where they can reconstruct their homes and their lives.

6. We should create a United States of Germany.

Congress should offer immediately to the German people our assistance in creating a United States of Germany, with a government modeled on the American plan.

What the German people need, above all else, is hope for the future. This would give it to them in some measure. We should offer our help to create a new German Central Government, with a constitution and a bill of rights. Thus a peaceful nation may be built on the ruins of the old.

In making this move, we should proclaim to the world our faith in the plan of government that has made and preserved us a great Nation. We should declare that our industrial strength, the marvel of the rest of the world, is no accident, but springs from our system of protection of the common man in the rights of person and property, from liberty of management and labor to work together and produce without the blighting restrictions of unnecessary political control. We should say to the world, "We accept the challenge of communism. It offers the police state, the secret police, the concentration camp, slave labor. We offer the free ballot, stability of government, opportunities to produce and enjoy the fruits of labor. We propose to assist in building such a democracy in Germany, here in the heart of Europe.

Mr. Eaton, and members of the committee, I thank you.

I will be glad to answer any questions.

Chairman EATON. Thank you for your very confidential statement, Mr. Armstrong.

Mr. Vorys, in spite of your crippled condition, we are glad to welcome you back. Are you in a position to ask a question or two?

Mr. VORYS. If I may; yes.

I was much interested in what you had to say, particularly about Germany. I agree with much that you say.

You said that military government should be ended.

What do you think about this idea of turning the government over to the State Department? You said that the long-term plan should not be turned over to the State Department, that they are incompetent to run it. I am inclined to agree with you there.

You say that military government has failed in Germany.

Mr. ARMSTRONG. Mr. Vorys, there are two types of control in Germany. Instead of being distinct, as I think they should be, they have been mixed all together. At least that is the impression that anyone who studies Germany closely must get.

We have what we call military government. In Bavaria, for example, a general was in charge. In another area, a civilian.

Mr. VORYS. I am quite familiar with it. I traveled through Germany this fall.

Mr. ARMSTRONG. I would take out the so-called government of the occupied zone. I would turn the protection of our interests over to the military entirely, and as I have indicated, I would make that sufficiently strong. I would turn the civilian control over to the State Department, but I would reduce it simply to that minimum of whatever views might be needed by the local governments of Germany, from the representatives of our Government, until such time as a central government is established. You will understand that implanted upon the local German government are these layers of American bureaucracy. They have no place there and are serving no good purpose. They are composed of personnel, many of whom, as I said, are good men and women but most of whom I would say are utterly misfitted for their jobs.

They are not representing American life and American ideals to the people of Europe. I think they should have been pulled out a long time ago.

Mr. VORYS. You then feel that a military occupation for military purposes and another sort of administration under the State Department for civilian purposes is all right?

Mr. ARMSTRONG. I would not call it administration. I would call it liaison.

Mr. VORYS. I happen to feel that the general trend should be the other way, that the occupation should be remilitarized, in order to remind our people that the only excuse we have for being in Germany is that we are occupying conquerors of a vanquished people and are merely there under international law, and so forth, for our own security. I have seen in Germany the same uncertainty and confusion that you talk about, but my own guess has been that the reason is that we have gotten mixed up as to what we are there for.

Mr. ARMSTRONG. I agree with that, Congressman.

Mr. VORYS. I do not think that it makes a civilian to take a general out of uniform, or a colonel, and put him in a civilian suit and "civilianize" him, as it is called. They still call him general or colonel. The Germans still remember that he is the representative of an occupying conquering people. I do not think that sort of a "civilianizing" gets anywhere.

You mentioned that in the dismantling program were schools and hospitals. I would be very glad if you would give me the exact location of those. We have had quite a study of dismantling. I quite agree with you that it is a tragic mistake. We have been unable to stop it but I did not know there were any schools or hospitals in the program.

Mr. ARMSTRONG. The list given to me I turned over to the distinguished Senator from New Hampshire, Senator Bridges, and he was pursuing the matter with a great deal of interest. This list was a restricted list. I must confess it was given to me in confidence but I felt that it had no right to be restricted in the first place. I felt the American people needed to know everything that was going on, in Germany and everywhere else, that has no military restriction, and that the blowing up of these hospitals in Germany, when no civilian in Germany, when no German could get in any hospitals at any time, was very bad.

Mr. VORYS. I think you are mistaken on that hospital situation because there are more hospital beds per capita in Berlin than there are in my home town of Columbus or many other cities in the United States.

I would be glad to get the facts on that because there is information in this committee which purports to be the official complete list of all of the 682 plants that are marked for dismantling.

Mr. ARMSTRONG. You are speaking of plants. That does not include what is called category 3, Congressman, which are not plants at all. They are facilities.

I am sure they will be able to give you category 3 as the one mentioned so frequently by military men who themselves, for the most part, objected to this destruction. However, this destruction was a part of the State Department plan for dismantling.

Chairman EATON. Mr. Kee.

Mr. KEE. I was interested in the statement that you made with reference to our policy in Germany and its criticism by men who were connected with carrying out that policy. Personally I do not doubt your statement, but I do not believe the committee should be required to take as absolute truth, statements that are based upon talks that you have had with people who remain anonymous. I think possibly some of your statements should be, if it is possible, corroborated.

You mentioned by name only one man with whom you discussed this. That is a Mr. Murphy. Will you tell us who the Mr. Murphy is, and what connection he has with implementing our policy?

Mr. ARMSTRONG. Yes, sir. I referred to Robert Murphy, who is called the American Ambassador to Germany. There is no central German Government, but he is the representative of the State Department in the occupied zone of Germany.

Mr. KEE. You mentioned that you had talked to various officers. I suppose you meant American officers in Germany?

Mr. ARMSTRONG. Yes, sir.

Mr. KEE. You spoke to them with reference to the destruction of planes and you found them "burning with indignation" over this action.

Would you mind supplying the committee, at your leisure if you do not have it with you, for the record, the names of those officers with whom you discussed this matter and who were "burning with indignation?"

Mr. ARMSTRONG. I have the names in my notes, Mr. Congressman. I would be glad to supply them.

Not all of them, you understand, were speaking for publication or for publicity, but rather because of their feeling in regard to this matter.

However, I can assure you that the ones I talked to were practically unanimous in feeling that it was a mistake to destroy the bulk of our air strength in Germany at such a time as this.

Mr. KEE. As I stated, I do not want to inquire into any secret information but you, of course, made it public here before the committee, and I take it that these officers with whom you have talked with reference to this very important matter, can be made available to us as witnesses?

Mr. ARMSTRONG. Yes, indeed. If they are to be used as witnesses, I shall be glad to give you their names.

The Congressman from New York, Mr. Taber, who was in Europe at the time I was, has some memoranda from me on this subject.

Mr. KEE. You also stated you had gathered data on quite a number of Germans who had been tried, I believe you said, three or four times, for the same offense?

Mr. ARMSTRONG. Yes, sir.

Mr. KEE. Would you mind supplying us with that data?

Mr. ARMSTRONG. I will be glad to leave the committee something like a score of specific cases that I studied that I think represent the functioning of this denazification program.

Mr. KEE. You said also that you had talked with quite a number of officers in Germany who greatly deplored our action with reference to placing or bringing these Germans into the American camp in

Germany. Would you mind giving us a list of those people with whom you talked and who deplored this action on the part of our government?

Mr. ARMSTRONG. I will do that. I think the best example is the major who is the commander, corresponding to the mayor, of a small town south of Stuttgart, which I, in company with some who are connected with the welfare department of the occupation government, used as an example for a several days' study of these expellees. So indignant was this major when we went to see him that he said he was resigning and returning home. He said, "Yesterday I sent a man to jail for refusing to take into his home a family." He said, "If that were done to me in America, I should stand on my front porch and fight with my very life."

Perhaps that would indicate something of the feeling in the matter.

Mr. KEE. Would you mind supplying us with the name of the major?

Mr. ARMSTRONG. I will be glad to; yes, sir.

Mr. MUNDT. Mr. Armstrong, I was very much interested in your challenging and informative statement. Knowing of the fine work you have done with the national department of the American Legion, and your work in this country in patriotic causes, it makes it all the more significant to have an objective reporter of such experienced capacity come before our committee and give us this information.

Mr. ARMSTRONG. Thank you, Mr. Mundt.

Mr. MUNDT. You mentioned you would like to see a United States of Germany created. I have heard that statement made by others. I would like to see a United States of Europe. I have great confidence in our American method of bringing commonwealths of people together into a common harness. However, if we go into this business of creating a United States of Germany now, are we not going to almost automatically deed over eastern Germany to the U. S. S. R?

Mr. ARMSTRONG. Without your consent or mine, it was deeded over long ago.

It seems we are faced with a situation as to what we should do with the parts of Germany still under our control and the control of the British and French.

I think one of the strongest things we could do would be to establish a central government in those western zones. I think that the Soviet, while they do not want any order established anywhere in Europe, certainly they would not cooperate in the establishment of a peaceful western Germany, but it has to be done sometime.

Nearly 3 years have gone by. Personally, as one citizen, I feel we should have written a treaty of peace quickly and should have established a peaceful, German, democratic government quickly. That has not been done.

However, we could do it now. What could we lose? We could gain prestige in the eyes of a great many European people, which prestige we have lost alarmingly.

Mr. MUNDT. I certainly agree with that matter of prestige. It seems to me the Morgenthau plan is going down as one of the most disgraceful chapters in the history of our country.

Mr. ARMSTRONG. I agree.

Chairman EATON. If we establish a union of occupied areas by the Allies, how about Russia establishing a republic in their part of Germany?

Mr. ARMSTRONG. They have already done that, I think, Mr. Eaton. Reports coming in October, when I left there, they were moving quickly to sovietize the region.

Chairman EATON. We have lost that part of Germany.

Mr. ARMSTRONG. I would say for the time being; yes.

Chairman EATON. You say we should have made a quick peace. How could we have done that?

Mr. ARMSTRONG. I would go back of that. You see it is so difficult to start, after so many mistakes were made. We should have taken over all of Germany. I think it was utterly foolish and tragic to have left our Armies sitting 3 miles this side of the border line for 3 weeks while Russians came in and destroyed the city and took over that part of Germany. It was inexcusable and it will go down in history as a tragic mistake.

Starting with this point now, having cut off the eastern third of Germany, it seems to me we cannot sidestep our definite responsibility to create order and a peaceful government as quickly as possible.

Mr. MUNDT. I do not know anyone left in this country who is willing to defend the Morgenthau plan, unless it is Henry Morgenthau, Jr., Mr. Armstrong, but we still continue to implement it, it seems. While no one defends it, we continue to dismantle plants and destroy hospitals and schools and we still, amazingly enough, are in the process now of shipping some of these dismantled plants to Russia.

The only excuse or defense which comes from the State Department is that since the policy has been started, it is very difficult to stop it, because France and Italy and Belgium and Britain and some of the recipient countries might feel that we were not keeping faith with our contract.

Now, it is my position that the world situation has changed considerably since the colossal mistakes made at Potsdam. At that time none of the countries of Europe had reason to expect they were going to get a multibillion-dollar aid program from the United States. Now they have reason to expect it may be forthcoming. Now they have a new source of assistance which was not available to them. I know, because I ran across your trail in Europe several times last fall, that you visited other countries besides Germany and I wonder if you feel if we presented the facts regarding Germany to Italy, Belgium, France, and Britain, whether they would be amenable to the logic of the situation and realize that the continuation of this dismantling program is working to their disadvantage the same as it is to the disadvantage of America, Germany, and peace. Whether you feel that they are so set on the program that even though they now have another avenue of assistance, they are still going to say, "We must have our pound of flesh."

Mr. ARMSTRONG. I think you are exactly right, and I think it should be done. I believe that the governments of these other countries would agree at once with that. It is evident that what they have gotten from dismantled plants is inadequate. It is disappointing, I will say, because it does not total up to what it was on paper. As I say, it is an uneconomic way of reimbursing them. The plants should have been left intact in Germany, and workmen should be working in them to produce goods for all of Europe.

When you destroy Germany or German industry you are bound to affect all of the neighbor nations of Germany which have traditionally depended on German industries for their sustenance.

Mr. MUNDT. It seems that it would be something like trying to destroy Pennsylvania and then trying to have prosperity in the United States in this generation.

Chairman EATON. Before the gentleman gets through I would like for him to tell us if there is one mistake we have not made yet?

Mr. RICHARDS. Mr. Armstrong, in what capacity were you in Germany on this trip you were talking about?

Mr. ARMSTRONG. I was there as a writer or a correspondent.

Mr. RICHARDS. As a member of a news-disseminating group?

Mr. ARMSTRONG. No. I write for the Reader's Digest, and the material I gathered in Germany, part of it, is in an article in the Reader's Digest.

I will say, however, that I was requested, before I left, to make a survey of relief needs in Germany for the Council of Relief Agencies, which I did, turning over to them my reports.

Mr. RICHARDS. Private relief agencies?

Mr. ARMSTRONG. That is right.

Mr. RICHARDS. You are not proposing that this legislation establish a United States of Germany, are you?

Mr. ARMSTRONG. No, sir. I say these are things which should be done if the Marshall plan is to be made effective; that is, unless they are done there will be weaknesses, in Europe, and especially in Germany, that will tend to nullify the good effects of the plan.

Mr. RICHARDS. Are you in favor of the Marshall plan?

Mr. ARMSTRONG. With these restrictions which I gave; yes, sir.

Mr. RICHARDS. Do you think it will take \$6,000,000,000 to do the job?

Mr. ARMSTRONG. No, sir; I think that is a figure drawn out of the hat. I think that \$1,500,000,000, judiciously spent over the next 15 months, would be sufficient.

Mr. RICHARDS. How do you arrive at that figure?

Mr. ARMSTRONG. I drew it from conversations with advisers of Herbert Hoover.

Mr. RICHARDS. Now, Mr. Hoover himself disagrees with that figure.

Mr. ARMSTRONG. I mean I heard it mentioned. I am not pinning it on them.

Mr. RICHARDS. I believe Mr. Hoover suggested about \$4,000,000,000.

Mr. ARMSTRONG. Yes; I think so.

Mr. RICHARDS. All these figures had to be drawn from somewhere or based on something.

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. The bases for some of these figures are rather hazy.

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. Now to get down to the administration of this thing, you do not agree with the Herter plan?

Mr. ARMSTRONG. I honestly believe that to set up two groups and to have an administrator answerable, as it were, to both groups, the chairman of one group made up of officials—the Secretary of State and other governmental officials—and chairman likewise of an advisory group of citizens, would bring about constant conflict between those two groups.

We have seen it in State government, with which I am personally familiar. I am a firm believer in locating responsibility definitely and having the chain of administration squarely down to the one responsible.

Mr. RICHARDS. Then you want a group responsible and not an individual administrator responsible; is that right?

Mr. ARMSTRONG. I would say that even though I have advocated in this statement the appointment of a bipartisan commission, I feel that the alternative would be the appointment of a single administrator with Cabinet rank, answerable to the President, and having in his hands the responsibility for the administration of the plan.

Mr. RICHARDS. Who would decide questions of foreign policy involved in the plan?

Mr. ARMSTRONG. I think that the administrator should be mandated to receive the advice of the State Department on foreign policy.

Mr. RICHARDS. Regardless of what the President says about it?

Mr. ARMSTRONG. Well, the State Department—the President, I mean—and the Secretary of State as the executive in charge of the conduct of foreign affairs.

Mr. RICHARDS. You mean, then, in the final analysis, the President and the Secretary of State would have to decide questions involving foreign policy?

Mr. ARMSTRONG. Yes, sir.

Mr. RICHARDS. Now, you said something about a nonpartisan board.

Mr. ARMSTRONG. I said "bipartisan." I mean an even number of the two parties.

Mr. RICHARDS. The formulation of the foreign policy of the United States during the last 2 or 3 years has been bipartisan, has it not, in effect? I mean the other party has been consulted in every move they make?

Mr. ARMSTRONG. They have been consulted, but I do not consider that the formulation of our foreign policy has been closely enough in the hands of Congress.

You must understand, Congressman, that I have the theory that the Constitution of the United States places upon Congress the authority and responsibility to formulate all policy, domestic and foreign; within the mandates of Congress, the Executive conducts our foreign policy. To my way of thinking, Congress has abdicated its responsibility for actually formulating broad principles of foreign policy. As a result of this abdication, the President and the State Department go ahead and formulate their own policies, which certainly have led us to a lot of mistakes in the last 3 years.

Mr. RICHARDS. You think the Congress should legislate on every question of foreign policy?

Mr. ARMSTRONG. No, sir; I think they should set broad principles of foreign policy within which the Executive must work.

Mr. RICHARDS. Thank you.

Chairman EATON. Mr. Jonkman.

Mr. JONKMAN. Mr. Armstrong, you speak of these new planes and serviceable planes being literally sabotaged and bombed. We have heard that before.

Did you hear anything authentic—instead of using these planes for Greece, for instance, that we bought inferior planes from the U. K. to use in Greece?

Mr. ARMSTRONG. No, sir; I had not heard that.

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

Chairman EATON. Thank you, Mr. Jonkman.

Mr. Jarman?

Mr. JARMAN. Thank you, Mr. Chairman.

Mr. Armstrong, I thoroughly agree with you in your expression of regret that a peace treaty was not signed long ago, from which the central government would have followed in Germany. I agree with that, too.

I agree with you also in your opinion of the Morgenthau plan.

