

Special attention is given to the recovery of stockpiles of materials which are in excess of requirements.

Material	Quantity (pounds)	Estimated value (dollars)	Additional possible recovery (pounds)
Aluminum ingots	100,000	2,000,000	100,000
Aluminum scrap	100,000	2,000,000	100,000
Aluminum wire	100,000	2,000,000	100,000
Aluminum sheet	100,000	2,000,000	100,000
Aluminum plate	100,000	2,000,000	100,000
Aluminum pipe	100,000	2,000,000	100,000
Aluminum rivets	100,000	2,000,000	100,000
Aluminum bolts	100,000	2,000,000	100,000
Aluminum nuts	100,000	2,000,000	100,000
Aluminum washers	100,000	2,000,000	100,000
Aluminum rods	100,000	2,000,000	100,000
Aluminum bars	100,000	2,000,000	100,000
Aluminum angles	100,000	2,000,000	100,000
Aluminum channels	100,000	2,000,000	100,000
Aluminum I-beams	100,000	2,000,000	100,000
Aluminum joists	100,000	2,000,000	100,000
Aluminum studs	100,000	2,000,000	100,000
Aluminum lath	100,000	2,000,000	100,000
Aluminum mesh	100,000	2,000,000	100,000
Aluminum screen	100,000	2,000,000	100,000
Aluminum fabric	100,000	2,000,000	100,000
Aluminum foil	100,000	2,000,000	100,000
Aluminum tape	100,000	2,000,000	100,000
Aluminum wire mesh	100,000	2,000,000	100,000
Aluminum wire cloth	100,000	2,000,000	100,000
Aluminum wire netting	100,000	2,000,000	100,000
Aluminum wire fencing	100,000	2,000,000	100,000
Aluminum wire mesh	100,000	2,000,000	100,000
Aluminum wire cloth	100,000	2,000,000	100,000
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(When the hearing was adjourned to reconvene on the following day, January 10, 1948, at 10 a.m.)



## EUROPEAN RECOVERY PROGRAM

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SATURDAY, JANUARY 10, 1948

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D. C.*

The committee met at 10 a. m., pursuant to adjournment, in room 318 of the Senate Office Building, Senator Arthur H. Vandenberg (chairman) presiding.

Present: Senators Vandenberg, Capper, Wiley, Smith, Hickenlooper, Lodge, Connally, George, Thomas of Utah, Barkley, and Hatch.

Also present: Senators Millikin and Thye.

The CHAIRMAN. The committee will come to order.

Mr. Ambassador, I just want to ask you one question before I turn you loose. Constant reference is made in connection with this plan to the National Advisory Council on international monetary and financial problems. That is the Council as I understand it which includes representatives of the Department of State, Commerce, and Agriculture, Export-Import Bank, and the Federal Reserve System, under the chairmanship of the Secretary of the Treasury.

### STATEMENT OF HON. LEWIS WILLIAM DOUGLAS, AMBASSADOR TO GREAT BRITAIN—Resumed

Ambassador DOUGLAS. Agriculture is not included. Otherwise it is correct. Agriculture is not represented.

The CHAIRMAN. As I understand it, you said that this Council would decide which portions of this total fund which is made available under this bill go for grants for loans.

Ambassador DOUGLAS. The Administrator, in consultation with the National Advisory Council, will make the determination.

The CHAIRMAN. And as I understand it, the only figure available on the division is a general estimate that the loans are calculated to be from 20 to 40 percent of the total. Is that correct?

Ambassador DOUGLAS. That is correct, sir.

The CHAIRMAN. Will you give me an example, just a hypothetical example, of what would be calculated to be a loan as distinguished from a grant under the terms of the bill?

Ambassador DOUGLAS. Let us take the case of a country that, out of its own resources, can repay. An extension of support to such a country would take the form of a loan.

Now let us take the case of a country whose capacity to repay certain things seems to be clear, but whose capacity to repay for the extension of support and for other things is not established. For example, let us



take certain types of capital equipment for a certain country whose capacity to repay everything that is extended to it for support is doubtful, but whose capacity to repay for capital equipment is clear. That would take the form of a loan.

The CHAIRMAN. Using 6.8 billion dollars as a hypothetical figure for the purpose of the inquiry, would it be appropriate to say that the 6.8 billion dollars is reduced in its ultimate charge upon the Treasury of the United States by that portion of the 6.8 billion dollars which goes into loans that are repaid?

Ambassador DOUGLAS. That is right, sir.

The CHAIRMAN. So that if 20 percent of the 6.8 billion dollars went into loans that are repaid it would ultimately reduce the 6.8 billion dollars by 1.3 billion dollars, or 1.4 billion dollars.

Ambassador DOUGLAS. That is right.

The CHAIRMAN. And if 40 percent goes into loans that are repaid it would reduce the 6.8 billion dollars and its ultimate impact on the Treasury by about \$2,750,000,000.

Ambassador DOUGLAS. That is right, sir.

The CHAIRMAN. So that the net burden of the 6.8 billion dollars, assuming that the loans are repaid, would come down to about 5.5 billion dollars under the low estimate, or down to about \$4,000,000,000 under the high estimate?

Ambassador DOUGLAS. That is correct, Senator. Somewhere within that area.

The CHAIRMAN. There is something you wanted to say, Mr. Douglas, before we start the cross-examination?

Ambassador DOUGLAS. I wanted to answer a question that was put to me by one of the members of your committee yesterday. The question, paraphrased, was whether I thought this plan of administration, as it affected overseas operations, would work. I hesitated in replying to that question because there were a number of factors that were running through my mind. The first was the one to which I referred; that is, the general difficulties of enlisting highly competent men with the breadth of experience that is necessary.

Another thing was running through my mind. There seemed to be a confusion between the language and the intention of the bill itself in respect of the appointing power. The intention is clear that the Administrator shall do the recruiting of the Economic Cooperation Administration officers in the overseas operations. The Secretary of State may also do recruiting jointly with the Economic Cooperation Administration within the Foreign Service Reserve, of men who are not now presently actively engaged. I am expressing now the intention.

The Secretary of State shall make the appointment. But the Administrator shall do the recruiting, except for the recruiting that may be done jointly with him among the Foreign Service Reserve people not now actively engaged.

One of the substantial reasons for placing the power of appointment in the Secretary of State is that he has the authority to place these individuals in the Foreign Service Reserve; and, as I indicated



briefly yesterday, there are certain advantages to the individual in being in the Foreign Service Reserve. I would like, if I may, to elaborate on that for a moment.

In the first place, in the major embassies the chief Economic Cooperation Administration officer would be a minister. It is so contemplated and intended. A minister, under the schedule of pay and emoluments, receives \$13,500 in salary, and a number of different allowances which bring his total compensation up to \$20,200.

But, more than that, as a minister of the United States he has a status in a foreign country, and a title, which someone outside of the Foreign Service would not possess. I wanted to clear up what appears to be something of a confusion between the language of the act and the intention itself.

In the smaller embassies the Economic Cooperation Administration officer would be a counselor, a class 1 officer, and his total emoluments and compensation would amount to approximately \$16,740. That could be, in certain instances, increased by \$1,500.

So that to be in the Foreign Service Reserve does have, or offer, inducements which I think it is doubtful could be offered on a comparable basis and in equal amounts to someone who is not in the Foreign Service Reserve.

I have indicated that in the major embassies, in major capitals such as London and Paris, the Economic Cooperation Administration officer would have the rank of minister, and in the smaller ones would have the rank of counselor. As to promotion, counselors who might be transferred from a smaller embassy to a larger embassy would thus receive, because of the transfer, a promotion both in pay and title, a promotion in title from the rank of counselor to minister, and a promotion expressed in pay from approximately \$16,000 to approximately \$20,000.

The question was raised also in this connection as to the source of pay. The pay of these Economic Cooperation Administration officers will be disbursed by the Secretary of State merely as an administrative matter. But the appropriation, the funds to defray the compensation and other emoluments of these officers, would come out of the money appropriated for the European recovery program, and it would be merely made available to the State Department for disbursement as a simplification of the administrative proceedings.

With that background I can say, after a clarification as to the confusion between the language of the act and an expression of intention, I believe, and I honestly believe, that this particular set-up in respect of the area of which I am speaking will work, that it will work more effectively than another scheme, that one can recruit into it abler people and more competent people because of the status and the emoluments which it provides.

Within the London Embassy, if I were still associated with it, I would like to arrange—to take an example—so that the Economic Cooperation Administration officer would hold the rank of minister—and that is contemplated—and would be in charge of all of the economic operations of the Embassy, for every phase of the economic life of the United Kingdom touches the European recovery program.



Already we are doing a great deal of work in the London Embassy which is related to the European recovery program. We would do that kind of work even if there were no European recovery program.

It touches volume of production, it touches costs of production in almost every major field in the industrial and agricultural life of the United Kingdom. It follows coal in great detail, one of the principal items with which the economy of the United Kingdom is concerned.

I wanted to answer the Senator's question after careful consideration and an examination and disclosure of all of the facts relating to it.

Senator LODGE. Mr. Chairman, I appreciate the candid way in which the Ambassador has answered this question and the way in which he has taken his time to think it over and not just give us a quick answer. I think it does him credit.

The CHAIRMAN. I understand his answer is "Yes."

Ambassador DOUGLAS. Precisely.

There is one minor point, Senator: You asked me yesterday about scrap, and the apparent discrepancy between the table which was introduced of selected items, which indicated \$2,000,000 worth of scrap which would be made available for the 16 participating countries—the discrepancy between that statement and the statement that no scrap would be exported from the United States. No scrap will be exported from the United States. But there is a lot of Army scrap steel in Austria, and that scrap which was included in the table to which the Senator referred would be derived from the scrap belonging to us which is already in Austria and which would be consumed in Austria.

The CHAIRMAN. Does that conclude your postscripts?

Ambassador DOUGLAS. That concludes the epilog.

The CHAIRMAN. Senator Connally?

Senator CONNALLY. Mr. Ambassador, about the appointment of these ministers, and so on, has the State Department now general law to authorize them to appoint as many ministers as they want?

There is nothing in this bill about it, is there?

Ambassador DOUGLAS. They have the power to appoint as many ministers as they want. But the organization of each embassy varies a great deal.

Senator CONNALLY. You mean that under the present law the Secretary of State can appoint all the ministers he wants at \$20,000 a year. Is that right?

Ambassador DOUGLAS. I am informed that that is correct, Senator.

Senator CONNALLY. It ought not to be. I do not know whether it is or not, but it ought not to be. Congress ought to have some say-so.

Ambassador DOUGLAS. I am informed, Senator, that the class 1 officers may be given the title of minister-consular, but the appointment of a minister requires confirmation by the Senate.

Senator CONNALLY. I know it requires confirmation. But that does not change the fact that you can make the appointments.

Ambassador DOUGLAS. But subject to the confirmation, Senator.

Senator CONNALLY. Oh, yes. But it should take something to get money out of the Treasury besides that.



You speak about recruiting from the Foreign Service Reserve. Are there not certain age limits and things of that kind that apply to the Foreign Service Reserve? Might you not run into some of those if you endeavor to recruit from that particular group people to do this work?

Ambassador DOUGLAS. The recruiting would not, and it is not contemplated that the recruiting would be, confined exclusively to the Foreign Service Reserve, by any manner of means.

Senator CONNALLY. It should not be, because you might want to bring in somebody from the outside with experience, and so forth. We heard a lot about wanting to run this thing according to business. That sounds awfully good, but this thing about a businessman in politics does not always work. I have known a number of cases in my State where: "Oh, yes; the chamber of commerce and leading citizens are going to draft a man for mayor; we want a businessman." I never knew one of them to ever get reelected, not one. Because there are types of men that fit certain things, and the other types fit something else. Because a man is a good hamburger merchant does not mean he would make a good mayor or a good governor.

I think you ought to have the liberty, however, to go out and pick these fellows other than the reserve, because the reserve might be a reserve to another group.

Ambassador DOUGLAS. Senator, it is contemplated that the great, great bulk of these people will be recruited from outside of the Foreign Service Reserve.

Senator CONNALLY. You say the Secretary of State and the Administrator consult. Suppose they do not agree? The Administrator would still have the authority to make the appointment, would he not?

Ambassador DOUGLAS. The Administrator could not make the appointment within the Foreign Service Reserve.

Senator CONNALLY. He could make it outside of it, or could he not?

Ambassador DOUGLAS. He could not.

Senator CONNALLY. He could not make it at all?

Ambassador DOUGLAS. No, sir.

Senator CONNALLY. So all these appointments are subject to the approval of the Secretary of State.

Ambassador DOUGLAS. The appointing power is in the Secretary of State, but the recruiting authority and nominating authority is within the Administrator.

You could not have two people appointing, having the authority to appoint, to the Foreign Service Reserve.

Senator CONNALLY. No. I know that.

The Secretary of State the other day spoke about the matter of the degree to which some of these countries in western Europe had come back. I understood him to say that in some of them the production was even greater than prewar. Is that true?

Ambassador DOUGLAS. I think I can give you a list of the production.



(The matter referred to is as follows:)

*Indexes of industrial production in the 16 ERP countries and western Germany, 1946, and September 1947, as percentages of 1938*

Country	1946	September 1947	Country	1946	September 1947
Austria.....	<sup>1</sup> 35	62	Portugal.....	( <sup>5</sup> )	( <sup>5</sup> )
Belgium-Luxemburg.....	90	<sup>2</sup> 101	Sweden.....	110	<sup>2</sup> 110
Denmark.....	97	104	Switzerland.....	124	<sup>4</sup> 128
Eire.....	110	<sup>3</sup> 109	United Kingdom.....	105	<sup>4</sup> 114
France.....	80	<sup>2</sup> 85	Western Europe, excluding 3		
Greece.....	55	<sup>4</sup> 70	western zones of Germany.....	89	96
Italy.....	51	81	Germany (3 western zones).....	28	<sup>2</sup> 40
Netherlands.....	75	<sup>2</sup> 85	Western Europe, including 3		
Norway.....	100	120	western zones of Germany.....	77	85

<sup>1</sup> Percentage of 1937.

<sup>2</sup> August 1947.

<sup>3</sup> Second quarter, 1947.

<sup>4</sup> Average for 1947.

<sup>5</sup> Not available.

Sources: Belgium, Denmark, Eire, France, Germany (United States and British zones), Netherlands, Norway, Sweden. Official indexes, published in United Nations Monthly Bulletin of Statistics, November 1947.

Austria, Luxemburg, Greece, Switzerland: DRE estimates.

Italy: 1946, UNRRA Mission, Rome; 1947, General Confederation of Industry, Italian Monetary and Financial Review, for September and October 1947.

United Kingdom: London and Cambridge Economic Series, May 12, 1947.

Weighted averages for western Europe calculated on basis of national income in terms of dollars of comparable purchasing power.

Senator CONNALLY. On page 3 of his testimony he says—

notwithstanding the fact that industrial output, except in western Germany, has almost regained its prewar volume, under the changed conditions this is not nearly enough. The loss of European investments abroad, destruction of merchant fleets, and disappearance of other sources of income, together with increasing populations to be sustained, make necessary an increase in production far above prewar levels.

Are we undertaking to do that? To go back and fix them up so that they can turn out more production than they did before the war? Is that one of our objectives under this bill?

Ambassador DOUGLAS. If they are to recover and to become a stable community they must produce more than they produced before. They have lost their foreign investments, they have lost a large part of their income from shipping, the population is very substantially greater, and on those three accounts alone they must produce more if there is to be a recovery.

In certain of the countries the level of production is estimated to be higher than it was before the war. But one has to examine that calculation of the increase in estimated production.

The important thing, Senator, is that this program is not designed to elevate the standard of living above prewar.

Senator CONNALLY. It is a temporary program. We cannot go on guaranteeing their prosperity and happiness the rest of our lives, can we? The theory of this thing is that we will do enough to let them get on their feet and then they can do it themselves. Is that not correct?

Ambassador DOUGLAS. That is precisely right, Senator. But because of the exactions which the war has taken and the change in their



circumstances which the war has produced, they cannot attain or cannot remain in an upright position on their feet unless they do, as a group, produce more than they produced before the war, and export more.

Senator CONNALLY. If any of their investments in foreign countries represented a surplus over and above their actual physical needs, I do not think it is a part of our obligation to restore to them all of their investments.

Ambassador DOUGLAS. No, Senator. It is not a part of our obligation to restore part of their foreign investments.

Senator CONNALLY. You keep mentioning it, and all the witnesses come around back to it.

Ambassador DOUGLAS. These foreign countries require exchange with which they can buy their necessary imports consisting of foodstuffs, raw materials, and other items to satisfy their own internal consumption and to produce the exports necessary to produce exchange. One of the sources of exchange—that is, of money—which produced or from which they derived their ability to buy the necessary commodities for their national economy, was the income from foreign investments, and to the extent to which the income from foreign investment has been reduced, to the same extent their capacity to buy the foodstuffs and raw materials from abroad has been reduced.

Senator CONNALLY. Therefore, we ought to restore their former investments? We might have difficulty locating them.

Ambassador DOUGLAS. I do not say we should restore their foreign investments.

Senator CONNALLY. That follows from your statement, it seems to me.

Ambassador DOUGLAS. No, Senator. I doubt it, sir. What is intended is that the amount of support from the United States shall be sufficient to permit them, over the period in question, so to increase their own production——

Senator CONNALLY. Some of them have already increased it more than prewar.

Ambassador DOUGLAS. And still they have a deficiency—that they can produce the exports from which they can derive the exchange necessary to purchase their essential raw materials.

Senator CONNALLY. You realize that we are going to have multilateral agreements, 1 multilateral agreement with all these 16 and then separate agreements with each one, and that the separate agreement supposedly will refer to the over-all agreement and make it a part of the individual agreement. Is that right?

Ambassador DOUGLAS. That is right.

Senator CONNALLY. In making up this 10-nation total, I asked a question of some witness the other day, and he did not seem to be able to answer it. Is it not true that the figures that were placed in the plan were determined as to each nation by its own group and not by a vote of the other members associated with it?

Ambassador DOUGLAS. That is substantially correct.

Senator CONNALLY. That is substantially true.

Ambassador DOUGLAS. Except for the reduction made by the group of the original tentative figures which, as I recollect it, was somewhere in the vicinity of \$29,000,000,000 to \$22,400,000,000.



Senator CONNALLY. That never got anywhere. But the \$22,000,000,000 did get somewhere. The final form in which they submitted it was for \$22,000,000,000, was it not?

Ambassador DOUGLAS. \$22,400,000,000, as I recollect it, inclusive of capital equipment which they anticipated would be purchased through financial operations with the International Bank or through some other source.

Senator CONNALLY. Is this reduction from \$22,000,000,000 down to \$17,000,000,000 or \$19,000,000,000, made by the whole group, or was each individual country reducing its own estimate?

Ambassador DOUGLAS. That was made by the United States Government through various committees involved in screening the requirements on the one hand, and the calculation of the available supplies on the other.

Senator CONNALLY. That is all right. We made them. The group did not make them, did they? The 16 nations did not make those reductions?

Ambassador DOUGLAS. No, sir.

Senator CONNALLY. We made them, or suggested them.

Ambassador DOUGLAS. That is right.

Senator CONNALLY. Do you apprehend any difficulty of seeing that these nations carry out their pledges, other than the final sanction of trying to cut off relief?

Ambassador DOUGLAS. No.

Senator CONNALLY. You think they will endeavor to live up to their obligations?

Ambassador DOUGLAS. I think they will endeavor to observe faithfully the commitments which they have made. And we already have evidence of their intention so to do.

Senator CONNALLY. Of course, their promises, all that I have seen, have been of a general character. I do not mean to infer that they are not sincere about it, I do not mean any reflection on their integrity. But you can make a promise of such a general character that it is very hard to get a hold of it and put it into concrete form. I assume that you intend that the Administrator shall always be suggesting and aiding and telling them how he thinks it would improve their condition. Is that true?

Ambassador DOUGLAS. That is right, sir.

Senator CONNALLY. He certainly ought to.

Ambassador DOUGLAS. That is right, sir.

Senator CONNALLY. I believe that is all for the present.

The CHAIRMAN. Senator Capper?

Senator CAPPER. I have no questions.

The CHAIRMAN. Senator George?

Senator GEORGE. I would like to ask one or two questions.

Mr. Ambassador, yesterday you estimated the amount of any sum appropriated for the fiscal year 1949 after the first 15 months, for capital equipment. Did you not?

Ambassador DOUGLAS. Yes. I put it in terms of percentages.

Senator GEORGE. What was the percentage?

Ambassador DOUGLAS. Between one-sixth and one-seventh.

Senator GEORGE. That almost of necessity would measure the advances that would be repaid in money.



Ambassador DOUGLAS. Not necessarily, Senator, for there are certain countries that may want to buy commodities other than those which fall into the category of capital equipment.

Senator GEORGE. That is with the countries that have the money.

Ambassador DOUGLAS. That is right.

Senator GEORGE. But generally speaking it would be the capital equipment that you would expect to repay.

Ambassador DOUGLAS. No, Senator. There are several countries included in this group of 16 that I think we could fairly say at the present have the capacity to repay, regardless of the type of commodity or item which they might purchase.

Senator GEORGE. You would not expect any of these countries to which aid is to be given to do any independent trading, would you, with outside sources of supply?

Ambassador DOUGLAS. I would expect that some of them would, Senator.

Senator GEORGE. You would expect that ordinary trade, as it has been traditionally carried on, would continue during the period when this assistance is being furnished?

Ambassador DOUGLAS. To the extent to which it is possible, yes, Senator.

Senator GEORGE. Do you not realize, Mr. Ambassador—I know you must realize—that you are introducing a wholly new system of trade and commerce through state operation?

Ambassador DOUGLAS. Senator, in the administration of this particular program it is contemplated that to the very maximum extent the arrangements for trade and the actual conduct for trade and operations will not be through governments but through private agencies.

Senator GEORGE. You mean the Administrator will handle it in that way?

Ambassador DOUGLAS. He will to the very maximum possible, and it is so contemplated.

Senator GEORGE. I wanted to get around to that because as I read this bill, Mr. Ambassador—and I followed your explanatory statement as carefully and as closely as I could, yesterday—but as I read this bill the Administrator seems to me to be in an impossible position because he is subject to the Secretary of State with respect to everything which affects foreign relations.

If you should construe affecting foreign relations liberally, you would pretty nearly cover the whole field.

I raise the question because it has seemed to me to be fundamental from the very moment we started to consider this matter. I do not myself see how there can be an effective administration under the machinery set up under this bill, unless you can assume that you have a Secretary of State and an Administrator with but a single thought, and then that almost reduces your Administrator to a robot, does it not?

Ambassador DOUGLAS. I would not think so, Senator. The Administrator under the plan as it is contemplated would have very great powers over the business administration of this operation.

Senator GEORGE. That is true. But in the definitive provision of the bill it is expressly stated that with respect to matters affecting foreign relations he shall be subject to the Secretary of State.

Ambassador DOUGLAS. Yes; you are quite right, sir.



Senator GEORGE. I can see that where there is a perfect working understanding between an experienced Administrator and the Secretary of State that the program might work out very well. But you have to pardon me if I raise a very serious question and doubt on that point.

Ambassador DOUGLAS. I can understand the source of the Senator's doubt. It is my conviction, my opinion, Senator, that in respect of matters of foreign policy, certainly major matters of foreign policy, the Administrator should be subject to the direction and control of the Secretary of State.

I am sure you recollect the vast amount of confusion that was caused here at home and in certain foreign countries during the war when instrumentalities of our Government were established, when the lines of authority in respect of foreign policy between them and the State Department were not defined.

The definition of that jurisdiction over foreign policy, it seems to me, must be clear, particularly, Senator, since the European recovery program is one of the important instruments of foreign policy.

Senator GEORGE. I recognize that. I think perhaps the committee very fully appreciates that.

Ambassador DOUGLAS. I am sure you do.

Senator GEORGE. But it seems to me that we are making the foreign policy really on the recommendation of the Secretary of State, and the President, who is the one through which the Nation must operate in the field of foreign affairs. We are making it in the passage of the legislation, in the setting and in providing for the necessary machinery for its administration. However much the Administrator must consult from time to time, and however thoroughly every proposal which he is asked to aid and assist, or to carry out under this act is screened before it reaches him, he then becomes absolute except as the Secretary of State may modify his program because of the international aspects of the policy involved.

Ambassador DOUGLAS. Yes.

Senator GEORGE. It seems to me that—and I say it with great deference because I raised this issue with Secretary Marshall, or tried to, and undertook to emphasize precisely what the chairman stated yesterday—that the faith of the American people in this program is going to depend upon its full confidence in the preservation and application of the funds appropriated under this act. That means there must be somebody to whom Congress can directly look and can directly hold responsible for the conduct of the administration of this act.

Ambassador DOUGLAS. Certainly it is not contemplated that the Administrator should not report to the Congress on his operations and be subject to—

Senator GEORGE. Reporting, Mr. Ambassador, is one thing, and any direct responsibility to the Congress and therefore to the people through the Congress, is quite different. Any number of reports may come in.

Ambassador DOUGLAS. And be subject to examination by the Congress.

Senator GEORGE. Yes; subject to examination. But then, if it is a matter in which the Administrator's judgment has been controlled by the Secretary of State he, of course, is absolved from any respon-



sibility in the administration of the funds with respect to that particular matter. It seems to be otherwise, but I realize the difficulties in working out the machinery for this administration of the program.

Ambassador DOUGLAS. As I stated yesterday, regardless of how the Administration is set up it is necessarily complicated. The alternative to reserving authority, as it now is contemplated, over foreign affairs, is to make the Administrator absolutely independent, and that would result in there being two Secretaries of State.

Senator GEORGE. Not necessarily. I think the policy is made right here in the legislative branch of the Government with the assistance of the Secretary of State and the President. I think there is your policy, and I do think there is some way to work it out where it can be administered without this necessary conflict of authority of power that will arise under this bill as I see it.

If the Administrator is not to perform a purely perfunctory position. But that is just my view of it, and it is the first time that I have given thought to it. It seems to me to be vastly important in this whole scheme.

Ambassador DOUGLAS. There are two general phases of the problem, Senator. One is the phase that is directly related to foreign policy. The other phase comprehends a vast variety of different business transactions, the purchasing, coordination of purchasing, the allocation and distribution, the determination of that which shall be loans and that which shall be grants, and as I said, a very wide area of operations that do not and ordinarily would not affect foreign policy. And in respect of those matters the Administrator's jurisdiction is clear.

But on the other hand there may be certain changes in the foreign policy, in the status, the condition of certain countries. There may be certain changes in the complexion of the world if administered in one way by an Administrator that would seriously affect the foreign policy and the security and the national interests of the United States.

More than that, to elaborate a little bit, the Administrator would also be concerned with the effect upon the internal economy of the United States, of doing one thing or of doing a number of different alternatives.

It is not contemplated that the Department of State would construe that necessarily to affect foreign policy. There would be many such matters, which is one of the reasons why the State Department, the Secretary of State, is convinced that the Department should not take over the administration of this.

The State Department is concerned with foreign policy, and it is not equipped to make final judgments about the effect of certain actions which the Administrator might take upon our internal affairs. But there are those two poles, Senator, which I know you recognize.

You remember during the war one board that was set up caused a vast amount of confusion within the United States and a vast amount of confusion in other parts of the world because it was not subject to control of the State Department in respect to foreign affairs and foreign policy—the Board of Economic Warfare.

Senator GEORGE. I recall that. I appreciate the difficulties involved, but at the same time I simply have to express any doubt that this scheme will work out in actual administration.



Going back to the question of distinction between grant and loan, I take it from the language of the bill that the primary and fundamental thing is really the ability of the recipient country to repay.

Ambassador DOUGLAS. That is the primary criterion, Senator.

Senator GEORGE. That seems to be so from the text of the bill itself. I presume, however, that the purpose for which the advance or loan is made will have much to do with the determination or whether or not a grant or a loan should follow.

Ambassador DOUGLAS. It may enter into the consideration.

Senator GEORGE. I say it may enter into it.

Ambassador DOUGLAS. Yes; that is right.

Senator GEORGE. And very probably so.

Ambassador DOUGLAS. That is right.

Senator GEORGE. But the actual basic distinction, so far as this act seems to cover it at the moment, is the ability of the recipient countries to repay without defeating the purposes of the act.

Ambassador DOUGLAS. That is right, sir.

Senator GEORGE. I have no further questions, Mr. Chairman.

The CHAIRMAN. Senator Wiley?

Senator CONNALLY. Mr. Chairman, would it be all right if I asked just one question in connection with what Senator George has been asking?

The CHAIRMAN. Senator Connally.

Senator CONNALLY. Mr. Ambassador, if the Secretary of State is to be consulted about foreign matters, suppose he and the Administrator do not agree that a particular thing involves a foreign matter? What are you going to do about that?

Ambassador DOUGLAS. Go to the President of the United States.

Senator CONNALLY. Go to the President. You are going to bother him about that. All right.

Ambassador DOUGLAS. He is the ultimate source of Executive authority under the Constitution and the acts of Congress.

The CHAIRMAN. Senator Wiley.

Senator WILEY. Mr. Ambassador, yesterday there was some idea brought up as to the number of additional employees it would take. In other words, how many, in your judgment, would have to be put on the Government pay roll to administer this project?