However, I am in just as thorough disagreement with your apparent opinion that the appropriations for lend-lease were just thrown away. That is what you indicated. You did not make it quite that strong, but I just cannot let any hint at such an opinion go unchallenged when I think that the appropriation for lend-lease saved more American lives than any other like amount of money appropriated during the war.

Mr. ARMSTRONG. Could I make this comment?

What I really mean is, I think we should have used lend-lease, let me say, as a leverage to get agreements with our allies, on the construction of a peaceful and orderly world. I will put it that way.

Mr. JARMAN. What good would an agreement with Russia have been at that time?

Mr. ARMSTRONG. Then certainly we should have modified our lend-lease with Russia. If we knew at that time that agreement with Russia was no good, we certainly should have not followed the foreign policies we have followed with respect to Russia since then.

Mr. JARMAN. Of course, I agree we could not have known that. In fact, I agree that if our foresight was always as good as our hindsight we would all be millionaires and we would make few mistakes.

Now, you say the State Department made a slum of Germany. How did it do that?

Mr. ARMSTRONG. What I meant was that the policies we have followed have contributed to the stagnation of German life. That is so apparent as, I think, to defy contradiction.

Now, of course, the destruction of the war was greatest in Germany. It would have been impossible to rebuild Germany quickly; but in recent years, very little of the rubble has been removed in Germany. There are thousands and thousands of German youths in Germany who are idle, and I was in most of the cities in the American zone.

Contrariwise, there is no one idle in the Soviet zone, we are told. Everybody has to work.

Mr. JARMAN. In a police state that is always true.

Mr. ARMSTRONG. But the Russians are using the situation as propaganda against us, this denazification and deindustrialization. "It is the Americans who are persecuting you; they are preventing you from working; they are the ones who want to turn you into a pastoral area."

They are using the propaganda against us.

I saw a newspaper from one of the towns in the eastern zone and a picture showed them loading potatoes into a wagon, and below was the caption, "Potatoes for the American Army."

Mr. JARMAN. Are we not doing the same thing to Russia?

Now, I thought our Air Force was largely responsible for the slums in Germany; but if it is not true, is the State Department or the Army? The State Department hadn't much to do with it.

Mr. ARMSTRONG. I mentioned the conflict between the State Department and the military. That has seethed through the entire Nation. I almost defy anybody over there employed by the occupation government to say whether they are taking orders from the State Department or the War Department. They don't know.

Mr. JARMAN. I thought the State Department had very little to do with it until this time.

Mr. ARMSTRONG. The American people have been misinformed with regard to it. Continually, Congressman, you have read the State Department issued so-and-so "directive" to General Clay.

What right has the State Department to do with that? Any bureaucrat in the occupation zone can write his own law, and they do it every day.

Mr. JARMAN. Who writes the directive to General Clay?

Mr. ARMSTRONG. The reports usually say "from the State Department." I suppose Mr. Murphy transmits them.

Mr. JARMAN. How long were you in Germany?

Mr. ARMSTRONG. A little less than 2 months.

Mr. JARMAN. These people you talked to, who were being denazified, who were fighting Hitler all the way through—did you have any proof of that besides their word?

Mr. ARMSTRONG. The Army gathered some specific cases just to illustrate the matter, and I made an earnest attempt to verify these cases; yes, sir.

Mr. JARMAN. Do you positively know, of your own knowledge, where hospitals were destroyed and dismantled, or is that hearsay?

Mr. ARMSTRONG. I had the list issued in October, which contained as one item in category 3, "Hospitals."

Mr. JARMAN. You do not know how many, and whether they were military or civilian?

Mr. ARMSTRONG. They were civilian hospitals that had been used by the military during the war.

Mr. JARMAN. I want to repeat Mr. Richards' question: What led you to that \$1,500,000,000 figure?

Mr. ARMSTRONG. It is just my personal opinion. Every citizen now is trying to decide how much money we should give away here, and I have lowered my sights to this \$1,500,000,000.

Mr. JARMAN. There is another difference between us—"giving it away." Of course, some of this money is purely relief and is given away, but I regard much of this money just as I did lend-lease, as one of the best investments this country can make. I do not regard it as being thrown away or given away.

I do not know whether the other members of the committee agree with me or not. There are those, of course, who feel as you apparently do—that the State Department cannot do anything right. You do not agree, I know, but I think the State Department has substantiated everything they have asked for before this committee.

You have not substantiated your \$1,500,000,000.

Mr. ARMSTRONG. I attempted to get an idea of where the money would be allocated to the countries on any proportionate basis, and I was told the figures were not available.

Mr. JARMAN. When?

Mr. ARMSTRONG. About 2 weeks ago.

Chairman EATON. Mrs. Bolton.

You asked if it made a civilian out of a military man to take off his uniform.

Mrs. BOLTON. Does it make a military man out of a civilian to put him in a uniform?

As a background for my question, I was in Germany in 1945, and in Berlin we found a very interesting thing. We sat in quite a long session of staff meetings. One was on the education, with open discussion of the problem and what we were trying to do. That was 2 years ago. There was not a military man at that table.

There were people in uniform, but they were educators, and they were Public Health people, and trained welfare workers. Their whole attitude was not a military attitude.

I did go into that very strongly.

Therefore, let us just balance up with your statement:

I agree that it does not make a civilian a military man, but I wanted to bring out into the record that it does not make a military man out of an educator to put him in uniform.

Mr. ARMSTRONG. I agree.

Mrs. BOLTON. I would like very much to ask you what you saw of the women in Germany?

Mr. ARMSTRONG. In my study of the relief needs, I went into the facilities set aside for the direction of relief, and day after day I saw women and children being supplied with relief goods. I went into homes of a great many German people, particularly in Frankfort, Stuttgart, Munich, and Nuremburg and in several small towns, and in the country, and you would find great need everywhere, as would be expected.

At the time I was there, in the late summer and through much of the fall, women were engaged largely in gathering fuel or grubbing the fields to find potatoes that might have been left from the harvest. It was a continual effort to find food and fuel and then get what they could from the relief centers.

Mrs. BOLTON. Did you feel that any use is being made of women in the military governments, through the State Department angle of this?

Mr. ARMSTRONG. Are you speaking of German women?

There are some young women employed in the offices of the military government.

Mrs. BOLTON. As secretaries?

Mr. ARMSTRONG. As secretaries and interpreters.

Mrs. BOLTON. Are there any school teachers?

Mr. ARMSTRONG. Yes, there are.

Mrs. BOLTON. In your conversations with them, did you have any sense that they were still Nazis?

Mr. ARMSTRONG. I talked to a number of them and I did not find, certainly among those in American employment, any that had any Nazi sympathy.

What they had had before their defeat, I do not know.

Mrs. BOLTON. In 1945, the situation was unpleasant and possibly it is worse now, but in Berlin, in talking to the mayor, who was a German, a rather elderly man, we discussed at some length the education of the children and how to give them a sense of democracy.

I then asked him what they knew of the homes those children went back to at night, and what they were doing with the mothers, who

were the widows and wives of the SS troopers, and Gestapo members and so on.

The man almost wept, because he felt in a moment everything might be undone that had been done all day long.

I think what we need to do to replace nazism is to give them a positive program. Why not give them the American way of life and government? That would be the strongest challenge.

Mr. BOLTON. When you say "give," how can we give?

Mr. ARMSTRONG. Advise them and assist them in reconstructing. After all, they have no central government. It is in our hands, as to the principal conquering organization, to advise them as to what government they shall have. I think it is an opportunity.

Mr. BOLTON. I agree with you.

Thank you.

Mr. MUNDT. That is what MacArthur is doing in Japan.

Mr. ARMSTRONG. Yes.

Chairman EATON. Mr. Lodge?

Mr. LODGE. Mr. Armstrong, I think you have presented us with a very interesting statement, and I think we have a great deal to gain from attempting to reappraise the many mistakes that we have made in Germany.

I am very much surprised at what you say regarding the hospitals, because General Clay informed this committee that even the plants which were being dismantled were not being torn down. In other words, the machinery was being taken out but the plants were not being demolished because of the lack of living space. Therefore it would seem to be a direct contradiction in policy if they tear down hospitals and do not tear down dismantled plants.

Mr. ARMSTRONG. I cannot speak with good or full authority on that, but I simply know that as of last October, the program called for the destruction by December 31, 1947, of a whole category of facilities that included hospitals and schools and barracks.

Now, the plants, as you say, were not all blown up, and machinery taken out of them. The walls were frequently left standing; but usually those plants were partially disabled by the bombing. There were very few intact, you understand, so the dismantling largely was a process of taking the machinery out, and other facilities in the plant.

Mr. LODGE. I believe the Russians actually did tear down the buildings, did they not?

Mr. ARMSTRONG. In many instances; yes, sir.

Mr. LODGE. I also wanted to tell you in reply to a question that Mr. Jarman addressed to you, that we have received the country-by-country statements with respect to the European recovery program. Mr. Jarman did not have an opportunity to continue his questioning.

Mr. ARMSTRONG. I am glad to know that.

Mr. LODGE. Mr. Armstrong, if the European recovery program were set up as you suggest, do you believe that it would be sufficient to protect the governments of France and Italy from seizure by internal force?

Mr. ARMSTRONG. Do you mean would the plan itself be sufficient?

Mr. LODGE. Would the implementation of the program, as you would envision it, be sufficient to protect the Governments of France and Italy from seizure by internal force?

My suggestion there is that of course if the Italian Government succumbs to internal force, the European recovery program might jeopardized.

Mr. ARMSTRONG. That is correct. I do support the Marshall plan with these conditions I have mentioned but I do not think it is any insurance whatever——

Mr. LODGE. What action would you recommend that this Government take in order to insure against internal force, the investment which we might make under the Marshall plan, and in order to protect American security, and with it, world peace?

Mr. ARMSTRONG. I would bring every possible friendly pressure to bear upon the governments of the recipient nations, at least to strengthen the forces of democracy within their own governments and administrations.

Specifically, I would not say, "Outlaw the Communist Party," but I would make it distinctly understood that they were not to receive further aid if they permitted the Communists within their own country and government to sabotage the plan.

Mr. LODGE. Take the case of Italy. Italy is the most sensitive point. They are limited by the Italian peace treaty, in which we participated, from having more than a certain number of troops, police, and Navy.

Mr. ARMSTRONG. That is right.

Mr. LODGE. They have no Communists in the Government. They are doing their best to eradicate communism; but the Communists in Italy, we are reliably informed, are very well armed and are better armed every day.

The Italian Government is faced, therefore, with a very definite problem in internal brute force.

Would you suggest that we take any steps to help the Italian Government to meet that problem?

Mr. ARMSTRONG. Yes, sir.

If the Italian Government requests the military force of the United States to assist them in maintaining order, I think that request should be granted.

Chairman EATON. Would the gentleman yield for a question at that point?

Mr. LODGE. Certainly.

Chairman EATON. Would \$1,500,000,000 do the thing Mr. Lodge has in mind?

Mr. ARMSTRONG. No, sir. I think any military implementing would have to be done over anything that would be done along the lines of aid.

Mr. LODGE. I believe that it would demand but a fractional effort on our part, and a minimum of expense.

Do you favor the internationalization of the Ruhr?

Mr. ARMSTRONG. No, sir, I do not. I think one of the great mistakes we are making is to take peoples, territories, and resources and throw them here or there. I favor creating a peaceful Germany. I feel any part of Germany cut off, or any other nation cut off, as a result of this war, will rise to plague us in the future. I do not believe we should make the mistakes that were made after the First World War; that we should say to Germany, "We are going to assist you in

creating a peaceful government and a peaceful future," and make it stick, including the Ruhr.

Mr. LODGE. Do you believe that the French particularly, and other nations in Europe, who have had unpleasant contacts with Germany, would be inclined to accept your plan with respect to Germany?

Mr. ARMSTRONG. I believe they would if they could be assured their share in the resources of the Ruhr on a peaceful basis; that is, that they are not taking it as the spoils of war but as the result of a proper distribution to all peoples of Europe. I believe that they would go along.

Chairman EATON. We are very grateful to you for a most illuminating discussion, Mr. Armstrong.

Mr. MUNDT. It seems to me that Mr. Armstrong has put his finger on the great deficiency, as I see it, of the State Department's proposal, whether we call it the Marshall plan, ERP, or whatever it is; that is, up to now, almost exclusively, the testimony of the Government's witnesses has been along the line that if we grant \$6,800,000,000, for the so-called Marshall plan, that everything is going to be all right, or that that is at least the great venture we must take, and is the only possible approach to stop the aggressive move of communism.

I agree it is an essential part of the program. I believe it is something we must support, at least to some extent. However, I am woefully disappointed by the complete lack of imagination or candor on the part of the State Department, in failing to come in with other aspects which I think must move concurrently with the Marshall plan if it is to succeed.

Mr. Armstrong has pointed that out. He has called them restrictions or conditions but he has made proposals which should move along at the same time as the Marshall plan to insure that investment.

I hope, Mr. Chairman, that before we conclude our hearing, that we will resubmit Secretary Marshall to come and talk to us about China, to come and talk to us about the United Nations, about Greece and Turkey, and what part the United Nations should play under a revamped procedure to do their part in this thing; to suggest what attitude we are going to use on the part of the export control law; are we going to continue to send products to Russia or whether we are not; are we going to have a realistic foreign policy?

For instance, the Senate committee tried to secure approval to visit Russia, and could not get it. On the contrary, we have opened every single consulate in America which was open before the war.

Will we have a realistic policy toward Russia or do what we did last year, allow 3,000 Communists to come in here, visit the Bureau of Standards, go out to Dayton, Ohio, to our Aeronautical Research Division, and to visit our industrial plants, when they will not permit us to go into our Embassy in Russia?

I think we have an obligation to insist that the State Department bring before us a whole, integrated program to move forward concurrently, because I think we are duty-bound to our constituents to give this great financial investment the chance to succeed to which it is entitled.

I think it can succeed as part of the program but I think it is going to be Operation Keyhole, if we don't do something besides think about the money aspects all of the time.

The President says it is Operation Rathole unless you get \$6,800,000,000. I am not so much worried about the amount, but I think it will be Operation Keyhole if you do not get more vision than you can get looking through a keyhole and talking about money alone.

Mr. LODGE. I think that is a very interesting and intelligent statement, and I would like to ask the gentleman this:

If we were going forward on a concurrent front, wouldn't he believe that it would be well also to do two other things:

First, call an international monetary conference to revise the Bretton Woods agreement, to maintain uniform devaluated currencies for the 16 participating nations, and, secondly, in view of the fact that the dismantling originated at a conference in Paris which took place prior to the time the European Recovery Program was mentioned—I am not talking only about Potsdam but the agreement between the nations which now receive reparations from the dismantled plants—would it not be a good idea to review all of those agreements with respect to German reparations and dismantling, in the light of the European recovery program, in order that we should not now be bound, and in order that these participating nations should not now be bound by a program which has, in the light of subsequent developments, become obsolete?

Would you agree that these two additional items should be wedged into yours?

Mr. MUNDT. I concur completely.

Mr. ARMSTRONG. Again I say it is Congress' job to bring this whole program into view at one time so it can work because we will not be able to bring peace with American dollars alone.

Mr. JARMAN. The gentleman does not mean to have another Bretton Woods Conference and all those things before we pass this bill; you do not mean that, do you?

Mr. LODGE. I think it would be a good idea to handle all these matters as soon as possible.

Mr. BOLTON. It is very evident that the Bretton Woods agreement is interfering definitely with any kind of plan on the part of the countries to stabilize their currency.

Mr. JARMAN. Would another conference be necessary to revise it?

Mr. LODGE. I suggest that might be so because of the fact that when the French devalued their currency, although that was a move which many people welcomed, it was done in such a way as possibly to cause serious economic dislocations among the participating nations, and therefore the head of the International Monetary Fund, because of the charter under which it operates, felt obliged to raise objections.

It seems that since this program has as part of its purposes to fill the gap between the legal and real value of currencies abroad, we must take every step we can in order to relieve the American taxpayer of that burden. A devaluation of currency will mean an increase of exports, a consequent diminution of dollar deficits and therefore a decreased load on the American taxpayer.

Mr. JARMAN. That is one of the purposes and I agree substantially with you gentlemen, that all of these things should go along concurrently but if we have another monetary conference and a lot of other conferences before we pass this bill, it may be that we certainly will be

throwing it down a rat hole if we wait sufficiently long to have all these conferences before we do it. In other words, it may be too late.

Mr. MUNDT. We could schedule them, though, as a part of the program.

Mr. VORYS. Does the gentleman know there was a monetary conference under the Bretton Woods plan in September, in London, and that the key provisions that are apparently blocking stabilization and revaluation of currency, were not amended?

Mr. LODGE. I have particular reference to article IV, sections 2, 3, and 5, of the Bretton Woods agreements, which, as I interpret them, practically prohibits these countries from devaluating.

Mr. RICHARDS. Is it not a fact that the action taken by France is directly contrary to the provisions of the orders promulgated by the conference?

Mr. LODGE. If that is so, I believe that the Bretton Woods agreement should be revised.

Mr. RICHARDS. Would you write anything like that in this legislation or would you suspend hearings on this legislation until something like that is done?

Mr. LODGE. No; I would not do that. I would not make it a condition precedent but I believe the administration should come forth with an integrated policy in which every aspect of foreign affairs is brought in line with the intention behind the European recovery program, because that program cannot succeed unless we have a maximum of reciprocal self-help in Europe, looking toward a gradual economic federation or a United States of Europe.