Ambassador DOUGLAS. Overseas, Senator, it has been calculated, as I recollect—and I hope somebody will correct me—it will be somewhere in the vicinity of 400.

Senator WILEY. And in this country?

Ambassador DOUGLAS. Five hundred in the ECA in the United States.

Senator WILEY. It would mean an additional figure of probably a thousand.

Ambassador DOUGLAS. Nine hundred, roughly.

Senator WILEY. Yesterday, in the analysis of your charts, I think I followed generally and understood them. My problem arose at both ends. It arose in this country. Let me cite you an example.

Recently there came into my office a gentleman who said that he already had been informed or given certain data because part of this project is under way, that there was certain machinery that he would probably be called upon to bid on. Being a practical man, he wired



his European agent, who told him the blueprint or data for this machinery that he was called to make an estimate on was totally not the right kind for the job in Europe. This is a very responsible man that told me this, and a good patriotic citizen. He said, "I need the business, of course, but I do not want to have America going forward in deals like that."

Now, the point I am getting at, at this end of the line, if you get an order from Europe, siphoned through the Ambassador or through the organization there, it comes out here. That should, of course, be definite in detail and so forth. But that is not the way it seems to be working right now. There seem to be some planners over here that are planning what Europe needs without consulting Europe.

Ambassador DOUGLAS. I have no knowledge of that situation, Senator. I am quite positive that no steps have been taken of any sort to set in motion any operations.

Senator WILEY. Any machinery that Europe needs?

Ambassador DOUGLAS. Not under the European recovery program, sir, because that has not become law. There is no authority whatsoever to take any such step. It is possible that something of that sort might have occurred under some loan that might have been extended.

Senator WILEY. Whatever it is, it cites a situation I think that was fully covered by the chairman yesterday when he told how the American people expect us to see to it that whatever we do is done in a way to protect the American dollar and at the same time see that when that dollar is spent for Europe that the European gets 100 cents on the dollar for it.

I will be glad to follow through your suggestion, I think of yesterday, that you had something you would like to say in executive session to us.

Ambassador DOUGLAS. I appreciate that very much.

I am quite positive that nothing, no step whatsoever of any sort, has been taken, and no specifications have been made of any particular type of machinery to be made by the United States that would become available for Europe.

Senator WILEY. Do I understand that the needs of Europe would be filled as a result of on-the-ground investigation, and then that would come through here, and the Administrator then would take that bill of goods, so to speak, and fill that bill of goods, and it would be shipped to Europe?

Ambassador DOUGLAS. After it had been reviewed very carefully with experts, yes.

Senator WILEY. If that is the case, who would look after getting the machinery? That would be the Administrator's job. But who would see to it that there were not mistakes as happened in recent years?

Ambassador DOUGLAS. So far as the procurement of the specific article is concerned, after it had been approved by the Administrator, it might very well take the form of a contract between some agent of a foreign country and an American producer, with the understanding that the Administrator would, having all the facts in his possession, honor the bill.

Senator WILEY. Then to protect the American dollar, and to protect the people on the other side to see that they got what was



coming to them, that would be the function of the Administrator?

Ambassador DOUGLAS. That is right, sir.

Senator WILEY. Then you would have 500 additional helpers on this side to look after the spending of that \$6,700,000,000 and you would have 400 on the other side to check up on the European distribution of it?

Ambassador DOUGLAS. That is right. The performance of the respective countries, the economic condition of each one of the countries, what is transpiring in every phase of their economic life. We are, for example, in London doing a great deal of that work and have been since I arrived, even without any additional help.

Senator WILEY. I know. But there have been statements here to the effect that we want to be so careful that we do not step on the toes of the Europeans and their sovereignty. It is common knowledge that throughout all our aid programs a great deal of it hit the spot, hit the target we were hitting for. That is the thing I am trying to get into. How are we to have assurance that what we have determined to do, either by the Secretary of State or by the Administrator, or the joint action of both, how are we to have assurance that our plans are carried through? I think that the American people are entitled to know as far as possible how we can guarantee performance when we undertake the job.

Do you see what I am getting at?

Ambassador DOUGLAS. Surely. That is the function of the administration, the Economic Cooperation Administration.

Senator CONNALLY. A calculated risk.

Senator WILEY. It is not a calculated risk if we spend 90 percent in getting over 10 percent. It is not a very good calculated risk.

Ambassador DOUGLAS. I think it is fair to say, Senator, that our previous appropriations for relief have not been wasted. I think you were perhaps not here yesterday when I indicated what the increase in the national income had been in the 16 participating countries, probably as a result of the relief that has been expended and extended to them. Had that relief not been extended no one can say what the effect, or what the consequences would have been.

More than that I think it is fair to say that some of the relief program was not coupled with, and associated with, the type of conditions, the commitments and undertakings, that will be associated with the European recovery program first; and secondly, there has been, in respect of relief, a different system administration than here proposed.

So that the commitments and the undertakings of the recovery program are different, and the administration is different.

Certainly, as you have said, as the chairman has very expressly said yesterday, this administration must be of a business character and of the highest competence, and I intended in referring to, I think the fourth principle, to include precisely that when I referred to the competence of the small group that must administer this program.

Senator WILEY. Mr. Secretary, yesterday you repeated several times the possibility that without the requested assistance the recipient countries are in danger of succumbing to the police state. While I agree with you as to the danger, has careful consideration been given to the resistance which these countries, without aid, could offer to the totali-



tarian pressure? Is it true that communism is receding in Europe at the present? Has it not been successfully resisted behind the iron curtain by such countries as Yugoslavia, Finland, and in western Europe by Belgium and some of the other participating countries?

Ambassador DOUGLAS. It has not, I think, successfully been resisted behind the iron curtain, Senator. One has but to look at the developments in Poland, where those associated with resistance to the encroachment of the totalitarian state have been compelled to flee in exile, and one can refer to other countries behind the iron curtain in which much the same circumstances prevail, and much the same consequences have resulted.

Indeed, I think it is fair to say that behind the iron curtain today the totalitarian conception of the organization of society is growing and not waning.

In the western part of Europe it is true that Belgium and others have resisted, and so far successfully. At the moment it seems that the organized efforts to seize power in some of the countries is being resisted with substantial success.

But I think it is fair to say, Senator, that that capacity to resist, the determination to resist, is in large measure derived first from the interim aid bill which the Congress enacted, and, secondly, from the prospects of congressional approval of a recovery program.

Senator WILEY. The newspapers indicated that the Communist-inspired strike in France has caused a loss of production equivalent to two-thirds of the aid provided for France until April. Is there any danger that Communist-inspired strikes during the next 4 or 5 years may succeed in nullifying our aid? What is your judgment on that?

Ambassador DOUGLAS. There are two questions I think you are putting: The estimate of the cost to France of the organized strikes, presumably designed, if not to seize power, at least to interfere with the production of France, and thus to create chaos and confusion. I have no carefully calculated estimate, but I believe it is less than the figure to which you refer. Most of it is in local currency. But there are losses in other respects, too.

Secondly, as to what we may expect in the future, I would anticipate that endeavors would be made to frustrate the recovery of western Europe. We have seen them before, and I would doubt that they would be absent in the future.

I am perfectly clear in my own mind that the endeavors to frustrate the recovery of western Europe will have far greater chance of success if we do nothing or do something inadequately.

Senator WILEY. You have been pretty close to the scene over there. What I had in mind was this: From your personal contact with it, do you feel that the French people as a people are getting fed up with communism or that they are still amenable to a lot of the arguments and impacts of the Communists?

Ambassador DOUGLAS. I think at the moment, Senator, the wave of Communist influence in France is receding. But they come in waves, Senator. They are in part reflections of internal circumstances and conditions. For it is in an atmosphere of confusion and chaos, privation, that these ideas—I think as I said to the committee once before—seize men's minds. And I am quite certain that the interim aid bill and the prospects that the Congress will approve a European recovery program, have stiffened the resistance and added



fiber to the character of the resolution of the people in western Europe.

Senator WILEY. Both you and the Secretary have testified that there are certain elements of risk in this venture. Yesterday you indicated what you hoped would be the results from the European recovery program. How far is this program a gamble? Is there any danger that communism will eventually conquer the recipient countries and thus all American aid which has been contributed to the rebuilding of the economies of the participating country, will it actually have gone to the building of the totalitarian communism?

Ambassador DOUGLAS. Of course, there is that danger, Senator. Some of the countries in the Western Hemisphere are not entirely removed from or insulated against that danger. But I would suggest that should that occur, should the old totalitarian conception of the organization of society spread throughout Europe and become dominant, the cost to us would be, as a result, very great.

Senator WILEY. That is, you admit, no one has a crystal ball.

Ambassador DOUGLAS. No one has a crystal ball. There are difficulties, Senator. Senator Connally has referred to some of them this morning, and they were referred to yesterday afternoon. But I believe it is in our national interest to take the risk and I am confident and believe strongly that if we, as the Secretary said, have the will to carry it through, then we can expect that it will be carried through to a success.

Senator WILEY. I think the Secretary and you both emphasized the other thing, that there had to be the will of the recipient countries and a spiritual rebirth in those countries.

Ambassador DOUGLAS. That is right, sir.

Senator WILEY. And without those two factors whatever we did would be a very small fraction of what was necessary to accomplish the result.

Ambassador DOUGLAS. That is right. But they are interrelated, Senator. In an atmosphere of despair, the will to resist diminishes. In an environment of hope, the will to resist, to carry on, to rely upon one's own initiative, one's own industry, is increased.

We already have examples of the will to succeed. The performance in France recently approved by the Assembly, the legislative body, is a very clear indication of the determination of the present French Government to bring order out of a dislocated and dilapidated fiscal system.

And there are other things to which reference has been made which point up the same conclusion.

Senator WILEY. The report of the CEEC countries anticipates an increase in trade with eastern Europe. You also indicated yesterday that our aid estimates are built in part upon the assumption that that aid will be forthcoming from eastern Europe. To what extent is this a reasonable gamble, and to what extent is it a pious hope?

Ambassador DOUGLAS. It was not calculated, Senator, upon the receipt by the western European countries of aid from eastern Europe. It was calculated upon the assumption that the normal trade relations with eastern Europe, upon the expiration of the period in question, would have been restored.

Our specific program contemplated, as I indicated yesterday, the receipt in the 15-month period in the western European countries of



coal in the amount of 23 million tons from Poland. I think it is reasonably certain that coal will be delivered.

Britain has trade arrangements with the Soviet involving a delivery of a fairly substantial amount of coarse grains. Other trade arrangements are in process of being negotiated.

Senator WILEY. In this connection, Mr. Ambassador, it has been intimated by both you and the Secretary that certain things ought to be disclosed to this committee in executive session. I take it that relates to the foreign relations. That goes, it seems to me, to the point of whether or not it is the judgment of people like yourself that the whole program here simply means that we have served notice not only on the recipient countries but on Russia that from here on we do not retreat.

If that is the case, what is your judgment as to what such a step like that means to the Russian mind?

Ambassador DOUGLAS. I think the Secretary in his speech, after his return from the Council of Foreign Ministers, referred to the vacuum which the war had created in western Europe, and to the difficulties of arriving at any real peace settlement until that vacuum had been filled and the stability, economic and political stability, of western Europe had been restored.

Senator WILEY. Do you want to particularize on the meaning of the word "vacuum"?

Ambassador DOUGLAS. I attempted yesterday morning to show you how the war had dislocated the economic system of western Europe, and how the war had weakened—we hope temporarily, and we have reasons to believe temporarily—the traditional political institutions of western Europe.

Senator WILEY. Didn't it imply that there was no possibility of the meeting of minds?

Ambassador DOUGLAS. The Secretary?

Senator WILEY. Yes; by that. A meeting of minds between the American viewpoint and the Russian approval?

Ambassador DOUGLAS. I suggest we are getting into an area of discussion, Senator, which, if it is agreeable to you, could perhaps best be discussed on another occasion.

Senator WILEY. That is what you said before.

How far will the European recovery program contemplated serve to support the propaganda libels made abroad to the effect that the United States is imperialistic and is merely using the recovery assistance as the means of extending its financial controls over Europe?

Specifically, what steps, if any, are contemplated to fight these and other similar misrepresentations? How far, for example, is it contemplated the Voice of America program will be geared to the European recovery program?

Ambassador DOUGLAS. Again I think there are two questions in the question you put.

It is my belief that if western Europe recovers stability, its political institutions, and health in its economic life, an enduring peace can be established. As to the propaganda which comes flowing out of the eastern part of Europe and the steps which this Government is undertaking to combat the propaganda, first let me say that I think the propaganda will be directed and leveled against us no matter what we do at the moment.



Secondly, there is I believe, a bill pending before Congress, which contemplates or has as its objective, arming the Government with more powerful weapons than it has previously had available to it, for the purpose of disseminating the true and real ambitions, intentions, of the United States, of its character, the character of its people and its country. Only truth, Senator, can, from our point of view, be effectively used against the dissemination of misrepresentation.

Senator WILEY. The basis of my question was whether, in your opinion, the putting into effect of this particular project would add fuel to the fire of Russia's misrepresentations.

Ambassador DOUGLAS. There is certainly plenty of fuel of a fabricated kind, and of an artificial kind, that probably will be piled upon the flames. But I think that will happen irrespective of what we do, Senator.

The implication of your question is interesting. It infers that certain people do not want western Europe to recover, and that any efforts made by the United States to support their recovery will be frustrated by the devices to which you refer.

Senator WILEY. I do not know what you meant by that statement of implications. If you want to read that implication into it, it is satisfactory to me. I had no such idea in mind.

My idea is this: We are living in a practical world and I remember two world wars that we got into. I remember step by step how we proceeded down the line, and I, too, want to evaluate everything that is going on, sir.

Ambassador DOUGLAS. Surely.

Senator WILEY. It is my responsibility as well as yours.

I notice in the bill that the United Nations is mentioned. While this in a sense purports to support the United Nations, is there any danger that the European recovery program will be construed as bypassing the United Nations by the United States and the participating countries and to what extent will it thus be interpreted as a vote of a lack of confidence in that organization?

Ambassador DOUGLAS. I do not see how it can be taken as a bypassing of the United Nations, or as a vote of a lack of confidence in the United Nations, Senator. This program originated with 16 European countries.

Senator WILEY. I understand. You have answered it, sir. I am glad to have your answer.

It is explained that production loans will be made to foreign industries. If so, how will the interest and amortization payments be used? How far will the United States Government be able to use the returns for purposes subject to its decisions?

Ambassador DOUGLAS. In respect to loans made in dollars, the United States would be repaid in dollars, and the dollars would be covered into the "miscellaneous receipts" of the Treasury of the United States.

Senator WILEY. It has been said a good many times that there is inadequate appreciation abroad of what the United States is doing—I think you know that that is a fact—and that in many instances people have come to look upon this type of service as an obligation which the United States must perform.

Let us assume the worst. If America loans and contributions do not result in good will toward the United States should they be dis-



continued? Can we afford to discontinue them even if they do not purchase good will?

Ambassador DOUGLAS. Senator, the question presupposes that the purpose of the program is to purchase good will. The purpose of the program is to lend outside support to the efforts of the 16 European countries plus western Germany, to achieve a lasting recovery, a firm and solid recovery, and if, in the doing of it we derive good will, so much the better.

But the primary purpose is not, as I understand it, necessarily to achieve, to obtain a return expressed in good will.

The other objective is the major and primary objective.

Senator WILEY. In the interim aid bill there was written in a provision that the President might terminate the assistance to a country when he found that a contribution or assistance did not conform to the security and the interests of the United States. Has any thought been given to the possibility that a similar provision might be required for the European recovery program? Is this desirable?

Ambassador DOUGLAS. There is, in section 3, of course, a limitation which reads: "Any country" and so forth "wholly or partly in Europe, including its colonies and dependencies is a participating country within the meaning of this act while it remains an adherent to a joint program for European recovery designed to accomplish the purposes of this act."

That is to say, as long as these countries remain a part of and adhere to the joint program they are eligible within the meaning of the act.

The CHAIRMAN. I would like to supplement Senator Wiley's question, if he has no objection.

Senator WILEY. Go ahead.

The CHAIRMAN. I think the Senator is pursuing the same inquiry which interested me yesterday. Namely, that this bill must categorically sooner or later state that the continuity of our aid is contingent upon the continuity of the delivery of the objectives of the bill.

Ambassador DOUGLAS. That is right. I read section 10 (b) 3 in that connection.

The CHAIRMAN. You can keep on reading the bill, Mr. Ambassador, and you will not find the things that either the Senator from Wisconsin or the Senator from Michigan are looking for.

Ambassador DOUGLAS. You may be right, Senator. It is certainly implied in the language, as you indicated yesterday.

Senator CONNALLY. It is implicit in the whole plan.

Ambassador DOUGLAS. It is implicit in the whole plan.

Senator CONNALLY. If they do not go along, we will cut them off.

Ambassador DOUGLAS. I do not think there is any objection, Senator, certainly to strengthening the language. I think we indicated that yesterday.

Senator WILEY. That is all.

The CHAIRMAN. Senator Thomas?

Senator THOMAS. Mr. Chairman, I do not want to ask any questions, but I do want to make one comment. I meant to make it the first day, but I was called out, so it is probably late, but I have not changed my mind even after all this discussion.



I think that the channel of direction in the organization that you have set up in the bill is so confusing that it ought to be remedied and ought to be made clear. If you cannot make it clear in the bill, it surely will never be clear in the administration.

It is all very well, Mr. Ambassador, to say that we cannot have two Secretaries of State. We say it quite glibly, and then we invite other governmental interests into the administration of this bill. I say you cannot have two administrators and have it successful. I say you cannot have two Secretaries of the Treasury. I say you cannot have two Secretaries of Commerce.

I believe, and I repeat it again, that the channel of direction must be made so clear that there can be no question about the authority and about the order, or else we will have confusion from beginning to end.

Ambassador DOUGLAS. I am glad to have your comment, Senator.

The CHAIRMAN. Is that all?

Senator THOMAS of Utah. That is all.

The CHAIRMAN. Senator Smith?

Senator SMITH. Mr. Ambassador, there are a few things that have occurred to me in the course of your testimony that I think it may be worth while emphasizing for the record, so that they are cleared up.

I may say that the questions I am going to ask you are based on points that have been raised by people with me in attacking me on my position supporting this program.

Some discussion came up yesterday—I think Senator George brought it up—with regard to Secretary Marshall's intention when he said we should take all or nothing, or something to that effect, and maybe you answered that this morning before I came in. I was a few minutes late.

Ambassador DOUGLAS. I said yesterday afternoon that the Secretary did not say "take it all or nothing." He said, "Meet the requirements of the problem, or do nothing at all." which is quite a different answer.

Senator SMITH. I am in accord with that, and my understanding is that one thing he meant was that he would not try this for a year. It is a 4-year proposition to bring this order out of chaos. In other words, so far as we are concerned, it is a 4-year plan so far as we can see today. It is at least that in order to make any program at all. It would not be adequate to say, "We will go along 1 year, and then we may decide whether or not we will go along any further." You are interested in having this authorized as a 4-year program.

Now, on the question of the \$6,800,000,000, while that is your considered judgment that that is the right figure, you are thinking there in terms of the so-called length of the rope. What we want is an adequate rope. If it should appear from further discussion, further evidence, or from any evidence the Congress may have that the rope ought to be \$7,000,000,000, or it should be \$6,000,000,000, instead of the exact figure you give, if it is agreed that that is the adequate rope, your emphasis is on the word, "adequate"?

Ambassador DOUGLAS. Right.

Senator SMITH. And not on the figure you demand as the figure we must take or leave.

Ambassador DOUGLAS. Senator, there is no demand.



Senator SMITH. I am using that in quotation marks.

Ambassador DOUGLAS. We have given you our best calculation of the minimum amount necessary to achieve the results for which the program is designed.

Senator SMITH. Am I right in saying that what you are emphasizing, with which I agree, is the word, "adequate" so far as the length of time that we ought to try this, and adequate so far as funds are concerned?

Ambassador DOUGLAS. That is quite right, sir.

Senator SMITH. My second point is this, Mr. Ambassador. I feel an enormous responsibility as a member of the Foreign Relations Committee in voting a measure like this out. Obviously, it is one of the most important decisions any of us will have to make in our entire lives, perhaps. It may determine the future of our country, the future of the world. I think we are all agreed on that. And yet we are in a very difficult situation. No one of us will be competent to take all of these figures and with a sharpened pencil go through them and arrive at a conclusion where we can say to any question, "I am satisfied myself. I have made all the calculations myself. I have investigated every source," and so forth, "and this is the right answer."

What we have to do is to really give a vote of confidence to the groups that have been assembled to check these figures and to simply say, "I am satisfied from the evidence presented that this was checked through by the best possible experts that could be assembled."

If that is the case, I hope the record is going to show, as has been suggested heretofore, the names of those whose work has been relied on in your presenting the figures. I assume you have not been able to analyze all these things personally, and get at each last figure. You had to use the judgment of experts.

The next point I would like to have made clear, if we can, is the method used and the sources used for the information on which the conclusions were based. They may be guesses pulled out of the air, or they may be from recognized sources of information that we have all relied upon.

I think it would be proper for the record to clearly show that when we are deciding here and making our hopes, we have relied on this panel of people who have made these conclusions, these commitments, and we have relied on the methods they have used as well as their own ability and integrity. I think that is terribly important in this whole connection if we are going to have the American people believe that we have intelligently approached our responsibility.

Ambassador DOUGLAS. I will be glad to put that in the record, sir.

Senator SMITH. I think it is important to have that in, and I assume it would be, but I want to emphasize the importance of it.

The next refers to this Paris Conference. As I said yesterday, I was abroad while it was going on, and I was over there after it was over and I was impressed with the fact that that group met and did a very outstanding job in a reasonably short period. I would like to know from you if you are satisfied that the sources of information that they used in determining their needs and so forth, their balances and all that, were authentic, or whether they were either guesses in the dark, or whether they were simply put in in order to bolster up their respective cases.



Was there any suspicion on your part, for example, that it was simply a list of bills to put up to Uncle Sam, and that sort of thing? I want to make that clear at some point in the record.

And let me ask this further question: During the Paris Conference, can the records show that there was no interference, no dictation, no suggestion from the American Government or any individuals, any of you who were over there? You may have been called in later, but during the conference itself, it was a self-generated movement by those 16 nations themselves to develop this program of mutual aid, mutual sacrifice and mutual concession in order to bring about their own salvation?

Ambassador DOUGLAS. As to the first question, Senator, within 10 weeks, a short period of 10 weeks, these 16 countries, plus western Germany, comprising the second greatest industrial area in the world, did put together their estimated requirements, what they could do for each other, what they could do for themselves, and the amount of external support needed. The task, in essence, was a task in one sense of planning the economy of that vast, complicated, intricate, and sensitive area. I think the task that was achieved within 10 weeks was extraordinary. It would be equally extraordinary if there were not some mistakes in it. A planned economy is, I think, beyond the capacity of the minds of men properly to regulate and run. And this report that came out of Paris was the best that the 16 nations could produce within the period involved.

That has been subsequently screened and, as it was indicated, reviewed and studied in the light of availabilities and the light of requirements by the United States Government, and as indicated yesterday, was very substantially reduced.

The figures, of course, are estimates, and the Administrator, in the administration of the act, under the authority vested in him, will have to make adjustments that are necessary in the light of the changed conditions and the re-review of the specific items, facts, and evidence.

Senator SMITH. But can you, yourself, from your knowledge of the personalities and your contacts, which I understand you had ultimately with this group that made these figures, say that it is your judgment that this just was not a rush to see how everybody could get the maximum amount out of Uncle Sam?

Ambassador DOUGLAS. It was not, in my judgment, a letter to Santa Claus.

Senator SMITH. That is what I wanted to get clear, because I am charged with that constantly: "Well, here you are, just approving a letter to Santa Claus, and then you are cutting it a little just to make it look nice."

Ambassador DOUGLAS. These 16 countries, after having been in session, after having been participants in the conference for a substantial period, did not have the view or the purpose of preparing a straight list, let us say, of gifts from a friendly country. They earnestly endeavored to do the best sort of a job that could be done within the time involved. And there were many very competent men involved in the calculation.

Senator SMITH. And concessions had to be made by the different countries to make the rounded picture?

Ambassador DOUGLAS. I do not understand that question.



Senator SMITH. Concessions had to be made by the different countries which would be something less than they might individually have desired?

Ambassador DOUGLAS. Oh, indeed.

Senator SMITH. In other words, I am trying to show that this was a cooperative plan.

Ambassador DOUGLAS. It was a cooperative plan in that sense, Senator, and it was a cooperative plan in terms of the commitment which they made to each other, to which reference was made yesterday afternoon.

Senator SMITH. That is what I want to bring out. It was a cooperative plan for the restoration of all of western Europe, and not simply a plan of each fellow out for himself to get the maximum out of it.

Ambassador DOUGLAS. It was based upon knowledge and understanding, and the acceptance of the view that only the efforts and energy and industry of these countries could finally bring about the objective which they had in mind.

Senator SMITH. That leads to my next question: You said in your testimony yesterday that it was our hope to restore the productivity and so forth of Europe prior to the war. When you use the word "restore" I take it you do not intend to restore what has been called the luxury of excessive nationalism that they enjoyed prior to the war.

Ambassador DOUGLAS. The emphasis which I placed upon the commitments which they made to each other was because I wanted to indicate that the nationalism, the growth of nationalism in western Europe, and indeed elsewhere throughout the world has been, in my judgment, one of the causes of the confusion and chaos, and indeed it has contributed much to the outburst of two great wars.

Senator SMITH. I agree with you entirely in that.

Ambassador DOUGLAS. Keynes called it, you know, "The Serpent in our Paradise."

Senator SMITH. Then is it a fair statement that the act of Paris, which I look upon as a really extraordinary event, the 10 weeks' conference in Paris, and the movement into this kind of cooperation, may well be looking toward a stronger economic federation of the countries of Europe than anything we have seen heretofore?

Ambassador DOUGLAS. That is right, sir.

Senator SMITH. I think it is important for us to have that in mind, because so many people are saying, "Why don't you demand the immediate setting-up of a United States of Europe before you do anything for them?"

My reply has been that that will be what we hope to see ultimately, but we are moving by this process more effectively toward that than if we demand something that cannot be accomplished overnight.

Ambassador DOUGLAS. That is quite right, Senator.

Senator SMITH. I come to another question which has been embarrassing, too. We have discussed the question of the \$10,000,000,000 that we have already given in aid in one form or another to these foreign countries since the war, and the wasting of that \$10,000,000,000. We have the outstanding case that is always thrown up to me, because I supported the British loan, that the \$3,500,000,000 to Britain was wasted.



Now, from your immediate knowledge of the situation there, I would like for the record a little comment from you on that. I can recall talking to you about it when I was in London. I would like to have a brief comment from you on the question of whether our \$3,500,000,000 that we loaned to Britain was completely wasted.

Ambassador DOUGLAS. I recollect, Senator, my conversation with you in London. I recollect the question you put to me when I testified before this committee in regard to the interim-aid legislation.

The loan was not wasted, Senator. There were certain factors, unforeseen at the time the loan was made, which had the effect of a more rapid exhaustion than was contemplated of the dollars extended to Britain in the loan. The adverse trend of trade was one of them. The slowness in the recovery of western Europe, which affects Britain and her exchange position; the depressed state of affairs in southeastern Asia, which was one of the great sources of dollar earnings for the United Kingdom as well as other areas; and convertibility of sterling all exhausted dollars much more rapidly than was anticipated. Sterling was actually made convertible on July 15, because the provisions of the loan agreement required it. Those are the principal reasons for the more rapid exhaustion of the loan than was contemplated at the time it was made.

There are those who refer to the exhaustion of the loan on account of the purchase of tobacco and the importation of films and the remission back to American film producers of their earnings in Britain. Compared to the magnitude of the loan they are speaking of but a drop in the bucket. I have forgotten the figure with regard to tobacco, but the net drain of dollars on account of films was something in the vicinity of \$60,000,000 a year, and the two items put together are but insignificant in the total.

There is another factor which I would like to discuss with the Senator on another occasion, if I may.

Senator SMITH. Mr. Ambassador, what might have been the consequences if we had not made the loan to Britain? We may get a positive picture here by realizing that we did do something very constructive in answer to the people who are saying that this loan was money thrown down, as the expression is, a rat hole.

Ambassador DOUGLAS. If the United States had not made the loan to Britain, the standard of living in Britain would have fallen very substantially. It is low now, lower than it was during the war. The volume of imports of Britain other than foodstuffs would have fallen. The volume of exports from Britain would, as a result, have fallen. The whole fiscal and social condition of Britain would have been far more disturbed than even it has been. Expenditures in one part of the world or another would have been necessarily reduced or extinguished, and the consequences to the United States would, I think, have been very great and adverse.

Senator SMITH. With a very much weakened associate in what we are trying to do now, probably.

Ambassador DOUGLAS. Yes.

Senator SMITH. That leads me to another question that bothered me, probably because of my lack of expert knowledge in the field, and that is the question of financial stability. It is difficult for me to see how we are going to get these nations on their feet with the kind of



currency conditions that I ran into in my trip last summer, the so-called soft currency, and while I assume you would not pose as a financial expert, I am wondering how you visualize the immediate reformation of the currency situation so that some of these accomplishments can be brought about. In other words, how are we going to deal with this soft-currency situation in order to bring about trading between these countries in these set-ups we are discussing?