Chairman EATON. The Chair is very grateful to these gentlemen for their very illuminating testimony.

He grades 100 percent.

However, the Chair would like to introduce a protest against including the monetary matter referred to into this bill. There is enough in it now to give us the creeps.

Mr. KEE. Mr. Chairman, our colleague Mr. Mundt asked permission to ask one question of the witness. I presume that with the assistance of a number of gentlemen around the board he has completed the inquiry.

I now suggest the witness be given time to answer that question.

Mr. MUNDT. I asked him whether he agreed with my presentation.

Mr. ARMSTRONG. I agree thoroughly.

Mr. KEE. I am glad I brought that out.

Chairman EATON. At this point, I think the committee better recess until 2 o'clock this afternoon.

(Whereupon, at 11:55 a. m., the committee recessed, to reconvene at 2 p. m.)

AFTERNOON SESSION

Chairman EATON. The committee will come to order.

We have with us Mr. Littell, who is an eminent lawyer of this city and used to be associated with the Justice Department.

He has some observations, I hope, and expect, to be of value.

Mr. Littell.

**STATEMENT OF NORMAN M. LITTELL, ATTORNEY,
WASHINGTON, D. C.**

Mr. LITTELL. Mr. Chairman, I shall address my remarks to the administration bill, H. R. 4840, as introduced by yourself.

I would like to have included in the record at this point an address given by me before the Canadian Bar Association, January 24, 1948.

Chairman EATON. Without objection, it will be admitted.

(The document referred to is as follows:)

CANADA, THE UNITED STATES, AND THE MARSHALL PLAN

An address before the Canadian Bar Association, Ontario section, January 24, 1948, at London, Ontario; also submitted as prepared statement, together with oral testimony, before the Foreign Relations Committee of the United States Senate on January 29, 1948, and before the Foreign Affairs Committee of the House of Representatives on February 3, 1948.

I. CANADA—POSTWAR

While one of the most momentous debates in American history—indeed in the history of parliamentary government—is moving slowly ahead and with increasing heat in the Congress of the United States, and the course of human events awaits the outcome, let us pause a moment to extend a vote of thanks to Canada for her decisive leadership in the cause of democracy since the end of the war.

Almost without debate, and certainly without delay, Canada, having the second strongest economy in the world, adopted its own "Marshall plan" and acted to its fullest capacity in the gigantic task of helping Europe. By the end of 1946, Canada had loaned \$1,250,000,000 to the United Kingdom; another \$607,300,000 to France, the Netherlands, Belgium, and Norway; and \$154,000,000 to UNRRA—a total of \$2,011,300,000. On the basis of comparative population, this would be equivalent to about \$25,543,000,000 of grants and loans by the United States, or \$33,000,000,000 on the basis of comparative national production in 1946.¹

Actually the United States in the same period granted and loaned about \$11,502,000,000, or proportionately less than one-half of Canada's contribution.²

With great surpluses of wheat, proteins, and metals, Canada could have purchased from her farmers at controlled prices and resold in the world market at enormous profits. Instead, she sold wheat to the United Kingdom at a humane price of \$1.55 per bushel, which later was raised to a still modest price of \$2 per bushel. This may have been long-range enlightened self-interest to guard against a postwar depression, but it was also enlightened statesmanship and humanity emanating from a stronghold of Anglo-Saxon morality and common decency.

But we all miscalculated the speed of European recovery; Canada's traditional customers were laid low. They could not pay fast enough. Although entering the year 1947 with an ample gold and dollar reserve of \$1,200,000,000—which would have been a reserve of startling size before the war—Canada watched her funds melt rapidly away. On November 17, 1947, with only \$500,000,000 left in United States dollar exchange, controls were clamped on. The export of further capital was almost wholly forbidden and the flow of goods from the United States stopped. Travel money was restricted to \$150 per person per year, and we said goodbye to our Canadian friends.

Please bear in mind, as we seem to part company on either side of the Canadian fiscal barrier, that we have long had a unique relationship with each other, described popularly as the North American triangle. With the dollars owing to England and other countries from United States purchasers of foreign goods, the United Kingdom and other countries bought your wheat and other products. The dollar credits owing to the United Kingdom and other countries were then

¹ See excellent review of Canada's position in *Fortune* magazine for January 1948, page 83. See also outline of European recovery Program, 80th Cong., 1st sess., submitted by Department of State to Senate Foreign Relations Committee December 19, 1947, p. 104.

² See European Recovery Program by Committee on European Economic Recovery, Chapter 1, in which the United States grants and loans are reported on p. 9.

assigned to you, and with these dollar credits you could satisfy your widespread appetites for American radios, refrigerators, vacuum cleaners, automobiles, nylon stockings, oranges, grapefruit, and Florida and California weather. For a century you have been our best customer, but now the triangle has broken down. England and other countries lack sufficient goods to sell to us and the money with which to buy from us or from you. Your historic reservoir of dollar credits ran dry and you can no longer buy from us. You cannot even drop in to see us.

This is a sad state of things. We miss you, and when we say we miss you, we mean business.

Furthermore, in addition to Canada being our best customer, United States citizens have invested more money in Canada than in any other country in the world. Of \$13,542,000,000 which we have invested in foreign assets, over one-third—\$4,419,000,000—is invested in Canada. This is four times greater than our investments in either Germany or the United Kingdom. This is almost exactly the same as our investment in all of Europe—\$4,418,000,000.³

Is it possible that we who have enjoyed such warm friendships and relationships of mutual confidence, unheard of in the old world, can be forced into an artificial, self-sufficient autarchy—each country relying in a strained and unnatural manner upon its own national resources? Hitler's Germany proved the ultimate futility and barrenness of such a course.

What is the alternative?

Is not Canada's fate, like ours, inextricably tied up with the economy of the United Kingdom and western Europe? Is not the stake which we both have in the fate of Europe as great as the common objectives which we had in the war?

There is only one alternative for both of our countries, and that is the Marshall plan, for the revival of western Europe. If so, let us jointly examine its essential provisions and purposes.

II. THE MARSHALL PLAN

What is it? In simplest terms, it is, first, a determination with rather accurate precision for the next 15 months (and with much less certainty thereafter) of what is needed to assist the industrial and agricultural revival of the 16 participating countries in Europe (Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxemburg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom). Secondly, it is a plan for supplying their needs at a time when those countries are unable to buy the essential goods.

In concrete summarized terms, western Europe must have millions of tons of the following goods during the next 15 months:

For industry: Coal, coal-mining machinery, petroleum, timber, iron ore, crude semifinished steel, finished steel, trucks, freight cars, steel equipment, timber equipment, electrical equipment.

For agriculture: Nitrogen fertilizer and farm machinery.

For food: Bread grains, coarse grains, fats and oils, oil cake and meals, sugar, meat, dairy products, eggs, dried fruit, fresh fruit, coffee, cocoa, tobacco.

These are the bare needs arrived at after months of study by the Committee for European Economic Recovery, made up of delegates from the 16 countries. Where will the goods of money come from?

A relatively small portion will be paid for by the International Bank and by exports of the countries of the Western Hemisphere—\$1,285,000,000.⁴ This includes a continued contribution from Canada within its means, particularly in the field of wheat shipments. That still leaves for contribution by the United States the almost irreducible sum of \$6,800,000,000—the mystic figure which looms so large in the press of the United States today.

Constitutional arrangements on the North American Continent prevent the voice of Canada, our polite neighbor and partner on the north, from being raised in the American Congress, but the voice of her experience ought to resound there, for try as she did to the fullest limit of her capacity, Canada could fill only a fraction of the necessities for European recovery.

Is it possible with this lesson before us that we too in the United States will pay the price of appropriating too little? Is it possible that the \$6,800,000,000 (which has already shrunk in its buying power due to increasing prices in the amount of \$400,000,000 since the estimates were made) will be slashed by the remnants of the old-guard isolationists in the United States Congress, who down in their hearts think we ought to stay at home anyhow?

³ As of May 1943, the latest figures procurable. See Census of American-Owned Assets in Foreign Countries, U. S. Treasury Department, 1947, pp. 17-19.

⁴ Outline of European Recovery Program, State Department, p. 47.

Is it possible that a rehabilitation program to revive European industry will degenerate into a bare relief program by slashing the \$6,800,000,000 to \$4,000,000,000 or \$5,000,000,000?

This debate must be left to Congress, which in turn must answer to history for its decision.

An open question for each and every one of us, however, is whether or not the Marshall plan as proposed calls forth the best and quickest resources for attacking the problem of European recovery. I think it is an excellent specific for the crisis ably conceived, but I believe it leaves untapped a great reservoir of reconstructive power.

III. THE UNTAPPED RESERVOIR OF RECONSTRUCTIVE POWER—PRIVATE INVESTMENTS

Under the proposed economic cooperation bill embracing the Marshall plan, inadequate consideration is given to a vast resource of private initiative and capital which can be loosed on the objectives of the Marshall plan. The report to Congress seems to touch rather timidly the locks on the sluice gates of these reservoirs instead of vigorously seeking a way to open them. Let us look at certain factors which show that a powerful flow of initiative and capital could be loosed in the not-too-distant future.

1. *Corporate earnings and surpluses.*—With unprecedented earnings which have accumulated in recent years, an ominous cloud appears over the horizon for American corporate management. The famous section 102 of our Internal Revenue Code virtually prohibits the accumulation of earnings or profits beyond "the reasonable needs of the business." Surpluses are subject to high tax levies.⁵ With the larger controlling stockholders already occupying positions in the high-income brackets, particularly in the many family-controlled corporations,⁶ little benefit can be derived by them from the declaration of further corporate dividends. Uncle Sam would get all but an insignificant portion of that money.

No assurances from the Internal Revenue Department⁷ that the Government intends to be reasonable in accepting the judgment of management as to what surpluses are necessary, can alleviate the anxiety in American business today over impending enforcement of section 102.

And now there is talk of adding an excess-profits tax.⁸

Capital investments in new plant facilities reasonably required for the business of the company⁹ could relieve this pressure and promote the public purposes of the Marshall plan. Thus, a company with a surplus of \$2,000,000 might prefer to put \$1,000,000 into European industrial development, representing expansion of its business, rather than face enforcement proceedings under 102, or pay the \$1,000,000 out of dividends and see it returned taxwise to Uncle Sam. Even if the European expansion might ordinarily seem a little risky, it at least offers a possible net gain ultimately, especially when this advantage is considered with another factor which I shall now discuss.

2. *Decline of exports; exhaustion of dollar exchange.*—Canada is not the only country during 1947 which, like a passenger riding in a taxicab toward a distant destination (European recovery), nervously watching the taximeter and measuring the mounting costs against the contents of her purse, anxiously stops the cab and says, "Driver, I'll get out here, please."

Our neighbor on the south, Mexico, also stopped the ride and got out to walk in July 1947. Others did likewise.

What is the effect on the high level of industrial production in the United States? A schoolboy can answer. The highest record in exports for any month in the history of the United States was in May 1947—a total of \$1,441,000,000 in goods. Exports declined after that with a slight rally in October and November largely due to loading up on merchandise in your country in anticipation of

⁵ Internal Revenue Code, C.C.H., p. 611, sec. 102; tax of 27½ percent of excess amount undistributed not exceeding \$100,000; 38½ percent of such income in excess of \$100,000.

⁶ A man with \$50,000 taxable income in the United States, but not over \$60,000, pays a Federal income tax of \$26,820 plus 75 percent of the excess over \$50,000. With \$100,000 of income, but not over \$150,000, a taxpayer pays \$67,320 plus 89 percent of the excess over \$100,000. With an income of \$200,000 a taxpayer pays \$156,820 plus 91 percent of the excess over \$200,000. In addition, he pays taxes to the State and has little or nothing left if he is in the highest brackets. See the Tax Barometer, vol. 5, No. 3, December 20, 1947, re Internal Revenue Commissioner's "crusade" against the family-owned corporation.

⁷ See The Tax Barometer, vol. 5, December 13, 1947.

⁸ See testimony of Bernard Baruch on the Marshall plan before the Foreign Relations Committee of the Senate January 19, 1948.

slamming the door on further purchases on November 17.¹⁰ Exports were the cream of the business. Will corporate management and individual enterprises willingly give up those outlets abroad, knowing full well that it will be a long wait for European recovery and that in the meantime competitors operating in soft-currency countries will, in due course, fill those market demands with products priced in more reasonable relationship to the pocketbooks in the consuming country to pay? Would it not be better to enter the soft-currency country where costs of production are lower than those in the United States, offering the American know-how, spare capital, and a share of ownership with European capital?

In facing the problem frankly, cannot we see that a new pattern had already begun to emerge during the war when the sinking of ships and destruction of transportation facilities broke up the trading habits of the world and resulted in new production facilities? Were not new tanneries established when American leather could not reach its former destinations? Did not Marseilles, France, cease to be the capital of the world in the refining of peanut oil when a new refinery was established in west Africa; new ones are now contemplated in the British colonies of Uganda, Kenya, and Nigeria?

Many illustrations could be given of new industries being born in what was formerly a part of the British Empire.

To keep its place in the foreign field, American industry must, in a large measure, abandon its hope of regaining lost exports and move quickly into a pattern of partnership in production in foreign lands. Many, indeed, have already done so, as I shall show later, after considering the following factor.

3. *Bargains in equities.*—Where else in the world can an American investor, seeking a long-term investment, get so much for his money as in those European countries well known to us as traditionally industrious, thrifty, and reliable, and with standards of living like our own?

For Americans in the high-income bracket, the only possible opportunity for substantial gain under the internal revenue law is in the field of capital gains. Since you do not have this law in Canada, I will explain in rough outline that an investment held for longer than 6 months, for example, in the stock of a corporation, is a long-term investment. If it is sold at a profit, the gain is said to be a capital gain. If it is sold at a loss, this is a capital loss. The tax on the gain is limited to 25 percent of the gain; 75 percent can be retained tax-free.¹¹

In Europe, with prospects of recovery in the next few years, are great opportunities for American investors, greater than can be found, generally speaking, among the highly valued equities of American business.

This is subject, of course, to the hazards of taxation policy in the country involved, but let us consider these political hazards in a moment.

4. *Protection of American investments already owned.*—A factor not operating on the general population, but nevertheless a factor in full force and effect, is the desire to protect and revive existing investments abroad. As has already been noticed, Americans have \$13,542,200,000 invested abroad, of which \$4,418,300,000 are invested in Europe, as of May 31, 1943.¹²

These assets are owned by 215,000 American individuals, corporations, and organizations. More than 6,000 individuals, corporations, and other organizations held controlling interests in 15,210 foreign enterprises, embracing manufacturing, mining and smelting, petroleum, public utilities, transportation, agriculture, trade, finance, and a miscellaneous group, all of which businesses are woven into the fabric of European countries, and also into the fabric of American investment pattern. American controlling interests in these 15,210 corporations had a total book value of \$7,365,000,000, or about 54 percent of the United States' privately owned investments in foreign countries. The owners were located in every State and Territory of the United States, with average investments of less than \$10,000.¹³

Furthermore, approximately 300,000 citizens of the United States, or roughly 100,000 American families, lived in foreign countries in 1943. Large numbers had already been repatriated from Europe and Asia on the outbreak of war, reducing the normal number living abroad. Many have returned since the end of the war.

⁹ See Distribution of Profits, sec. 102. C. C. H. pamphlet, reg. 111, p. 17.

¹⁰ See monthly and quarterly Foreign Trade of the United States, published by the Department of Commerce, and advance November summary (by Mrs. Keyserling, Special Programs Division, Areas Branch, Office of International Trade). The largest year of exports in the United States was 1944, \$14,500,000,000, compared to \$7,900,000,000 in 1919 after the last war and \$8,200,000,000 in 1920. Of course, higher prices today account for some of the differences.

¹¹ Internal Revenue Code, sec. 117(a); 472 C. C. H. par. 859.

¹² "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, p. 17, et seq.

¹³ "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, p. 25.

It cannot be denied that this body of citizens—call them special pleaders if you will—exerts great influence in the United States toward further investments abroad to redeem or retrench interests there. Many millions of dollars will flow through the channels of these particular interests, irrespective of adoption of the Marshall plan.

5. *Readiness of European investors to join American investors in Europe.*—It comes with faint surprise to many Americans, living on their high plateau of economic prosperity and ample "dollar exchange," to learn that there is capital in Europe left intact and awaiting only American partnership in the reconstruction of Europe. Switzerland is on as high a plateau as we are, with booming production, and its industrial plants are in splendid condition except for a measure of obsolescence. There are hundreds of millions of francs in Switzerland seeking outlets in reconstructed European industry. To my personal knowledge, substantial companies there have been gathering data for many months regarding specific projects of reconstruction in war-torn Europe to be undertaken in partnership with American capital and technical assistance.

American companies, which are ready and willing to consider European investments but are hesitant to do so for lack of knowledge of languages and conditions in the countries where business factors dictate the advisability of opening shop can join with interests having the know-how of European affairs, dividing in any proportions they wish both the capital requirements and the responsibility for management.

IV. OBJECTIONS, DOUBTS, AND DEMURS

If these factors are really in full force and effect, what then is stopping the flow of American private capital? It has been said (1) that Europeans themselves are waiting for the United States to bail them out instead of getting down to hard work, and that they are not making a sufficient effort to remove obstacles such as customs barriers which stand in the way of trade; (2) it is said that American business will not invest in Europe in fear of political uncertainties there. Why risk confiscatory taxation, nationalization policies, or possible loss of investments through exchange restrictions forbidding removal of capital or income derived therefrom? Let us consider these objections:

1. *The lazy Europe bogey.*—There could be no more unjust calumny on our blood relations across the sea than a charge of laziness or lack of initiative in attacking the desperate plight in which the war left them.

In France, in spite of political strife, while the struggle for power teetered between the Communists and the Socialists, with the Rightists in the middle, production rose between liberation and May of 1947 from 25 percent of the 1938 production to 100 percent of the 1938 production. Ever since the war, French factories have worked longer hours and have had more men and women employed than were at work before the war—106 for every 100 persons employed in 1938—and this in spite of inadequate food, heat, and clothing. The transportation system has been restored and is working. A start has been made toward replacing housing and modernizing plants, but production of consumer goods is inevitably below that of 1938.

Food production has been so low as to be disastrous. Only heavy imports saved France. Depleted farm lands, denuded of farm equipment by the Germans, without fertilizer for years, and unattended while the armed forces or slave labor for Germany drained France, left conditions which cannot be overcome merely by human will power.¹⁴

The story of Holland's recovery is one of the dramatic stories of the postwar period. As recently described in Washington, D. C., by the commercial counselor for the Netherlands Embassy, "When Holland was liberated in the spring of 1945, it was stripped of practically everything which makes life possible. The food packages dropped from allied airplanes were literally lifesavers for the city population. Had the occupation lasted only a few weeks longer, mass starvation would have taken place. Factories were stripped, bridges were destroyed and transportation equipment was carried away."¹⁵ Dikes had been destroyed by the Germans and vast areas of agricultural land were flooded.

Starting from this state of ruin, Holland has repaired her dikes, drained her land, rebuilt bombed-out bridges, relaid railroad tracks, and trains are running on schedule.

In regard to customs barriers, it is an easy thing for us to say that other countries should abolish tariff barriers, but can we forget our own history? Tampering

¹⁴ See report of Committee for European Recovery, ch. 5, France.

¹⁵ Address by Dr. A. H. Philipse entitled, "Some Economic Problems of the Netherlands in the Postwar Period," is printed in the Congressional Record, January 12, 1948, p. A87.

with tariffs in the United States of America has always raised hot political issues. While wool is only a byproduct of the sheep industry in the United States, the sheep men came roaring into Washington, D. C., at the mere suggestion that tariffs be lowered to permit imports of Australian wool. If anybody wants to start a first-class fight, just let him suggest a tariff reduction to admit greater importation of Argentine beef.

Europeans are human beings just like ourselves. Tariff barriers abroad have entrenched human interests behind them just as they do here, not to mention the dependence of many countries on income derived from tariffs.

Nevertheless, even while the war was still on, the Governments of the Netherlands, Belgium, and Luxemburg, in exile in London, attacked in advance the complex task of striking down customs barriers. This has been done.

As of January 1, 1948, a common tariff went into effect among Netherlands, Belgium, and Luxemburg. The Netherlands-Belgium-Luxemburg Economic Union, commonly called Benelux, is moving ahead to greater achievements in the elimination of all trade barriers, such as "excise duties, quota regulations and foreign exchange restrictions."¹⁶ No magic wand waved over Europe can abolish these ancient barriers, but the way has been blazed by Benelux, and a study group is at work on the problems of all Europe.

2. *Will American business act in the face of political difficulties?*—As to possible availability of private investments, the State Department says in its report to Congress: "As economic conditions in Europe improve and political conditions become more stable, private financing may be expected to take up an increasing percentage of that portion of the financing which can appropriately be in the form of loans. Every encouragement should be given to the early initiation of private financing."¹⁷ This is well said, but before pointing out that little encouragement is in fact given, and before considering whether private investments need be so long deferred, let us consider the extent to which American business is already on the march under the banner of enlightened self-interest. Note the following examples:

Creamery business in Mexico: To take a case close to home, a large creamery company in San Francisco Bay, facing a decline of business upon the removal of several million men in the armed forces and their families after the war, went into the powdered-milk business, invested capital in Mexico together with Mexican investors, and established plant facilities for properly restoring water to the powdered milk so scientifically that consumers are unable to detect the differences between the ordinary pasteurized milk and this product. Milk is delivered in bottles to homes in Mexico City as well as in San Francisco. It is safe, too. There is no chance for any tubercular cow to extend its destructive influence.

Butane gas for England and Europe: The Pacific Gas Co. of New York sells tanks of liquid butane gas for individual household heat and cooking purposes. Anyone who has lived in a summer cottage, at a point remote from city utilities, knows the convenience of this transportable heat in lieu of coal. The company is making substantial shipments to England where this canned heat has been a godsend during coal shortages. Costs are low.

What a blessing it would have been if plant facilities could have been established and wide distribution accomplished this winter throughout Europe.

Plumbing fittings in Holland: As a result of war's destruction, Holland suffered a desperate lack of plumbing fittings and the Government explored the possibility of encouraging construction of a plant in Holland to supply these needs. European cartel interests declined to cooperate, so Crane & Co. of Chicago was invited to participate in order to secure the necessary know-how. Both capital and know-how were supplied by the American company and a thriving new industry is growing as a result.¹⁸

Automobile tire manufacturing plant in Holland: The Vredesteyn Rubber Co. is an old and established bicycle tire manufacturer in Holland. The country needed automobile tires. The Dutch company sought an American company and together with the Goodrich tire company created the Netherlands-American tire factory. Again the American company contributed both know-how and capital. The arrangement was made in 1946 when political conditions in Europe were darker than they are now. This is now a thriving business.

Glass; Holland: Similarly, the possible establishment of a glass manufacturing plant is under study now. Americans might apply.

Automobile service industry, Belgium: C. B. Thomas, president of the Chrysler Export Corp. (which, as one division of the Chrysler Corp., does \$110,000,000

¹⁶ Address of Dr. A. H. Philipse, *supra*, footnote 15.

¹⁷ State Department Report on European Recovery Program, December 1947, p. 47.

¹⁸ Capitalized for 9,000,000 guilders, Crane & Co. subscribed to 1,400,000, or about 17 percent.

in business a year) established the Chrysler S. A. in Belgium, servicing and repairing cars after the war. The company blossomed into a highly successful enterprise in a limited time.

American business attitudes: C. B. Thomas, president of the Chrysler Export Corp., with vast experience in doing business throughout the world, informed me that there are unlimited opportunities for American capital in Europe. Personal inquiries have been directed to him by those wishing to make investments in western Europe.

Following this Socratic method, the writer interviewed the head of an association for industrial intelligence and efficiency engineering service embracing about 1,200 American companies, including subsidiaries and affiliates, representing a cross section of American industry. I was assured that there is now readiness among many members to explore projects for the extension of their business into European production.

An American tool manufacturer whose name must be omitted has completed plans for establishing a plant in Europe. Every boat carries businessmen bound for Europe bent on exploring similar possibilities.

Certain American tanneries are ready to explore the possible extension of their operations into the European field.

Many large American companies—such as the oil companies, Chrysler, Ford, General Motors, Remington Rand, and others—had already recognized before the war the outlines of a new pattern of doing business abroad, and had established businesses abroad. Capital is already flowing back into those channels on a wide front. (I refrain from commenting on the delicate problems of American concerns which wrote off their European investments as losses during the excess profits years of the war and now find the properties back on their hands as potential going concerns.) Finished cars may be barred from import by limited dollar exchange, as in Mexico, but parts may be imported and manufactured, and cars assembled abroad, thus keeping the labor expenditures within the importing country.

The old concept of exporting from this country is gone forever, or permanently modified in the extreme. The best-informed businessman knows that.

Without waiting for the Marshall plan, many American companies, having their own foreign-service departments (like the efficient Chrysler Corp. under K. T. Keller, president, and C. B. Thomas, head of the Chrysler Export Division, are already at work in western Europe and the United Kingdom.

V. THE ALL-OUT EFFORT

In spite of the mounting evidence of readiness to invest in Europe, let us frankly recognize that a formidable obstacle remains—fear of economic restrictions and political hazards confronting the investor in Europe. What, if anything, can or should the Marshall plan do to overcome these hazards and to unleash private resources in aid of European recovery?

The present proposal would give only slight aid and encouragement to private investors by authorizing the Administrator to guarantee private investments for 14 years under the following conditions:

Amount.—The amount (of such guaranty) "shall not exceed 5 percent of the total funds appropriated."

Approved.—The project must be approved by the Administrator and the participating country as furthering the purposes of the act.

The guaranty.—The guaranty of the amount invested assumes no business risk, but is limited to guaranteeing the transfer to the United States of dollars received "as income," "as repayment or return" of the investment "in whole or in part," "as compensation for sale or disposition of all or any part thereof."

The type of project.—The projects to which guaranties are extended must be those which in the absence of private financing under such guaranties would be eligible for financing in the form of loans to the participating countries from appropriated funds. (The report to Congress and not the proposed act states this as a conclusion drawn from the language of sec. 7 of proposed economic cooperation bill, State Department report, pp 15 and 47.)

If a principal objective of the European recovery program "is to eliminate the necessity for direct assistance by the United States Government"¹⁹—and it should be—then I believe that the foregoing conditions are faltering and inade-

¹⁹ State Department outline of European recovery program, p. 47.

quate to accomplish this objective in the following respects, for which I propose six remedies:

1. *Guaranty confined to convertibility of currency; political risks.*—It is perfectly appropriate to confine the guaranty, as suggested by the State Department in the proposed act, to the risk of governmental restrictions abroad, namely, to the conversion of any currency into dollars in case any participating country should at some later date forbid the export of capital or impose other restrictions (even as Canada was forced to do). Investors are naturally reluctant to invest abroad unless income can be taken out of the country as an asset of the over-all operation of the American concern. The act proposes to guarantee this right and to guarantee the ability to remove capital invested, if the enterprise should be sold in whole or in part or nationalized.

The United States can go further in its guaranties to investors without any risk whatever to itself. It should require as a condition to acceptance of benefits under the act by any country participating, in addition to those conditions now specified,²⁰ that any such country pledge itself to support and carry out the terms of any private contract which may be entered into between an American investor and any national of the country where the loan is made and to make no discrimination in its tax or fiscal policies between its own citizens and those investing pursuant to the Marshall plan.²¹

It must be recognized as a basic tenet of sovereignty that no government can be present contract abdicate from its power in the future to change national policy as internal needs shall dictate, until and unless guaranties from an international body extend the doctrine of collective security to the economic field, supplying currency-and-exchange support in such fluidity as to bridge the crises which breed extreme autarchical and sometimes militant nationalism. As the Federal Reserve bank protects its member banks so some day will international cooperation protect member countries. This day is not yet!

This proposal in no way would violate the principle stated or interfere with internal policies of a participating country, because no contract for private investments would be approved by the country in question, or the Administrator, until the terms of that contract were satisfactory and acceptable. This leaves a wide latitude of business initiative to the individuals involved, as in everyday business life, but in the end when the participating country does approve the contract, then it pledges itself morally and legally to respect and honor the terms of that contract. A commitment to this policy as a condition of accepting Marshall plan assistance would not only have the dignity of a treaty between nations but would clear away most of the investors' resistance.

2. *The 5-percent limit on guarantys.*—Assuming that the appropriation will be \$6,800,000,000, this would limit private investment guarantys to \$340,000,000.

The guaranty principle, properly applied, could very largely fill the void between the present minimum requirement of \$6,800,000,000 and the much disputed gross amount necessary to effect recovery. There is not the slightest doubt that participating governments will absorb the \$6,800,000,000 for high priority government projects and no one knows what additional sum will be required.

Then why not authorize guarantys to private investors in a separate and additional amount approximating the amount of our investment in Europe, say \$4,000,000,000. Such a guaranty offers a flexible margin instead of an arbitrary statutory limit. If the guaranty is used, fine. If not used, there is no harm done.

A guaranty has the possibility of costing nothing at all, or at worst costing very little if the plan succeeds and there is economic recovery in Europe. Why, then, limit guaranties to the sum of \$340,000,000 as the act is now drafted? Why not give the principle full swing up to whatever limit Congress fixes over and above the \$6,800,000,000 of known immediate needs, and see to what extent private investments fill the void.

Fifteen months is an inadequate time for analyzing investment projects. It sometimes takes approximately that much time to analyze a prospective enterprise of any magnitude in the United States where the circumstances are far less complex. Organizing the administration and getting under way mechanically takes time, but the desired effect in Europe accrues immediately. A minimum of 3 years should be allowed for these guaranties. Congress can review the situation whenever it so desires.

²⁰ See proposed economic cooperation bill, State Department, December 19, 1947, sec. 10 (b), pp. 9-10.

²¹ The Finance Minister of the Netherlands wrote a letter assuring the United States Government that this nondiscrimination policy was the policy of the Government, but the letter could not constitute a binding commitment and adherence to it rests on the acknowledged moral integrity of the Dutch people and their Government.

3. *Export guaranties.*—As an adjunct of the Administrator's office in the United States should be a system of export guaranties utilizing whatever portion of the guaranty authority the Administrator finds proper to finance commercial exports. Here again Canada pioneered the way immediately after the war; such guaranties are available there as in the United Kingdom. It works—the pattern is ready for us.

4. *Confining guaranties to projects eligible for loans to participating countries from appropriated funds.*—It is impracticable to have private investors in effect competing with the participating countries for an allocation out of the appropriated funds. It would be too much to expect of a participating government to give due consideration to an applicant for private investment if the loan had to come out of the same funds which the government itself was eligible to receive, unless by chance the private applicant undertook a project which was high on the government's own list of essential enterprises.

It is only reasonable to assume that participating countries will concentrate much of the benefits of their loans on such essential public projects as reconstruction of ports, rebuilding damaged or destroyed utilities, repairing transportation and constructing mass housing projects, schools and hospitals. Why limit private investors to the same general category of projects as participating countries would undertake? If the object is, as it should be, to release a vast resource of private initiative and capital for energetic attack along the full length and breadth of the economic battlefront of devastated Europe, then let private industry select its projects in conjunction with private interests in countries abroad, just as Crane & Co. and the Goodrich tire company have done in the Netherlands.

Individual American and European initiative should be released at every possible point with full appreciation of its volatile power.

Without excluding private enterprise from the participating government's lists of projects (a construction company might well undertake the construction of a port facility for a participating country in exchange for an assignment of future revenues from that port, in whole or in part), but the administrator should be specifically instructed to leave the widest possible latitude of choice to private investors, subject to approval of the participating country.

A separate and distinct limit should be placed upon guaranties (which require no appropriation whatsoever at the outset). It would be very wrong, indeed, to set up a reserve even of 5 percent (\$340,000,000) out of the funds appropriated in order to meet future possible liabilities which might never accrue (like trying to appropriate for future court of claims decisions which no one can estimate. It is never done). Why immobilize capital which ought to be actively at work in Europe as soon as possible?

Between the broad lines of undertaking by participating countries, there are vast areas in which industry and trade can and should operate. The revival of industry in the ways of life, characteristic of free enterprise among free people, is one of the main objectives of the whole European recovery program.

5. *Tax adjustments in Internal Revenue Code.*—Although the subject is too complex for complete analysis here, further protection and inducements to American investors can and should be given by a provision of the economic cooperation bill amending the Internal Revenue Code to (a) make clear that investments in European plants would be permitted out of surplus not only for the purpose of extending the present business operations, but also to go into new and additional business enterprises, which, under the present regulation, might not be deemed to be "reasonably required by the business";²² (b) to permit business losses, to which government guaranties would not extend, to have carry-forward or carry-back advantages; and (c) to allow amortization in lieu of depreciation as in the case of war plants.

6. *Other conditions which can be reasonably imposed upon participating countries.*—There is now being completed at Habana, Cuba, the final draft of the charter for the International Trade Organization, hereinafter called ITO. This charter might be roughly described as an international code of fair practice in recognition of economic mutual interdependence, just as the United States in the proposed draft of legislation recognizes the "interdependence of the United States and of Europe." A principal obstacle to American business in Europe, and a basic element of the conflict between Germany and the United States, was the cartel system whereby trade was monopolized, controlled and saddled with restrictions

²² See discussion, *supra*, Sec. III "1," and footnotes re Sec. 102 of Internal Revenue Code, and pertinent regulations.

on competitive production of vital materials, which at the outset had a throttling effect upon the American war effort.²³

Chapter 5 of the proposed ITO charter provides that each participating country will take appropriate action to prevent practices which restrain competition, limit access to markets, or foster monopoly, and that complaints may be made to the ITO and steps taken to remedy the evils complained of.

The final draft of the International Trade Organization charter will be completed in Cuba and available before the Marshall plan is enacted into law. The bill should require, in addition to conditions specified,²⁴ that the participating country be a member of the International Trade Organization before receiving the benefits of the act.

VI. CONCLUSION

These are the practical incentives essential to an all-out effort. Can we consider anything less?

It is no longer possible for a Charles Martel to meet and defeat the barbaric hordes in the Spanish marshes, saving Christian civilization in the Western World for 1,500 years. This is not 733 A. D., this is 1948. We confront a similar conflict with an alien way of life. The battle today is between men of good will and men of ill will, but the battle line ranges along a broad front among the complex forces of modern society. The decision must be made in the minds and hearts of men, and supported with all the dynamic force and volatile initiative of freedom-loving people—the same force which a few short years ago built 50,000 planes a year when it could not be done.