Ambassador DOUGLAS. I can answer in broad steps, Senator. One of the first essential steps is the drastic measures aimed at bringing budgets into relative balance. Secondly, as a result, there has to be an internal reformation, certainly in these countries, of their whole currency operations. There has to be a cessation of the issuance of indebtedness and currency by the central banks of issue.

Those steps having been taken, or being in prospect of being taken, the foreign-exchange rate will have to be adjusted, for many of these currencies are overvalued. And once those steps have been taken, once they have been taken and they are accompanied by an increase in production and exports, we can expect that currencies generally will become more and more stable.

Senator SMITH. Can you give us very briefly a set-up to tackle that problem? Have these countries got a special committee that is working on that particular problem and trying to get some order out of the chaos?

Ambassador DOUGLAS. There was a committee working on multilateral exchange clearances, and in respect of some of the countries an agreement to that effect has been made and is now in operation.

Senator SMITH. I am glad to get that information.

One more question, Mr. Chairman.

You referred yesterday to the fact that the ultimate sanctions are with us. That comes back to the whole question that Senator Vandenberg and others have raised, that somewhere in this bill we are going to have some provision that unless they attain the targets they have agreed to attain periodically, our aid would not go beyond that point. Is that the idea you had when you said the ultimate sanctions were with us, and we could call off the aid at any moment we felt we were not getting sincere cooperation in the whole program?

Ambassador DOUGLAS. It was contemplated if there was any clear breach of the undertaking, for which an individual country was responsible, and in regard to matters over which it had control, there might be either a withdrawal or a reduction of the assistance.

Senator SMITH. That would seem to imply, then, at the beginning, that we set up a sort of a quota for the different countries, and if all the countries except country X appeared to comply, they would get their quotas and country X would not get its quota if it had fallen down unreasonably. Is that the way we contemplate the set-up?

Ambassador DOUGLAS. That is substantially true.

Senator SMITH. We are going to figure on quotas, then, right from the beginning, so that the countries can know in a general way what their credits are going to be in money or commodities.

Ambassador DOUGLAS. That is substantially right.

Senator SMITH. I think we would have to do it that way if we are going to have a check on our targets of production. Whether or not that should be spelled out in legislation is one of the questions that



troubles me, but I do not want to feel that we are committing ourselves in this legislation and have not got the right to say to a country, "If you do not perform, you do not get any more help."

Ambassador DOUGLAS. It is certainly contemplated that in case any country fails to meet its undertaking, the United States reserves the right to determine the extent of any additional aid, if any, which it may receive in the future.

Senator SMITH. I have one more question that may be considered rather minor, but it has been urged on me by some friends of mine who are in the technical publishing business. The technical publishers are quite concerned over the whole development of this plan, and the importance of technical skills, both by individuals and by information. And I am wondering whether your program contemplates technical publications into Europe with regard to the way things are done in this country and the latest up-to-date methods, and so forth.

Ambassador DOUGLAS. The bill provides for making available technical assistance. I would presume that that language is broad enough to include—yes, it includes technical information.

Senator SMITH. I would assume that was the case, but I wanted to ask the question so that if we are going into the technical field, we will cover the entire field.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Barkley?

Senator BARKLEY. Mr. Ambassador, I would like to clear up the historical sequence in regard to this conference that was held in Paris following Secretary Marshall's Harvard speech.

As I understood it, the Secretary's speech was prompted by the fact that since the war we have, in one way or another, been dealing with individual countries in the matter of loans, grants, relief, and so forth; except in UNRRA and post-UNRRA there was a European picture that was somewhat uncoordinated. But the Secretary felt that that sort of piecemeal assistance could not continue indefinitely, and that therefore it was incumbent upon these European nations to make a survey of their own condition, what they could do for themselves in the first instance, what they could do for their neighbors in the second instance, and if there was any need beyond that, what we could do.

And based upon that suggestion, the Foreign Ministers were called together with the view of trying to have this European conference; that is, the three Foreign Ministers. We took no part in that conference, directly or indirectly. And as a result, the Soviet representative, Mr. Molotov, left and would not participate.

Thereupon, Mr. Bevin and Mr. Bidault invited all of the European nations, of which 16 accepted and met in Paris.

During the preliminary consideration of the object of the meeting, we took no part whatever in order to avoid even the appearance of trying to superimpose our views on them, so as to let them work it out themselves on their own ground. We did not participate, or were not called in, until they had reached a tentative figure on their own basis. It has been referred to as some \$29,000,000,000. Then we did begin to take part in the discussions to determine what sort of report would be made or request would be submitted, and even after the \$22,000,000,000 had been suggested as a minimum our participa-



tion then became a little more active, and as a result it was reduced below that, and our participation from time to time resulted in the final figure, or estimated figure, of \$15,000,000,000 to \$20,000,000,000.

Is that about the situation as it developed over there?

Ambassador DOUGLAS. Senator, that is substantially correct, sir. The United States actually never participated in the conference itself. After the original tentative figure had been arrived at there was consultation with the executive committee in the form of friendly advice and assistance, to which the Secretary made reference in his Harvard speech. That friendly advice was continued in the form of two or three meetings with certain representatives of the CEEC, until a final report had been drafted. But essentially the report that emerged from the Paris Conference was the report of the 16 participating countries.

To what extent they accepted, or whether they chose to accept any friendly assistance or guidance that might have been given, was entirely within their freedom of choice. But the United States never actually sat in and participated in the conference itself.

Senator BARKLEY. Yesterday you were asked how the \$6,800,000,000 figure was arrived at, and I understood your answer to be in substance that it was arrived at by subtracting from a larger figure in contemplation the possible assistance that might be given in the way of loans or materials from certain Western Hemisphere nations. I thought I discovered some discrepancy in my own mind. I would like to clear that up.

You referred to a figure of \$800,000,000 and also a figure of \$7,442,000,000, from which was subtracted this possible help, which arrived at the \$6,800,000,000. There is a gap there in my own mind that I would like to clear up, because the subtraction of \$800,000,000 from \$7,442,000,000 does not reach the figure of \$6,800,000,000. I would like to, if possible, clear that gap in there as to those figures.

Ambassador DOUGLAS. If I may just review those figures, Senator, for a minute: The deficiency in the balance of payments, was based, in regard to selected items, upon a careful calculation of the requirements of each item, each commodity. That total deficiency with Western Hemisphere countries amounted to \$8,527,000,000.

There was an uncovered deficiency of the bizon of Germany with nonparticipating countries in the amount of \$200,000,000, making a total of \$8,727,000,000, and from that figure there was deducted \$1,285,000,000 which consisted of three items: \$700,000,000 being the estimated amount of assistance to be given directly or indirectly by Western Hemisphere countries other than the United States; \$500,000,000 that would be derived from the International Bank, the Export-Import Bank, and private lending institutions; and \$85,000,000 from other participating countries. That left \$7,442,000,000.

Then there was subtracted from the \$7,442,000,000 a figure amounting to \$822,000,000 on account of the appropriation for Germany to prevent disease and disorder, leaving a total of \$6,620,000,000.

During the 15 months' period there will be obligations which will have to be undertaken for which funds will be spent later. That amounts to \$200,000,000. Thus the total is \$6,820,000,000, and we put it at \$6,800,000,000.



Senator BARKLEY. I must have missed one of the three items you referred to because in my mental calculations I could not arrive at \$6,800,000,000 by subtracting \$822,000,000 from \$7,442,000,000.

I appreciate your clarification of that.

With reference to the jurisdiction of this administration, I have a feeling that it is just as impossible to draw a straight line between what may affect our foreign relations and what may be purely a business administration, as it is to draw a straight line between government and economics, or politics and economics. One affects the other and I, at least, cannot visualize a blueprint fixed up in advance as to which is which, always dependent on the circumstances that arise.

Let us suppose that this legislation is enacted, with this amount or some amount regarded as adequate, and the question arises as to the proportion that any country, country A or country B, would be entitled to under all the circumstances and the conditions existing in the two countries. The denial of one country of what it thought it was entitled to, and the awarding of a larger amount to some other country, might affect our relationship with that country, one or the other.

While the making of the loan or the grant is a business proposition, it is based upon the mechanics of the transaction alone. Yet if it has any effect upon our relations as a country with one of the other countries, it does affect our foreign policy and our foreign relations. In a situation like that, if it should arise, who would have the determining voice, first as to whether it affected our foreign relations?

Ambassador DOUGLAS. The Secretary of State.

Senator BARKLEY. If there was no question arising as to whether the loan or the grant, or the proportion of either, given to one country as compared to the other, if the question of our foreign relations between our country and either or both of them did not arise, and it was purely a business proposition, based upon the economic conditions that may exist there, it would not involve the Secretary of State and the Administrator would determine that?

Ambassador DOUGLAS. That is right.

Senator BARKLEY. Is that a fair estimate of the possibilities of the situation that may arise growing out of this complicated, rather double-headed, proposal in regard to the Administrator and his jurisdiction, and the Secretary of State and his jurisdiction?

Ambassador DOUGLAS. That is right.

Senator BARKLEY. Am I going awry there?

Ambassador DOUGLAS. No; you are not, sir. In the latter case, in the case of a loan, there would have to be consultation with NAC.

Senator BARKLEY. Of course we would not have autocratic jurisdiction to determine it without consultation with the NAC.

Ambassador DOUGLAS. That is a very fair conception.

The CHAIRMAN. Senator Hickenlooper?

Senator HICKENLOOPER. Mr. Ambassador, early in your presentation yesterday you referred to the historic economic trade sources and sources of economic income of Europe as a triangle from Europe to the United States to southeast Asia, and that out of that general triangle came a volume of raw materials and a return flow of manufactured goods which made up a substantial portion of the income and the economy of western Europe and our own, as a matter of fact.



In Secretary Marshall's statement—I do not have it before me at the moment—as I recall, he said that the exports of western Europe now are almost equal to their import requirements. I think the statement is approximately that clear.

Ambassador DOUGLAS. I do not recollect that, Senator.

Senator HICKENLOOPER. I will try and get the statement. I just do not have his statement before me at the moment. Perhaps one of your assistants can find it.

Ambassador DOUGLAS. Here it is right here, Senator. At the bottom of page 3, Senator, and I think you have the same copy that I have before me, the Secretary referred to the point as follows:

Inability of the European workshop to get food and raw materials required to produce the exports necessary to get the purchasing power for food and raw materials is the worst of the many vicious circles that beset European people.

Senator HICKENLOOPER. As I recall the statement, that is not the statement that I was referring to. I think it is practical to present that at the moment, but nevertheless for the purpose of my question, I do not think I have to quote it now.

You also refer to the fact that this raw-material flow into western Europe, and the return flow of finished products to other areas in the world, was a most substantial part of the European economic existence level, or prosperity level, prior to the war. And I think you also said that there were certain either invisible or other visible sources of acquisition of raw materials and trade balances which made up the necessary amount to maintain the European level before the war, such as, perhaps, India or Africa or other places in the world. In other words, there were two sources that sustained the prewar European level of economic sufficiency. One was the raw-material sources in this great triangle trade area, and the other were certain outside increments that contributed to their level of economic prosperity. Did I understand you correctly on that?

Ambassador DOUGLAS. Substantially so, Senator. I was using the chart as an illustration.

Senator HICKENLOOPER. Yes.

Ambassador DOUGLAS. Not necessarily of a triangular relationship, but of a multilateral relationship.

Senator HICKENLOOPER. I understood you to indicate that a substantial portion of the European economy prewar did come from other places in the world. Let's take India, for instance.

Ambassador DOUGLAS. Southeastern Asia; yes.

Senator HICKENLOOPER. Africa, by way of illustration, and many other places, where raw materials or goods were either received, or acquired, or material sold.

Ambassador DOUGLAS. What I intended to say, Senator, if I did not say it clearly, was that the European countries had to import raw materials and they exported finished articles, and that trade throughout the world provided them with the exchange with which they could buy the raw materials; that there were certain parts of the world—and I referred to southeast Asia—which were dollar earners; Indonesia, for example, on the one hand, and Sumatra on the other. Those were areas which could be cataloged and characterized as colonies.

In addition to those items of income which permitted them to buy the raw materials which they needed, there were invisible sources derived from foreign investments, services, and shipping.



Senator HICKENLOOPER. Yes.

Well, it is the invisible sources of income that I am concerned with at this moment.

Ambassador DOUGLAS. And the invisibles or income from investments and services performed to shipping and things of that sort.

Senator HICKENLOOPER. I am convinced that the ultimate objective of this European recovery plan is to reestablish western Europe especially on a level of economic recovery that was somewhat comparable to prewar, so that they could support themselves and so that they could go forward and progress.

Meanwhile, since war started, and after the termination of the war, some great disruptions have occurred in other parts of the world so far as the sovereignty of nations is concerned, so far as the previous accessibility of certain European nations to the sources of raw materials are concerned.

Some countries have become independent; others have become less economically sound than they were before the war, and I am concerned as to where, in this recovery program, that invisible increment of economic recovery of Europe is going to come from.

We propose to furnish relief; we propose to furnish certain raw materials to the European economy. But what is going to fill that gap that was previously supplied by the invisible income of Europe which contributed to their prewar level?

Ambassador DOUGLAS. As I indicated yesterday, on invisible account—that is to say, income from investments, income from services performed—these 16 European nations are approximately, or were in 1947 approximately, \$2,000,000,000 a year worse off than they were before the war. That is one of the reasons why these western European countries must produce more for export than they produced before the war.

In the case of the United Kingdom, for example, the program of exports calls for a 75-percent increase in their volume of exports in order to maintain the volume of imports necessary to a stable economic system. So, it is through increased production for export.

Senator HICKENLOOPER. And it is contemplated that the increased production for export of the finished products, the things they sell will probably have to make up for what is referred to as invisible income of prewar times?

Ambassador DOUGLAS. That is substantially correct, Senator. There will be some improvement, some increase in the income derived from shipping services, and perhaps some other services, but substantially, it has to be made up through an increase in production for export.

Senator HICKENLOOPER. Is it calculated that a return to normal prewar economy by western Europe will also produce the beginnings at least of a rebuilding of this invisible income source?

Ambassador DOUGLAS. On account of foreign investments? That is, the reaccumulation of foreign investments that were dissipated by the war? That does not enter into the calculations, sir.

Senator HICKENLOOPER. What I am trying to get at is how we are going to assist Europe to get back onto a prewar level of economic income and living. It was made up of two or three elements before the war.

Ambassador DOUGLAS. That is right.



Senator HICKENLOOPER. Some of those elements are manifestly lacking now, and some of them manifestly cannot be restored in the condition that they existed prewar. The world has changed and nations have changed and trade-lines have changed and trade habits have changed. And I am concerned in the success of this program; that is, the rehabilitation of Europe by its own efforts and some aid from us.

I am also concerned as to how they are going to rearrange the checkerboard, if you please, so that that level of economic income will be attained without an indefinite reliance upon delving into our economy or bleeding our sources of supply. And I am, of course, concerned with the time when we can eventually get back to tending to our own knitting. I am not at all suggesting that we have not an obligation to ourselves and the world to aid in the situation, but I am very hazy at the moment on where the end of this thing may be, and what the pattern of the next 3 or 4 years in some specific detail is, so that we can make our own plans.

Ambassador DOUGLAS. The substitution for the loss of income on account of foreign investments takes the form of an increased production for export by these 16 European countries, plus an improvement, an increase in the service which they can render in shipping, the use of their merchant tonnage. And that is the basis of these calculations.

As I have said, in the case of the United Kingdom, as an example, the volume of our exports must be increased by 75 percent in order to compensate for the loss of invisible income and other dislocations which the war visited upon them.

Senator HICKENLOOPER. In passing, I just made a note yesterday—excuse me, had you finished?

Ambassador DOUGLAS. Yes, sir.

Senator HICKENLOOPER. In passing, I made a note yesterday, when you were discussing the factor of increased population, which I think is a very potent one that we do not consider enough, but I also want to call attention to the fact that our own population in this country has increased forty-some percent since World War I, and that our food-producing areas and our metal and other raw-material-producing areas have, to all intents and purposes, not increased at all, and that we have a tremendous factor of increased population that, in my judgment, before too long, will rise up to haunt us if we don't pretty carefully look to our present sources of raw materials and supplies within our own country; and that that is a very potent factor here, just as well as it is in other parts of the world.

In connection with the suggestions that were made by Secretary Marshall that the European countries should get together and work out their own yardstick of recovery, they met for 10 weeks. I was with Senator Smith in Europe when this Conference was on. And those European countries got together and pretty carefully evaluated their own potentialities and their mutual needs, and then they submitted that in the nature of a report. Then we, in this country, through the State Department, and others, took that report and very carefully screened it, as I understand it; that is, evaluated the report and looked over what they thought they would need and what they thought they could accomplish under reasonable conditions, and our people arrived at this figure of \$6,800,000,000 for the first 15 months



and arrived at a potential figure that has since been taken out of the bill of somewhere around \$17,000,000,000 as their estimate on that.

I presume that that screening was done as satisfactorily and as carefully as time and available information would permit. I presume that we can assume that, but I also presume that in that screening and in that examination a pretty careful examination into the needs of each of the 16 individual countries was had. Would you say that that is right?

Ambassador DOUGLAS. That is right, sir.

Senator HICKENLOOPER. Well, then, Mr. Ambassador, it would be very helpful to me if we could have in this record the estimated needs by percentage or by dollar or by both of the amount of the relief expenditures that are calculated to go into each country, both under the 15 months' period, and under the long-range period, the percentage of raw materials that are presently calculated to be needed and are contemplated to be allocated to each of the 16 countries, both in dollars and in volume, and the amount of capital goods that is to go into each of the 16 countries, both in dollar volume and in percentage of the entire aid.

I do not know whether you have those figures with you at this moment, so I will not insist if you do not have them, but I would like very much to have that break-down by countries, as to what is contemplated to go into each country, in relief, in raw materials, and in capital goods, by way of capital investments.

Ambassador DOUGLAS. Senator, we can give you the calculation of the capital equipment that is anticipated, at least upon the best estimates.

Senator HICKENLOOPER. I am suggesting it country by country.

Ambassador DOUGLAS. I think we may be able to do that with regard to each country. I think that is included in the individual country studies, all of which I hope will be in the hands of the committee by the early part of next week.

The CHAIRMAN. I think the Department agreed yesterday to furnish that memorandum.

Ambassador DOUGLAS. That is right, sir.

Senator HICKENLOOPER. I did not understand it was as detailed as that.

The CHAIRMAN. Yes.

Ambassador DOUGLAS. I would like to make this observation, Mr. Chairman and Senator Hickenlooper, because you have both made the same point. We will do the best that we can. But I would like to point out that it is almost impossible to segregate as between the relief items and the recovery items, because this is a recovery program. And if it were viewed purely as a relief program, there would be certain countries that would probably receive nothing, because they have resources which they could still draw down before they reach zero. There are other countries that would receive relief items. But to the extent to which one tries to make a distinction between pure relief items and recovery items, one runs into the following difficulty: Those countries that would receive no relief would exhaust what resources they have until they reach the point of zero, and thereafter would be in the paupers' line, unable to buy imports and unable to export. In other countries imports would be diminished. The energy of the individuals to work would be diminished; their exports would decline, and



the condition would continuously deteriorate. And in order to make up the deficiency, if we were prepared to do so, we would have to appropriate even a larger sum of money and provide even more commodities than is contemplated under this program. It is an extraordinarily difficult task to make the divorcement which you suggested yesterday, Senator, and which Senator Hickenlooper suggests this morning, because to do it would require recalculation on a relief basis, and would have the effect of eliminating certain countries entirely and of reducing the amount for certain other countries. But there would be no recovery under that kind of program.

I considered this last evening at great length because I would like to be as responsive to your question, your suggestion, and to yours, Senator, as is possible.

The CHAIRMAN. Conceding all of those difficulties, still there can be a general trend work sheet provided, I am sure, which will substantially respond to the Senator's and to my own request.

Ambassador DOUGLAS. We will do the best we can, Senator, but it is going to take time, and I would like to point out that in terms of a recovery program, it has little meaning.

Senator HICKENLOOPER. Mr. Ambassador, I am thoroughly in sympathy, I am utterly sympathetic, with the difficulties of this problem. I am not trying to minimize them.

Ambassador DOUGLAS. I understand that.

Senator HICKENLOOPER. I am also aware, at least in my own limited way, I hope am aware of the magnitude of the job that we propose to undertake here. But it works two ways, and there are two, I think, very sound rules that might come from such a break-down at this moment, to the best of our ability and in as businesslike a way as can be done.

One is, it will give us a pattern that we can somewhat anticipate over this period of time, as to what we are going to do in Europe, with some detail, and the areas in which we can perhaps gage our success in this plan as time goes on.

Secondly, and I think of equal importance, and it may be of greater importance, if we can arrive now at a fairly reliable calculation of what we are going to pull out of the American economy, the American economy can make its plan for the next 3 or 4 years with some degree of assurance, and they can buckle up their belts a couple of notches and get ready to arrange their affairs to meet this, so that we can absorb whatever shock may be here. I think there are two areas that would benefit from as meticulous and detailed a break-down of these three categories as we can get, because certainly we are going to have to produce materials and produce the credit if this program, or whatever program, is developed and goes into effect, and the further we can project it and the more detailed understanding of the thing that we can have, the more we can prepare to meet it.

Ambassador DOUGLAS. I can certainly give the Senator a commodity report covering the entire programmed items. That we can do, because we have them here.

Now, as to the effect on the available sources or available supplies in the United States, the Krug committee, as you know, made a careful examination. I am not trying to withhold any information.

Senator HICKENLOOPER. I am aware of that, but perhaps I can illustrate it rather crudely. If we know in this country that the reason-



able anticipation for next year or the year after is that so many tons of steel are going to have to be pulled out, and so much fabricated material is going to have to be used over a projected period of time, on a recovery curve, in as great detail as we can, it would seem to me that it would add a lot to the comfort of the country that has to produce this material or produce this credit. I think that that, in as great detail, and in as accurate a prediction as possible, and even with some effort put on the prediction, would be very, very helpful.

Ambassador DOUGLAS. That, I think, can be done with a great deal more precision during the first fifteen months than it can during the subsequent period.

As a matter of fact, it is on that basis that a large part of the program was calculated.

Senator HICKENLOOPER. And it will give the Administrator and it will give the Congress some fairly accurate yardstick by which to measure the progress of this thing as time goes on, and I think that is very important.

I think maybe nebulous results and nebulous figures as time goes on will not add to the confidence in this program.

Ambassador DOUGLAS. There has already been inserted in the record, I think, a statement of the selected items upon which that part of the balance-of-payments deficiency was calculated, and the sources—the United States and the other countries of the Western Hemisphere. Does that satisfy what you have in mind? They can be extended, of course, subject to all of the variables and unforeseen circumstances over the four and a quarter years.

Senator HICKENLOOPER. I merely wanted as much detail as the experts are prepared to give, and I am rather curious to see in how much detail they have gone into this thing and how they are calculating the future of this program.

Ambassador DOUGLAS. We can give you that, Senator, on the programmed items in great detail for the 15 months, and over the 4-year period, too, but as I have pointed out, beyond 15 months, the calculations are necessarily subject to unforeseen circumstances.

Senator HICKENLOOPER. There has been considerable discussion in the papers, some here and some other places, about the aid in this program that is to come out of South America, and we have had various suggestions from people in various positions suggesting that we perhaps propose to go into the Argentine, for instance, and buy wheat for dollars, spend American dollars for wheat in supplementing this program. Or, proposals have been made that we may underwrite a loan by guaranteeing, for instance, to the Argentine the eventual repayment by the borrowing countries, or that the Argentine may furnish certain amounts of grain as a cooperator in this program.

I would like to ask you now, Mr. Ambassador, is it the intention or the plan of our people here, who will have the job of administering this program, to buy Argentine wheat, or wheat from other places in the world—Canada, for instance—for American dollars, and ship that wheat in the relief program to these 16 countries, or any of them?

Ambassador DOUGLAS. Depending upon price, which is an important consideration, it is the intention to buy offshore as much as can be purchased, thus relieving the strain upon our own internal economy. That was authorized in the interim-aid bill, and subject, of course, to the



approval of Congress, it would be contemplated that the same procedure would be followed in the European recovery program.

Senator HICKENLOOPER. I think there is a little difference, at least there is in my mind, between the interim-aid proposal, which is an emergency distress program, and the so-called European recovery program, which contemplates a period of years. And I am concerned as to the extent to which American dollars are going to be taken to other countries to buy wheat, for instance, and the impact upon our own currency situation as a result of those purchases, of taking dollars here and going into some other country and buying large quantities of these things.

Ambassador DOUGLAS. Senator, if I may answer you in terms of the commodities in short supply, and those are the principal commodities that will be purchased outside of the United States, we are concerned that the strain upon those commodities in short supply in the United States shall be reduced to a minimum. We cannot reduce that strain if we have to purchase entirely within the United States. And, therefore, in respect of the commodities in short supply within the United States, to the extent to which we buy outside of the United States, the strain upon our internal position is relieved. More than that, it would have the effect, indirectly, if not directly, of relieving the dollar shortage throughout the world.

Senator HICKENLOOPER. I realize certain amounts of supplies must be acquired for this program.

Ambassador DOUGLAS. Yes.

Senator HICKENLOOPER. There is no question about that. Perhaps the point of my inquiry goes more to the question of whether or not arrangements cannot be made outside of the United States for the acquisition of goods and materials in short supply here, without the necessity of draining off dollars for immediate payment for those in this program.

Ambassador DOUGLAS. In most of the areas, Senator, to do that would have the effect of further weakening those countries. I can give you an example off the record, and at another time of quite a serious and critical condition.

In referring yesterday to the multilateral nature of the trade between Europe and the rest of the world, I said that these 16 participating countries as a group enjoyed a trade surplus with other parts of the world than the United States, the Western Hemisphere, and had a deficiency trade account with the Western Hemisphere. And the deficiency, on the one hand, is balanced off by the surpluses, on the other.

Now, Canada, before the war, historically has had a surplus with Europe on trade account, a deficiency with the United States. And she has used her surplus with European countries to liquidate her deficiency of dollars with the United States. That rested upon this multilateral system of trade and the ability to convert sterling into dollars.

As we know, Canada has extended some \$2,000,000,000 roughly in loans to western European countries. She has extended herself, and I think has played a great part, considering the situation of her population and the volume of her production. She is now suffering from a dollar shortage because she cannot convert sterling into dollars. And she has, as you know, therefore, recently been compelled to impose



restrictions on the imports of American goods into Canada, in order to conserve dollars. So that, to assume that Canada, as an example, could extend any further aid unless we purchased off-shore to relieve our own internal economy would, I think, be to assume that Canada could stand a further deterioration of her present already deteriorated position.

The absence of convertibility, inability to convert from one currency to another, is imposing and has imposed over the course of the last few months, a series of restrictions upon imports and has produced a shrinkage in the volume of trade. To relieve our own internal position, it seems to me wise and prudent to purchase off-shore. Indeed, these requirements cannot be met unless that is provided for. At least that is my judgment.

Senator HICKENLOOPER. To take a specific illustration, I am wondering whether the field has been explored to determine whether wheat can be acquired from the Argentine and not paid for in dollars, but the payment guaranteed, more or less in the nature of a loan in which we underwrite either the ability of some European nation to pay, or postpone our own time of payment under certain advantageous situations.

Ambassador DOUGLAS. That might be an appropriate thing for the administrator to explore and to examine, Senator.

Senator HICKENLOOPER. One more question, or series of questions: Coal is manifestly one of the vital keys to European recovery—food is also essential—both as an emergency aid and somewhat in the long-range situation, and manufacturing, production of finished goods. How important is oil in European recovery, in your opinion, Mr. Ambassador?

Ambassador DOUGLAS. It is an important item, Senator.

Senator HICKENLOOPER. Would you say it is an essential item?

Ambassador DOUGLAS. A substantial amount of it, I should say, was essential.

Senator HICKENLOOPER. It is my opinion that coal is much more essential than oil, but then oil has a certain essential place in their recovery.

Ambassador DOUGLAS. That is right.

Senator HICKENLOOPER. Is that not true?

Ambassador DOUGLAS. Yes; it is true.

Senator HICKENLOOPER. And under this program it is contemplated to provide a certain amount of oil for Europe over this period; is it not?

Ambassador DOUGLAS. Yes, sir.

Senator HICKENLOOPER. Where do we expect that oil will come from?

Ambassador DOUGLAS. Most of it will come from the Middle East.

Senator HICKENLOOPER. From the Middle East?

Ambassador DOUGLAS. Yes.

Senator HICKENLOOPER. Do you have any figures or estimates now as to the running need of Europe for oil in tons over the next 4 years?

Ambassador DOUGLAS. We have a commodity report, I think, on petroleum. My recollection is that the calculations of our Government reduced the European requirements for petroleum during the 15 months by  $8\frac{1}{3}$  million metric tons. I can give you the figure of the total in petroleum.