Let us constantly remember that the countries to which we hold out a helping hand are the heart of Europe and the center of civilization. Look back. The tiny area of the earth's surface of which we speak in Europe is our own mother. Christianity was nourished there. Our art, our language, our industry, our agriculture, our every impulse toward the finer development of the human mind and spirit in the long struggle away from the beast within, have sprung from the heart throbs of these tiny countries. The greatest flowering of mankind on earth has taken place as a result of what has been thought, said, and done there.

Can we in Canada and the United States, and in the Western Hemisphere, hesitate for one moment about spending the very utmost of our means, if this should be necessary, to preserve so priceless an inheritance against barbaric tyranny? Can we not see that men only abandon our free way of life and yield to tyranny when individual effort is of no avail and hopelessness and despair reign? Can we not see that our friends and blood relatives need us now and that millions more of freedom-loving men and women, already blanketed against their will under the miasmic fog of untruth and barbaric assertion of power over much of Europe, are also our potential allies in the Spanish marshes of 1948?

Let us offer public aid to friendly governments in need, and also the maximum incentive to private investors to muster the full power of individual initiative in aid of national policy. But let no man forget—not even the most hard-headed businessman considering the prospects in Europe, that this is more than a business proposition. It is an all-out contest along the entire front of human relationships to preserve our way of living. Let every man remember, no matter how weary he may be from the war just concluded in defense of democracy, the simple words of an American veteran of World War I.²⁵

"Liberty is not merely something the veterans inherited. Liberty is something they fought to keep * * *

"People who ask us that question, 'What did it get you?' forget one thing. True, we fought the last war to make the world safe for democracy, and we did for a while.

"The thing they forget is that liberty, and freedom, and democracy are so very precious that you do not fight to win them once—and then stop. Liberty and freedom and democracy are prizes awarded only to those people who fight to win them and then keep fighting eternally to hold them."

Mr. LITTELL. The immediate excuse for my considering the problem of the Marshall plan arose in this way: I was invited to give the above address about 10 days ago in Canada, to the Canadian Bar Association, Ontario section, and became so completely absorbed in

²³ As in the case of tungsten carbide, magnesium, military optical instruments and many other materials. See *The German Invasion of American Business*, an address by the writer, when he was Assistant Attorney General of the United States, before the Indiana Bar Association, January 1941.

²⁴ State Department draft of proposed economic cooperation bill, Sec. 10 (b), pp. 9-10.

²⁵ Alvin C. York at the Tomb of the Unknown Soldier in Arlington Cemetery on May 30, 1941.

the subject that I went to the bottom of my own convictions and reduced them to a state of definition.

A further possible explanation is that about 1 year ago, certain Swiss companies who had combined to form a pool for the sake of studying reconstruction problems in Europe, retained me to represent them in certain matters. I, of course, do not represent them here. I am here as a citizen of the United States, profoundly interested in this problem.

I might add that as Assistant Attorney General of the United States, throughout the war years, from 1939 to December of 1944, I had occasion to make rather extensive studies of the business relationships between Europe and the United States.

The suggestions which I have to make relate to what I consider the important subject in the Marshall plan and one of the most neglected in the proposed draft of legislation as submitted by the executive branch of the Government.

Let me compliment them on the brilliant job that was done in submitting to you gentlemen suggestions which they had to make, but I feel perfectly free with that to go on to my criticisms.

The subject of the afternoon, as far as I am concerned, is that main theme of how to explore the virtually untouched resources of private investment and private initiative, in aid to the Marshall plan.

I am going to state to you five reasons why I think American capital is available, why under certain of those reasons there are compulsions operating on American capital to go forward with private investment in aid of the Marshall plan under certain conditions, and I am going to make six suggestions of a concrete, practical nature, as to how that flow of private initiative and capital can be assured.

Before I do so, may I make this comment on a seemingly unrelated subject, and that is the position of Canada in this picture.

I do so, because as an American citizen, making a study of our relationships with Canada, I was profoundly impressed and profoundly grateful for what I found, that Canada had already had her Marshall plan.

The average American is not aware of that. Almost without debate and certainly without delay, Canada moved into this picture of trying to revive European industry immediately upon termination of the war, and in the 2 years ending in 1946, she had loaned to Great Britain, to the United Kingdom, \$1,250,000,000. She had loaned to other European countries \$607,000,000, Norway, France, Belgium, Holland—and others. As a matter of fact, the fund was greater than that if you consider the whole world—and she had made her contribution to UNRRA of \$154,000,000, making a total of \$2,011,000,000 that Canada contributed to this European recovery effort.

In addition to that, instead of buying wheat from her own producers at a small price and selling at an exorbitant price, where she could have made money, she sold at the reasonable price of \$1.55, which has been since raised to \$2 a bushel, which is much below, and making an additional contribution by way of \$300,000,000 by way of those commodity price reductions during the last 2 years.

The equivalent investment of this country in that effort on the basis of population would have been 25½ billion dollars. The equivalent on the part of this country on the basis of production would have

been 33 billion dollars. Our actual contribution during the same period was 11½ billion dollars.

Even if we added this 6.8 billion dollars, which you are considering—call it 7 billion dollars for the sake of using round figures—you would only have about 18½ billion dollars which we would contribute.

I think the experience of Canada in that matter is definitely something to be weighed in the scales.

Nevertheless, she miscalculated the recovery of Europe as we all did. She entered 1947 with \$1,200,000,000 in reserve, but she soon got to the bottom of the kettle and in November of 1947 saw only \$500,000,000 left in dollar exchange.

You gentlemen know the relation between Canada and the United States in the past century as being one of the closest of business relationships.

Canada has been our best customer and is also the fifth largest trading nation in the world. All of these points bear materially upon what you are considering in this respect. First, is the contribution of 6.8 billion dollars excessive for the United States? Most certainly not, in contrast to the immense contribution of Canada in proportion to its population and production.

Certainly that bears on Mr. Hoover's ninth point, I think it was, when he proposed that our contributions be limited to purchases from this country, so that the borrowing countries might not be able to buy where and what they wish.

After the contribution which Canada has already made, which is proportionately in excess of our own, and from which we have undoubtedly received indirect benefits from the stimulation of trade, it would be most unjust as far as Canada is concerned, and probably unsound as far as the Western Hemisphere is concerned, to restrict participating countries receiving cash or credit, pursuant to the Marshall plan, from buying from whatever country they wished.

Mr. VORYS. As I understand, the bell calls for a roll call on a rather important vote. The gentleman is making a statement that I am sure is interesting to a lot of us and if we attempt to have him proceed as we bob up and down to the floor, we are not going to have any continuity.

I was wondering whether it would be possible for the committee to take a recess, rather than for various members to attempt to continue?

Chairman EATON. Since we are past the first call, why not wait until the second call and have a recess then?

Mr. JONKMAN. I believe that would be best.

Mr. EATON. Please continue, sir.

Mr. LITTELL. That is the end of that subject.

The main thesis is the exploration of the resources of private investment and initiative in aid of the Marshall plan.

There are five reasons why I believe there is plenty of capital available and plenty of ready and willing initiative, under certain conditions which I will come to.

First, corporate earnings and surpluses have never been at a higher level in the history of the United States.

One of the main problems of corporate management today is in confronting section 102 of the Internal Revenue Code which is, simply stated for those who are not familiar with it, something that virtually

prohibits the accumulation of earnings and profits. It permits the corporations to retain in their treasury that surplus reasonably needed for their corporate business, which is roughly estimated at 70 percent. The excess is taxed at a very high rate of $27\frac{1}{2}$ percent or $38\frac{1}{2}$ percent for different brackets.

They cannot declare these in dividends without giving an excess of income to controlling stockholders—I am being just very practical about this, gentlemen, they can, of course, but this is the way it works: They do not declare these out in dividends for the reason that it does the stockholders no good, because it passes right through their hands in the higher brackets, to the United States Treasury. You know what the income tax brackets are. They provide approximately as follows: A man of \$50,000 income pays \$26,820, plus 75 percent of the excess to \$60,000, and a man of \$100,000 income pays \$67,320, plus 89 percent up to \$150,000, and the man receiving \$200,000 pays \$156,820, plus 91 percent of the excess above that, and after that, the State income taxes take hold and in many cases they have very little left.

Therefore you can understand human nature in not particularly being anxious to declare these surpluses out in dividends under such circumstances.

The result is that there is this available capital.

There is a second reason which relates closely to the first one, why they would be willing to spend some of that capital abroad, and that is that exports are falling off. I wonder how many grasp the fact that we are at this moment at a most crucial stage in our industrial history and particularly in the postwar period.

Exports passed their all-time peak in the history of the United States in the month of May with \$1,441,000,000 in exports. The maximum year was 1944, with $14\frac{1}{2}$ billion, which greatly exceeded any experience we had in the last war. In 1919 it was \$7,900,000,000, approximately, and in 1920 I believe it was \$8,200,000,000, approximately. So, there is this eminent decline in exports. It has already begun. There was a flurry at the end of 1947, October and November, doubtless largely due to the fact that Canada was going under controls on November 17, and most people knew that it was inevitable. However, exports are declining. Now, Canada was not the only country which, like a passenger riding in a taxicab, was measuring the ticking of the meter against the contents of the purse and finally said to the driver, "Driver, will you please stop and let me get out here?"

Mexico got out of the taxicab in July of 1947. All over the world, the countries are getting out because they have no dollar purchasing power.

The half-sister of that complete blocking off of currency is the quota controls in the South American countries where only a certain amount of dollar exports are permitted.

With American corporations confronting that Treasury surplus of capital, and confronting this inevitable falling off of exports at a very fast rate, what will be their attitudes toward European reconstruction?

Chairman EATON. We will take a short recess.

(Short recess.)

Chairman EATON. Let's resume, gentlemen. You may proceed, Mr. Littell.

Mr. LITTELL. Where the committee recessed, I had covered one point, the excess surplus in corporations of the United States, and the availability for European investment. Secondly, I said there was another reason why there was a certain compulsion operating on corporations to invest abroad and that was because of the falling of exports we are right at this moment on the verge of what will be a terrific decline in exports, aside from the artificial stimulus of the Marshall plan.

I mentioned the fact that the countries had slammed their doors, like Canada. I imply no rudeness in this respect, as they had no alternative. South American countries are restricting imports from this country and there is now a scramble to get dollar exchange that is left in those countries to purchase American imports.

I say that American industrial management rather than forever foregoing the loss of this export element of their production capacity, have no choice if they wish to preserve it, in the next few years, which would go into Europe itself, into the soft currency countries and there, either in partnership with European concerns or under their own power, they could enter into production in that particular market or field of industry enterprise.

There is a great temptation there, and a very good reason. In fact, if I could take more of the committee's time I could show that the pattern is already present, that many large companies have already done just that. The pattern is changing all over the world. There are new refineries because of the interruption of transportation during the war. There are new tanneries.

The peanut-oil industry, which had its capital in Marseille for an indefinite period of time had to decentralize. There are now refineries in South Africa. That is only used as an illustration. Throughout all of the British Empire there are these new industrial efforts.

If American industry wishes to participate in them they must go there. Some are already on the march and are just doing just that.

For the third reason, there are great bargains in equities in Europe. The cost of equities in American companies is very high indeed as we are at the peak market. You may inquire about your pet stock if you think I am wrong about that.

However, on the contrary, these people in Europe are basically industrious, hard-working, thrifty consumers with a standard of living very much like our own, given normal conditions and a fair opportunity, and they represent great values in equities in the revival of their industries and a purchase of interest in their industries.

This is particularly important for this reason: These people in the high-income brackets have no chance, except through the capital-gains chance—you know that is the only opening in the American Internal Revenue Code for getting a real return on investment for people having capital. Broadly speaking, a long-term investment is one that is held for over 6 months and, broadly speaking again, the taxation on the gain that investment—suppose stock or a building is bought and held for 6 months and sold at a much higher price—the tax on the gain cannot be in excess of 25 percent. That is another reason why these equities in Europe are tempting.

Four: Protection of American investments abroad. I think it is very little realized in this country what a heavy investment we have in Europe right now. Even with the late figures in 1943, in the

middle of the war, which is the only statistical data we have in the Treasury Department of the United States or anywhere else, we have an investment abroad of 13½ billion dollars, of which \$4,418,000,000 are in Europe.

Incidentally, an additional \$4,419,000,000 are in Canada, which shows again what we think of Canada.

That represents a substantial amount of capital and a substantial amount of influence. Those interests are owned by 215,000 persons and corporations and organizations.

Three hundred thousand Americans were living abroad then, though many had been repatriated due to the outbreak of war throughout the world. That is about 100,000 American families.

Many of them have probably gone back. There has been a veritable exodus to go back and participate in the management.

Out of the investors in European enterprises, 6,000 individuals, corporations and organizations, own about 7½ billion dollars of those 13½ billion dollars in assets. In other words, 54 percent of our assets abroad are represented in controlling interests, which these 6,000 individuals and corporations own in 15,210 corporations. That 15,210 corporations own about 54 percent of our assets abroad, as of 1943.

The sum is considerably greater, now. I say that there will be a natural flow of capital to protect and revive those interests. It has already begun. The big companies lead the way. The oil companies are already out in front and some of our big companies that were abroad are reconstructing their industries.

That phase of investment has already commenced without aid from anything I might propose or anything you gentlemen devise from the Marshall plan.

The fifth reason is the readiness of European investors to join with American investors in Europe.

I know this to be a fact of my own personal, professional knowledge. The average American thinks there is not much capital in Europe. There is an awful lot. Switzerland has hundreds of millions of francs.

Switzerland is a very excellent country, financially. They are not big enough, however brave, to lift on their shoulders the whole of European reconstruction by any means, and of course they want American capital and partnership in this giant—this gigantic undertaking. There is great aid to be had already and in some of the other countries too there is great capital. There is no use dwelling on this point because it is a statistical point which needs an analysis in figures which would bore you.

Those are the five reasons.

I now want to submit to you that before going to the suggestions which I wish to make in regard to the Marshall plan, that to a certain extent, the movement of capital has already begun. It is begun by those with a greater feel for your European affairs, or operating under some of the compulsions which I have mentioned: Let me give you an example close at home.

A big creamery company in San Francisco, facing the loss of a very great proportion of its business for different reasons than those I have enumerated, namely, because several million men moved out of the San Francisco area after the war ceased, developed powdered milk, went into Mexico, put in American capital in partnership with Mexican capital for establishing a plant to restore the water to that

milk in a scientific way so that you can hardly tell the difference—in fact you cannot tell the difference between that milk and the milk you get on your doorstep here, with the result that what is in fact fresh milk is delivered to the doorsteps in Mexico City.

The American enterprise did not lose its business, but succeeded in exporting it to a country where it was very useful.

There are several illustrations in Holland which in many ways leads the European countries in cooperation with American business and in getting going again, and it is a perfectly brilliant and amazing achievement in reconstruction.

For example, the Goodrich Tire Co., was persuaded by the Dutch to interest itself in establishing a tire factory in Holland. They had no tire factory, except a bicycle tire factory, an old Dutch concern highly regarded but not having the know-how of the automobile business.

Goodrich Tire Co. went into partnership and established a plant which is now going splendidly in Holland, giving employment to many and supplying a very much needed article on terms and conditions which make it possible for the consuming market to buy it, which they could not do with the dollar exchange as it is.

Crane & Co. was similarly interested after the European cartels turned down the proposition of the Dutch Government, to establish a plumbing fitting factory in Holland, and Crane & Co. organized a Dutch company with Dutch partners with a total capital of 9,000,000 guilder, to which Crane & Co. contributed \$1,400,000, or approximately 17 percent.

The Dutch Government, as I understand the matter, is making a study of the glass industry, since all the glass in Holland was shattered; likewise most of the glass in the rest of Europe, and they have a tremendous market for glass.

In this country, Pacific Gas Co. is shipping butane gas, which probably none of you have encountered unless you have lived at a summer cottage remote from utilities. They are very inexpensive. Think what a godsend that has been in England to the extent that distribution was possible during this coal shortage and during the severe winter. The company is exploring the distribution of this gas in Europe. What a blessing it would have been had it been there this winter.

The S. A. Chrysler Co., under the direction of C. B. Thomas, of the Chrysler Export Co.—I say Chrysler Co., which is an automobile service company—from my personal knowledge and discussion with C. B. Thomas, that company started from scratch and is now a quarter-of-a-million-dollar company and as Mr. Thomas told me in Detroit, on the way back from the London-Ontario address last week, it could be duplicated in many industries abroad if the conditions were right.

Tool manufacturers to my knowledge—one whose name I cannot give for a competitive reason—has practically completed his arrangements for tool manufacture and another is about to set out on the same errand.

I could explore at greater length these attitudes of American business but I think sufficient has been said by way of illustration. I would only add this, that Mr. C. B. Thomas, who is one of my witnesses, who does not mind being quoted, went over the suggestions

I am making to you gentlemen, as I came through Detroit last week. He pushed other things aside and gave me the entire afternoon. He heartily endorses them from the point of view of the incentives necessary if you induce business to help in this reconstruction job. He says that is the only way in his opinion that you can get practical operation of the Marshall plan and avail yourselves of the enormous resources of private enterprise.

He gives several illustrations. Let me just give you two.

He said had this been under the management of private enterprise you would not have had several hundred tractors standing on the docks in Greece for months waiting to be put to use, for the simple reason that there was no agricultural equipment to attach to them.

He said had the Government placed that business in the hands of the tractor company or the agricultural implement company they know what the tractors are for there and they would have had the equipment arrive in the same boat. However, some Government clerk ordered the tractors and failed to order the agricultural machinery that went with it so we suffered the loss of that capital investment, the loss of interest on what was probably several million dollars that went into that; and what is more fundamental, the Greeks suffered the loss of the revival of their agricultural industry.