In 1947 it is estimated that some forty-seven million metric tons of petroleum and petroleum products, aviation gasoline, motor gasoline, kerosene, fuel oil, lubricants, asphalt, paraffin wax, petroleum cake, and so forth, were consumed within the 16 participating countries in western Europe.

In 1949 it is calculated that the same items will be required in the amount of 50,400,000 metric tons.

Senator HICKENLOOPER. In this program it is contemplated that most of that oil will come from the Middle East; is it not?

Ambassador DOUGLAS. That is right for the last years of the program.

Senator HICKENLOOPER. Let us assume that we do not get any oil out of the Middle East.

Ambassador DOUGLAS. The whole program would have to be reexamined in the light of these developments. In 1948 we estimate that 5 to 6 million tons will originate in the United States and the balance will be shipped from the Caribbean and Middle East.

Senator HICKENLOOPER. Six million tons from the United States, some from the Caribbean, but the bulk from the Middle East?

Ambassador DOUGLAS. Yes; except that in 1948 the Caribbean will still be an important supplier. The Middle East becomes the most important supplier later on.

Senator HICKENLOOPER. For the sake of this question, let us assume that we do not get any oil out of the Middle East. Will we have to get the oil from some place else?

Are these estimated as minimum oil requirements for Europe essential in this program? I mean, is it considered that between 47,000,000 and 57,000,000 metric tons of oil are essential to the success of this program?

Ambassador DOUGLAS. Yes.

Senator HICKENLOOPER. And if we do not get any oil from the Middle East, or if it slows down to a trickle or does not get up to a fountain, I assume that under the program and the plan here that oil has to come from some place?

Ambassador DOUGLAS. We would have to take another look, Senator, under that assumption, and of course the other implications of the assumption are pretty far reaching, too.

Senator HICKENLOOPER. Sometimes it is the unexpected that fouls one up.

Ambassador DOUGLAS. I understand that, sir.

Senator HICKENLOOPER. What I am trying to find out is whether or not somewhere in this volume of oil it is considered an essential element to the success of this European recovery program. I understand that it is.

Ambassador DOUGLAS. Yes.

Senator HICKENLOOPER. I think, then, it may become a pertinent question as to where this oil would come from if we do not get it out of the Middle East.

Ambassador DOUGLAS. Well, Senator, there are certain broad implications of the hypothetical case which you have suggested, a hypothetical change in the situation which you have suggested. I make that observation first.

Then I would say that these calculations of requirements for western Europe are dependent upon availabilities, and if the petroleum



products of the Middle East are shut off for one reason, or for another reason to western Europe, the whole matter will have to be reexamined, as I said, in the light of availability.

Senator HICKENLOOPER. I can agree with that thoroughly. But it is one of those contingencies that could enter in, just as many other contingencies could enter into this thing, and therefore, I want to call attention for just a moment to a question Senator George raised yesterday as to whether or not there is any irresistible minimum in this program, or whether there is a point beyond which we cannot go, or whether it is not a program that will have to roll with the punch, if you please, as the program unfolds itself.

Ambassador DOUGLAS. Senator, in answer to the general question, we have given you the best estimate that we have been able to calculate of that which is required to achieve the purpose. If conditions change, the program will have to be adjusted to the change in conditions. That is one of the reasons for emphasizing, as was emphasized, the need for flexibility in the administration. There are a great many variables and unforeseen, unforeseeable, developments, for example. There might be a crop failure, which would very, very seriously affect the present program.

Senator HICKENLOOPER. There was one this past year. That is not an imaginary thing.

Ambassador DOUGLAS. No.

Senator HICKENLOOPER. But I am concerned, if oil is an essential to the European recovery program, if a great bulk, say, 35 to 45 million metric tons, is calculated to be taken out of the Middle East, and if the oil is essential and that supply should dwindle to a trickle, I am concerned as to whether we would then have to invade our own oil resources to make up that deficiency as a result of that contingency.

I might want to talk to you again sometime about that, Ambassador.

Ambassador DOUGLAS. I would like to. Certainly there are no commitments, Senator, and we will make no commitments, under all circumstances or under any set of conditions, to deliver a certain specific quantity from any source in the world.

Senator HICKENLOOPER. We perhaps cannot be held to specific commitments of specific commodities, but if we go into this program we are assuming a commitment to see it through, assuming mutual cooperation on both sides.

Ambassador DOUGLAS. Within the limit of availability.

Senator HICKENLOOPER. And we do assume a commitment to do what we can to bring about the success we want, the goals we want in this thing, and there are some of these things such as oil and perhaps food, crop failures, surpluses, and all those things, which I think are vital in the success of this program, and I hope that before we go into it too far, we know what we will do under various contingencies and circumstances that might very easily eventuate.

Ambassador DOUGLAS. I will be very glad, as you suggest, to discuss it with you.

Senator HICKENLOOPER. In the administrative policy of this bill there are some areas that might cause some friction. For instance, I have the feeling that each European country that will participate in this program will want the greatest possible leeway within itself, its own sovereignty, or whatever we want to call it, to administer its show



as it sees fit and with the least interference. I think that is probably a natural inclination. Therefore, each country will resist restrictions or cataloging its activity to the greatest possible extent.

I think there is a desire on the part of a great many people in this country to have it spelled out as much as it reasonably can be spelled out, so that we can measure its progress. And I anticipate that any administrator, or any administration of this thing, will find some areas of conflict there that will be difficult to iron out between the desire of the countries receiving it on the one hand, to be as free from restraint as possible, and to handle it in their own way completely, and our desire as the people standing back of this program, to examine it as carefully as possible to see that it is devoted to the purposes we want.

Ambassador DOUGLAS. Certainly, there will be very careful examination, Senator. The standard by which the performance of each country will be measured is the result that each country achieves.

Senator HICKENLOOPER. And I would like an opportunity of discussing with you at some other time your considered judgment as to the greatest possible length that we are justified in going in writing rules for this thing, only for individual countries but for the multilateral administration of this thing.

Ambassador DOUGLAS. I should like it very much indeed.

Senator HICKENLOOPER. I would like to explore that just for my own peace of mind on this thing, to see what are the ultimate limits to which we are justified in going in anticipating full cooperation and support and success in the program.

Ambassador DOUGLAS. I should like to very much, sir.

The CHAIRMAN. Well now, Mr. Ambassador, we confront a dilemma. The chairman promised the committee they could get out of school at 1 o'clock, and I think it is necessary to keep that promise. But two members of the committee have not had an opportunity to explore.

Senator HATCH. I can relieve you of one part of the dilemma. The questions I want to ask the Ambassador perhaps had better be asked on another occasion, so I will waive my right.

The CHAIRMAN. The fact of the matter is that Senator Lodge has a line of inquiry which he wishes to pursue, which he is not only entitled to pursue but which we want him to pursue. But he must have the opportunity. Does it embarrass you in your relations with other hearings to come back here on Monday morning?

Ambassador DOUGLAS. I will adjust myself, of course, to the committee. The House hearings commence at 10 o'clock on Monday morning. I think I am expected to be there. But I will do my best to adjust myself, Senator, to your wishes. There is that conflict, though.

The CHAIRMAN. That conflict will continue during the next week, because I apprehend that you will follow the Secretary as a witness over there, and if your experience here is any criterion, you will be over there the rest of the year. I want to get you back before you are committed to that procedure.

Of course, I cannot suggest that you interfere with your appearance with the Secretary, if that is deemed desirable. So I think I will have to throw myself on your mercy, to see what you can suggest as to whether or not it would be possible for you to give us Monday morning if we would solemnly promise to let you loose Monday noon.



Ambassador DOUGLAS. Senator, may I discuss this with the Secretary and see what his wishes are, and then communicate with you? I will do my very best to accommodate my plans to your wishes and the convenience of this committee.

The CHAIRMAN. In any event, I do not want to close the hearing today without making perfectly clear that I want a complete opportunity for Senator Lodge to talk with you about anything that he has on his mind.

We will recess until 10 o'clock Monday morning.

(Whereupon at 1 p. m., the hearing was adjourned, to reconvene on Monday, January 12, 1948, at 10 a. m.)



## EUROPEAN RECOVERY PROGRAM

MONDAY, JANUARY 12, 1948

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D. C.*

The committee met at 10 a. m., pursuant to adjournment, in room 318 of the Senate Office Building, Senator Arthur H. Vandenberg, chairman, presiding.

Present: Senators Vandenberg (chairman), Capper, Wiley, Smith, Hickenlooper, Lodge, Connally, George, Thomas of Utah, and Hatch.

Also present: Senators Millikin, Murray, and Thye; Richard Bissell, executive secretary, President Committee on Foreign Aid; and Thomas Blaisdell, Director of the Office of International Trade, Department of Commerce.

The CHAIRMAN. The committee will come to order. Senator Lodge desires to submit some questions. Senator Lodge?

Senator LODGE. Mr. Ambassador, I appreciate your accommodating spirit and the very fine presentation which you have made so far.

I want first to address myself to the figures which the European nations reached at their Paris meeting, and which were reduced by the executive branch over here. Was that done by applying a constant reduction factor, or were the different figures scrutinized separately and reduced separately?

### STATEMENT OF HON. LEWIS WILLIAM DOUGLAS, AMBASSADOR TO GREAT BRITAIN—Resumed

Ambassador DOUGLAS. Senator, the reduction made by the study of the Executive branch of our Government of the Paris report figures was the result of a very careful analysis, commodity by commodity, of each one of the so-called selected items. The interdepartmental review of each one of these commodities was made with a view to determining, first, the requirements of each one of the participating countries of these selected commodities, and secondly, the available supply in the United States and elsewhere in the world of each one of the commodities. It was not done by applying a flat factor of reduction.

Senator LODGE. Thank you.

Now, the CEEC report set forth certain goals in the way of industrial production and other goals which you have cited. Did those nations agree to achieve those goals, or did they agree to work toward those goals?

Ambassador DOUGLAS. Those pledges, as I understand it, represented undertakings made by each one of the participating countries to reach the goals within the period specified.



Senator LODGE. Their definite promises.

Ambassador DOUGLAS. I so understood, their pledges and undertakings.

Senator LODGE. It was not clear to me whether they promised to achieve them or promised to work toward them.

Ambassador DOUGLAS. Let me be a little more precise. They undertook to exert all their efforts to reach those production goals.

Senator LODGE. To try to reach them?

Ambassador DOUGLAS. That is right.

Senator LODGE. Do those goals still stand, now that the figures have been reduced?

Ambassador DOUGLAS. There has been no meeting of the 16 participating countries since the United States Government made its estimates. But in discussing the matter a month or two ago with the chairman of the executive committee, on discussing precisely the question you put to me, the view was that in all probability those pledges would remain as pledges, the undertakings would be considered as undertakings if the United States Government did not so reduce the program that they would clearly be impossible of achievement.

Senator LODGE. But if the United States Government makes \$6,800,000,000 available then these nations agreed to carry out those goals. Is that correct?

Ambassador DOUGLAS. We have no formal commitment from them because our figures as to appropriate goals differ from the Paris conference figures. Those commitments were undertaken at Paris assuming greater United States availabilities than we have assumed.

Senator LODGE. What does the executive branch promise? Does the executive branch promise those goals or does it promise nothing?

Ambassador DOUGLAS. It is contemplated under the legislation that in entering into the arrangements with each one of the countries their production goals will be established.

Senator LODGE. Does the executive branch assume these pledges that the European nations made as their own? Do you say to us now, "if this legislation is passed we make the same promise to achieve these goals that the European nations have made to us"?

Ambassador DOUGLAS. There necessarily would be some variation because in certain respects, Senator, it is our calculation that some of the production goals could not be achieved within the period.

Senator LODGE. Could you have the record show, at your convenience, exactly what promises you do make and what promises you do not make?

Ambassador DOUGLAS. Yes, sir.

(The matter referred to is as follows:)

In response to Senator Lodge's question as to what promises the executive branch can make respecting the attainment of production goals by the participating countries, if this legislation is passed, the executive branch will, of course, be responsible to the Congress for the faithful execution of the policies laid down by the Congress, insofar as such execution depends upon the United States. We cannot, however, guarantee the attainment by the European nations of the goals which they have set themselves. That is their responsibility, to be achieved through their own efforts. As I have already said, we have given the CEEC production targets the most careful scrutiny, and in the material presented to you on pages 75-83 of the Outline of European Recovery Program we have indicated the modifications which we think it would be desirable to make in those targets. As so modified, we think there is every prospect that the targets



can be attained, given adequate aid to permit achievement of their goals and given the absence of disastrous or chaotic conditions in Europe which the governments of the participating countries cannot control. It will, of course, be a major part of the Administrator's responsibility to give these countries aid, encouragement, advice, and even prodding, to the end that the goals may be achieved. In the bilateral agreements, they will give us an undertaking to devote every effort to achieve them. Our representatives abroad will follow closely the uses to which they put all their resources, including those which we furnish them. As the chairman has pointed out, however, the ultimate responsibility is in the last analysis theirs, and the continuity of our aid will depend in large measure on the continuity of their efforts.

Senator LODGE. I think that would be very helpful.

Ambassador DOUGLAS. If I may continue that for a minute. I have forgotten the exact figure, the exact goal in respect of steel which each one of the participating countries had set for themselves, but that goal was contingent upon the delivery to them of a certain amount of scrap. We cannot deliver to them the amount of scrap, and there cannot be made available to them the amount of scrap which they calculated as being necessary. Accordingly, the goal for the production of steel has necessarily been reduced.

Senator LODGE. You can see why it would be very important to have the record show exactly what you do undertake to do.

Ambassador DOUGLAS. Precisely.

Senator LODGE. I would like to read this very brief statement, about 50 words, which appeared in the New York Times before Christmas:

At the core of the Marshall plan is a united Europe. The plan will not, cannot succeed if the United States attempts to help 16 separate countries. The plan will succeed only if 16 European countries join in supplementing one another's economies. Only if the old dream of the United States of Europe begins to be realized in a customs union like the Benelux experiment, and financial stabilization, leading ultimately to a single European currency, and if the dream slowly takes shape in gearing production, transportation, and communication on European instead of a national scale, only then can our aid be effective.

I may say that people in Europe, in the government and out of it talk to me. Those who were in it said it to me confidentially, that unless this implementation—and this machinery which we contemplate in this bill—is put to the service of a political idea, it is an effort that cannot succeed. I have had that said to me many, many times by people in England, France, and Belgium.

I want to know whether you agree with that reasoning, and if so, whether you think we ought to put some language into this bill which would really see to it that a customs union was established by a definite date.

Ambassador DOUGLAS. There are two general parts to the question.

Senator LODGE. It is a big question, I know that.

Ambassador DOUGLAS. The first has to do with political integration of this area. The second is related to economic integration.

As to the former it seems to me, Senator, that we should be very prudent in regard to any influence that we may want to exercise, for reasons which I think you understand.

As to the second, I think I can say, in fact I know I can say, that the commitments, the undertakings which these 16 countries—I am referring to economic integration—that the commitments and undertakings which each one of these countries has made to the others, if observed, and if carried forward, mark perhaps a historic event in modern history.



Senator LODGE. You mean the CEEC?

Ambassador DOUGLAS. That is right.

Senator LODGE. Did you find anything in it bearing on this subject that is not the merest generality?

Ambassador DOUGLAS. I can refer you, Senator, to the commitments which they have made, the steps which they have already taken which are not insignificant, and I can say that these undertakings which they made and steps which they have taken have to be reviewed against their historic background.

You remember in our own case after Yorktown we proceeded under a very loosely put together Federal system with few if any powers vested in the central government, with only the powers generally to impose levies upon the respective States of the Confederation. After several years' experience Alexander Hamilton, recognizing the difficulties and the obstacles which that loose Federation placed in the way of the establishment of a real Federal Union, called, as I recollect it, or suggested that there be called, a conference at Annapolis for the purpose of reviewing certain economic measures which the respective States of the Confederation might take.

As a result of the Annapolis conference the Constitutional Convention was called. This meeting in Paris I do not suggest is on all fours with our own historic experience, but it took us several years after Yorktown to achieve and to arrive at the sort of economic integration among the respective States which finally resulted in the type of economic federal union that we now have.

The meeting at Paris of these 16 countries was significant because for the first time they disclosed to each other the internal affairs of each of them and they made certain undertakings aimed at the development of a much more integrated system than any which had existed before.

Judged against the background of the development of these nation states over the course of the last 300 years, these commitments are not insignificant. If observed, and if they succeed—and I believe that they will succeed—it is not unlikely that these 16 nations will move further and further toward a much more closely knit economic organization of the area than before.

Senator LODGE. Is that about as strongly as you can put it? Is it not unlike those other words that you describe?

Ambassador DOUGLAS. I think, Senator, that is the fairest way to put it and the honest way to put it.

Senator LODGE. It has been said to me that for generations in Europe it has been talked about and they talked and passed resolutions and uttered pious sentiments. And as soon as they begin to get a little stronger all the separatists, the suicidal nationalistic influences, in Europe will begin to get stronger again, and in 1952 or 1953 we will be right back where we started from with the same quarreling group of watertight compartments that cannot support life but can create death and have done it twice within your lifetime and mine, and unless there is a definite time schedule set up whereby, after a certain period of years, the customs union shall be in effect, you are never going to get it.

How would you feel about putting some language in this bill stating that by 1952, or 1953 or whatever you want to say, this shall be in effect or else?



Ambassador DOUGLAS. There are several considerations that occur to me immediately, Senator. The first is that the initiative should properly come from these 16 countries.

The second consideration is that they have made commitments in respect, for example, of stabilizing or reforming their fiscal and financial affairs, of establishing exchange rates.

Third. Their commitments to remove the barriers to the movement of people is not an insignificant one.

Fourth. Their commitment to remove the barriers to trade, tariffs, all in accordance, of course, with the ITO charter.

Fifth. Their commitment to engage in cooperative enterprises for the joint mutual development of certain resources such as, for example, hydroelectric projects.

Altogether they do make these commitments which, if observed, will raise this area from the level of nationalism to which it had sunk over the course of the preceding 75 years.

Nationalism is a way which, after the middle of the nineteenth century, engulfed almost all of the world, including ourselves.

Senator LODGE. You would not compare our nationalism with that of the small European countries, would you?

Ambassador DOUGLAS. No. But I would say that we had progressively, since the close of the Civil War, been following a policy which could best be characterized as the unrestrained exercise of national sovereignty in economic affairs. That same policy was pursued by almost every one of these European countries with the consequence to which you have referred.

I am perfectly clear in my own mind that the development of nationalism over the course of the last three quarters of a century has been one of the principal causes of these two devastating wars.

Senator LODGE. Do you think there is anything we can do to encourage and facilitate this undertaking that is in this CEEC report becoming a fact?

Ambassador DOUGLAS. Yes. The third consideration that I think should be weighed in any considered answer to your question is the amount of support which the United States provides. If it is inadequate these countries will be compelled to impose even tighter restrictions on imports in order to conserve their exchange resources. If it is adequate they will not be compelled to impose those additional limitations upon their imports between themselves and other countries, as well as between each country within the area.

So that the extent to which this vast part of Europe develops into a more integrated and more unified economic system, in large measure depends upon the adequacy of support which the United States Government extends.

I repeat that if we do provide adequate support, and if, as I am reasonably certain will be the case, the program succeeds, we can expect a much more synchronized and cooperative area than we have ever known before.

Senator LODGE. I am very glad to hear that. My specific question is: Do you think there is some language that could be put into this bill which will promote that objective successfully?

As the bill now reads there is this word "normal" which comes in, "unless normal economic conditions are restored." That word "nor-



mal" looks as though you want to go back to 1938 and just restore 1938. 1938 is not just quite good enough, is it, speaking in that broad sense?

Ambassador DOUGLAS. We referred to the difficulties between the East and the West, and a variety of other factors, and it is, therefore, my opinion that if those factors are to be successfully overcome there must be a much more closely integrated system in this area than there was before.

As to the wisdom of writing such a requirement into the legislation, offhand, I have some doubt.

The legislation refers in section 10 (b) 2, to the establishment of "monetary measures necessary to stabilize currencies," and to "cooperating with other participating countries in facilitating and stimulating an increasing interchange of goods and services," not only as between the countries of the area, but also between each country of the area and other countries. Whether it would be prudent to go beyond that in precise language I would have some doubt.

Senator LODGE. Of course, this language here on page 18 has got several escape clauses in it. It says "where applicable," for instance.

Ambassador DOUGLAS. That "where applicable," Senator, refers more particularly to 10 (b) 5, "facilitating the sale to the United States for stock-piling purposes," and to other conditions which might be fulfilled by one country but which cannot be fulfilled by other countries because they do not fall into a category which would make those general provisions applicable.

That was the intention, I am quite confident, of the language to which you refer.

Senator LODGE. You do not think it would strengthen the hand of the Administrator if instead of having to undertake this integrated Europe on his own motion he had something in the law that showed that it was the desire of Congress and the desire of the American people to see something like this come into existence and that it would save him a lot of embarrassment?

Ambassador DOUGLAS. As I say I have some doubts, Senator, perfectly honest and sincere doubts about making the requirement too tight in the language of the legislation. It might be appropriate to incorporate some language which covers more completely your idea in some preamble to the legislation.

The CHAIRMAN. May I ask a question in that connection?

Senator LODGE. I hope anybody will interrupt and ask questions whenever they feel like it.

The CHAIRMAN. Mr. Ambassador, we read in the papers that the CEEC seem to be contemplating another current meeting. Have you any information as to what the purpose of that meeting is, and whether or not they may be planning some further steps of integration on their own initiative immediately?

Ambassador DOUGLAS. My information indicates that one of the purposes of the suggested convening of the CEEC nations is to review the extent to which additional cooperative measures might be taken. Whether the 16 participating countries will meet before the Congress has acted I cannot say.

Senator CONNALLY. May I ask a question?

Senator LODGE. Yes, sir.



Senator CONNALLY. Mr. Ambassador, it seems to me—we broached it the other day—that these 16 nations ought to have a permanent official set-up. They ought to have a chairman, or secretariat, or somebody going right along on the whole set-up because it seems that they have to wait on the impulse of Great Britain or France to call them or to do something about it.

Ambassador DOUGLAS. Senator, that has been our view, and the 16 participating countries did agree, subject to the provision of support from the United States, to establish a continuing organization.

Senator CONNALLY. I know; but they have not done it, have they?

Ambassador DOUGLAS. The support has not been provided, either.

Senator CONNALLY. It seems to me that to show their good faith in their intentions to carry out these mutual obligations, as well as their obligations to us, that there ought to be a heading up of the thing so that we could deal with them and other countries could deal with them, instead of waiting for Britain and France to call a conference and get them all in there, which is quite a bunglesome thing.

Ambassador DOUGLAS. I think there is no doubt about the validity of the undertaking of the 16 countries to establish the sort of organization which the Senator has in mind, once they are assured that the support will be forthcoming.

Senator CONNALLY. It would not hurt them any to do it without the assurance, because it is for their benefit to form a union and exchange trade. I do not see why they have to wait to get the money on the barrelhead to do it.

Ambassador DOUGLAS. Senator, one of the deterring factors in doing it prior to assurances that aid will be forthcoming is that if aid is not forthcoming then they will, of necessity, be compelled to impose new restrictions upon their imports in order to conserve their resources. And these restrictions will be much tighter. The experience will be not unlike the experience which we went through after September 1931 when world currencies fell to pieces and one country after another imposed restrictions on imports, exchange controls, and a variety of other restrictions and interferences with the flow of goods in order necessarily, they thought, to conserve their waning resources. As a result the volume of world trade, as the Senator recollects very clearly, continuously declined.

Senator CONNALLY. I do not agree with the thesis that we have to wait until we give them this money before they move out and have an organization. The existence of the head of an organization does not presuppose all these things that you talk about. They would have to be done by individual countries, would they not? The impositions that you are talking about in case they do not get aid, that will have to be done by the individual countries.

Ambassador DOUGLAS. That is right, sir.

Senator CONNALLY. But an organization might help a little, it seems to me.

Of course, if you folks are going to administer this thing and do not want the organization I am not going to press it.

Ambassador DOUGLAS. Senator, we not only desire a continuing organization, but we consider it essential.

Senator CONNALLY. Then this meeting that they are going to have over there right away—somebody ought to tell them that that is our thought. Maybe they will do it.



Ambassador DOUGLAS. As I have indicated, they have made their commitment and undertaking to establish a continuing organization once there is reasonable assurance that the aid will be forthcoming.

Senator CONNALLY. The promise to pay a note is not always payment, you know. They are going to do this, but they have not. Why do they not go on and do it?

My question is not a hostile question.

Ambassador DOUGLAS. I understand that.

Senator CONNALLY. I want to set up something that is going to make it work.

Ambassador DOUGLAS. I can give the Senator assurance that if the Congress, in its wisdom, approves an adequate program, a continuing organization for the purposes in view will be effected.

Senator CONNALLY. I think it has an added advantage in that the tighter it is, and the better organized these 16 nations are, the more pressure we will be relieved of by individual countries saying "you gave B country more than you gave me, per capita" and "I do not like this, we wanted some tractors and automobiles, and you gave B country more than you gave us" and all that sort of business. You can apprehend that, I am sure.

Ambassador DOUGLAS. Yes. The advantages of a continuing organization are manifold.

Senator CONNALLY. Whoever is going to administer this program had better bear that in mind because they are going to meet them, they are going to meet them every time they go down the road.

Ambassador DOUGLAS. The Senator is quite right.

Senator CONNALLY. I thank you. I had better stop now.

The CHAIRMAN. Senator Lodge?

Ambassador DOUGLAS. There is one further consideration about a customs union. That was a specific item you mentioned in the integration of these countries, Senator Lodge.

Senator LODGE. You do agree then, with the broad proposition that the movement toward an integrated Europe ought to be locked right into this Marshall plan, do you not? And you think that this bill does it. You and I might possibly differ as to whether or not this bill does it, but you think it does it and it is adequate?

Ambassador DOUGLAS. Yes, sir.

Senator LODGE. It is certain that having a free trade area has made this country what it is.

Ambassador DOUGLAS. Yes, sir.

Senator LODGE. We have a historic opportunity now to promote that same benefaction for Europe and if we fail and do not rise to that opportunity we are almost criminally negligent.

Ambassador DOUGLAS. Always remembering, Senator, the delicacies of the situation and the fact that the initiative, however much it may be encouraged, should come from them.

Senator LODGE. The initiative must come from them.

Ambassador DOUGLAS. You understand the problem?

Senator LODGE. I understand that perfectly, but I also think the people in Europe are way out ahead of their governments and that the governments in Europe are influenced by the marginal producers who will go out of business if you have a customs union and who represent 1 percent of the economic activity of the country, but have a



big lobby at the capital. We have seen that in this country. It goes against the major aspirations of the thinking citizen.

The citizens in Europe see this thing—I just traveled the length and breadth of some of these countries last summer—as the one way out of their misery.

Ambassador DOUGLAS. I am not quite certain the Senator's analysis of the situation is correct. It is for that reason, of course, that the Benelux countries associated themselves together in a customs union, it is for that reason that France and Italy are now engaged in negotiations for the purpose of establishing a customs union, it is for that reason that the four Scandinavian countries, to which reference was made the other day, scheduled a meeting.

There is one difficulty in the establishment of a customs union embracing all the 16 countries, and it is a complicated question, and that is the relationship between the United Kingdom and her dominions on the one hand and the United Kingdom and western Europe on the other.

Senator LODGE. Churchill did a favor to the United States of Europe when he favored the common citizenship with France, and he has——

Ambassador DOUGLAS. Yes, sir; he did.

Senator LODGE. Certainly he is considered a good citizen of the United Kingdom.

Ambassador DOUGLAS. No one would doubt the devotion that he has for the United Kingdom and western civilization.

Senator LODGE. I think Senator Hickenlooper has a question.

Senator HICKENLOOPER. Mr. Chairman, I have some other matters that will call me away very shortly. I asked Senator Lodge if he minded if I broke in at this point to ask the Ambassador a few questions to see if he could have the Department amplify certain tables here a bit more. I do not necessarily need them at this moment, but if we could have them tomorrow, say.

On pages 115, 116, 117, 118, for instance appear tables of volume from the United States, volume from other Western Hemisphere countries, and so forth, and also tables showing the proposed expenditures for those volumes. It would make these tables much more understandable to me if the Department were to take the tables, volumes from the United States, as against dollars, and show the unit proposed expenditure for those.

For instance, bread I take to mean largely wheat. I would like to know how much per bushel we propose to pay for wheat to the American farmer, how much per bushel we propose to pay to the Canadian, how much per bushel we propose to pay to the Argentine, or to other South American countries, or other sources per unit for wheat.

For coarse grains, which will probably largely consist of corn, I would like to know how much per bushel we are going to pay for corn to the American people, how much to South America, how much to Canada, and how much to others?

Ambassador DOUGLAS. Senator, may I ask you a question to clarify the question you have put?

Senator HICKENLOOPER. Yes.



Ambassador DOUGLAS. You mean how much we propose to pay, or the unit price upon which these calculations were based?

Senator HICKENLOOPER. It is the unit price upon which these calculations are based in the tables.

For instance, we propose to spend from April to June 1948, \$218,300,000 for bread grains from the United States. That is represented by 2,375,000 metric tons. I cannot figure fast enough to know how much that is going to be a bushel.