To give you another illustration, in a South American country, which shows the ingenuity of private initiative once you turn it loose on this problem: Their quotas for the imports of Chryslers were being cut down. They had to manufacture some of those parts. The American company could send in the equipment, but they found they had an inferior quality of steel there that could not compete with our steel. We were also confronted with a steel shortage. We killed two birds with one stone. He encouraged the manufacturer of a steel-car-top manufacturing company. They redesigned the top to make it simple, took out some of the weather protections and some of the refinements we find necessary here, and produced the top in native steel, which saved our steel supply, developed theirs, gave them a new industry and employment, and completely satisfied the needs of that car as far as that climate is concerned.

That is the type of ingenuity which must be somehow turned loose and it can only be turned loose if you release the genius and ability of the men who have grown up with these industries. That is the thesis.

Now, what to do about it: In examining the Marshall plan as submitted by the executive branch of the Government, which I believe is your bill, 4840, section 7 defines the powers of the Administrator, and the things that he can do. One section of that only touches very timidly and inadequately on the question of private enterprise, by suggesting that the Administrator may give guaranties of private investments under certain conditions.

In the first place if you glance at 7 (3) it limits the guaranties to private investment of 5 percent of the total assuming this bill passes at the print figure, the total would only be \$340,000,000 of private guaranties. What is wrong with that? In the first place it is a trivial sum. You put a lid on private guaranties which might result in a rush of private enterprise to get the benefit and to get within that \$340,000,000 but it would also discourage anybody else who could make the grade or any other enterprise who had a long-range program in Europe and could not get into that \$340,000,000.

They would be apt to be discouraged.

Secondly, why deduct your \$340,000,000 from the \$6,800,000,000, or whatever sum you gentlemen in Congress decide to appropriate; why immobilize any capital by deducting it from that appropriation? It is absolutely unnecessary. All you need to do is to pledge the full faith and credit of the United States behind the guaranty without making any deduction in that fund from the amount of appropriation.

You may not be liable on one of these guaranties for many years to come. Certainly you will not for several years. They will not have time to mature. Why have all this money piled up in the Treasury as a guaranty, to guarantee a commitment which may never materialize into a liability?

It is not sound.

I have quoted in a footnote that there are examples in Congress where the full faith and credit of the United States is pledged behind certain guaranties, to be paid for if and when they mature into liabilities.

In this plan of the Marshall plan works out, you will not have to be liable for these guaranties. They will pay off at the end of the 14-year period and you will not have to pay that liability.

That, I say, is a defect in the existing plan.

I will run over these suggested amendments rapidly, and if you wish, Mr. Chairman, not to be presumptuous, but as a result largely of inquiry from one of the Senators, a brother of one of the members of this committee, and inquiry from others, I did reduce my suggestions to concrete form in proposed amendments, merely to facilitate your discussion of them.

However, before going into that rather technical matter, if it is your wish that I do so, let me go on briefly over these suggestions that I am making in criticism of the Marshall plan.

Mr. VORYS. Mr. Chairman, I wonder if it would be proper to ask at this time this question: The third proposition in section 7 is, that the guaranty is only as to convertibility of currency. You may have a comment to make on that.

Mr. LITTELL. That is my next subject.

Mr. VORYS. Very well; continue.

Mr. LITTELL. The guaranty is as to what we will call a political risk; in other words, the guaranty that the money once invested can be converted back into American dollars. Either the earnings of that or the capital of it. That is what I call, for convenience, a guaranty of the political risks, because these countries might, subsequently, block off their currency, forbid the export of capital and earnings, and otherwise restrict the escape of this capital once you put it in.

Now, the layman would ask: "Well, why not make an agreement with those countries if they agree not to do that."

You cannot do that. You gentlemen know that no country can commit itself to future fiscal policy over a period of years. It must maintain its flexibility. It is of the essence to sovereignty that these countries should be able to adjust their fiscal policies to meet the needs of crises and changing circumstances that come up within them. You cannot contract that away.

I suppose, as far as you could go would be what the Netherlands Government did, to give a letter to the United States. The finance

minister gave a letter to the United States, saying they would not forbid the removal of earnings, in respect to the Crane & Co., or the Goodrich deal—I have forgotten which one it came up in—and that they would not discriminate against foreign capital. However, that is just a letter and could be changed by another government. However, behind it stands the full strength and credit of the Dutch Government, in which we have great confidence. That is about the maximum that we can do.

How do we get around that? I would add all that you can add, a condition of the participating country, a condition among those conditions imposed upon the participating country. To 10 (b) I would add this:

In order to facilitate the effective operation of section 7 (c) of this Act, each participating country undertakes (a) to give its full support to the terms of any proposal or private contract which such country may approve for the investment of funds pursuant to this Act, (b) to make no discrimination in its tax or fiscal policies between its own citizens and persons investing in projects in such country pursuant to this Act, (c) to either become a signatory of the International Trade Organization charter or to comply with and fully cooperate with signatory powers in carrying out the terms and conditions of chapter 5 of said international trade agreement in respect to cartel agreements.

Now, that much they can do. The European countries can bind themselves without any infringement on their sovereign dignity, to support these contracts after they approve them. As you will see later, they must, of course, approve these private deals. And they should agree that our citizens will not be discriminated against.

Those are two of the principal criticisms.

Another one is that on the present plan, if a portion of the appropriation were reserved to protect guaranties, you would in effect have private industries competing for the same fund with the government of the participating country. I think we should visualize that whatever funds you appropriate will have tremendous governmental demands for the reconstruction of ports, railroads, hospitals, of mass housing, of water districts and power districts and sewer districts, and matters of that sort which could, of course, consume almost anything you appropriate, in addition to food relief and agricultural improvements.

In between those areas of governmental operation are vast areas of private enterprise, which is really what we want to get going, in addition to these fundamental matters that the governments must achieve.

The hope is that we can make an inducement in this act for private enterprise to go in, aside from these governmental operations.

If you have a man wanting to go into business in Europe and take advantage of this \$340,000,000 guaranty, he is in that sense competing with the management of the country for the same fund that is going to be available both to him and the country.

Mr. LODGE. My understanding of the bill, Mr. Littell, is that it simply guarantees convertibility of private investments up to 5 percent of the principal amount available.

Mr. LITTELL. That is right.

Mr. LODGE. That does not seem to be the kind of guaranty that you were discussing.

Mr. LITTELL. If I was misleading you. I am going to recommend that that lid be taken off.

Mr. LODGE. I cannot see how that would be competing with the recipient countries. Of course, the local currency income of enterprises financed by the governments of those countries or financed by private concerns of those countries would have no convertibility clauses as I see it.

Mr. VORYS. It seems to me you are talking about two different things. One is the extent of the guaranty. The other is the amount that can be guaranteed, and Mr. Littell has pointed out that under the bill as drafted, the private enterprise would be competing with the governmental claimant for the funds, because as he has explained and as it was explained to us, the bill contemplates that the money will actually be appropriated and if a million-dollar guaranty is made, a million dollars of appropriated money will be deposited and held presumably for 14 years.

I thoroughly agree with you that that is unnecessary. On the other hand, if \$6,800,000,000 is a proper measure of the ability of the United States to deliver material over a period of 15 months, then would it not be completely appropriate to have that limit put on the total of guaranties and grants and governmental loans, so that the demands upon our economy would be kept within an amount that we could meet? I thoroughly agree with you that there is no sense to depositing the money on this sort of guaranty. It ought to be carried like an RFC loan, or many others, a contingent liability that we may or may not have to meet.

But it seems to me that if the \$6,800,000,000 figure is correct, as a measure of what the United States economy can stand in a 15-month period, then it would be quite proper to place a limit on the guaranties for that reason. It is to make a combined limit on the guaranties, the governmental loans and the grants, because otherwise you are going to have a competition against our markets that might be ruinous to our economy and highly inflationary.

Mr. LITTELL. You make the most fundamental and discriminating objection that can be made in my opinion, but I think it is subject to this answer, Mr. Vorys, if I may respectfully suggest this. You presuppose that that competition for materials will exist here. Granted that there is a limitation to materials, the priority will undoubtedly be given to the subjects of the appropriation which we are not enumerating. They are listed in the proposed grant.

However, the guaranty behind the investment in dollar resources in Europe does not necessarily presuppose a drain of all of those supplies from this country. To the extent that it does, those supplies would be unobtainable. You pass on to the private enterprise, the task of finding the supplies. A lot of them can be found in Canada and the Western Hemisphere, and would be a stimulation to the revival, of the whole revival, of international trade, which is what we are trying to do.

The illustration I gave you of C. B. Thomas, of the Chrysler Export Co. of the automobile tops in South America: You will not get that sort of thing unless you get the impact of private initiative and its inventive genius in solving these problems of production abroad.

Mr. VORYS. Is there not this objection to my objection, too—that it is perfectly stupid to give an over-all figure, that while we may be short of steel and oil and food, we probably this year are going to be long on some other things we would like to export.

Mr. LITTELL. Precisely. I had not thought of that one and I am grateful to you for it.

Mr. VORYS. Very well; proceed.

Mr. LITTELL. Now, I suggest that it would be well for me to distribute the concrete amendments I have proposed, merely for the purpose of discussion. You will, of course, do a lot of things with them that I have not done but it does lay it out quite clearly as to what I think should be done. It particularly sets up two points which I think are fundamental to the incentive, if you wish to create it, and that is that it authorizes quite clearly the investment of corporate surplus in European plant facilities, removing that from all shadow of doubt under the income-tax laws. That is one incentive. Also it proposes an amortization plan of 5 years. I just picked that figure out of the air—well, that was not out of the air at all. The other act was 60 months. However, it had to do with the ending of the emergency.

Those who might not be familiar with this point, "amortization" means the writing off of the plant investment in a given period of time in lieu of taking depreciation over its expected useful life.

The expected useful life might be 20 years. You give industry the break of writing it off in 5 years, on the assumption that there are risks in Europe. We do not know how this is coming out. If you gave them that amortization advantage, it would be a great inducement for private initiative to load onto itself a great proportion of the burden which, under this act, is being taken on by the Government.

Chairman EATON. Would you tell us in a word how the introduction of the private-enterprise system, which seems to me to be a very valuable suggestion, will affect the total amount under the Marshall plan to be provided by the Government?

Will it reduce it or increase it or hold it at a level, or what?

Mr. LITTELL. I hope it will not influence your thinking too much on reducing the amount of the appropriation under any illusions as to the immediate availability of private funds. I am going to answer your question a little bit indirectly, sir, if I may. It is because we cannot divorce ourselves from the imperative, crying need of these immediate subjects outlined in the report of the committee which is before you.

That money would be available now, as soon as you gentlemen act here in this Congress, and those goods and materials would begin to flow.

Private enterprise, after you pass this act, sir, will take some months or maybe a couple of years to get under full swing. The possibilities must be explored, the partnerships must be arranged, the study of materials must be made.

This, to my way of thinking, is a supplement of what you will do with regard to appropriations. It is a supplement and an addition to it, because you will open up through private industry, through the taking away of risks, you will open up these channels. Therefore, I think, sir, that you should think of these guaranties not as a deduction from any appropriation which you deem proper, but as an added inducement to recovery in Europe which may greatly lessen the actual, ultimate appropriation that you have to pass.

Chairman EATON. Are the guaranties the only provision you propose for this legislation, to encourage private investment?

Mr. LITTELL. They are, sir, plus the tax adjustments which I suggested.

Chairman EATON. You want to increase the 5 percent?

Mr. LITTELL. Take it completely away from the appropriations. Make it any amount you suggest. I would suggest \$1,000,000,000. Why put a lid on it? Open the thing up and give private enterprise a full swing at this problem.

Chairman EATON. That bill would be involved in the \$6,000,000,000

Mr. LITTELL. No; it would be in additon to it. It might never mature, do you not see? You may never have to pay a cent on it, if this plan works.

Chairman EATON. Would you have to deposit \$1,000,000,000 in the Treasury of the United States?

Mr. LITTELL. You would not deposit a cent.

Mrs. BOLTON. Mr. Chairman, may I ask a question at this point?

Chairman EATON. Mrs. Bolton.

Mrs. BOLTON. This may be elementary, but there is something about it which reminds me of endorsing a note. It is always a little dangerous.

Mr. LITTELL. That is certainly true, but it is a cheaper note than an appropriation, because you may never pay the note, and you certainly will never have to pay all of it, it is almost inconceivable that all these guaranties will go sour.

Secondly, you will find that the Government has done this in many cases, as you will see on the footnote of the proposed amendments I have here.

Incidentally, I would like these amendments to appear in the record.

Chairman EATON. Without objection, the amendments will be included in the record at this point.

(The amendments referred to are as follows:)

PROPOSED AMENDMENTS TO THE ECONOMIC COOPERATION BILL PROVIDING FOR UNITED STATES GUARANTIES OF PRIVATE INVESTMENTS IN THE PARTICIPATING COUNTRIES

Submitted with oral testimony of Norman M. Littell, member of the District of Columbia bar, before the Foreign Affairs Committee of the House of Representatives, February 3, 1948, 2 p. m.

Strike out section 7 (b) (3) and add at the end of section 7 the following subsection (d):

"(d) GUARANTIES OF PRIVATE INVESTMENTS.—In addition to the assistance for participating countries provided in subsection (a), (b), and (c) of this section, the Administrator is directed to facilitate and secure the maximum possible assistance at the earliest possible date from private initiative and capital in the reconstruction and development of industry in the participating countries, by giving to any person, as hereinafter defined, guaranties of investments in connection with enterprises in said countries, under the following terms and conditions:

"1. APPROVAL OF PRIVATE AGREEMENTS AND PROPOSALS.—From and after the effective date of this Act, persons, as hereinafter defined, who desire to make investments and loans in aid of such projects may submit to any participating country a proposal to invest in, or make loans in aid of any project or enterprise in such country or countries, or may negotiate any agreement therefor with persons engaged, or wishing to engage, in the business in such participating countries, upon such terms and conditions as said parties deem desirable, subject to the conditions of this section, and after the approval of any such proposal or agreement by the participating country, the Administrator shall approve such proposal or agreement within thirty days after its submission to him unless said proposal or agreement is in conflict with this Act, in which latter event the Administrator

may disapprove of said proposal or agreement, or give his approval upon conditions that the terms of said proposal or agreement which are in conflict with this section shall be removed or corrected by amendment. Amendments to such proposals or agreements may be made and approved at any time in the same manner as hereinabove provided."

Explanation: The object and purpose of this provision is to release the resources of private initiative for investment in Europe on terms and conditions which investors themselves will negotiate, in recognition of the fact that it is impossible to standardize these conditions for the greater variety of industries and projects into which private capital and initiative will flow. The agreement with Dutch interests whereby the B. F. Goodrich Tire Co. formed a company for the manufacture of automobile tires in Holland is entirely different from the agreement whereby Crane & Co. similarly invested capital to form a Dutch company, organized and capitalized at 9,000,000 guilders, in which Crane & Co. invested 1,400,000 guilders.

Investors must be empowered to negotiate their own arrangements as in everyday business, without standardization, except that the participating country must have power to approve or disapprove in order to give priority to those industries serving the maximum public interest while materials are in short supply. The Administrator's functions should be passive. He should not be required to make an analysis of the economic desirability and all other aspects of the transaction after the country and the investing company have done so. Otherwise there will inevitably be the usual expansion of bureaucratic controls and inevitable delays which would result if the Administrator's review of the proposed project extends into the realm of policy and economics. Unless the project is to bog down in red tape, the Administrator should be confined solely to the function of determining whether the agreement violates this section of the Act. It does not, he must approve it.

Caution in respect to business risks by the investor (which are not guaranteed under this act), and the reviewing power of the participating government, are sufficient safeguards against speculation.

"2. CONVERTIBILITY OF EARNINGS AND INVESTMENT INTO UNITED STATES CURRENCY.—The guaranty to any person shall not exceed the amount of dollars invested or loaned by such person in the project and shall be limited to the transfer into United States dollars of other currencies or credit in such currencies received by such person as income from the approved investment or loan, as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof."

Explanation: This language is copied from the Economic Cooperation Bill as submitted by the State Department, section 7 (3) (i) except that "loans" are specifically mentioned in addition to "investments" to make sure they are included, and the amount of the guaranty is not subject to the approval of the Administrator. Such approval if required would necessitate extensive review of the economic and social desirability of the project and result in bureaucratic control of such projects which this amendment is designed to avoid. If Congress wishes to limit the size of any one guaranty, it may place an upper limit on all guaranties, but this is deemed unnecessary in view of the automatic restriction imposed by business risks. Excessive investments will not be made beyond the needs of any one project, in view of the fact that investors are not relieved of the business risks; they are only relieved of the risk of being unable to get their earnings or capital out of the country when the investment is made. A further safeguard lies in the fact that the participating country must approve.

"3. LIMITATION ON TOTAL GUARANTIES.—The total liabilities assumed under such guaranties shall not exceed the sum of \$1,000,000,000. The full faith and credit of the United States is pledged to pay the guaranties herein provided for in the event that the liabilities hereunder accrue to the United States."

Explanation: The act as proposed limits the guaranties to 5 percent of the amount appropriated, which would be \$340,000,000 if \$6,800,000,000 is appropriated. This is thoroughly unsound for the following reasons:

(a) It is needless to set aside in the Treasury of the United States any portion of the \$6,800,000,000 (or whatever sum Congress appropriates) as immobilized or idle capital. Every dollar appropriated should be put to work in Europe at the earliest possible date. Setting aside any sum whatever is needless. If, as, and when any liability ever matures against the Government, the full faith and credit of the United States Government is pledged to secure payment of the guaranty. The liability may never mature. If the Marshall plan succeeds, the Government may never have to make good on these guaranties. They are con-

tingent liabilities only and should be listed with other such contingent liabilities carried as such by the Treasury Department.¹

(b) Since an object of the Marshall plan is to restore private initiative in Europe to the extent possible, why put a lid or restriction on private investments, all of which would be aids in carrying out the national policy of reviving European industry? Limiting the amount of the guaranty to such a meager sum as 5 percent, or any other fixed percentage of the appropriation, might encourage a scramble to secure commitment of that limited amount, but it would correspondingly discourage any long-range program on the part of other possible investors who could not get themselves within the limits of the guaranty. If the principle of giving guaranties is sound, and it is, then give it full swing up to whatever limit Congress desires. One billion dollars is suggested in the initial stage, but this could be increased to any limit Congress desires, thus adding to whatever sum is appropriated by Congress to the extent that such guaranties are used, without direct appropriation from Congress.

"4. GUARANTIES LIMITED TO 14 YEARS.—The guaranties shall terminate not later than 14 years from the date of the enactment of this Act."

Explanation: The limitation of 14 years is taken without change from the economic cooperation bill as submitted by the State Department (sec. 7 (3)).

"5. INVESTMENTS OF CORPORATE SURPLUS APPROVED.—From and after the effective date of this Act for a period of five years thereafter, any investment made pursuant to this section, approved by the participating country and the Administrator, shall be deemed within the meaning of Section 102 of the Internal Revenue Code to constitute an investment within the reasonable needs of the company's business and a proper use of the earnings and profits of such company."

Explanation: There is a vast accumulation of capital available for investments contemplated in this section. These corporate earnings and profits which now confront the possibility of enforcement of section 102 of the Internal Revenue Code. Only such accumulations of surplus are permitted as are reasonably demanded by the needs of the business; the rest must be distributed as dividends, unless expended on plant expansions reasonably needed in the business of the company. In innumerable cases principal stockholders would receive no benefits from such dividends because they are already in the highest income-tax bracket. Opening an avenue for corporate investment of surpluses in Europe could relieve this pressure on corporate management and indirectly accomplish an objective of the Marshall plan through private investments.

"6. AMORTIZATION OF PLANTS.—Every person investing in plant facilities in any of the participating countries, whether or not such investments are subject to the guarantees herein provided, shall, at his election, be entitled to a deduction with respect to amortization of the adjusted basis (for determining gain) in lieu of depreciation in respect to such plant or facility, based on a period of 60 months. The 60-month period shall begin as to any such plant or facility at the election of the taxpayer, with the month following the month in which the facility was completed or acquired, or with the succeeding taxable year, except as hereinafter provided. The provisions of the 1942 Internal Revenue Act in respect to amortization deductions are hereby adopted and made applicable to the plants and facilities constructed in the sixteen participating countries save and except as follows:

"(a) In the case of a plant or facility completed or acquired after December 31, 1945, and before January 1, 1947, by a corporation, or a person other than a corporation, the taxpayer's election to take the amortization deduction shall be made by a statement in writing to that effect to the commissioner within six months after the passage of this Act.

"(b) The term 'emergency facility,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean any facility, land, machinery, or equipment, or part thereof, the construction, reconstruction, erection, installation, or acquisition of which in one of the participating countries was completed after December 31, 1945, in respect to which a certificate under sub-

¹ See Treasury Daily Statement, p. 10, Statement of Guaranteed Obligations. The Commodity Credit Corporation sometimes borrows from private sources, its obligations being guaranteed by the United States (act of March 8, 1938, as amended). Another example is the Federal Housing Administration guaranteed obligations, in which the mutual mortgage insurance, housing insurance, and the war-housing insurance funds are subject to outstanding obligations which are guaranteed by the United States (act of June 27, 1933, as amended, and act of March 28, 1941, as amended). Postal-savings funds due depositors are guaranteed by the United States (act of June 25, 1910, as amended). Also Federal Reserve notes, while secured by bank assets, are technically contingent liabilities under United States guaranties. There are also guaranties by independent Government agencies such as the Federal Deposit Insurance and the Veterans' Administration, and the Export-Import Bank, which guarantees some commercial loans made by private banks for exporting goods abroad.

section (f) of section 124 of the Internal Revenue Act of 1942 (CCH 949H) has been made.

"(c) 'Emergency period,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean the period beginning January 1, 1946, and ending on December 31, 1951.

"(d) In lieu of the certification to be furnished by the Secretary of War, or the Secretary of the Navy, as provided in section 124, subsection (f) of the Internal Revenue Act of 1942 (CCH 949H), the Administrator shall certify that the construction, reconstruction, erection, installation, or acquisition is advisable in the interests of European recovery during the emergency period. The certification shall be under such regulations as may be subscribed from time to time by the Administrator for the approval of the President.

"(e) The certification by the Administrator that the construction, reconstruction, erection, installation, or acquisition of a facility was or is advisable in the interests of European recovery during the emergency period shall have no effect in the case of any facility so acquired after January 1, 1946, and before December 31, 1947, unless an application is filed therefor within six months after the effective date of this Act, and for all other facilities unless an application is filed within six months from the beginning of construction, reconstruction, erection, or installation of such facility, or from the date of its acquisition, whichever is later.

"(f) The term 'certification of necessity,' as used in the Internal Revenue Act of 1942, shall be deemed for the purposes of this Act to mean 'certification of advisability' to be issued by the Administrator."

Explanation: The purpose of this section is to extend the benefits of the amortization deduction sections of the act of 1942 to plants constructed in Europe in aid of this act. If such amortization provisions were allowed for war-plant facilities, why should they not be allowed for the present emergency period of, say, 5 years? Instead of depreciation taken over a period representing the useful life of the plant or facility, the privilege of writing off the investment in a 5-year period by amortization would be a great inducement in helping to overcome the very great business risks attendant upon investment in Europe.

The requirement of a "certificate of necessity" would seem too strict because of the infinite difficulty of saying that any plant is necessary to European recovery. While the "necessity" for a war plant might easily be determined, in this matter a finding that the plant is "advisable" in the interests of European recovery should be adequate.

"7. As used in this section, the term 'person' means a citizen of the United States or any corporation, partnership, or other association created under the law of the United States, or of any State or Territory and substantially beneficially owned by citizens of the United States."

Add to the conditions precedent prescribed for countries accepting benefits under the act the following conditions as an additional paragraph at the end of section 10(b):

"9. In order to facilitate the effective operation of section 7(c) of this Act, each participating country undertakes (a) to give its full support to the terms of any proposal or private contract which such country may approve for the investment of funds pursuant to this Act, (b) to make no discrimination in its tax or fiscal policies between its own citizens and persons investing in projects in such country pursuant to this Act, (c) to either become a signatory of the International Trade Organization charter, or to comply with and fully cooperate with signatory powers in carrying out the terms and conditions of chapter 5 of said international trade agreement in respect to cartel agreements."

Mr. VORYS. Unless you have an objection to the type of guaranty, the difference between your endorsing a note and this type of guaranty is that in the case of the note you guarantee the note is going to be paid.

In the proposal in the bill all you guarantee is that, if the note is paid, it is going to be convertible in dollars.

Mr. LITTELL. I thank you for suggestion. I had not thought my way through to that.

Mr. JONKMAN. Then you would have the local currency in place of the dollars?

Mr. LITTELL. I beg your pardon, sir?

Mr. JONKMAN. The Government would have the local currency in place of the United States dollars?

Mr. LITTELL. Oh, yes. I presume that would be it.

Mr. JONKMAN. All you are doing is trading it for currency?

Mr. LITTELL. That is another answer, because you will not lose it in toto, you would have a soft currency instead.

Mr. KEE. Then our measure of liability there would be the difference in the worth of that currency at the time it was taken in as income, and its worth at the time it was converted.

Mr. LITTELL. That is an excellent point, sir.

Mr. VORYS. That is correct, but it seems to me that, looking ahead, one of the purposes of the Marshall plan and all of it, is to get that currency all over the planet, so that it is presently convertible into dollars, in that you break this present log-jam and have sound currency.

Therefore, if the plan succeeds, you are guaranteeing merely that the plan is going to succeed.

Mr. LITTELL. That is all.

Mr. VORYS. However, the weakness would be, that I just do not know enough about it to know whether that would be any inducement to business to proceed.

I think these tax advantages might be a substantial inducement, but the type of guaranty that is proposed, it seems to me would, in a few years, not be much of an inducement.

Mr. LITTELL. Mr. Thomas, sir, has a business totaling \$110,000,000 a year. He says it absolutely would be an inducement. He says that is the sort of thing that would make private enterprise go to work.

Mr. JONKMAN. What effect would it have on the stabilization of the currencies? All of the firms who had their currencies guaranteed under this guaranty would have dollar currency. It would equalize the value. Will you get into the same case as with the convertibility of sterling under the British loan?

Mr. LITTELL. It would have a tremendous impact in stabilizing currency.

Mr. JONKMAN. See whether you can carry that thing through. Then after all, would \$1,000,000,000 be enough? You are trebling the amount. That was the difficulty with the convertibility of sterling. It was converted so fast that it created a special currency.

Mr. LITTELL. Well, it is not the same because you are not immediately converting currency. A man must go in there and invest his money. Under these amendments he must go in and put up an industry and do all those things.

Mr. JONKMAN. I know, but if the guarantee is there it is like a reserve. At the present time we have a reserve and so it put the local currency on par value with the dollar.

Mr. LITTELL. Of course there are dangers here; no one doubts that. It is part of the calculated risk we are studying.

Mr. VORYS. If you build a factory in France under this guaranty, the only currency that has the same value as the dollar is the American corporation's share of the income. It is a limited part of the currency, and those particular francs are utterly unconvertible because the only person who can call on the United States for its dollar guaranty is the person to whom the guaranty runs, the corporation here.

Mr. JONKMAN. That is what I say. You are taking one segment of the currency and making it as good as the dollar.

Chairman EATON. Now, Mr. Littell, I am sorry we have interrupted you so, but we must take another recess.

(Recess taken.)

Mr. LODGE. Mr. Littell, I have just hastily glanced over your written documents here but I would like to call your attention to page 11 of the State Department's bill. I am trying to determine precisely the differences with respect to these guaranties, between your suggestion and this suggestion contained in this proposed legislation.

I find in item 2 of your remarks, on page 2, all you are aiming at is convertibility.

Mr. LITTELL. Precisely.

Mr. LODGE. That is all that is aimed at in subsection (i) of the proposed legislation.

I do not know whether you are familiar with this proposed legislation here or not, the State Department bill.

Mr. LITTELL. I assume that 4840 is the same as the State Department report that came over here, is it not?

Mr. JUDD. It is.

Mr. LODGE. You probably feel you have made this clear, but I would like to have you restate it if you will, for my benefit, as to what you consider are the substantial differences between your approach to this question of guaranty and the State Department's approach.

Mr. LITTELL. I will, indeed.

On the point you have just made I do disagree with the State Department in the quality of the guaranty, or the character of the guaranty; I agree that it should not be a guaranty of business risks as well as on what I am calling, for convenience, political risks, risks against actions of governments which would forbid the export of currency.

I know there is a big debate revolving around that point. I understand that Aldrich, of the Chase National Bank, who made a brilliant analysis of this foreign business in his September 15 address, has suggested that the guaranty be extended to business risks as well as currency risks.

Mr. LODGE. That would mean a guaranty of the capital investment, would it?

Mr. LITTELL. I have not seen his suggestion, but I have just been told this, that it would go much beyond a mere convertibility of currency.

Mr. LODGE. It would guarantee the principal amount?

Mr. LITTELL. Yes. Well, this does too. This guarantees convertibility.

Mr. LODGE. The Administration bill does not necessarily guarantee convertibility of the principal amount; it guarantees only convertibility of income up to the principal amount of the investment.

It says:

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

They could dispose of the whole item that way, could they?

Mr. LITTELL. Yes, sir. If they wanted to sell their property over there, or if Crane & Co. wanted to sell all their stock in that plumbing

corporation over there, where the capitalization is \$9,000,000, and Holland had closed down here controls so that you could not get foreign currency out, the Government guarantees Crane & Co. that it would be able to get its money back out. I use Crane & Co. only as an example.

Mr. LODGE. It does not necessarily guarantee the investment.

Mr. LITTELL. Oh, no.

Mr. JONKMAN. If income has already been paid out that would be subtracted from the sale.

Mr. LITTELL. The guaranty goes only to the extent of the investment, as I understand it.

Mr. VORYS. Would the gentleman yield?

Mr. LODGE. Yes.

Mr. VORYS. It just occurs to me that a transaction might be covered: that a plant is purchased, or a horse or anything else is purchased over there in dollars this week and if a guaranty were provided, it can be sold for lire, francs, and so forth, next week, and the whole proceeds of the sale would immediately be due under the guaranty.

Now, in some way or other, is it not that type of transaction that is contemplated here? The language of the bill is broad enough to simply guarantee that anything the person sells is going to be convertible into dollars?

Mr. LITTELL. That is right.

Mr. VORYS. Mr. Lodge, in your discussion, you call attention again to the fact that it is the principal amount.

Mr. LITTELL. And the earnings.

Mr. VORYS. The earnings that may run over a period of years, this is one thing, but the principal amount, that is another matter.

If, for instance, a factory were built in France under a guaranty that cost \$1,000,000.

Chairman EATON. That is \$1,000,000 capital from this country.

Mr. VORYS. Yes, \$1,000,000 capital from this country. If that was sold next year, just simply built and sold to French interests—and presumably full convertibility might not be available next year, but the full \$1,000,000 would have to be paid next year.

Mr. LODGE. It seems to me this is one more argument for the devaluation of foreign currency in order to bridge this gap between the legal and real value of foreign currencies, to the end that when you have a free market in foreign currencies, there will be no convertibility needed at all.

The guaranty would become almost meaningless because the convertibility would take place as a matter of course.

Mr. LITTELL. I understand that is true.

Mr. LODGE. I would like to ask you this, Mr. Littell: One of the defects I find with the administration proposal is that it protects future enterprises but does not protect enterprises already existing.

I do not propose that the investors already in these countries should have protection to the full amount of their investment, but it does seem to me that enterprises that have shown the staying power—and some of them have done it more as a public service than anything else—should not be discriminated against with respect to the convertibility of the income which they derive from these enterprises in foreign currencies.

To specify that even further, it seems to me if this provision applies, let us say, to an American newspaper, that it should apply as much to

the New York Herald Tribune as it would to some future newspaper which would go into this field in Europe.

Mr. LITTELL. I would abolish all discrimination when I come to the tax advantage, as to any future plants, and it also gives them the right of amortization, irrespective of whether they are under a guaranty, because I think they ought to have it.

I have not gone as far as you have now suggested.

Mr. LODGE. Would you agree that any guaranty provision we write into this legislation should be retroactive as far as the convertibility of the income is concerned, from foreign currencies into dollars?

Mr. LITTELL. I would be inclined, just shooting from the hip on that question, to say that that is a very fair suggestion.

I do not think I would go along with you if you went further and suggest the convertibility of capital. I am not saying I would do that on examination.

Mr. LODGE. I do not suggest that. I think those who are in should be induced to remain just as much as those going in should be induced to go in.

Mr. LITTELL. I think it is a very valid point.

Mr. LODGE. Under the Herter bill, the foreign currencies which are to be received as a quid pro quo for the amounts that are grants-in-aid, can be invested by the American administrator, in private enterprises in the recipient countries.

Now, would you suggest that those investments by the United States Government should also be subject to the same convertibility clause, both with respect to principal amount and income, and that therefore we should increase the guaranties beyond the 5 percent now written into the proposed legislation?

Mr. LITTELL. I think part of that suggestion fails as a matter of economic theory because it would amount to the Government insuring itself and it is always understood that the Government never buys insurance because it is the biggest thing there is and it is the biggest insurer there is, and it does not hire a smaller company to insure its risks. However, if you meant, Mr. Congressman, that the Government, with those funds, makes loans like RFC, loans to American companies and those companies in turn go back into business in that country, I would see no reason why that should not extend the guaranty to those second line loans with funds borrowed from the United States Government.

Mr. LODGE. Those will not be Government loans in that case?

Mr. LITTELL. They will not.

Mr. LODGE. The reason I ask that is because provision 15 of the Herter bill sets forth the proposal on foreign currencies, and the provision on page 16, which is subsection (e), seems to me not entirely clear on that point.

Subsection (e) states that—

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

I do not know how mandatory that provision is. It says "may direct," which would seem to make it permissive.

However, I wondered whether you would have any ideas on that particular aspect of the Herter bill, in order that we may get your opinion for the record.

Mr. LITTELL. I am grateful to you for the compliment of even asking me for that opinion, but as a matter of fact, Mr. Congressman, I have not been able to study this bill. It was all I could do, with the duties in my own office, to get through this other so-called administration bill, 4840.

Mr. LODGE. I am inclined to agree with you that since the problem presented here to us is one of dollar deficits and dollar payments, that when the Government guarantees the convertibility of its own investments in foreign currency, it really has very little meaning and if it were to direct the sale, it might very well cause these foreign currencies to lapse very dangerously on the market.