Then we have in millions of dollars from other Western Hemisphere countries, \$177,500,000. That represents, according to table No. 4, 1,965,000 metric tons. I do not know how much that would be a bushel.

I hope they can make a composite table for the United States, for other countries in the Western Hemisphere, and for other sources in the world, and especially with Canadian wheat and certain things there, I would like to know the Canadian price that is included in these figures, in a table so that it can be compared on a unit measure such as bushels, or let us say fats and oils, how much a hundred pounds, sugar how much a pound, meat how much a pound, that would average throughout. Eggs, I wonder how much a dozen they are going to pay on the average, to take the average weight of eggs per dozen; dried fruits, a hundred pounds; rice, a hundred pounds; coffee, either per hundred pounds or per pound, it does not make any difference.

Tobacco, how much a pound that would be. Cotton, what would that be a pound? And petroleum, how much a barrel, for instance.

There are some categories in these tables, such as agricultural machinery, that I realize are difficult to break down and say how much a unit, unless we find out how many binders and things of that kind we expect to send.

But eventually I think the amount of specific farm machine items that we propose, that is that we anticipate that they need and that we propose to send, will have something to do with our agricultural economy. The table could have timber per thousand feet, finished steel and iron products, per ton. I do not mean necessarily a metric ton. But a ton that is translated easily into our figures.

I merely want to have a table that will give those things without having to interpolate and translate so that we can see just how much a bushel it is here, how much there, and how much in the other place.

Ambassador DOUGLAS. Let me be clear in my own mind, Senator, that what we are seeking is the unit price.

Senator HICKENLOOPER. In the ordinary, customarily used unit that the American understands. In other words, metric tons does not mean anything to me.

Ambassador DOUGLAS. Bushels of wheat, tons of steel.

Senator HICKENLOOPER. Into the simple units that are simply understandable, so that we can know how much these things, as calculated, are costing.

Ambassador DOUGLAS. The cost price per unit, an understandable unit, a unit that has current meaning and common meaning upon which these calculations were based?

Senator HICKENLOOPER. That is right.

Ambassador DOUGLAS. We could not give you what the Administrator may pay in the United States because the prices may change, they may go up or down.



Senator HICKENLOOPER. I understand that, but I am talking about the figures.

Ambassador DOUGLAS. You are talking about the calculations in the table?

Senator HICKENLOOPER. The tables carry a specific number of tons, a specific dollar value. Now, I would like to get that reflected into the ordinary units that we customarily use here, and not necessarily the lowest irreducible unit, not how many pounds of wheat, but bushels.

Ambassador DOUGLAS. Surely.

Senator HICKENLOOPER. Also I would like to have a statement along with it as to whether these prices put down here, the volume of money put down as estimated to be required for these commodities, include the delivery cost of these commodities from their source to the destination, or to the unloading point in the recipient nation.

Ambassador DOUGLAS. As I understand it, Senator, it includes the overseas shipping cost. It will probably take us more than a day. But we will get it.

Senator HICKENLOOPER. I do not need it today or tomorrow.

(The matter referred to is as follows:)

*Estimated July 1, 1947, prices of selected commodities expressed in terms of commercially traded units*

	Unit	From United States	From Canada	From other Western Hemisphere
Bread grains:				
Wheat.....	Bushels.....	\$2. 50	\$2. 63	\$4. 85
Wheat (to United Kingdom).....	do.....		1. 72	
Rye.....	do.....		3. 72	4. 60
Coarse grains:				
Corn.....	do.....	1. 85		2. 60
Oats.....	do.....	1. 10	1. 25	1. 90
Barley.....	do.....	1. 75	3. 10	2. 87
Grain sorghum.....	do.....	1. 60		
Fats and oils:				
Lard.....	Pounds.....	. 25		
Linseed oil.....	do.....			. 35
Peanut and sunflower seed oil.....	do.....			. 30
Oilcake and meal				
Soybean meal.....	Short tons.....	88. 95		104. 35
Peanut meal.....	do.....	78. 75		
Linseed meal.....	do.....	76. 75		
Cottonseed meal.....	do.....	79. 65		
Copra meal.....	do.....	66. 15		
Sugar (refined).....	100 lbs.....	7. 00		
To Greece.....	do.....			7. 00
To Switzerland.....	do.....			5. 90
All others (raw).....	do.....			5. 00
Rice.....	do.....	11. 00		<sup>1</sup> 220. 00
Meat:				
Horsemeat.....	do.....	12. 00		
Average all types.....	do.....		25. 00	10. 00
Dairy products:				
Cheese.....	Pound.....	. 40		. 40
to United Kingdom.....	do.....		. 30	
Canned milk.....	do.....	. 12		
Dried milk:				
Skim.....	do.....	. 10	. 10	
Whole.....	do.....	. 40	. 40	
Eggs (shell egg basis).....	Dozen.....	. 41	. 35	. 35
Dried fruit:				
Prunes.....	Short tons.....	230. 00		
Raisins.....	do.....	160. 00		225. 00
Dried apples.....	do.....		300. 00	
Others.....	do.....	300. 00		
Coffee.....	Pounds.....			. 263

<sup>1</sup> Per metric ton.



*Estimated July 1, 1947, prices of selected commodities expressed in terms of commercially traded units—Continued*

	Unit	From United States	From Canada	From other Western Hemisphere
Other foods:				
Fresh fruit:				
Apples.....	Bushels.....	\$3. 25	\$2. 60	.....
Pears.....	do.....	4. 00	.....	.....
Oranges.....	Boxes.....	3. 25	.....	3. 25
Grapefruit.....	do.....	2. 50	.....	.....
Bananas.....	.....	.....	.....	. 04
Tea.....	.....	.....	.....	. 453
Cocoa.....	.....	.....	.....	. 315
Pulses.....	100 pounds	7. 50	7. 50	7. 50
Tobacco:				
1. To France.....	Pounds.....	. 30	.....	. 25
2. To Austria, Belgium-Luxemburg, Portugal, and bizonc.	do.....	. 35	.....	. 25
3. To Netherlands and Switzerland.....	do.....	. 40	.....	. 25
4. To United Kingdom (manufactured).....	do.....	. 55	. 50	.....
5. All others.....	do.....	. 50	.....	. 25
Cotton.....	do.....	. 38	.....	. 32
Nitrogen:				
Ammonium nitrate.....	Short tons.....	58. 50	93. 00	.....
Ammonium sulfate.....	do.....	46. 00	.....	.....
Ammonium phosphate.....	do.....	70. 00	.....	.....
Sodium phosphate.....	.....	.....	.....	41. 50
Phosphate rock.....	Short tons.....	7. 00	.....	.....
Coal.....	Long tons.....	9. 14	.....	.....
Petroleum: <sup>2</sup>				
Aviation gasoline.....	Barrels.....	5. 5173	.....	5. 5713
Motor gasoline.....	do.....	3. 5752	.....	3. 5752
White spirit.....	do.....	3. 9047	.....	3. 9047
Burning (illuminating) kerosene.....	do.....	2. 9925	.....	2. 9925
Power (tractor) kerosene.....	do.....	3. 2261	.....	3. 2261
Gas/Diesel oils for inland trade.....	do.....	2. 7037	.....	2. 7037
Gas/Diesel oils for bunkers.....	do.....	2. 4250	.....	2. 4250
Fuel oils for inland trade.....	do.....	2. 3279	.....	2. 3279
Fuel oils for bunkers.....	do.....	2. 1400	.....	2. 1400
Lubricants.....	do.....	10. 0000	.....	10. 0000
Bitumen.....	do.....	5. 7377	.....	5. 7377
Paraffin wax.....	do.....	29. 2250	.....	29. 2250
Petroleum coke.....	do.....	4. 7187	.....	4. 7187
Crude oils—light/medium.....	do.....	2. 0016	.....	2. 0016
Crude oils—heavy/topped.....	do.....	1. 6800	.....	1. 6800
Timber:				
Softwood lumber.....	1,000 board feet.....	70. 71	70. 71	70. 71
Hardwood lumber.....	1,000 bd ft.....	\$141. 51	\$141. 51	\$141. 51
Hardwood ties.....	do.....	94. 34	94. 34	94. 34
Pitprops.....	Cord.....	30. 68	30. 68	30. 68
Pulpwood.....	do.....	31. 40	31. 40	31. 40
Plywood 3/8-inch.....	1,000 sq. ft.....	205. 30	205. 30	205. 30
Iron and steel:				
Finished steel.....	Long ton.....	111. 76	.....	.....
Crude and semi.....	do.....	64. 00	64. 00	.....
Pig iron.....	do.....	36. 58	.....	.....
Scrap iron <sup>3</sup> .....	do.....	36. 58	.....	.....
Rich iron ore (47 percent+).....	do.....	.....	6. 10	.....
Trucks:				
Unassembled.....	Each.....	1, 200. 00	.....	.....
Assembled.....	do.....	1, 500. 00	.....	.....
Freight cars.....	do.....	3, 000. 00	.....	.....

<sup>2</sup> Total imports of petroleum from dollar sources are largely outside the continental United States.

<sup>3</sup> Scrap iron and steel listed as an export from the United States includes only U. S. Army generated scrap which is located in Austria and which may be made available for use in that country.



*Physical quantities of selected imports of the participating countries (including dependent overseas areas) from the United States and other Western Hemisphere, Apr. 1, 1948–June 30, 1949*

Commodity	Unit	United States		Other Western Hemisphere	
		April–June 1948	1948–49	April–June 1948	1948–49
Bread grains.....	Thousand bushels.....	89,062	218,250	73,688	270,000
Coarse grains.....	do.....	3,600	50,625	20,475	162,000
Fats and oils.....	Thousand pounds.....	79,366	321,872	169,754	685,631
Oilcake and meal.....	Thousand short tons.....	53	218	322	1,296
Sugar.....	Thousand hundredweight.....	926	3,042	13,338	39,749
Meat.....	do.....	154	507	6,173	24,714
Dairy products:					
Cheese.....	Thousand pounds.....	97,002	198,414	17,636	72,752
Canned milk.....	do.....	176,368	352,736	8,818	35,274
Dried milk.....	do.....	138,890	275,575	4,409	17,637
Eggs.....	Thousand dozens.....	29,394	58,789	45,562	94,063
Dried fruit.....	Thousand short tons.....	35	133	1	2
Rice.....	Thousand hundredweight.....	110	573		
Do.....	Thousand metric tons.....			36	151
Coffee.....	Thousand pounds.....			88,184	518,081
Other foods:					
Pulses.....	Thousand hundredweight.....	816	3,307	485	2,205
Fresh fruit.....	Thousand pounds.....	57,320	731,927	130,071	445,329
Cocoa.....	do.....			22,046	121,253
Tea.....	do.....				
Tobacco.....	do.....	112,435	451,943	17,637	74,956
Cotton.....	do.....	374,782	1,148,597	130,071	522,490
Nitrogen.....	Thousand metric tons.....	12	70	22	110
Phosphate rock.....	Thousand short tons.....	90	357		
Potash.....	Thousand units, each equal to 20 lbs. of K <sub>2</sub> C content.....	None	None	None	None
Coal.....	Thousand long tons.....	10,147	32,470		
Petroleum <sup>1</sup> .....	Thousand barrels.....	39,600	158,410		
Timber:					
Softwood lumber.....	Millions of board feet.....	124	495	421	1,684
Hardwood lumber.....	do.....	47	191	18	72
Plywood.....	do.....	14	55	11	42
Hardwood ties.....	do.....	11	43	19	76
Pitprops.....	do.....			80	322
Pulpwood, etc.....	do.....			10	42
Iron and steel:					
Finished.....	Long tons.....	407	1,629		
Crude and semifinished.....	do.....	184	736	85	340
Pig iron.....	do.....	9	34		
Scrap iron and steel <sup>2</sup> .....	do.....	11	44		
Rich iron ore.....	do.....			290	1,161
Trucks.....	Thousand units.....	13	54		
Freight cars.....	do.....		20		

<sup>1</sup> Total imports of petroleum from dollar sources are largely outside the continental United States.

<sup>2</sup> Scrap iron and steel listed as an export from the United States includes only U. S. Army generated scrap which is located in Austria and which may be made available for use in that country.

#### BASIS OF PRICES USED IN MAKING COMMODITY CALCULATIONS

The prices used in compiling appendix tables 1 and 3 (see pp. 115 and 117, Outline of European Recovery Program) represent the unit cost of merchandise delivered alongside ship (f. a. s.). Loading charges and ocean-transportation costs, however, are not included. A large volume of shipping services will be required to move the goods from the Western Hemisphere. It is estimated that approximately \$1,440,000,000, based on July 1, 1947, freight rates, would be the cost of moving the tonnages of selected commodities set forth in appendix tables 2 and 4 (pp. 116 and 118, Outline of European Recovery Program) for the 15-month period, April 1, 1948–June 30, 1949.

Senator HICKENLOOPER. One question, before I leave, about Senator Lodge's line of questioning here. Personally, I feel that a customs union would be a very desirable program in Europe, very constructive, and very efficient and very helpful. But apropos of his suggestion a moment ago I am just wondering how the requirement



of the setting up of a customs union as a prerequisite to this program would square with our meticulous care about invading the sovereignty of these nations that we have talked about a lot. I probably would go much further than many people in saying that we ought to prescribe some detailed requirements, but I just wonder how it squares with the sovereignty theory, if we undertake to require it as a prerequisite.

Senator LODGE. Sovereignty, if you look it up in the dictionary, means "all powerful."

Senator HICKENLOOPER. I am not in disagreement with you.

Senator LODGE. If you look upon how successful the governments of the world have been in protecting their people against war and how successful they have been in protecting their people against poverty and giving their people 100-percent service against every kind of human jeopardy, you will realize that that sovereignty is a very, very precious thing, and we must not infringe upon it at all.

Senator HICKENLOOPER. I am not suggesting that we keep it inviolate.

Senator LODGE. One more question.

Senator HICKENLOOPER. Thank you very much, Senator Lodge.

Senator LODGE. I want to read a statement that Secretary Marshall made.

Senator CONNALLY. Senator Lodge, may I interrupt?

Senator LODGE. By all means.

Senator CONNALLY. I want to ask the Ambassador: Senator Hickenlooper wants you to tabulate what we are going to pay for wheat and all this in different countries?

The CHAIRMAN. No. He wants to know what they base their figures on.

Ambassador DOUGLAS. The basis of the calculation.

Senator CONNALLY. We are going to have to pay whatever the market provides. Thank you.

Senator LODGE. There is just one more question on the United Europe. I want to read a statement Secretary Marshall made:

The critical time there will come—  
that is in Europe—

if we are successful, and I am firmly convinced we will be when the heat is off, the program not completed, but the heat is off. People make all sorts of promises and think they will do all sorts of things until they begin to get out of a dilemma.

This is General Marshall talking—

And then they revert in the way human beings have been doing for a great many thousand years so that nations do very much the same thing, particularly when there is an animation in the group to tear down the thing you are doing. Just how we can manage to keep the process going toward further cooperation, or to further consolidate the European states, further integrate mutual integration of the economic work is a matter of very great importance.

I just read that to stress the point that I think you agree with, that this is the time, this is a very historic time and a very opportune time which probably will never come again.

Ambassador DOUGLAS. In one sense I hope it never comes again.

Senator LODGE. But having come, we would certainly be negligent to not do everything we could to rise to the occasion, would we not?



Ambassador DOUGLAS. I have expressed my views about the importance and significance of an integrated western Europe.

Senator LODGE. Yes, you have.

Now, I would like to ask you three questions relating to this brown binder that the State Department sent up to all of us.

I refer to the section entitled "United States Government Organization and Administration for European Recovery Program" and I direct your attention to the opening sentence of section 1, page 1, which is the opening gun, so to speak, on organization, and I quote:

Each participating country must periodically submit its proposed program of assistance from the United States.

This is just a question of emphasis but I think it is important. Should there not be added to this sentence the words "and what it" that is the European country "intends to do in return"? Should that not be an integral part of the prospectus? When they state their requirements, should not they in the same breath state what they are prepared to undertake?

Ambassador DOUGLAS. I certainly see no objection to it, Senator, at all.

Senator LODGE. Then referring again to the brown binder, and to another section now, the section entitled "Commodity Requirements of European Recovery and the Cost of United States Assistance" I read from page 30:

The CEEC report sets forth plans for a rapid expansion in the consumption of petroleum products in the participating countries to a 1951 level which will be more than double that of 1938.

As you possibly know, there are large sections of the United States at the present time that are threatened with a petroleum shortage, and I just want to know what the justification is for more than doubling the petroleum consumption of Europe in view of the existing petroleum shortage? That of course, was the CEEC figure.

Ambassador DOUGLAS. That is right.

Senator LODGE. What is the State Department's figure for European petroleum consumption in 1951, and how does the State Department's figure compare with the petroleum consummation of 1938? Is it higher, lower, or about the same?

Ambassador DOUGLAS. First of all, as to European requirements, the Government review resulted in a reduction of 15,000,000 tons, or about 20 percent.

Secondly, as to the production of petroleum, our figures contemplate an increase in production, over-all. There is practically none in Europe, but there is a very substantial increase contemplated in the Middle East, and a substantial increase in the Caribbean.

Senator LODGE. This is consumption I am talking about here.

Ambassador DOUGLAS. I am talking about production now. You first of all asked about requirements as I recollect it.

Senator LODGE. This statement is about the consumption of petroleum, that the CEEC viewpoint envisages a consummation of petroleum in Europe in 1951 which is more than double what Europe consumed in 1938.

I am trying to find out what the State Department proposes, and whether that is bigger or smaller than Europe consumed in 1938.



Ambassador DOUGLAS. We reduced the requirements for the 16 European countries by some 15 million tons, expressed in absolute terms, and expressed in terms of percentage of 1938 we had an increase in 1951 of about 60 percent.

One of the reasons for the increase in the petroleum requirements of the 16 participating countries is that techniques of transportation, of cultivation of land—when I say “transportation” I mean by air, by truck, and even by rail—have changed and progressed, in a certain sense, since 1938. Much more is moved by truck now than formerly.

The air transportation system has expanded. The use of petroleum for industrial purposes is greater now than it was before the war.

Those changes in the techniques of various human activities are responsible for the increase in the requirements. And as I have indicated the United States Government cut the requirements from more than 100 percent increase as compared with 1938 to a 60 percent increase in 1951, as compared with 1938.

These requirements can be met, Senator, only by a very substantial increase in production, principally in two areas of the world. First, in the Middle East, where the increase in production is almost 250 percent of 1938, and in the Caribbean, with the result that the European countries will derive more and more of their petroleum requirements from sources outside of the United States, principally from the Middle East.

Senator LODGE. What is the percentage, roughly, that will come from outside of the United States?

Ambassador DOUGLAS. During 1948, 88 to 90 percent, I am told, from outside the United States.

Senator LODGE. It is getting correspondingly greater.

Ambassador DOUGLAS. That is right. And by 1951 it will be only 4 percent from the United States.

Senator LODGE. I have a question still based on this brown binder and relating to the question that Senator Vandenberg was very much interested in, relating to this amount of money which we can expect the other nations of the so-called Western Hemisphere to contribute. I read from page 83 of this publication:

In view of the complexities involved in the matter, it is extremely difficult to estimate the contribution which the Western Hemisphere countries other than the United States can reasonably be expected to make to the financing of the dollar deficit of the participating countries during the first 15 months of the program.

Having regard to all the circumstances it does not seem inappropriate to expect that these countries will be able to finance at least \$700,000,000 of the participating countries' deficit with them.

Is that \$700,000,000 to be deducted from the \$6,800,000,000, or has it already been deducted?

Ambassador DOUGLAS. That has already been deducted.

Senator LODGE. How firm a figure is it?

Ambassador DOUGLAS. We think it is quite a firm figure, Senator. There are a number of different items that go to make up the total of \$700,000,000. There is a contribution by one country, in fairly substantial amount, of a draw-down of credit which has already been extended. More than that, a part of the contribution will occur or will be reflected in lower prices for commodities charged to some of the



western European countries than the price per unit upon which the calculations were based.

For example, if a country will furnish let us say a million bushels of wheat and it is calculated that the price which will be paid to that country per bushel of wheat is \$3, that \$3,000,000 entered into the balance of payments calculation. Assuming that that country charges, let us say, \$2 a bushel instead of \$3 a bushel for the million bushels of wheat, the saving is \$1,000,000. So that \$1,000,000 saving arising out of the lower price for the commodity is a legitimate deduction from the total and represents a part of the \$700,000,000 which the Western Hemisphere countries can be expected to contribute in the way of financing directly or indirectly.

Senator LODGE. Is the door left open so that as conditions change and it appears that it is possible for them to contribute a little more the matter can be undertaken?

Ambassador DOUGLAS. Certainly.

Senator CONNALLY. Senator, may I interrupt?

Senator LODGE. Please do. I hope any member does.

Senator CONNALLY. How did you arrive at the \$700,000,000? Did you have consultations with the Western Hemisphere nations or was that figured out on a piece of paper in the State Department?

Ambassador DOUGLAS. It was based upon the experience of the past couple of years of the financial relations between the western European countries and the 16 European participating nations.

Senator CONNALLY. It was not a question of a gift involved in that was it? I am speaking about the experience over the last 2 or 3 years.

Ambassador DOUGLAS. There were some large extensions of credit, Senator.

Senator CONNALLY. They are not gifts.

Ambassador DOUGLAS. There were some real gifts, when expressed in terms of a reduction of price as compared to world prices, or charging a lower price than world price.

Senator CONNALLY. Very well.

Thank you, Senator.

Senator LODGE. What do you expect will be the outcome regarding the production of coal in Great Britain?

Ambassador DOUGLAS. Beginning in the late fall the trend of production of coal in Great Britain has shown a very substantial improvement. At the present rate of production, or rather at the rate of production for which I have the last figure, which is early in December the annual production of coal in Great Britain and for the year 1948 should approximate 215 million tons.

Senator LODGE. Can you state that in percentage of prewar?

Ambassador DOUGLAS. The production prewar varied, but that would represent in 1948 about 90 to 94 percent of their average prewar production during the period 1934 to 1938.

Senator LODGE. That is the figure that they have mined since last fall up to now?

Ambassador DOUGLAS. That is the rate at which, during the course of the last 5 or 6 weeks, they have been mining coal, producing it.

Senator LODGE. You certainly do not anticipate that it is going to get lower than that, do you?



Ambassador DOUGLAS. It is not likely that it will fall below that figure. I should say, in candor to the members of the committee, that the figures for the production of coal in Great Britain are to be discounted by about 4 or 5 percent because of the higher ash content, as compared to prewar.

The British have established for themselves a coal-production target of 249 million tons as I recollect, for the year 1951. They believe that they will achieve that target.

If they attack this problem with the vigor with which they have attacked the problem during the course of the last 3 or 4 months it is possible for them to reach that figure.

Senator LODGE. Is it planned in this European aid to send them any coal from here?

Ambassador DOUGLAS. No, sir. Indeed, during the year 1948-49 they plan to export, I think it is 12 million tons of coal. And they have already commenced shipments for export.

Senator LODGE. I regard that as very encouraging; do you not?

Ambassador DOUGLAS. Yes, I do.

I should say it is a very complicated question because there are years of mismanagement behind the present British coal position and the industry is bound up, as you know, in ancient prejudices and emotions.

Senator LODGE. Of course, it is an industry that not only gives Great Britain its greatest source of export but it is basically important to so many other countries in Europe, is it not?

Ambassador DOUGLAS. Very vital.

Senator LODGE. What is the prospect regarding coal production in the Ruhr in Germany?

Ambassador DOUGLAS. The coal production in the Ruhr in Germany has increased very substantially and very promisingly since July of this year. As I recollect it the production of coal in the Ruhr in June of this year was at the rate of about 227,000 tons a day.

Senator LODGE. How does that compare with the prewar rate?

Ambassador DOUGLAS. The rate of production rose by November to approximately 280,000 tons a day, and that compares with a prewar daily production of some 440,000 tons of coal a day.

But the production of coal in Germany is rising and it is rising at a rapid and a very encouraging rate. It may very well be that as the production of coal approaches a certain figure, lack of transportation will intervene as one of the restricting factors in the movement of coal.

But one sees a vicious cycle in the Ruhr. It takes coal to get steel; it takes steel to get coal. The important thing is that the circle is being broken.

Senator LODGE. Insofar as the production of coal in the Ruhr is concerned, has an agreement been reached on who is going to have the priority on the first amount produced as between France and Germany? Has that question been solved yet?

Ambassador DOUGLAS. A coal arrangement was reached at Moscow, as the Senator knows. Subsequently another arrangement has been made with France. It is a rather complicated one, but it does contemplate a larger exportation of coke to France within the allocation of coal to France, and it extends the percentages of production of the Ruhr on higher levels of production with certain adjustments on account of the Saar, so that France can expect, as production rises, a larger volume of coal from the Ruhr.



Senator LODGE. The statement is made to me very often that unless the French got their allocation early in the productive process the Germans would produce up to that amount and then not produce any more, just enough for their own needs, and therefore, it was necessary for the French coal amount to be agreed to in the early stage of the production process. Do you see what I mean?

Ambassador DOUGLAS. Yes.

Well, there is that sliding-scale coal arrangement that has been made. I am not certain that it has been made public, Senator, but my understanding was that they contemplated doing so.

Senator LODGE. This is as good a time as any for me to say that if I ask you a question that involves something that should not be made public, do not answer the question.

Ambassador DOUGLAS. The reason I cannot say precisely whether or not it was made public is because it was to have been made public 2 or 3 days after I left London, and I confess that I did not follow it up to see whether it had been. But I understand, Senator, that the French are reasonably well satisfied with the arrangement that was made.

Senator LODGE. That is good.

Now, I want to advert to this matter of foreign assets. In his address here on the interim-aid bill, Secretary Marshall made this statement, and I quote:

Within a short time these countries will have exhausted all of the dollar resources which they can muster.

Then I read a statement in the press that the United States Treasury has a list of the names and the other particulars of the French holders of \$1,500,000,000 worth of assets in this country, and the Department of Commerce has put out other figures on that subject.

In your own publication, this binder that I have referred to, on page 79, this statement is made, and I quote:

In addition to their gold and short-term assets, the participating countries possess certain long-term dollar assets totaling \$4,900,000,000 according to estimates made in the United States. Only the United Kingdom, the Netherlands, Switzerland, and France among the participating countries possess really sizable holdings of such assets. In many instances these assets and their owners are not known to the foreign governments. In some cases the values have been estimated on the basis of book valuation. Some of the assets are not readily disposable at reasonable prices. The assets provide current income annually into Europe and help to this extent to reduce the balance of payments deficit. In some instances also these assets may be important to the continuation of established international business relationship. Any income from the Swiss portion of these properties is not, of course, applicable to the deficits of other countries.

I read that to ask whether it represents the policy of the executive branch, because that particular quotation indicates a very marked reluctance to come to grips with this matter of foreign assets, and I want to know whether or not it is the intention to require every recipient country to make a real two-fisted effort to get these assets and pledge them to the operation of the Marshall plan?

Ambassador DOUGLAS. Senator, implicit in the question which you put is a very complicated situation, particularly as it applies to one or two countries, and it is somewhat outside of the jurisdiction of the



State Department. I would suggest that you ask that question of the National Advisory Council, through Mr. Snyder, the Secretary of the Treasury.

Senator LODGE. Of course, it is not outside of the jurisdiction of the executive branch, and the question does come up as to whether we should put some language in this bill which expresses our hope that a very real effort shall be made to get these countries to put their assets at the disposal of this effort.

The CHAIRMAN. I would like to suggest to the Senator that the Secretary of the Treasury has been requested and will make a full presentation on this phase of the matter when he testifies.

Senator LODGE. Will that be speaking for the executive branch as a whole?

The CHAIRMAN. Yes.

Senator LODGE. Very well.

Now, I want to ask a question which was suggested to me:

Has consideration been given to the use of a sinking fund technique, setting up some device whereby loans could be amortized evenly over the years? Is it not a real temptation to a borrower to use its surpluses for other purposes when repayment is entirely voluntary? Could not the amount going into the sinking fund be determined by formula, based on national income and holdings of foreign exchange at the end of each fiscal year?

Ambassador DOUGLAS. Senator, I cannot answer the question of my own knowledge. I would presume that that would be a matter which the Administrator would consider very carefully, and where applicable, would use the device which the Senator suggests.

Senator LODGE. Very well.

Ambassador DOUGLAS. Certainly in the lending of money regular amortization is an important item of consideration.

Senator LODGE. That concludes that phase of the question.

Now I come to this matter of the quid pro quo, about which a great deal has been said and written.

I think it is true, the more I study it, that our stock-piling program here in America is very far behind schedule. The Harriman Committee, and I quote, says:

Taken item by item, the purchase program has been very unbalanced. Anticipation of many of the strategic raw materials has been negligible.

At the same time, the Harriman Committee declares that the 16 Marshall plan countries could supply the bulk of our stock piles. The committee states that those countries could furnish strategic raw materials worth \$253,000,000, each year doubling our current annual purchases.

The Harriman committee says that we could get \$20,000,000 worth of copper each year from the United Kingdom.

My question is: What provisions are you making to obtain this amount of copper as a quid pro quo for the advances to be made under this recovery program?

Ambassador DOUGLAS. In the first place, Senator, it is expressly provided in the bill that the local currency counterpart of any grant may be used for the purpose of the exploration for, and the expanding of the production of, strategic materials. Secondly, the bill provides that the Administrator may advance funds for the purpose of increasing the production of strategic materials. Thirdly, the bill—



I think it is section 10 (b) (5)—contains language which requires the participating countries to facilitate sale to the United States for stock-piling purposes for such period of time as may be agreed upon within the terms and quantities, and so forth, of materials which are required by the United States as a result of deficiencies or potential deficiencies in its own natural resources.

Senator LODGE. You refer to subsection (5) of section 10 (b), in which it says that these nations shall facilitate the sale of these materials. The question is constantly put to me: "Why should they sell these things to us? Why can't they buy them with their own currency and then furnish them to us as barter in exchange?" Let's say that nation A has an empire that produces a lot of bauxite, out of which we can make airplanes. Why can't they take their own currency and buy that bauxite and furnish it to us in exchange for the dollar-purchased goods which we send to them? Why can't this thing be done on a barter basis?

Ambassador DOUGLAS. Senator, the fundamental difficulty with western Europe is that it cannot, because it does not have exchange, buy the raw materials which it needs to maintain workers at a level of subsistence which will provide them with vigor for their industrial jobs, and which will enable the western European countries to fabricate in their industrial plants the commodities which are necessary, and to export them, and thus to obtain exchange. One of the group of items which the 16 nations expect to export in order to get dollars with which they can buy their necessary import embraces many of the strategic materials in which we are deficient.

Senator LODGE. You mean they are pledged already in the competition?

Ambassador DOUGLAS. That is right. Accordingly, if they were to give us, or buy the strategic raw materials in their own currencies and deliver them to us, without any consideration in dollars, their deficiency of dollars would thereby be increased and we would, if we are earnest and intent upon achieving the recovery of western Europe, have to appropriate an equivalent amount of dollars to make up for the deficiency.

Senator LODGE. We will just have to add it onto the \$6,800,000,000?

Ambassador DOUGLAS. That is right, sir.

Now, it may be possible—indeed, I think administratively it is possible—to provide that raw materials or strategic materials may be applied against loans. The Bureau of Federal Supply of the Treasury could be authorized to purchase those raw materials out of funds appropriated to it. But that would be a wholly different sort of a transaction and would not reduce the amount of dollars which the European countries would receive.

The CHAIRMAN. I do not understand how it would work.

Ambassador DOUGLAS. Let us put it this way, as an example: Let us suppose that we loan \$20,000,000 to a country which could furnish us, at a certain price level, with \$20,000,000 worth of copper. That country might deliver copper to us and apply the copper delivered to us at a specified price against the reduction of its loan. That copper would then, I presume, be in the hands of the Administrator, and the Bureau of Federal Supply, located in the Treasury, could buy the copper out of the funds appropriated to it, from the Administrator. Thus the loan would be paid off.



That would not adversely affect the amount of dollars, the balance of payments of the country which received the loan.

Senator LODGE. Well, then, in what respect are we any better off, insofar as these strategic materials are concerned?

Ambassador DOUGLAS. There is one further consideration. If we require countries to purchase the strategic materials in their own currencies and deliver them to us, there would not be the same incentive for them to explore for and develop the production of these strategic raw materials.

Senator LODGE. That is an interesting consideration. But in what respect are we better off under this bill insofar as obtaining strategic raw materials than we would be without it?

Ambassador DOUGLAS. We are better off, Senator, in that the agreement with each of the countries, including their dependent territories, in which strategic materials exist, would provide that each one of them would be required by contract to facilitate to us the sale of strategic critical materials.

Senator LODGE. And otherwise they might not?

Ambassador DOUGLAS. Otherwise they might not.

The CHAIRMAN. In other words, you are talking about priority.

Senator LODGE. We get a priority?

Ambassador DOUGLAS. We get as much of a preference as we possibly can.

Senator LODGE. I am asking for information merely.

Ambassador DOUGLAS. Yes, sir.

Senator LODGE. Up to now we have not had a preference, or they have not produced them, or what has happened?

Ambassador DOUGLAS. They have not produced as much, and we obviously, from the report of the Harriman committee and other evidence bearing upon strategic materials, have not been able to carry forward our strategic material program in as balanced a way or as rapidly as we would have liked to.

Senator LODGE. I thought that our failure to achieve a balanced stock pile of strategic materials was due more to failure of Congress to appropriate the funds, but it is not entirely that, then?

Ambassador DOUGLAS. It is not entirely that. It is a real shortage of production.

Senator LODGE. It is?

Ambassador DOUGLAS. For example, in Rhodesia the production of copper has lagged behind their productive capacity.

Senator LODGE. This will do two things then: It will stimulate production and give us a priority?

Ambassador DOUGLAS. That is right, sir.

Senator LODGE. The Harriman committee indicates that we can get lead from England and France, bauxite from the Netherlands, England, and France, and we can get tin from England, the Netherlands, and Belgium, and, of course, oil from the Middle East.

Now, that same arrangement will apply to oil from the Middle East, would it not?

The Marshall plan countries that hold oil could not buy that oil in their own currency and make it available to us in repayment for our oil without incurring the same problem that you have mentioned before?

Ambassador DOUGLAS. That is right, sir.



Senator LODGE. Here is another quid pro quo. We are talking about getting time on the radio in those countries through which we can tell the truth about the United States and about the meaning of what we call the democratic system. I think that is much more effective in western Europe than the Voice of America. People over there do not listen to short wave now that the war has stopped.

There is one of the things they can do for us. Something like that needs to be done, when you hear the way they talk about us nowadays. Is that contemplated, do you know?

Ambassador DOUGLAS. I think every device that is a legitimate device to be used honorably to disseminate information about the aspirations and ambitions and purposes of the United States will be used.

The CHAIRMAN. I do not think that quite answers the Senator's question.

Ambassador DOUGLAS. No; it does not, quite.

Senator LODGE. No; it does not answer it quite. Maybe you do not want to answer it quite right now.

Ambassador DOUGLAS. I thought it might be imprudent to answer it precisely.

The CHAIRMAN. I would like to go a little further without being imprudent. Isn't it possible to create a rather wide area of possible uses for local currency with respect to the evolution of our relationships under this plan?

Ambassador DOUGLAS. I think it is; yes.

Senator LODGE. Now, I want to come to this question that was set forth very succinctly by Arthur Krock in one of his articles. The foreign governments would act as the bankers of all credits advanced under the Marshall plan, in a sense, but that they must agree to allocate these credits on a schedule subject to final approval or revision by the American administrative authority. You have heard that proposal a great many times. Have you any comment to make on it?

Ambassador DOUGLAS. I am not quite clear——

Senator LODGE. The suggestion is that the administrative authority in Washington should include something like an administrative RFC to check all disbursements against an approved list, and this agency should have representatives on the boards of all foreign corporations that are being assisted, the purpose being to have as little governmental activity as such, and as much private financial activity between individuals and between private groups as possible, so that it will not be an intergovernmental business as much as it will be the Government's, simply being used as a device to put these funds into productive competitive channels.

Ambassador DOUGLAS. If what is meant is the use of private-investment channels and commercial channels to the greatest extent possible, that is contemplated. But I am not quite certain what this specific suggestion means.

Senator LODGE. This specific suggestion was that the European Relief Administration makes a sum available to country A, let us say, through the government of country A, and then that government conducts practically no economic activity itself. It merely allocates this money to the different productive industries or economic activities within that country, subject to final allocation over here. Is that the way it is going to work? Maybe that is the way it is going to work anyway.



Ambassador DOUGLAS. In some respects, certainly that would be the way it would work. There has to be a wide variety of flexibility, I think, Senator, as to the extent to which that precise procedure can be applied and the extent to which other procedures would be applied.

Senator LODGE. But broadly speaking, the effort will be to work through competitive private economic activity?

Ambassador DOUGLAS. That is quite right, sir. The broad general principle is correct.

Now, the Commodity Credit Corporation, I should like to add, is the United States agency that is now buying certain foodstuffs. That, I presume, it will continue to do.

The CHAIRMAN. I think the Senator from Massachusetts asks another question which is very interesting. After this allocation abroad, which is reallocated, let us say, to Corporation X in Britain, I think the Senator's question goes to the point of whether or not an American director should not sit with Corporation X to see that the operation is proceeding as contemplated. Is that not implicit in your question?

Senator LODGE. That is the second part of the question.

Ambassador DOUGLAS. That was not contemplated, Senator.

Senator LODGE. That raises the whole question of follow-through, checking, and watching. There has to be some inspection system. We all know in any human activity, no matter how perfect and able the people are that are running it, we always have to have inspection and follow-through. And I was wondering how much of an inspection and follow-through system you have got set up in this new arrangement.

Ambassador DOUGLAS. Obviously, Senator, we want to be assured that the United States funds that are used will be put to their most effective use, and that they will be used in accordance with the conditions and for the purposes for which they are advanced. The inspection or review of the extent to which they are effectively used, and the extent to which they are applied to the purposes in mind, would vary according to the specific transaction.

Senator LODGE. You know, in the Army a fellow gets an order and then in an army that is well run, there is some guy who sets out the next day and sees if he is doing it all right or not.

Senator WILEY. May I interrupt?

The CHAIRMAN. Let us get the answer to this, first.

Ambassador DOUGLAS. My answer to the Senator's specific question is that the inspection and review would have to vary in accordance with the type of transaction that was involved.

Senator LODGE. Have you a force set up to do it that is independent of others, and that is not responsible to the same people and that come in with a fresh view?

Ambassador DOUGLAS. As I indicated on Saturday, we calculate that about 400 will be required overseas, and about 500 in the United States. What we are concerned with in this recovery program is the results achieved, and those results are reflected in the economic life of each one of these countries.

I would be very glad to show you the way in which, in England, for example, even before the June 5 speech was made, we set out to follow each month every economic activity—balance of payments, coal pro-



duction, construction, shipbuilding, exports, imports by quantity of commodities and quality of commodities, and engineering trades.

Senator LODGE. Your experience in business is not only much more extensive than mine, but it is very, very extensive.

Is it not true that when you finance a corporation, if you put in enough, you get a seat on the board of directors for yourself? Do you not? Sometimes you get control of the stock.

Ambassador DOUGLAS. Sometimes. Sometimes you do not. It depends on whether one holds a debenture-bond or common-stock equity.

Senator LODGE. Broadly speaking, if you put in enough money you have then something to say about how it is run. At least you know what is going on.

Senator CONNALLY. On the other hand, the whole thesis of this project is the relationships between the governments. Now, will it not be much better for us to hold the government responsible as to what is done under the program, and have the Administrator's representatives there check that, and if some concern is not doing the right thing, make the government stop it? If we should go into every corporation and business in Europe that is going to handle this matter, and have somebody on the board of directors, it seems to me we would get involved in tremendous difficulties.

And talking about sovereignty, there would not be any sovereignty left. I am not worried about their sovereignty much. It is obvious they cannot eat sovereignty. We have to give them something besides sovereignty to get along with this program. But I would think that we had better keep these relationships as we start out, because we are holding them responsible individually, we are holding the whole group responsible as an entity. If we left off some of our activities to run after some little corporation, and to try to run that through a board of directors, one of whom would not know anything about the business, even though he would come from the United States, we would be in a turmoil and row all the time. I would not think that would work at all.

Ambassador DOUGLAS. As I indicated, it is not contemplated that the United States would have a representative on a corporation that might receive some sort of aid from the recipient government. In a case of that kind, our relationship, as you suggest, Senator, would be with the government and not with the corporation. What we are concerned with is the end result. It might very well be that under a certain type of an arrangement, a corporation would receive certain funds for certain specific purposes, and in that instance, we would have to be kept informed of the progress that was being made. I think to put an American on the board—indeed, I am quite clear that to put an American on the board of directors of a corporation, a foreign corporation, otherwise owned and controlled by foreigners, that might receive some support in one way or another from the United States, would necessarily mean that the representative on that board of directors would be a representative of the United States Government. Secondly, to have a representative of the United States on the board of directors of a privately owned corporation would hardly be consistent with the general conception of the way in which governments operate and would be construed, I am quite confident, as an unwarranted intervention by the United States Government in the private operations of a company.



What we are concerned with is the end result.

The CHAIRMAN. Furthermore, you would thus be taking a share of the responsibility for the delivery of the end result, instead of holding them responsible for the end result.

Ambassador DOUGLAS. Precisely.

The CHAIRMAN. Senator Wiley had a question.

Senator CONNALLY. You would be putting government into business up to the hilt; wouldn't you?

Ambassador DOUGLAS. That is what I meant to reply.

Senator WILEY. I wanted to say, Mr. Chairman, that this is the very essence of the question that I raised yesterday when I said, looking at those charts, that I wanted to know what was going on at both ends. In between was all right. I wanted to know first how you are going to get your stuff over here, who was going to do the economic headwork to see that we don't pay three or four prices for it and that I wanted to see abroad who does the distributing, who checks up on it. We got the personnel figure of 400 and 500 people.

Furthermore, I suggested in one of the questions, which I think is important, that a lot of this money, instead of being advanced from the United States Treasury, might well be advanced by the banking interests of this country, and guaranteed. We had no trouble in this country when England invested her money in our railroads to put Englishmen on the directorate of the railroads. She has directors over here now. And if it is important to look after the economies of this situation, it is important that we have men who know what is going on.

What you had reference to was simply the money interest. But I think you have said over 50 percent of this jackpot is going in goods. We are going to give them wheat, and we are going to give them other things. Who is going to check up on that?

How is that going to be distributed? Who is going to follow through? We know what has gone on in Europe heretofore under UNRRA, and under practically every agency we have had there. There has been a great deal of mishandling and mismanagement. Selfish interests have gotten in.

I think it is important and I am glad that Senator Lodge has brought this subject up in detail. I think it is emphatically important. The American people expect us to see that adequate follow-up is in this picture, to see that a dollar's worth of American tax money effectively and efficiently accomplishes the result that we set out to accomplish.

Therefore, how is it effectively put into operation at this end and the end over there?

I can see no harm whatever in our following through if we are going to loan two or three billion dollars which goes into agencies in France, or if we are going to give that money for specific rehabilitation purposes. I can see no interference with sovereignty. All I do see is that we are following through on our responsibility.

Ambassador DOUGLAS. Senator, there is no issue at all on that score; none.

Senator WILEY. I am glad to hear it.

Ambassador DOUGLAS. Now, sir, we have to be certain, as certain as any man or group of men can be, that the aid and support provided by the United States is effectively used and achieves the purpose which we have in mind.



I would like to make this observation with regard to the first part of your comment. When Britain and the French were providing capital for the development of the American economy, the transactions were between private individuals. The British Government did not invest the funds in American railroads, for example, or other American industries.

Senator WILEY. But the British flag followed the British funds all over the world.

Ambassador DOUGLAS. But that was a purely private action. A large part of it came out of investment trusts in Scotland and in London, and some of it came out of investment groups and syndicates in Paris. They were private. They were not governmental. They were not subject to the controls of governments.

Senator WILEY. How about the Suez Canal? Did British capital, Government capital, go into that?

Ambassador DOUGLAS. The original Suez enterprise, as I recollect it, was a private enterprise, and subsequently, I think, the capital was taken over by the French Government and the British Government. I have forgotten the historic situation.

But that was a governmental operation of a wholly different character. It was a public enterprise.

Senator CONNALLY. Disraeli, when he took it over, made a great national appeal to the Government and the people of Great Britain.

The CHAIRMAN. Are we not back to the fundamental proposition that we discussed on Saturday, that some way has to be provided to make effectively clear that the continuity of our support is dependent upon the continuity with which the beneficiary countries deliver the goods they have promised to deliver?

Ambassador DOUGLAS. That is right, sir, and contingent upon the results that are produced.

Senator CONNALLY. Well, in that connection we will have had these bilateral agreements, and the joint agreement, so that if a country does not perform, we can leave her out and go on with those that remain, and perform their obligations; can we not?

Ambassador DOUGLAS. That is right, sir.

Senator CONNALLY. That will be made clear to these countries, of course.

Ambassador DOUGLAS. Oh, certainly; and it is expressly stated that we reserve the right to determine how much, if any, support will be extended in the event of failure to meet the obligation.

Senator WILEY. Senator Lodge's suggestion and mine, then, is to the point of providing the agency to demonstrate whether they are meeting their obligations. You are not so naive that you will simply take the word of some of these fellows saying, "Yes; we did." You simply have an assurer in there to show that an American dollar performs 100 cents' worth.

Ambassador DOUGLAS. Take, for instance, the production of coal in Britain. The important point is that there be an increase in the production of coal, and that the production target be met. That is something, Senator, that it is not difficult to follow.

Senator WILEY. I realize you have statistics on coal. Are you going to get French farmers to sell their goods?



Ambassador DOUGLAS. That is largely a question of internal monetary reform, as the Senator knows, and that is why we have placed such great emphasis on the reformation of an internal monetary system.

That, too, is something that is easy to follow. So is the production of steel easy to follow. So is the progress made in the production of textiles. So is the matter of export. So is the matter of import. All of those matters, Senator, are not difficult to follow if one knows how to establish an organization to follow them.

The CHAIRMAN. That is the whole point made by Senator Wiley and Senator Lodge. You agree with the objective.

Ambassador DOUGLAS. Oh, completely.

The CHAIRMAN. And their insistence is that we shall have the machinery to reach that objective on our own responsibility.

Ambassador DOUGLAS. Completely. There is no issue at all.

Senator LODGE. You do plan to make full use of existing machinery, such as the Export-Import Bank, the International Bank, and the International Monetary Fund, do you not?

Ambassador DOUGLAS. Yes.

Senator LODGE. These institutions are equipped to do a good deal of very useful work.

Ambassador DOUGLAS. Indeed they are. The Export-Import Bank, of course, is an instrumentality of the United States Government; the International Bank and International Monetary Fund are instrumentalities of the member countries. They are international organizations. But there must be very close relationships between the administrator and the fund and other international organizations Senator.

Senator LODGE. What is the outlook for having each country expressing willingness to extend credit to other countries for the purpose of financing exportable surpluses and thereby confining American assistance to dollar requirements only?

Ambassador DOUGLAS. Well, American assistance, Senator, is confined solely to dollar requirements.

Senator LODGE. It is?

Ambassador DOUGLAS. Yes, sir.

Senator LODGE. What is the outlook for some definite commitments by the recipient nations looking toward the achieving of a balanced budget by a definite time?

Ambassador DOUGLAS. The balancing of the budget of some of these countries whose budgets are badly out of balance is one of the steps that they must take to achieve an enduring, stable, fiscal system and monetary system.

Senator LODGE. And you are going to try to promote that?

Ambassador DOUGLAS. Yes, indeed, sir. And they have committed themselves to do it.

Senator LODGE. How about a tax-collection program? It always makes a bad impression when these countries that are looking for help, and where I know most of the people are in very tough shape, have in them a few people running around in flashy cars and behaving with that arrogance that is very irritating and disconcerting, and there is a feeling that I am sure you share, that the people of moderate means of this country should not have to help the rich people over there.



Ambassador DOUGLAS. That is a very complicated question, Senator. I have very serious doubts as to whether the United States should intervene in the administration of the internal tax system in any one of these participating countries. There are some countries in which the citizens are much more disciplined, financially much more literate, fiscally much more understanding, and who observe, with less governmental pressure than in other countries, the provisions of the tax laws. That varies, as you know, between country and country.

The important thing is that they achieve the results. When one sees some of these wealthy people, or presumably wealthy people, living on a scale which appears to be extravagant, one cannot tell whether many of them are living on capital or whether they are not. The tax structures, of course, of these respective countries differ. They differ from ours. Some of them do not have the type of taxes that we have, although the income tax may be very high, and there are certain types of gains that are not taxed as we tax them, and they therefore provide certain groups within those countries with what they consider to be an expendable gain which perhaps does not exist over here.

Senator LODGE. Certain tax laws are not enforced, too.

Ambassador DOUGLAS. The administration of certain tax laws in certain countries is lax.

Senator LODGE. It is a time-honored custom.

Ambassador DOUGLAS. I understand exactly what the Senator is referring to as I am aware of that situation. Some of these countries have been historically indifferent to tax laws, and their people have used a variety of different devices to escape the payment of taxes.

Senator LODGE. It is very disconcerting to people who have not been in Europe very much to go to some of these countries which are flat economically—and it has happened to some of our colleagues this summer—and they go there and, of course, they have heard about the misery and the poverty and the economic prostration, and then they will see some birds driving around with these great big flashy cars and being arrogant as all-get-out. That is very hard to swallow.

Ambassador DOUGLAS. I recognize that that spectacle has made a bad impression. Precisely what the United States Government as a Government can do to intervene, first of all, in the formulation of a tax structure, and secondly, in the administration of it, I think is a matter for very serious consideration.

Senator LODGE. In Greece, I think, they have tried to get a tax program going that saw to it that the affluent members of the community kicked in something.

Ambassador DOUGLAS. I do not know about that, Senator.

Senator LODGE. What is your expectation regarding the growth in interest among private investors as the Marshall plan progresses and develops?

Ambassador DOUGLAS. Private investors abroad?

Senator LODGE. In this country investing abroad.

Ambassador DOUGLAS. My personal view, Senator, is that as stability, economic and political, begins to emerge within this area, the opportunity for legitimate private investment by Americans will increase, and it is my further view that as stability, political, and eco-



conomic, begins to reappear in these 16 countries, assets that are hidden within them will come out of hiding and play their part in adding to the impetus of recovery.

We had some experiences in the twenties which indicate that it is not improbable to expect that they will be repeated again, provided always that economic and political stability begin to put in their appearance.

Senator LODGE. Do you think \$20,000 a year is enough to pay this Administrator?

It seems to me it is very low for the type of man you would want to get.

The CHAIRMAN. This is not a personal query.

Ambassador DOUGLAS. If it were personal the answer would be clear.

I think it is rather low, Senator, myself.

Senator LODGE. I think it is too low.

Ambassador DOUGLAS. I would think so. But then, of course, one has a scale of salaries in the Government, and one has to be, I think, somewhat cautious about upsetting that scale.

Senator LODGE. We need never be so cautious about upsetting it that we waste a large part of the \$6,800,000,000. It is better to pay him \$50,000 and have the \$6,800,000,000 well run than not to be able to pay him what you should.

Ambassador DOUGLAS. Certainly one wants and one has to have a very competent and experienced person, experienced in business, with wisdom, prudence, knowledge, and ingenuity. And whether \$20,000 a year will attract a man I do not know. Of course, Government service, as the Senator knows, is a pretty thankless job at best. It involves sacrifices of a great many kinds.

Senator LODGE. Lots of people like it, though.

Ambassador DOUGLAS. Yes; for a different reason.

The CHAIRMAN. Might you not get a less competent man if you tried to put this compensation on a basis which is literally adequate?

Ambassador DOUGLAS. You might very well.

Senator LODGE. Yes; that is true, too.

Senator WILEY. Does the bill contemplate a sum for additional expenses that would not be taxable?

Ambassador DOUGLAS. I do not think so, Senator.

Senator WILEY. That might take care of some of the allowance.

Ambassador DOUGLAS. Except possibly in the matter of allowances for overseas representatives of the Economic Cooperative Administration which are, I believe, not taxable.

Senator WILEY. Will you be willing to hazard a guess as to what you think an Administrator's expenses on a job like this would amount to per year?

Ambassador DOUGLAS. I could not hazard a guess. They would be pretty substantial, Senator.

Senator WILEY. You have had some experience in England. You know about an Ambassador's job. What about a chap like this?

Ambassador DOUGLAS. Of course those expenses, I presume, would be paid out of the funds appropriated by the Congress. I would guess roughly that his expenses would run somewhere in the vicinity of—no; it is impossible to calculate. Because I presume he will have to do some traveling amongst the European countries.



I presume that he will have to have a certain amount of, for want of a better phrase, gathering together with people, and all of those things cost money. His transportation will cost, his living will cost him, not only in this country but in foreign countries to the extent to which he travels among them. It is a very difficult thing to calculate.

I will try to get out a figure and talk to the Senator about it. But it will be substantial. That is inescapable.

Senator WILEY. Yes.

Senator LODGE. In section 10 (a) on page 17, the statement is made that the Secretary of State is the officer designated to conclude the bilateral agreements with the recipient countries. Why do you feel that the Secretary of State, rather than the Administrator, should conclude these agreements? Is there not a split there?

Ambassador DOUGLAS. It is contemplated under the administrative plan, Senator, that within each Embassy there will be an Economic Cooperation Administration officer. In the major Embassies he will have the rank of minister, with the title, emoluments, and perquisites attached to that office. He is the person who will, as a practical matter, negotiate the details of the arrangement. He must, I think, be under the direction of the Embassy, and the contract will come back, after it has been negotiated, from the Embassy to the Secretary of State. But the Economic Administration officer in the Embassy will be the person who does the job, who negotiates the details.

Senator LODGE. And the economic officer in the Embassy signs it, and then the Economic Administrator signs it, and then the Secretary of State concludes it; is that it?

Ambassador DOUGLAS. That is my understanding, sir.

Senator LODGE. Well, now, does the State Department endorse the findings of the Harriman report?

The reason I ask that question is, I have these questions on the Harriman report, and it occurs to me that some of them are of a rather special nature. They involve different commodities—steel, coal, transportation, railroads, and so forth. And if you accept the Harriman report, then I can ask these questions of the spokesmen for that report.

Ambassador DOUGLAS. I do not think we can accept it in all of its details, Senator. The Harriman report was made by a group of carefully selected distinguished members of the American community outside of Government. The State Department used the Harriman report, although it did not follow it in all respects.

Senator LODGE. I will give you an illustration. Here is the question I have:

Restoring and maintaining European equilibrium requires not only the recovery of production in the participating countries, but also economic recovery in other areas—the Far East, for example.

That is quoted from page 36 of the Harriman report.

My question is, What steps are in contemplation to promote such economic recovery?

Is that a question that I ought to ask of the Harriman people, or that I should ask of you? Who can answer that?

Ambassador DOUGLAS. In the Far East?

Senator LODGE. This particular question relates to the Far East.



Ambassador DOUGLAS. I think it would probably be better if the question were put to Mr. Harriman.

Senator LODGE. Then there is all this about scrap steel which is a matter of tremendous importance. Would you rather I asked Mr. Harriman?

Ambassador DOUGLAS. Yes; although I can say on that point that it is not contemplated that any scrap will be exported from the United States.

Senator LODGE. On tin plate:

The tin-plate requirement is more than double our recent exports and it continues over the 4-year period. Here again there is need for further justification of this urgency in the light of our own domestic needs.

Do you agree with the Harriman report that the tin-plate requirement is, as set up, too big?

Ambassador DOUGLAS. My recollection, Senator, is that the tin-plate requirement was very substantially reduced, but let me examine it and see.

No; I am in error. We did accept the tin-plate requirement, substantially.

Senator LODGE. So there is a conflict between you and the Harriman report on that?

Ambassador DOUGLAS. That is right, apparently.

Senator LODGE. Mr. Chairman, I think that is important, that conflict on a matter of that nature.

The CHAIRMAN. We will have the Harriman commission's resources available to us before we get through, and we can explore it. I quite agree.

Senator LODGE. All these questions relate to the Harriman report, and perhaps the best thing would be for me to put them to the Harriman committee witnesses, and then possibly later on, in a week or so, it might be possible for you to come back.

Ambassador DOUGLAS. I will be available at any time.

Senator LODGE. So that we can reconcile those things.

You have been very patient and very responsive. I am very much obliged to you.

That, with the exception of these questions on the Harriman report, concludes my questioning.

The CHAIRMAN. I suggest that you read your questions into the record right now, Senator, regarding discrepancies between the two, so that both the Harriman commission and the State Department can have them for study.

Senator LODGE. All right.

On page 56 of the Harriman report the following statement is made, and I quote:

Unless action is taken by the railroad management and/or Government to (1) repair some of the worn equipment being retired; (2) restrict less essential uses of open-top cars; and (3) establish a revised system of car allocation on the basis of sustained productive ability of each individual mine, the tonnages of coal available for export will be restricted, shipments will be erratic, and the European schedule of requirements for the United States coal will not be met.

The question is, What action has been taken, either by railroad management or the Government to accomplish these things?



Page 64 of the Harriman report:

The transportation situation requires that the car-production target be raised to a minimum of 14,000 per month. If experience indicates that even higher output is at all possible, the target should be raised further. Efforts are now being made by the steel companies and the car builders to arrange for the balanced flow of steel necessary to bring car production up to the target. These efforts must be pressed with the utmost vigor. If adequate steel cannot be supplied by the car builders in any other way, it must be done by allocation. If the car builders are unable to make efficient use of the steel delivered to them, ways must be found to correct the situation. There are few programs more urgent for this country or for Europe than the rehabilitation of transport to insure the carriage of freight and allow a margin of safety for contingencies.

The question is, What steps are being taken by the executive branch to achieve that end?

Page 65 of the Harriman report:

At a time when steel for urgently needed inland transport equipment is very scarce, the wisdom of a shipbuilding program as large as that proposed seems to us open to serious question.

Do they agree with the Harriman report on the shipbuilding program?