That would be a poor way to handle the situation, if we are to achieve what we want to achieve, which is a free market in foreign currencies.

Mr. LITTELL. That is right, sir.

Mr. LODGE. So you would feel, offhand, that insofar as we may provide that foreign currencies can be invested in private enterprise of the recipient countries, that they should not be convertible into dollars.

Mr. LITTELL. I think I roughly agree with you on that, Congressman. As a matter of impression, that certainly strikes me.

Mr. LODGE. I would just like to ask you once more if you could clarify for me, precisely what the difference is with respect to guaranties, between your proposal and the administration proposal.

Mr. LITTELL. Very well, let me try to do so.

The statement that I have submitted as my rough draft for the convenience of you gentlemen, is in the record, and we can discuss that as it is before us.

In the first place, I define clearly at the opening of the section, the objects of this section, added to section 7, at the end of the bill, H. R. 4840, saying:

In addition to assistance for participating countries provided in subsections (a), (b), and (c) of this section, the Administrator is directed to facilitate and secure the maximum possible assistance at the earliest possible date from private initiative and capital in the reconstruction and development of industry in the participating countries by giving to any person, as hereinafter defined, guaranties of investments in connection with enterprises in said countries, under the following terms and conditions:

1. Approval of private agreements and proposals: From and after the effective date of this act, persons, as hereinafter defined, who desire to make investments and loans in aid of such projects—

Interrupting the reading here, there are two types of enterprises, there are the unilateral proposals to go in and invest, like the Herald or the Tribune, and then there's the agreement like the Goodrich Tire partnership where they have a partnership and submit an agreement to the Government.

Mr. LODGE. Do you mean an agreement between an American private concern, and a local firm?

Mr. LITTELL. Precisely. Both of those examples I have given you were precisely that. The agreement itself was submitted to the Government for approval. [Continues reading:]

may submit to any participating country a proposal to invest in, or make loans in aid of any project or enterprise in such country or countries, or may negotiate any agreement therefor with persons engaged, or wishing to engage, in the business in such participating countries, upon such terms and conditions as said parties deem desirable, subject to the conditions as said parties deem desirable, subject to the conditions of this section, and after the approval of any such proposal or agreement by the participating country, the Administrator shall approve such proposal or agreement within 30 days after its submission to him unless said proposal or agreement is in conflict with this act, in which latter event the Administrator may disapprove of said proposal or agreement, or give his approval upon conditions that the terms of said proposal or agreement which are in conflict with this section shall be removed or corrected by amendment. Amendments to such proposals or agreements may be made and approved at any time in the same manner as hereinabove provided.

Mr. LODGE. These provisions in both these bills do not contain any hard and fast conditions. Therefore, any such proposal might not be in conflict with the provisions of the legislation, and yet it might very well be something which the Administrator would not feel like extending a guaranty to.

In other words, your suggestion is that he should have relatively little discretion in the matter. It would have to be in conflict with the provisions under the act, which, as now set up, are largely discretionary.

Otherwise, he has to approve. Does that seem to you to be a wise way to go about it? Do you feel that we should deprive the Administrator of that much discretion with respect to this guaranty provision?

Mr. LITTELL. There is an effort to emancipate the private enterprise approach from a complete bureaucratic control.

This idea appealed to your brother in the Senate, because he could see that there was no immense development of a bureaucratic staff under the Administrator to examine into the merits of all these enterprises.

Mr. LODGE. The idea is very interesting to me, Mr. Littell.

Mr. LITTELL. It might well be that you would wish to set up some simple criteria for the Administrator, having been on the Government side and knowing how the bureaus work.

If you give him the broad discretion, he will examine into the economic, social, legal, and all aspects of every enterprise that comes before him.

You will not get the Crane & Co. deal approved, you will not get the Goodrich & Co. deal approved, not for a couple of years.

Mr. LODGE. I do not disapprove of this idea, but to show you the other side of it, unless we write this legislation in a much more restrictive way than has been proposed it would be possible for fly-by-night concerns to obtain a guaranty.

Mr. LITTELL. I thought of that very point, and it might be covered by fixing penalties in the act for any subterfuge.

Mr. LODGE. I am in sympathy with the proposal, but I am simply trying to identify it in such a way as to make it as foolproof as possible.

Mr. LITTELL. I agree with you and you should, but directly we make the mistake of trying to surround an effort with so many protections that it emasculates the thing from the point of view of administration. That is what I was trying to avoid in this suggestion which might go too far. Maybe on further study I would agree we should qualify it in some way.

Mr. LODGE. If you were the Administrator of the program, this is the way you would like to see it?

Mr. LITTELL. That would make me free to approve it because you have these two guaranties. You have the fact that private enterprise is going in there with money, and all the business risks attendant; the guaranty does not cover the risks, you know, but only the convertibility of currency.

You have that safeguard. You have what you did not have after the last war, the Securities and Exchange Commission, who can help to catch any fly-by-nighter.

Thirdly, you have the protection of the participating country which is going to approve this thing. They do not like fly-by-night things in there either.

You can say, of course, out of an excess of caution, that we should not be content with their approval.

Mr. LODGE. That approval of the participating country is not provided in the Administration proposal as I recall.

Mr. LITTELL. They both have to approve it, sir.

That is one of the main differences. I try to emancipate this thing from the inevitable reviews of the social, economic, legal aspects of the Administrator who will have to have immense divisions set up to examine these projects.

Look how long it took to get RFC really going on a relatively simple proposition.

I do not mind his doing that on the main channel of the Marshall plan act. In spending the \$6,800,000,000 in public money, I think every protection should be given it. I think those projects should be examined carefully.

Mr. LODGE. I am thinking along the lines you have brought out. In other words, I am in sympathy with your desire to rid this thing of bureaucratic red tape. On the other hand, I would not want to set up these guaranties so that the funds could be drained off in spite of the opinion of the administrative conferee, by concerns which would contribute little or nothing to the recovery program.

Mr. LITTELL. There will have to be something very simple to prevent him opening up a vast bureaucratic review of the whole thing.

That will bog the whole thing down. There is this additional argument: You are in an emergency. It is like the war. We consider it so in this fight we are engaged in abroad. We can take the risk of a few of these fly-by-nighters. They do not compare with the substantial American interests that are interested in doing this job. I would be for taking that slight risk, rather than risk loss of that immense asset of private enterprise which we can have, in aid to the Marshall plan and trust the SEC to pick them up.

Mr. LODGE. I trust you will agree with me that there are many enterprising Americans who already have risked their capital and investment in western Europe, and who also are entitled to the same protection.

Mr. LITTELL. I believe I gave those figures before you came in. I pointed out that we had \$13,300,000,000 invested abroad as of May 1, 1943, the only date we have, of which \$4,000,000,000, sir, is invested in Europe, and \$4,019,000,000 are in Canada.

I pointed out we have 215,000 investors in this and curiously enough the average investment is \$10,000, and those investors live in every State and Territory of the United States.

Of them, there are 6,000 corporations, individuals and organizations who own 15,210 corporations—controlling interests in that number of corporations, which in turn control 54 percent of the assets abroad, or our assets abroad, at roughly the sum of \$7,500,000,000.

Mr. LODGE. If we applied the guaranties to those corporations with respect to convertibility of the currencies which they receive as income, we would either have to raise the percentage of the guaranty allowable, or we would have to raise the principal amount in the legislation, would we not?

Mr. LITTELL. I think the extension of the guaranty to the convertibility of their earnings would take more examination. Your interruption strikes me as fair. I do not think their earnings would be a frightening sum in the next few years.

Mr. LODGE. While we should have new ones come in, it seems to be the height of folly to not encourage those who are there to stay.

Mr. LITTELL. I have gone into that, and the amortization thing would carry back.

Mr. LODGE. However, it would not affect those who are considering getting out because of lack of convertibility.

Mr. LITTELL. It would not. I felt it would be presumptuous of me to state something like that. That is the policy of Congress to decide whether they wish to go that far.

Mr. VORYS. If there is 4 billion dollars, plus, invested in Europe, and hundreds of thousands of owners of that merely had to say, "We think we are going to get out," and thereby get convertibility of their income, it seems you are taking on something that does not get an extra dollar invested in Europe, which would be the only reason for our proceeding here.

Mr. LITTELL. A perfectly excellent point.

Mr. VORYS. I cannot see for the life of me where you would be justified in guaranteeing existing investments.

Mr. LITTELL. To a certain extent it would defeat your purpose.

Mr. LODGE. I think you have a good point, John, but I would point out to you that it is manifestly unjust.

Mr. VORYS. I do not think so at all.

Mr. LODGE. Not to give the same privileges of convertibility, at least with respect to income, to those concerns who have stayed in and weathered the storms of war and totalitarian aggression in one form or another, the trade barriers, the "iron curtains" and all the rest of it, but nevertheless who have stayed on the job?

Mr. VORYS. Is it not quite possible that they stayed in, some of them, because they could not get out, and there was no one to sell to?

Mr. LODGE. I think that is true.

Mr. LITTELL. Enlightened self-interest.

Mr. VORYS. Yes. I imagine there are a number of people who have had investments in Europe in the past 10 years who would have been glad to get out, if they could have gotten their money back; but that is water over the dam.

Mr. LODGE. Then do you propose we should not put in any such convertibility clause with respect to guaranties? In other words, we should not extend these guaranties to any enterprises already existing but only to new enterprises?

Mr. VORYS. I have not thought about it very profoundly, but it strikes me that it is a pretty serious proposition.

Mr. LODGE. It is something to consider.

Mr. LITTELL. May I submit this to you, Mr. Lodge: I think you would find those people exceedingly happy to find available to them a chance to retrench, improve, and consolidate their interests by guaranties for additional investments which, after all, is serving the main purpose of this act and the purpose of Congress.

They took their risk advisedly before, and a great many of them, for your information, have written off as lost, all of their properties in the war-torn areas of Europe, because they were permitted to do so under the income-tax laws.

Mr. LODGE. I think that is very true, Mr. Littell; as a matter of fact, to take one example, one reason the New York Herald-Tribune has not gone into Germany is because they have not been able to get convertibility of marks.

Even though they are already established in France, I would assume they could go into Germany and get convertibility of their marks, if this extends to Germany.

Mr. LITTELL. And it does not under this draft.

Mr. LODGE. But if the European recovery program does envelop Germany, they can do that.

Mr. LITTELL. I agree, and I feel that would be a very, very great encouragement to them.

That answers your question as to one difference.

The next paragraph is convertibility of earnings and investment into United States currency.

I would like to point out a slight ambiguity which was disclosed by our discussion of this section. We say guaranty should be limited to the transfer into the United States of dollars or other currencies or credit in such currencies, received by such person as income from approved investment or loan as repayment or return thereof, in whole or in part, or as compensation for the sale or disposition of all or any part thereof. If the party has received in earnings over the next 5 years, the amount of its capital investment, or say half of it—it puts in \$500,000 and has received back in earnings \$250,000 and the guaranty becomes a liability to United States Government, is it entitled to get back all of its capital or only \$250,000?

That I think should be clarified.

Do you get the ambiguity? It says the guaranty is limited to the amount invested.

Now, do you write off, of the liability of your guarantee, what is received in earnings, thereby reducing this \$500,000 investment to \$250,000, and then the liability matures against the Government.

Mr. LODGE. I understood the clause as meaning that you were guaranteeing the convertibility of income from sale or liquidation of the property only up to the amount of the investment.

Mr. LITTELL. I think that ambiguity is inherent here. I think it is susceptible of the other construction that the total amount the United States would pay out of this guaranty is \$500,000, no matter how it is paid out.

Mr. VORYS. In other words, if he got \$50,000 a year for 10 years after that he would get no more convertibility of the income, even though he did not sell or dispose of the property?

Mr. LITTELL. It is susceptible of that construction and you have now made legislative history on the meaning of this clause, and I think it is destined to be clarified, do you not?

Mr. JUDD. I think it means the exact opposite. I think it means the total amount he could ever get from income, savings, return, or whatever source, could not exceed the total amount of dollars invested. That is what I read.

Mr. LODGE. In other words, as I said, after he has received in income the total amount of the investment he receives nothing further.

Mr. JUDD. Then if he sold it for francs—whatever the francs were, he could not be guaranteed any convertibility on those francs because he had already received in income an amount equal to the total investment.

Mr. LODGE. If he did not sell, he would receive no more convertibility on his income.

Mr. JUDD. That is right.

Mr. VORYS. I think you will find that the testimony before our committee was, clearly, that it was a guaranty of the principal amount once, and that was all, and that any income was a payment on account.

Mr. LODGE. May I say that it is hoped under this legislation, that in the event a certain income is convertible over a certain number of years that at the expiration of that period there will have been such a stabilization of currencies in the participating countries that the problem will be a purely academic one.

Mr. LITTELL. Precisely.

The third point, the limitation on the total guaranties, we discussed in general. This reads:

The total liabilities assumed under such guaranties shall not exceed the sum of \$1,000,000,000. The full faith and credit of the United States is pledged to pay the guaranties herein provided for in the event that the liabilities hereunder accrue to the United States.

Now again I just pulled \$1,000,000,000 out of the air. As a matter of fact, in my speech which is in the record, my first impulse was to say that the total amount of these guaranties should at least equal the amount of our investment, say \$4,000,000,000. It is not necessary to put it up that high now. This is an experimental thing; Congress has never done it before; \$1,000,000,000 takes the lid off.

Mr. LODGE. There is another difference in that in the administration proposal it is limited to 5 percent of \$6,800,000,000, whereas in your proposal it would be an additional sum, or a sum additional.

Mr. LITTELL. Completely.

Mr. LODGE. It would not be so limited.

Mr. LITTELL. I would drive a wedge completely between the Administration's proposed appropriation and the administration of this private-enterprise clause.

It ought to be a separate and distinct enterprise, not all balled up and tangled up and interwoven with each other, either as to funds or administration.

Mr. JUDD. To the extent that private capital was invested, the amount of Government money invested could be correspondingly reduced by the Administrator, could it not?

Mr. LITTELL. We discussed that before you came in, sir.

Mr. VORYS. Could I remind the gentlemen that we have been retreading considerably, and while we want the gentlemen to have their questions answered, yet having them re-answered so often may not completely be necessary.

Mr. LITTELL. I would love to discuss that with you, because I hope it will not persuade you. I think it must be in addition. In the first place, you do not know that this is the equivalent of an appropriation. You do know that the appropriation can be used up rapidly and speed is the essence.

Mr. JUDD. I do not say he should reduce it accordingly; my point was it might become unnecessary to spend the amount authorized. To that extent he could use his discretion. To the extent private capital went in, the Administrator at his discretion could reduce the Government money invested.

Mr. LITTELL. I would say so later in the program. I think this first period is such an emergency thing, that that 6.8 billion dollars is so essential at the moment, but later on I have not the slightest doubt but what private enterprise will reduce your ultimate appropriation.

Mr. LODGE. Under the Administration proposal, part of the money is grants-in-aid. Part will be in inferior loans and part will be loans by the Export-Import Bank.

Now, have you dealt with the problem of the Export-Import Bank joining with a private American bank in financing a private enterprise going into one of these countries, or the problem of the Export-Import Bank and a private American bank and a French bank, let us say, joining in such an enterprise.

If you have dealt with that, please do not answer the question.

Mr. LITTELL. I have not in any statement before this committee. I have suggested in this paper that is in the record, that that is one of the things we ought to do, guarantee exports on a vastly greater scale than the Export-Import Bank can do under its restricted legislation.

The United Kingdom and Canada, too, have export systems which are working exceedingly well, plus export insurance. The export insurance in England has paid off well, largely because they charge the Russians plenty and they pay on the dotted line.

Mr. LODGE. It might work out this way, Mr. Littell; Mr. Martin of the Export-Import Bank testified that it was the policy to extend loans more to the people and less to the Governments. Let us suppose the Export-Import Bank extends a loan to the Marelli works in Milan. They would be able to have a business arrangement with RCA.

There might be all kinds of combinations that could be involved. Do you think those things should be spelled out in the bill or left pretty much ambiguous?

Mr. LITTELL. I think it should be spelled out and that the export-import law should be amended. They do not feel they can make loans now. They loaned \$23,000,000 to Italy, and Italy did wonderful work, as I am advised on officially and unofficially.

Mr. LODGE. The Fiat Co. received an \$11,000,000 loan that meant the difference between survival and going under.

Mr. LITTELL. Yes; and it meant essential capital-investment items of machinery and equipment. They could supply the labor, but it meant those essential equipments.

I know Mr. Thomas of Chrysler has provided some further equipment there.

The Export-Import Bank felt that it was bound to lend to countries.

Mr. LODGE. That is not what Mr. Martin told us the other day.

Mr. LITTELL. I am so glad to hear that, because I understood they had to loan it to the countries, even though it went right on through to private enterprises.

Mr. LODGE. At least he said they were proposing to do it increasingly with private enterprises.

Mr. LITTELL. If you could put any loans through those channels by all means it should be done.

Mr. VORYS (presiding). Are there any other questions?

Mr. LODGE. I have no further questions.

I think you have made a tremendously interesting contribution.

Mr. LITTELL. I am glad I could appear here and give my reflections as a citizen. There is nothing more fundamental going on in the country than this.

Mr. VORYS (presiding). The committee stands adjourned until tomorrow morning at 10 o'clock.

(Thereupon, at 4:40 p. m., the committee recessed until 10 a. m.. Wednesday, February 4, 1948.)