Page 65 of the Harriman report:

The United States Government has in its possession hundreds of ships that are not now being used and that will never be needed by our merchant marine under the most optimistic assumptions about its future. At present under the sales policy of the Maritime Commission very few additional vessels from this war-built surplus are being offered to foreign countries. This policy should be changed to permit foreign sales whenever we are satisfied that they will be accompanied by commensurate reductions in European construction programs.

Is that going to be done? That involves other agencies besides the State Department and the Department of Commerce.

Speaking of tankers, on page 66 the Harriman report says:

The committee recommends as part of the aid program the transfer to foreign governments of some special tanker types now in lay-up. These vessels, consisting principally of nearly 60 Liberty tankers, are not needed by United States interests and they could be sold by the receiving governments to private interests in foreign countries for local currency.

The further statement is made, and I quote:

The committee also recommends the construction in American yards of some new, large, fast tankers for the American oil companies.

Do they agree with that, and if so, what is being done about it?

Page 68 of the Harriman report, under the heading "Self-help measures" says, and I quote:

The Paris Conference countries should push forward with a number of measures of self-help to improve their own transport position. Their inland-transport program, including new production, replacement, and repair, will require some 16,000,000 tons of steel over 4 years, or about one-twelfth of the total steel they hope to have available. Unless these countries place a top priority on steel for transport purposes, their transport system will not be able to meet the demands of reviving European production. The United States should urge Paris Conference countries to give transportation requirements top priority for procurement of steel. Less essential uses such as shipbuilding should take second place. Otherwise, aid will not be effective.

What are the prospects of these nations taking the necessary action in this particular field?

On pages 69 and 70 of the Harriman report, reference is made to the Rhine traffic and the statement is made that a relatively small amount



is necessary to reestablish this traffic. The added comment is made, and I quote:

It would be the height of folly to permit a small financial impediment to stand in the way of an improvement in transport which could make a major contribution to the recovery of Germany and Europe.

Is such an outlay being made?

On page 87 of the Harriman report the estimate is made that in the case of France the amount of gold and United States bank notes that are hoarded in that country is between two and three billion dollars. A further estimate is made by the United States Department of Commerce that the amount of foreign investments in this country is approximately \$8,000,000,000, of which \$3,500,000,000 is stocks and bonds with the rest principally direct investments, real estate, mortgages, and trust funds.

The following statement is then made, and I quote:

Several of the foreign countries have employed various methods of trying to reach these funds by one legal device or another, with varying degrees of success.

What are these methods and why can they not be made more effective?

On page 92 of the Harriman report the following statement is made, and I quote:

As a mechanical means for assuring the maximum repayment to the United States with a minimum of burden on the foreign exchanges, it is suggested that when European governments receive materials under this plan and sell them to their nationals, they deposit the proceeds in local currency in trust accounts either in the central bank of the country, or in one of the large commercial banks, under the guaranty of the central bank and government with respect both to the payment in local currency, and the guaranty of the gold value of the local currency.

Is this mechanical means contemplated in the Marshall plan?

On page 33 of the Harriman report the statement is made:

If Great Britain could export 30,000,000 tons of coal today as she did in the prewar years, the whole face of Europe would be changed.

I think Ambassador Douglas answered that.

Then the question I asked before. On page 36 of the Harriman report, the following statement is made:

Restoring and maintaining European equilibrium requires not only the recovery of production in the participating countries, but also economic recovery in other areas—the Far East, for example.

What steps are in contemplation to promote such economic recovery?

On page 45 of the Harriman report, the following statement is made, and I quote:

Part of the responsibility for effecting political settlements in French Indo-China and the Netherlands Indies rests with two of the participating countries and this question is certainly germane to the over-all recovery program for these countries.

What is the State Department's comment on that, and what is the outlook for such a settlement?

On pages 53 and 54 of the Harriman report the statement is made:

The committee is not convinced, however, that failure to meet the stated requirement would cripple the European steel program. There is reason to believe that European supplies of scrap are larger than was assumed in the Paris report.



Scrap is in acutely short supply in the United States. Export would have the effect of reducing steel production here below the rate which would otherwise be possible. The committee recommends that no scrap be exported from the United States but that, in cooperation with the participating countries, a survey be undertaken immediately to determine how European scrap requirements can be met from other sources.

You have said there was to be no scrap exported. Then the question is unnecessary.

On page 50 of the Harriman report the statement is made:

The imports required from the United States in order to carry out the program, as stated in the CEEC report include (a) steel mill equipment; (b) steel-making materials, notably coke and scrap; (c) semifinished steel for further processing in European mills; and (d) some finished steel.

What are the prospects of obtaining this steel without at the same time doing violence to the vital American needs for housing, fuel, and for other purposes?

In this connection the following statement of the Harriman report should also be noted:

The question of whether the longer-term domestic and foreign demand for steel can be met without a major expansion of steel capacity over and above that now in progress is one that the committee is in no position to determine at this time, and is beyond its scope. Consequently, no position is taken on this matter. Any expansion not now planned would contribute very little to steel supplies in the next 2 years when European requirements are larger. Moreover, such an expansion would itself absorb steel while in progress and would make it more difficult for the European nations to obtain from us the steel-making equipment they need. On the other hand, further expansion of steel capacity may be so important in the light of longer-range considerations as to justify the use of scarce items for this purpose during the next 2 years.

That is a question which they state and do not answer, and we have to get the answer to it.

The last question is the tin-plate question which you have already answered, I think.

That concludes what I have.

The CHAIRMAN. Well, Mr. Ambassador, you are at least on notice that we are still lingering in the anteroom of this inquiry.

I think it would be most helpful if these questions, which are thoroughly pertinent, could be studied by the Department, and at your convenience, we could have a memorandum on them indicating the relationship between the attitude of the State Department and the attitude of the Harriman commission.

Senator HICKENLOOPER. Could I just suggest a question that can be answered or discussed sometime later? I would like to put it in at this moment.

The CHAIRMAN. Yes, Senator.

Senator HICKENLOOPER. I raised a question the other day about using dollars to go, for instance, into the Argentine or Canada to buy supplies. I am wondering about the fundamental effect of taking dollars into the Argentine and buying supplies, or into Canada or some place else, and the return pressure on the economy of this country of those dollars that accumulate there coming back here to demand machinery, to demand equipment, and to put pressures that will either have to be avoided or purchase orders that will have to be denied, on our American economy during this period. In other words, I would



like, at some later date, to discuss that phase of the thing, and to talk of the desirability of underwriting, if you please, and postponing orders for merchandise for American dollars, in order to keep that dollar pressure from coming back as quickly as they get the dollars for products out of our own industrial and economic plan.

I do not want to take the time now to discuss it, but I would like to have someone who is familiar with the theories on that situation explore that field.

Ambassador DOUGLAS. I will be very glad to discuss it, Senator, at the appropriate time.

The CHAIRMAN. Senator Hickenlooper suggests that we do it later.

Senator HICKENLOOPER. I thought perhaps the chairman was wanting to adjourn this meeting.

The CHAIRMAN. I will be very glad to discuss it right now, if you want to.

Senator HICKENLOOPER. If the Ambassador is ready to discuss that, I will be glad to hear him.

The CHAIRMAN. The Ambassador will not be here for another week or two, and this word "later" gives me the shivers now and then, because this word "later" might mean February or March or April.

Ambassador DOUGLAS. I think others, perhaps, can discuss it. I can say this at the moment. On all commodities in short supply in the United States, buying from Canada, let us, say, of certain commodities in short supply in the United States would have the effect of relieving the pressure upon the supply of the commodities of which we are short here.

Senator HICKENLOOPER. That is the very point. The acquisition of those supplies would relieve the pressure here. But would sending them the dollars, which they would in turn send back here to purchase materials, relieve the pressure?

Ambassador DOUGLAS. There is another effect. As I have indicated, it would have the effect of taking the pressure off the commodities with respect to which we are in short supply. It would also have the effect of shifting the demand to commodities within the United States of which we are not in short supply, so that we would be relieving the pressure on the commodities of which we are short, and increasing demand on products, fabricated articles, of which we are not in short supply. It would have that dual effect.

Senator HICKENLOOPER. Let us suppose that we take 300 million or 500 million dollars and, by way of a specific illustration, go into the Argentine and buy wheat, in short supply here. We give them those dollars immediately when we buy it. What are they going to do with those dollars? The dollars are not worth anything to them unless they come back to America and spend dollars for machinery and for goods, and certainly iron and steel products are not in long supply here, and other things that would go into building and manufacturing equipment, electrical equipment, and all things of that kind. It would seem to me it would be a perfectly natural thing and an economic thing for them to do, as quickly as they get dollars, to place their orders here for things that they want to buy, which, in the long run will be that machinery and mechanical equipment, in my judgment. And that will, it would seem to me, immediately build up the pressures here on our economy in those lines of short supply.



Ambassador DOUGLAS. There are two considerations, Senator. In the first place, our export controls would, I think, provide a defense against——

Senator HICKENLOOPER. That is right; but do we want to be in a position any more than we can help, of saying to these other countries, "No, we cannot supply you with these goods. We will have to turn you down"?

Ambassador DOUGLAS. No, we do not. But at any rate, against the danger which you envisage the export controls could be used, and doubtless would be used as a defense.

Senator HICKENLOOPER. I think it is the only weapon we would have to defend ourselves.

Ambassador DOUGLAS. There is another consideration, Senator. The dollars that the Argentine might get from us might be used by the Argentine, if they could not get supplies here, or wanted to buy goods elsewhere, to purchase sterling with which they can buy.

Senator HICKENLOOPER. Aren't they pretty well supplied with sterling at the present moment?

Ambassador DOUGLAS. I presume they are. They may be financing on credit at the moment certain imports of the Argentine from the United Kingdom, although they have also imposed restrictions on imports from the United Kingdom because there is no convertability of currency. But that is an outlet which they might use for those dollars.

Senator HICKENLOOPER. It would seem to me that we could welcome, say, the postponement of payment for off-shore purchases for 2 or 3 years, or, say, 5 years, by way of a guaranty, so that we do not use dollars presently that will come back to us demanding goods out of our economy here, and especially steel and manufacturing equipment, and things of that kind that they need.

In other words, if we could buy goods in short supply here off-shore, and say, "Well, we guarantee the payment of them, but we are not paying in dollars at the moment; we will begin the payment in dollars 4 or 5 years from now when our own economic plant has begun to catch up, and when we have got back into comparatively long supply we will pay with dollars and we will then be prepared to translate those dollars, if you want, and we hope you will want a certain amount of supplies which we can then purchase with much more ease than we can at the present moment."

Now, I do not know; I am not saying that that necessarily must be an answer, but it would seem that if such an arrangement could be worked out it would relieve the pressure on this economy, because I think if you spend dollars abroad, off-shore, those dollars are going to come back immediately with a demand for machinery and equipment here, and other things that probably we are not able to furnish if we go on with this program in Europe, and it will do nothing but contribute to the pressures on our economy, or force us to the expediency of just turning down the orders and saying, "No, you have the dollars, but we refuse to export goods to you. We are too busy exporting to other parts of the world, and we can't export to nations especially in this hemisphere, even though you have the dollars."

Ambassador DOUGLAS. I think the effect of purchasing off-shore, Senator, would reduce the over-all pressure upon our exports. I am quite confident that that would be the effect.



In the second place, I think that purchasing off-shore enables the countries in which the off-shore purchases are made, subject always to export control, to buy the things which are necessary to produce the commodities of which there is a world shortage. Thus there would be a relief of the pressure on world shortages, including our own.

The device which you suggest is one which I should think might be considered in lieu of, or it might be used as a supplement to, export control.

Senator HICKENLOOPER. I think in a free economy it is desirable not to have export controls. I would rather have freedom of placing orders and filling them and paying for them and not have government picking and choosing and saying, "You can export this and export that." That is always embarrassing, and it is not particularly desirable, except as an emergency matter. It just seems to me that while it is desirable that we must, if we can, purchase off-shore, and any purchases we make off-shore of short supply commodities in this country are certainly going to relieve the physical pressure in this country on those supplies, but it seems to me that those dollars, the minute we buy off-shore, will come back with another hat on and go into some other field in which we are also in short supply.

Ambassador DOUGLAS. But, Senator, they will come back in fields in which we are either not in short supply, or in fields in which we are certainly not in as short supply.

Senator HICKENLOOPER. I do not know the figures here. I cannot point out specific things. But I am of the opinion that the countries from which we purchase these things of which we are short have one big field of demand. They want electric equipment, they want machinery, they want factory-installation equipment, and engineering construction. They buy some other things, yes, but it is the mechanical devices that they want from us as much as anything else.

I may be wrong about that, but that is my impression. And certainly I think we are very short and will continue to be very short in this country for sometime to come on just that particular thing. And it seems to me that those dollars will come right back here begging for those things, and then we will have to say to them, "No; we cannot ship to you. We will exercise our right of controlling exports, and you have the dollars, but we will cut you off on the exports."

It would seem to me that we could avoid that by postponing the time of payment, by guaranteeing the note, if you please.

Ambassador DOUGLAS. There would be, I suspect, an adverse effect that would touch a great many industries, too. If certain of the countries cannot get dollars, then they would have to impose restrictions on imports which would touch a great many American industries which want to export. So it is a double-edged sword.

Senator HICKENLOOPER. Yes; I think so. Of course, that also goes into the field that might well be explored. If some country wants to supply wheat and get paid for it, the recipient country, in the 16-nations group, might well make an obligation with the nation furnishing it to pay that nation. We might well underwrite that undertaking over a period of years, but the primary obligation would be between the recipient nation and the seller.

Let's say it is a capital item of some sort that will produce a crop in that country. We might well underwrite the obligation, but let the



primary obligation be between the country receiving and the country furnishing, with us in the position of guarantor and not having to supply to that furnishing country dollars which will just come back to haunt us.

Ambassador DOUGLAS. Even that, Senator, which is an alternative device to the first one you suggested, as I understand it, might very well have the effect of requiring the second country to the arrangement that you have in mind to impose restrictions on imports from the United States. I can give you a case in point.

Canada, for example, if she cannot get dollars, will have to—and has had to because she could not get dollars—impose restrictions on imports from the United States. Now, to the extent to which she cannot get dollars presently she will have to maintain her restrictions on imports, or perhaps extend the restrictions on imports, and that may touch a variety of American industries that are tremendously concerned with exports. So that either one of these two devices that you suggest has two edges to it.

Senator HICKENLOOPER. Well, that is true. I said I wanted to explore this field, and I would like to have it discussed as thoroughly as it can be discussed.

Of course, I am greatly concerned about this thing in relieving in every sound way possible the pressures on the American economy, because in the next 4 or 5 years we have got to do a lot of shelf-filling here. We have got to get back on our feet in order to relieve the pressures that are already tremendous on our economy. We can only do it by production, and we cannot relieve pressures in this country until our domestic needs are more nearly filled than they are at present.

I do not like to see us create additional circumstances where pressures will come in that will be either embarrassing, or will increase the domestic internal pressure on our economy.

Ambassador DOUGLAS. There are two major considerations, Senator, that bear upon the matter which worries you. First, Senator, is that under this program the total volume of exports from the United States will be less than they have been in 1947.

Senator HICKENLOOPER. That is important.

Ambassador DOUGLAS. So that even under the European recovery program as now contemplated there would be relief as compared with pressures of the past.

Senator HICKENLOOPER. That is important.

Ambassador DOUGLAS. It seems to me there is importance to be attached to that.

The second consideration is that in the second year of the European recovery program the exports will decline even further, and in the third year still further. In the fourth year they will diminish to a much greater extent, until after the 4 $\frac{1}{4}$  years it is presumed that exports from the United States will accord with the natural demand for which the importing countries can pay.

Senator HICKENLOOPER. But, Mr. Ambassador, I submit that it is not enough for a man who is pretty hard up to say, "I am getting along fine. I spent less money this year than I did last year."

His job is to cut his spending down to the greatest degree of efficiency and relieve the pressure on himself as much as he can, regardless of what he spent last year, and it would seem to me this program is



going to have quite an impact on our whole set-up in this country, and that our job is not to say, "Well, it is a successful thing because under this we will not export as much as we did last year, or we will not charge the economy with as much outgo as we did last year."

But the problem is to use every possible device to get every possible relief on our economy here, so that we can get back in shape ourselves.

Now, maybe we are. Maybe we are not. I do not know.

Ambassador Douglas. Combined with weighting the vital national interests of the United States, and creating the environment in which we can have peace.

Senator HICKENLOOPER. Which are always paramount, I think, and therefore I think this thing has to be searched to see whether every possible device is being used to relieve pressures here and not create new pressures that may come back on us over this period of time, because certainly if we cannot weather this thing and go through with reducing pressure on our economy, rather than continuing pressures, Europe is not going to get much help, and certainly we are not going forward very fast.

Ambassador DOUGLAS. I think there is a great deal of weight that should be attached to the way in which it is contemplated that exports will fall, during the first year of the recovery program as compared with the past, so, to that extent, there is a relief of the tension and pressure on our own internal economy, and that becomes progressive. One also has to, as you and I have discussed before, Senator, weigh the strain upon our own internal economy as against the ultimate objective of establishing an environment in which peace can last.

Senator HICKENLOOPER. That is completely true. You and I agree on that thoroughly. But the prime essential of that environment is stability. It has to be, and it has to be rock-bottom stability or we may all go down in the heap. By "heap" I mean we may all lower our standards, lower our whole concept of this economy, and I take it that this is in the nature of an emergency, a serious emergency situation, and I hope that in our own interests we may approach it from the standpoint of dire emergency, and that we cut corners wherever we can in keeping with the prime objective, which is meeting a dire emergency either over this year or next year, or the next 2 or 3 years.

Ambassador DOUGLAS. Certainly, Senator, I agree.

The CHAIRMAN. The committee will recess until 2 o'clock, when Secretary Harriman will be the witness.

Ambassador DOUGLAS. Thank you very much, Mr. Chairman.

The CHAIRMAN. We are much obliged to you, Mr. Ambassador.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m. of the same day.)

#### AFTERNOON SESSION

(The committee reconvened at 2 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order.

The witness this afternoon is the distinguished Secretary of Commerce, Mr. W. Averell Harriman.

We shall be very glad to have you proceed, Mr. Secretary.



STATEMENT OF HON. WILLIAM AVERELL HARRIMAN, SECRETARY  
OF COMMERCE

Secretary HARRIMAN. Thank you, Mr. Chairman.

If I may take a few moments of the committee's time I would like to express my personal convictions in regard to the interest of the United States in the recovery of Europe. I know you have heard a great deal on that score, but with your permission I would like to say a few words on that subject, as I feel it so keenly.

The CHAIRMAN. We would be very glad to have you do so.

Secretary HARRIMAN. I firmly believe, gentleman, with Secretary Marshall that a recovery program for Europe of the size and nature proposed by the President will serve the cause of peace. This program contemplates assistance to the people of 16 nations of western Europe to regain their economic stability. Political stability can only be attained through improving economic conditions. It is abundantly clear that there are forces in Europe who wish to take advantage of economic chaos and hunger to establish totalitarian dictatorships. And in fact, political and economic war has been declared against recovery, openly and publicly, by those forces. There are groups within each country who are obediently following the line that has been dictated to them.

But on the other hand it is abundantly clear that the overwhelming majority of the people of these countries are struggling to overcome the destruction and disruptions caused by the war and to rebuild their lives under democratic institutions. We have already given them considerable help, and with this help real progress has been and is being made in spite of the forces at work both from within and without to prevent recovery.

These countries, including western Germany, number 270,000,000 people who are among the most talented, industrious, and freedom-loving people in the world. They are largely the people from whom our traditions and way of life stem. If what we have come to know as western civilization in these areas collapses we shall face world conditions quite different than we have ever known before.

It is fair to say that wherever governments are under the control of the people and wherever the people are free to make the ultimate decisions, the cause of peace is furthered. Historically, we can find no such assurance in dictatorships.

This program contemplates helping these countries to help themselves and by working together to help each other. We can hope that the cooperative relationships which the participating countries have undertaken to develop during the recovery period may well lead to permanent relationships and will break down the nationalistic barriers which have caused so much economic difficulty in the past.

I may say that through history there have been attempts through war to get economic integration of Europe. I feel that this is an opportunity for the first time in history to get real economic cooperation in Europe through peaceful means. And I feel that this will have in addition, a far-reaching effect on the development of the causes that we are interested in, and general prosperity in the world for the future.



I, for one, have no doubt that if we embark on this program with determination it will be successful in the reestablishment of western Europe on a firm foundation which can go forward in its traditions of democracy, freedom, and expanding human values. I feel deeply that not to have such faith is to deny the vitality of the free institutions that we so firmly adhere to.

I believe that this program is one of the most far-reaching undertakings for peace and for human progress ever undertaken by this or any other country. It is noble in concept but it is based on considerations of our own self-interest and in fact, in my opinion, of our self-preservation. I naturally prefer to discuss the constructive aspects of the program but I feel that I must give my judgment as to the effects of the alternative—if we should fail to take this step. And take it as boldly as I believe we should.

The President last summer appointed a committee of 19 distinguished private citizens to give its judgment on a foreign-aid program. I served as chairman of the committee. A section of their report deals with the interest of the United States in European recovery. They emphasize our humanitarian and economic interests and then conclude with their views on the political aspect. I commend to this committee their full statement on this subject. I will quote, however, only the concluding sentences.

I may say that the statement was written by the members, and not by myself, but I concur in their conclusions:

But we must face the reality that dire consequences are almost certain if we fail to move decisively at this critical juncture in world affairs. The present situation contains far-reaching implications which indicate that a do-nothing policy cannot be considered as an alternative.

If the countries of middle-western and Mediterranean Europe sink under the burden of despair and become Communist, Scandinavia will fall into the same camp. The strategically and economically vital north African and middle-eastern areas will follow. This transfer of western Europe, the second greatest industrial area in the world, and of the essential regions which must inevitably follow such a lead, would radically change the American position. If it should prove that a weakened United Kingdom could not resist so powerful a current, then the shift would be cataclysmic.

The domestic consequences are such as no American could easily tolerate: The swift and complete conversion to a military footing which national security would require; the abrupt but necessary change in or relations with the rest of the Western Hemisphere; the immediate and sweeping limitation of our economic and political life, perhaps extending even to our very form of government.

In such prodigious terms is the interest of the United States in European recovery defined. The committee is convinced that a sound program for western European recovery should be formulated and adopted by the United States with the same boldness and determination, and the same confidence in the worthiness of the democratic cause, which characterized our action in World War II.

The CHAIRMAN. Before you leave your quotation from the Harriman commission I want to underscore the fact that this committee of 19 was composed entirely of distinguished citizens outside of the Government service, and representing, so far as could be obtained, a cross section of highly expert civilian opinion on the subjects committed to its consideration. I would like to have placed in the record at this point a list of the membership and the identification of the members of both the commission and its staff.

Secretary HARRIMAN. I have them here, sir, and I will furnish them to the clerk.



(The members of the President's Committee on Foreign Aid, and their affiliations, are as follows:)

The Honorable W. Averell Harriman, Secretary of Commerce, chairman.  
 Hiland Batcheller, president, Allegheny-Ludium Steel Corp., Pittsburgh, Pa.  
 Robert Earle Buchanan, dean, Graduate College, Iowa State College, Ames, Iowa.  
 W. Randolph Burgess, vice chairman, National City Bank of New York, New York, N. Y.

James B. Carey, secretary-treasurer, CIO, Washington, D. C.  
 John L. Collyer, president, B. F. Goodrich Co., Akron, Ohio.  
 Granville Conway, president, Cosmopolitan Shipping Co., Inc., New York, N. Y.  
 Melville F. Coolbaugh, Colorado School of Mines, Golden, Colo.  
 Chester C. Davis, president, Federal Reserve Bank, St. Louis, Mo.  
 R. R. Deupree, president, Procter & Gamble Co., Cincinnati, Ohio.  
 Paul G. Hoffman, president, Studebaker Corp., South Bend, Ind.  
 Calvin B. Hoover, dean, Graduate School, Duke University, Durham, N. C.  
 Robert Koenig, president, Ayrshire Collieries Co., Indianapolis, Ind.  
 Robert M. La Follette, Jr., Washington, D. C.  
 Edward S. Mason, dean, School of Public Administration, Harvard University, Cambridge, Mass.

George Meany, secretary-treasurer, American Federation of Labor, Washington, D. C.

Harold G. Moulton, president, the Brookings Institution, Washington, D. C.  
 William I. Myers, dean, College of Agriculture, Cornell University, Ithaca, N. Y.  
 Robert Gordon Sproul, president, University of California, Berkeley, Calif.  
 Owen D. Young, honorary chairman of the board of directors, General Electric Co., Van Hornesville, N. Y.

#### Subcommittees and their chairmen

Capital and durable goods, Hiland Batcheller.  
 Consumer goods, John L. Collyer.  
 Development and administration and drafting, Robert M. La Follette.  
 Economic and financial analysis, Owen D. Young.  
 Food resources, Chester C. Davis.  
 Manpower, Paul G. Hoffman.  
 Mineral resources, Robert Koenig.  
 Transportation, Granville Conway.

#### Staff of the committee:

##### Executive staff:

Richard M. Bissell, Jr., executive secretary.  
 Max F. Millikan, William W. Remington, Herman W. Liebert, assistant executive secretaries.  
 John Davenport, Hector Prud'homme, San VanHynning, Herbert Hughes, Martha Davis.

##### Subcommittee secretaries:

Richard M. Bissell, Jr., economic and financial analysis.  
 Kenneth R. Davis, consumer goods.  
 Adrian S. Fisher, development and administration.  
 Karl A. Fox, food resources.  
 A. Ford Hinrichs, manpower.  
 Herman W. Liebert, drafting.  
 S. Morris Livingston, capital and durable goods.  
 Max F. Millikan, transportation.  
 Richard Mote, mineral resources.

Secretary HARRIMAN. I may say so far as the Administration itself is concerned I was the only contaminating influence.

The CHAIRMAN. I would like to add, Mr. Secretary, it not only was a most distinguished commission, but I know of my own observation that it confronted its responsibilities with a degree of dedication which is rather rare in organizations of this casual and unofficial nature. I doubt if in all my time I have ever seen a report so comprehensive and so clearly reflecting a very high degree of dedication to the task.

I think we are all tremendously indebted to the members of the commission and to its staff.



Secretary HARRIMAN. Mr. Chairman, I am naturally very gratified to hear you say so. The opinions that you express are those that I gained with my contact with the work of the committee. I know of no group who have ever given greater attention to or more objective attention to the task in so brief a time.

Senator CONNALLY. I want to commend the committee, Mr. Chairman. Let the record show that I join in the commendation of the committee. I think it did a stupendous task very well.

Secretary HARRIMAN. Mr. Chairman, I would like to make it clear that I fully appreciate, and I think we should all understand, that a program of the contemplated magnitude will be costly and will mean sacrifice by the American people. On the other hand, it is my conviction that the benefits to be gained far outweigh the immediate sacrifices.

As has been indicated, we cannot expect to obtain direct repayment for a substantial part of the aid given. Our returns will be in furthering peace and in world stability and I believe we will get an indirect return over the years from expanding world trade.

Up to now I have been speaking as an American who has had the opportunity during recent years to observe at first hand developments in Europe. I now wish to turn to certain aspects of the problem that are associated with my present responsibilities as Secretary of Commerce.

United States economic interest in Europe: The area we are concerned with is a tremendous industrial workshop, even now comparable in the world only to our own country. It was before the war a great world trade center. The international trade of this area in 1938 amounted to roughly half of the total trade of the world. Its economy in modern times has rested in large measure upon buying raw materials converting them into manufactured articles through use of its own fuel, skilled labor and industrial resources, and selling the finished articles in the world market.

Much of its food, special equipment and other items have been bought with the proceeds of these sales. To an important extent, also, western Europe's income from sales of manufactured products was augmented by income from tourist, shipping and financial services to the outside world and from overseas investments.

Under these conditions western Europe developed as a specialized manufacturing center, and as such it could and did support a large population. Conversely, however, its ability to sustain a dense population is dependent upon the existence of world conditions under which it can buy its needed materials, manufacture and sell finished products in volume. These conditions have not existed since the war.

You have heard in detail, in previous testimony, the ways in which they were disrupted by the war, and the extent of this disruption. Suffice it to say here that western Europe is under present conditions unable to produce and trade in the volume necessary to play its pre-war role in the flow of world trade, or even to rebuild and expand its productive equipment, employ its population fully and effectively, and support itself, without aid from the outside.

This indicates the seriousness of the situation for Europe itself. The question I wish to discuss is the economic interest of this country in the restoration of Europe to her earlier role in the world's economy.



We clearly have such an interest in the restoration of Europe as a paying market for United States goods. Prewar western Europe bought and paid for United States commodities far in excess of her sales to the United States. This was part of the great triangular trade in which western Europe sold an excess of goods and services to Latin America, the latter to the United States and the United States to Europe. Similarly, part of our exports to western Europe were paid from the proceeds of her excess exports to the Far East which, in turn, had an export surplus with the United States.

The war and its aftermath, including the delay in European recovery, and delay in recovery in certain areas of the Far East, has disrupted these multilateral trading relationships and seriously affected the economies of other trading nations of the world. With too little production and the resulting low level of exports, Europe has since the war been able, only with difficulty and with such outside assistance, to provide its most pressing import needs.

Contrary to the general impression, we are sending a smaller proportion of our exports to Europe than in 1946 or before the war. And, while our total exports have to date been sustained by an abnormal demand which has been backed up in other areas of the world during the war years, definite signs have appeared of a dollar shortage in other parts of the world as well, foreshadowing an inevitable steep decline in our exports, unless there is a normal world recovery.

It is to our interest, therefore, purely from a business standpoint, that this world network of trade be restored and sustained on a paying basis, not necessarily on the identical lines as prewar but on lines adapted to new conditions. We seek the recovery of Europe's industrial productivity so that she may be able to sell abroad in payment for what she needs to buy abroad. To be sure, there will be more competition for certain of our products. There will, however, be bigger and sounder markets in Europe and elsewhere.

I am not suggesting that the United States could not endure the loss of European markets. However, production of many industrial and agricultural products in this country and in other countries has been developed based on the participation of Europe in international multilateral trade. The decline of Europe would require far-reaching readjustments of agricultural and industrial production and distribution in this country and in other areas. It might well affect our ability to obtain needed imports and, particularly, essential raw materials.

Such readjustments would be costly in terms of employment and standards of living to our people and to the people of other countries. The cost of such a change is, of course, not calculable in dollar terms, or easily related to the cost of the program before you. It is clear, however, that the cost would be very great in both economic and human terms.

Progress to date: We have already furnished substantial aid to western Europe—nearly \$3,000,000,000 in grants and over \$7,000,000,000 in loans and credits since the end of the war. It is fitting and desirable, therefore, to inquire into the results achieved thus far.

We find that in 9 out of the 16 countries involved, industrial production is now at or above prewar levels. I think these are somewhat more recent figures than given by Mr. Douglas. These are, the Neth-



erlands, France, Denmark, Luxemburg, Norway, Sweden, Switzerland, Ireland, and the United Kingdom. Belgium is below prewar level by about 10 percent; and Italy's production is at about two-thirds of prewar; Germany and Austria, however, are operating at less than half of prewar.

Senator WILEY. That is on a dollar basis, is it not, Mr. Secretary?

Secretary HARRIMAN. No; that is calculated on the volume basis.

Senator WILEY. Does that apply to England, too?

Secretary HARRIMAN. That applies to England, too.

Senator WILEY. She is above prewar.

Secretary HARRIMAN. These countries are either at or above. I think England is about at prewar production. That is a recent month's figures. This is industrial production I am referring to. I am not referring to other aspects of the economy, such as agricultural services.

The CHAIRMAN. That must mean that England is way above prewar in some categories, then.

Secretary HARRIMAN. She has been substantially below in coal production and has been substantially above in other areas. Steel, she is above prewar, and in certain other areas.

Coal, as you know, incidentally, has come up in recent months—recent weeks, I should say—quite substantially.

Except for the latter two countries, the average level of industrial production in other participating countries is now close to prewar.

To be sure, consumption levels are considerably below prewar for large groups of the population, but this is so in large measure because so much of the production has had to go into replacement of what was lost through wartime destruction and deterioration.

Then, too, these countries have been trying to maximize their exports. At the same time, they have had to take care of an increased population. I think that is about 7 percent. The facts are, however, that widespread starvation and disease, otherwise almost certain have been avoided; and progress has been made as indicated, toward general economic recovery.

I would also like to say that the Europeans are not, as a whole sitting down on the job, as has been so frequently stated. The urban populations have largely a most inadequate diet; in addition, there is a widespread lack of consumer and incentive goods. It is not easy to work on an empty stomach; and it is not encouraging to work for wages that cannot be used fully to satisfy family needs. Nevertheless, they have worked hard to achieve the substantial progress that has been made. More than that, it promises well for what can be accomplished with further adequate help. Our assistance thus far has certainly produced results. I believe, therefore, we have a reasonable basis for going ahead.

Procurement and supply from other sources: It is important to understand that Europe will have to get many of the materials she needs from countries outside of the United States. Only about one-third of the things needed by the 16 countries of western Europe will be obtained from the United States. And I speak of their entire requirements, which they get from their own exports and from our help.



The European countries will not be able, at first, to finance all of these so-called offshore purchases with exports of their own products. For the first 15 months of the proposed program it is estimated only about two-thirds of the materials to be imported from sources other than the United States can be paid for by exports from Europe. The other third will have to be paid for either by dollars from the United States or by credits extended to Europe by the supplying countries.

There are several reasons why we should assist European countries to acquire goods from other countries. The strains on our economy will be lessened if other nations can supply part of the materials that are in short supply here. This will also provide the widest possible opportunity for other countries, particularly in the Western Hemisphere, to send to Europe the goods which they have customarily supplied. And these Western Hemisphere countries are thus enabled to buy the goods which we have sent them.

This triangular, or in some cases multilateral, trade will have a healthy effect on the reestablishment of normal conditions and assist in general world recovery. There will also result a broader diversification of purchases in this country over a wider area of our productive capacity which can be more readily sustained and which will be healthier for our economy both now and certainly in the long run. At the same time, the export-control powers which the Congress has recently extended can be used to protect our economy from undue drains in any particular items.

I have emphasized the relation of the procurement program to the countries of the Western Hemisphere, since many of them are in a position to supply needed commodities; South America can supply various food items and fertilizers; Canada can supply some manufactured goods as well as grain. This arrangement will help in two ways. On the one hand, these European imports from countries outside the United States are of vital importance in order to fulfill Europe's essential requirements; on the other hand, they will contribute greatly to the internal economy of the supplying countries—in which in many cases we have very great interest, perhaps in all cases—and to the reestablishment on a firm base of the structure of international trade.

There is a further aspect of this matter. Several of the most important supplying countries will be unable to produce sufficient of the materials that Europe needs unless they receive some outside assistance. In this connection, the Congress has just recently, during the special session, authorized the Commodity Credit Corporation to engage in broad projects "to stimulate and increase the production of foods, agricultural commodities, and products thereof, in non-European foreign countries." This far-sighted legislation is bound to make our task easier.

In passing I want to say—though I am not testifying on it today, it is in Secretary Anderson's field—the gravest consideration in world recovery and in European recovery is, in my judgment, the question of supply of food, not just for the emergency of this winter but for the recovery period. I do want to support the concept of this wise legislation that we have a tremendous interest in increasing the production of food to take care of the additional world population, to take care of the reduction of availability of food from some areas that are not producing the quantities that they did in the past, and I doubt if



they ever will, and to open up new channels of trade which will be of great importance to world stability.

To sum up—other exporting nations are expected to supply to a great extent the needs of western Europe. That will not only lessen the impact of the program on the United States; it will aid tremendously in rebuilding the trade of the world on a sounder base, and at a higher level.

The domestic impact: There is another question of great importance, Will this aid that we propose to extend to Europe raise the cost of living in the United States still higher than it is already? Perhaps that question can be phrased in several ways.

Everyone who has studied the problems involved in the European recovery program has been deeply concerned with its probable effects on the welfare of our own people. The President appointed two governmental technical committees to study these problems and their reports have been made available.

I will try to say a few words about it myself.

When we try to determine what effect European aid will have on our economy, it is, of course, not enough to consider the amount of financial aid we plan to extend. More important than the amount of money involved is the volume of goods we will ship. Inflated prices in this country result from short supplies of goods combined with heavy demands.

In 1947 the volume of goods exported from the United States was the highest in peacetime history. The dollar value of our exports in 1947 was five times as high as in 1938. In terms of actual physical volume of goods, our exports in 1947 were well over twice the volume we shipped in 1938. Moreover, the greatest increases in our exports were not to the countries of Europe but to South America and Canada.

In the second quarter of 1947 we were exporting five times in volume as much to South America as we did in 1938, and three times as much to Canada. Our exports to Europe were only two and a half times as much in this same period as they were in 1938. To other parts of the world the exports were less. And during the past 2 years the total increase in our exports to Europe has been slight, what they have increased to other countries.

The CHAIRMAN. All those exports to Europe in 1947, for example, would be largely influenced by our own Government expenditures would they not, directly or indirectly?

Secretary HARRIMAN. Loans and relief, yes. They do not include, of course, our military expenditures in Germany.

Of course, those exports were financed to Europe to a considerable extent by the grants-in-aid and the loans that we made.

The CHAIRMAN. Would there be any way, just in passing, to break down that statement: "Our exports to Europe were only two and a half times as much in this same period as they were in 1938"? Even that is a tremendous increase. Would there be any way to say approximately how much of that was normal, what might be called normal, trade, and how much was inspired by the American loans and grants?

Secretary HARRIMAN. Mr. Blaisdell, do you want to take a crack at that?

Senator CONNALLY. You are citing 1938 as being normal.



Secretary HARRIMAN. It was the last prewar year. The last full prewar year. Of ours our business activity in this country was much less.

Mr. BLAISDELL. I think we had better give the Senator a comment on that later. We can get it.

Secretary HARRIMAN. When I said two and a half times, I meant only in relation. That related five times to South America.

This is dollar volume.

Senator WILEY. Our aid in the year 1947 approximated \$6,000,000,000.

Secretary HARRIMAN. In the two periods our aid in loans was \$10,000,000,000.

I will get it later.

(Secretary Harriman submitted the following additional information after the hearing:)

Of total estimated exports of goods and services in 1947, of \$19,500,000,000, not more than \$7,000,000,000 reflects United States and International Bank loans, and grants (including United States contribution to UNRRA).

Senator HICKENLOOPER. Do you have available now, Mr. Secretary, the dollar volume of exports to Europe, and to Central and South America and Canada in 1937 and 1947?

Secretary HARRIMAN. Here is the billions of dollars in annual rate. That is a chart figure. We can give the figures in any detail you wish, Senator.

Senator HICKENLOOPER. Do not you just have the figures? How many billion dollars did we export to Europe in 1937? Do you have that?

Secretary HARRIMAN. The data are on that chart that I handed to you.

Senator HICKENLOOPER. These charts once in a while confuse me. I do not understand all the fancy methods of presentation pictorially.

Secretary HARRIMAN. This was not prepared for the committee. It is one of the regular charts we get out. These are in millions of dollars, present-day dollars. I have them by quarters, I am afraid, Senator. I will have to add them up. I will get that statement and give it to you.

Senator HICKENLOOPER. I thought if you had it immediately available we could get it right now. If not, we can get it later.

Secretary HARRIMAN. In the third quarter, for example—

Senator HICKENLOOPER. Would it be too much trouble just to have one of your assistants get that up and give it to us a little bit later. I do not want to delay your statement.

Secretary HARRIMAN. Yes. I can give you the third quarter, at the annual rate at which we are shipping. If you want it for the year I can do it.

Senator HICKENLOOPER. What I am asking is how many dollars in volume did we ship to Europe in 1937, and how much did we ship to South America, and what was the volume we shipped in 1947 to Europe, and what went to South America.

I think it is just a matter of addition.

Secretary HARRIMAN. Yes. I will be glad to get it for you.



(The matter referred to is as follows:)

*United States exports and imports, by continents and leading countries, annual, 1936-38, 1946, and January-November 1947*

[Value in millions of dollars]

Continent and country	Exports, including reexports					General imports				
	1936	1937	1938	1946	January-November 1947	1936	1937	1938	1946	January-November 1947
Total.....	2,456	3,349	3,094	9,739	13,350	2,423	3,084	1,960	4,909	5,139
CONTINENTS										
North America:										
Northern <sup>1</sup> .....	392	519	476	1,475	1,980	380	406	266	916	1,010
Southern.....	225	321	264	1,069	1,552	237	283	223	732	929
South America.....	204	318	300	1,152	2,156	292	422	263	1,095	1,100
Europe.....	1,043	1,359	1,326	4,097	4,843	719	844	568	796	738
Asia.....	399	580	517	1,342	1,762	708	967	570	881	941
Oceania.....	79	99	94	117	294	36	68	16	183	143
Africa.....	114	152	118	488	764	51	92	53	306	277
NORTH AND SOUTH AMERICA										
Canada.....	384	509	468	1,442	1,929	376	398	260	883	978
20 American Republics <sup>2</sup> .....	395	578	481	2,100	3,513	502	673	453	1,760	1,936
Mexico.....	76	109	62	505	567	49	60	49	233	230
Cuba.....	67	92	76	272	446	127	148	106	323	467
Colombia.....	28	39	41	146	198	43	52	49	157	182
Venezuela.....	24	46	52	212	387	26	23	20	120	155
Chile.....	16	24	25	77	114	26	47	28	84	108
Brazil.....	49	69	62	356	588	102	121	98	408	397
Argentina.....	57	94	87	193	624	66	139	41	194	137
Uruguay.....	9	13	5	48	72	12	14	5	48	33
EUROPE										
Continental Europe <sup>3</sup> .....	561	766	707	2,851	3,559	494	605	422	535	476
Belgium.....	59	95	77	279	490	59	75	42	77	53
France.....	129	165	134	712	761	65	76	54	62	44
Germany.....	102	126	107	82	140	80	92	65	3	5
Italy.....	59	77	58	371	459	40	48	41	69	38
Netherlands.....	53	94	97	222	347	50	53	31	23	25
Sweden.....	43	64	64	206	380	48	59	45	47	85
Switzerland.....	8	10	11	108	176	21	27	23	98	75
United Kingdom.....	440	536	521	856	1,057	200	203	118	156	186
U. S. S. R.....	33	43	70	358	134	21	31	24	100	72
OTHER CONTINENTS										
Western Asia.....	20	30	35	131	276	21	37	29	184	95
Turkey.....	6	15	13	37	77	10	18	19	68	51
Far East <sup>4</sup> .....	458	649	575	1,328	1,779	723	998	557	880	990
British Malaya.....	5	9	9	15	59	168	243	112	127	259
China.....	47	50	35	465	334	74	104	47	93	102
Japan.....	204	289	240	102	46	172	204	127	83	31
India <sup>5</sup> .....	27	44	33	181	371	70	96	58	238	233
Philippine Republic.....	60	85	86	297	401	102	126	94	40	141
Australia.....	58	74	69	84	214	23	44	9	145	114
New Zealand.....	19	24	23	28	72	12	22	7	35	27
Africa:										
Algeria.....	2	2	3	61	45	2	4	2	2	2
Belgian Congo.....	1	2	2	24	47	2	3	2	19	28
Egypt <sup>6</sup> .....	10	14	13	35	57	10	14	5	24	28
Union of South Africa.....	70	89	70	227	381	6	14	16	151	94
British Empire and Egypt.....	1,072	1,388	1,306	3,077	4,596	930	1,133	642	1,916	2,077

<sup>1</sup> Includes Iceland.<sup>2</sup> Includes Canal Zone in 1936 and 1937.<sup>3</sup> Excludes U. S. S. R., United Kingdom, Eire, and the islands in the Mediterranean.<sup>4</sup> Asia other than Western Asia plus Oceania.<sup>5</sup> Includes Burma in 1936 and 1937.<sup>6</sup> Includes Anglo-Egyptian Sudan in 1936, 1937, and 1938.



*Percentage distribution of United States exports and imports, by continents and leading areas, annual, 1936-38, 1946, and January-November 1947*

Continent and area	Exports, including reexports					General imports				
	1936	1937	1938	1946	January-November 1947	1936	1937	1938	1946	January-November 1947
Total.....	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
CONTINENTS										
North America:										
Northern <sup>1</sup> .....	16.0	15.5	15.4	15.1	14.8	15.6	13.2	13.6	18.7	19.7
Southern.....	9.2	9.6	8.5	11.0	11.6	9.8	9.2	11.4	14.9	18.1
South America.....	8.3	9.5	9.7	11.8	16.1	12.0	13.7	13.4	22.3	21.4
Europe.....	42.5	40.6	42.9	42.1	36.3	29.7	27.4	29.0	16.2	14.4
Asia.....	16.2	17.3	16.7	13.8	13.2	29.2	31.4	29.0	17.9	18.3
Oceania.....	3.2	3.0	3.0	1.2	2.2	1.5	2.2	.8	3.7	2.8
Africa.....	4.6	4.5	3.8	5.0	5.7	2.1	3.0	2.8	6.2	5.4
AREAS										
Canada.....	15.6	15.2	15.1	14.8	14.4	15.5	12.9	13.3	18.0	19.0
20 American Republics <sup>2</sup> .....	16.1	17.3	15.5	21.6	26.3	20.7	21.8	23.1	35.9	37.7
Continental Europe <sup>3</sup> .....	22.8	22.9	22.9	29.3	26.7	20.4	19.6	21.5	10.9	9.3
United Kingdom.....	17.9	16.0	16.8	8.8	7.9	8.3	6.6	6.0	3.2	3.6
U. S. S. R. ....	1.4	1.3	2.3	3.4	1.0	.8	1.0	1.2	2.0	1.4
Western Asia.....	.8	.9	1.1	1.3	2.1	.9	1.2	1.5	3.7	1.8
Far East <sup>4</sup> .....	18.6	19.4	18.6	13.6	13.3	29.8	32.4	28.4	17.9	19.3
All other <sup>5</sup> .....	6.8	7.0	7.7	7.2	8.3	3.6	4.5	5.0	8.4	7.9
British Empire and Egypt.....	43.6	41.4	42.2	31.6	34.4	38.4	36.7	32.8	39.0	40.4

<sup>1</sup> Includes Iceland.

<sup>2</sup> Includes Canal Zone in 1936 and 1937.

<sup>3</sup> Excludes U. S. S. R., United Kingdom, Eire, and the islands in the Mediterranean.

<sup>4</sup> Asia other than western Asia plus Oceania.

<sup>5</sup> Includes Africa as shown above, and countries of Western Hemisphere and Europe, not included elsewhere.

Secretary HARRIMAN. I would like to show the relationship between the volume of goods we would be shipping abroad and our total national production. The United States is now, of course, beyond comparison the most productive Nation in the world. We are producing more than half again as much as we produced before the war, and we are eating better, even though we have shared our bounty with our friends abroad.

During 1947 our gross national product was over \$230,000,000,000. Our merchandise exports represent less than 7 percent of this total.

Senator HICKENLOOPER. I hate to interrupt, Mr. Chairman, but the figure I have is \$228,000,000,000.

Secretary HARRIMAN. I have checked that since this was typed. The final figure for the year has come out and it comes out slightly over \$230,000,000,000.

The final test of the inflationary impact is the size of the net export surplus. Looking ahead to the coming year, our estimates point to a decline in American exports from \$19,400,000,000—that is goods and services—to \$18,800,000,000. That I want to point out is the best estimate that can be made at the present time—and a small increase in imports of goods and services, it is estimated, from \$8,000,000,000 to \$8,300,000,000.



In making this estimate, account has been taken of expected imports by the United States, of remaining credit balances, gold, liquidable dollar assets, of likely private investment abroad, and of dollars which may be made available by the International Bank and the Monetary Fund.

The estimate assumes the recommended appropriation of \$6,800,000,000 is authorized. On this basis there will be a decline in the net export surplus (goods and services) from \$11,400,000,000 in 1947 to \$10,500,000,000 next year, a difference of approximately \$900,000,000 (at current prices). This expected export surplus in 1948 would be \$2,300,000,000 less than in the second quarter of 1947—I am speaking of the annual rate as it was at that time when it was \$12,800,000,000, or about 18 percent less than the peak. Thus the program would result in a smaller over-all inflationary impact than we have had during the past year.

It would, of course, be easier for us to win our battle against inflation if we could use the goods we are exporting to help meet the heavy demands at home. We must frankly face the fact that the European recovery program will add to our difficulties in trying to control inflation. But we must also understand that inflation is caused by many other factors of domestic origin.

In general, therefore, the answer to the question as to the inflationary aspects of the program is that they are real but are not controlling. The largest part of the cost-of-living problem is at home. We should have to treat with it even in the absence of this program, and in either event the same measures would be necessary and should be used.

Specific impact—industrial items: To complete this analysis, the drain on our economy should also be appraised in terms of the particular items involved. Secretary Anderson will discuss with you the food and agricultural questions; Secretary Krug, particularly coal and petroleum; and I shall touch on the major industrial items—agricultural and mining machinery and equipment, iron and steel, electrical machinery, and other equipment.

Agricultural machinery: The CEEC stated import requirement for tractors and other farm machinery, of which the United States would be called on to supply some 85 percent—15 percent coming from other countries—amounted to \$932,000,000 at July 1, 1947, prices.

The CHAIRMAN. Is that the 4-year program?

Secretary HARRIMAN. That is the 4-year program, as I understand it.

Of this total \$353,000,000, or 38 percent, was required for the first year of the program. This request was judged to be far in excess of United States capabilities to supply and probably a good deal greater than European capacity would be able to absorb effectively in the time involved.

The estimate here presented is that the United States would supply \$136,000,000 of farm machinery during the first 15 months and a total of \$545,000,000 during the entire period of the recovery program. The necessity of insuring that Europe has available sufficient means of production to maximize food output has been discussed in detailed evidence previously submitted to your committee; and will, I am sure, be emphasized in the course of Secretary Anderson's testimony.



Our particular concern has been the development of an export program which will not endanger the achievement of food-production goals in the United States. Normally, Europe has taken about 5 percent of our farm-machinery production. The program recommended would about double that percentage, but because of our increased production it would still leave more of this equipment for the American farmer than he had in 1946 and at the same time take care of our other regular customers abroad.

Although many American farmers have had machinery on order for some time, they are in better shape in this respect than prewar. The volume of farm power, machinery, and equipment is calculated to be more than 20 percent higher than prewar. The recommended increase in exports to Europe should not result in any decrease in our food production, but only cause a short deferment in the replacement of some older equipment.

**Coal-mining machinery:** The proposed program for the export of coal-mining machinery calls for the shipment of \$82,000,000 worth of this equipment during the first period of the program. The estimated total for the entire period is approximately \$207,000,000. It will be noted that the program here recommended approximates the level of the CEEC request but it should also be noted that these recommendations involve a redistribution of the exports envisaged in the Paris report. In particular, the requirements for certain of the participating countries have been revised downward while those for western Germany have been increased. Exports under this program will involve a wide variety of equipment, the most important items being conveyor belting, hose, wire rope, and some specialized machinery such as cutters and loaders.

The CEEC requirements have been carefully reviewed by American manufacturers and it is their judgment that they can be met. Our productive capacity has increased since the war, and our own accumulated demand has been substantially overtaken. Fairly accurate forecasting of the future demand was possible, because of the large volume of orders now held by our manufacturers for delivery 2 years ahead. Only conveyor belting offers a major supply problem but this is proposed to be met in great part through alteration of the original specifications to enable United States producers to operate their presses at maximum capacity.

The effect of imports of these items on Europe's production and export potential is great. The shipment of relatively small amounts of these critical items will make possible the rapid completion of programs for repair, modernization and expansion of Europe's coal mines which will in turn progressively reduce and ultimately eliminate the currently high and uneconomical movement of United States' coal to Europe.

**Electrical equipment:** The program calls for the furnishing of supplies in the electrical-equipment field to the total value of \$345,000,000. It comprises generating equipment, motors, and other types of electrical machinery, apparatus, and supplies. Of the \$345,000,000, \$70,000,000 is destined for the power-generation industry; the remainder will be equipment for use in fertilizer production, mining operations, and other industries. During the first period, \$95,000,000 is involved, consisting mainly of the smaller items, such as motors and electrical



supplies. No large generating equipment, of which we are now extremely short, is contemplated to be supplied until toward the end of the program.

Our annual production of all these items now exceeds \$4,000,000 and we have usually exported 6 percent of our production. There is contemplated a relatively large increase over our regular exports to Europe in this category, but our total exports to all destinations are not expected to exceed 8 percent of production.

The electric-power program is a vital phase of the general economic rehabilitation of western Europe. The importance of the program to the CEEC countries is shown by their plans for expansion. The participating countries are undertaking to expand their power industry to an extent requiring the use of \$5,000,000,000 of equipment, of which we propose to supply the afore-mentioned \$70,000,000, or 1.4 percent. While our contribution in electrical equipment generally is relatively small, it involves many items of specialized character available only from the United States.

Iron and steel: We propose to supply 3,100,000 tons of iron and steel valued at \$290,000,000 during the first 15 months of the program; that is just over half the amount estimated in the Paris Conference report. Included are 2,100,000 tons of finished and about 1,000,000 of crude and semifinished.

During this same period, the participating countries will produce about 35,000,000 tons; our production will be about 80,000,000 tons. Our contribution will fill a critical need to reconstruct damaged and destroyed plant and transportation facilities and take care of a large volume of essential replacement and maintenance deferred during the war.

Imported steel in the next year or two is also essential to the success of many vital production programs in Europe. In the latter years of the program our contribution will be much less.

The request for scrap has been rejected entirely, because scrap so directly affects our crude-steel production. Similarly, the estimates for crude and semifinished steel have been substantially revised downward, because of their effect to our output of finished steel and because shipments of such products reduce the availability of scrap generated in their further finishing, and thus affect our domestic production.

In making these reductions, account was also taken of the fact that available fabricating facilities and manpower in Europe are considered inadequate fully to utilize the original request tonnages. I should mention at this point that we have just sent a technical mission to Germany to survey the possibilities of exporting scrap to the United States.

In the case of steel-making equipment, also, it was found necessary to scale down the CEEC requests.

Senator CONNALLY. You rejected their requests for scrap?

Secretary HARRIMAN. That is correct.

Senator CONNALLY. You are going to let them have the scrap over there. Now you are talking about importing it to the United States. Why not let them have the scrap over there and we will not have to send them so much steel from the United States?

Secretary HARRIMAN. If our importations of scrap from Germany did seriously affect their production I think your comment would



be entirely correct. It is our feeling that the organization of scrap collections has not been carried out as yet, and it may well develop that we can obtain some scrap from over there, and yet provide conditions which will allow scrap-consuming countries to get more scrap than they are now getting.

I would not recommend that we import scrap to the United States if it does unduly affect the ability of the European countries to reach the targets of steel production which have been set for them.

Senator CONNALLY. Whether it does or not, we are going to send them a lot of real steel from over here and then we are going to bring the scrap from there to here. Why do that? Why not just let them, to the extent that they can, get the scrap in Europe and reduce our production over here for it?

There is no use in shipping in one direction and having another shipment from the other direction pass it in the meantime. That is what I am talking about.

Secretary HARRIMAN. At the present time, Senator, there is a limitation in the ability of the European countries to produce steel or iron, and to use scrap. They are calculating an increase in production of steel, rehabilitating their facilities and expanding them. At the present time we need scrap to maintain full production of steel in this country. It is the biggest bottleneck in maintaining full production of steel in this country.

If we can get scrap from Germany without interfering with the European iron and steel production it will help us materially.

Senator CONNALLY. It would help us to send them more steel later on. I do not think you get what I thought was the point. The point I am making is if the scrap is already over there, why not let them have that scrap and thereby reduce the amount of steel that we will have to ship them?

Secretary HARRIMAN. I hope to find that there is more scrap than can be used by the Europeans. Scrap, of course, cannot be used directly. It has got to be converted, naturally, into iron and steel. We shipped so much steel from this country to the war areas that we were hoping we could get some of it back in order to keep our steel-making industry closer to the maximum production.

Senator THOMAS of Utah. Mr. Chairman, since there has been an interruption, may I ask the Secretary a question here?

The CHAIRMAN. Certainly.

Senator THOMAS of Utah. At the bottom of page 17, the last sentence:

While our contribution in electrical equipment generally is relatively small, it involves many items of specialized character available only from the United States.

Can you name one or two of those items, Mr. Secretary?

Secretary HARRIMAN. There is no technical man here. I will supply that information for you if you wish to have it, Senator.

(Supplementary statement on electrical equipment:)

Among the items of electrical equipment contemplated to be supplied in small quantities are porcelain insulators, transformers, and voltage regulators. Included also are small machine tools, valves, castings, and other equipment needed in their power program, but not a drain on our own electrical industry.



Senator HICKENLOOPER. Mr. Chairman, may I ask a question in connection with this scrap supply?

The CHAIRMAN. Yes.

Senator HICKENLOOPER. It is my impression that all over, especially in the battle areas of Europe, there were tremendous numbers of abandoned pieces of steel equipment, tanks, trucks, all other steel equipment that was expendable during the war, as well as the steel from destroyed buildings and other structures that might be scrapped.

Do you have any estimate as to the total tonnage of scrap of that kind that exists in western Germany, France, Italy, and in north Africa?

Secretary HARRIMAN. We have no estimates. We hope that we can get from this technical mission that is going over there more information as to what there is, what is readily available, what the cost of assembling it and moving it is.

Oddly enough, of all the scrap that is there, there is a great need for scrap in Italy and in Britain. They have not been thoroughly organized yet in moving it.

Senator HICKENLOOPER. I wanted to know whether that scrap was being moved or whether it was left where it fell, and if they are asking us to furnish additional scrap more conveniently loaded and delivered.

Secretary HARRIMAN. They asked us for additional scrap. That was one of the reasons why the request was rejected. It does not exist here and we believe that a great effort should be made to use the scrap.

Senator HICKENLOOPER. I think it would be a pertinent piece of information to have.

Secretary HARRIMAN. In all fairness the organization of Germany as a scrap area to get scrap, has not been made available to other European countries. Britain at the moment is getting some scrap from her zone.

Do you remember how much tonnage?

Mr. BLAISDELL. About 70,000 tons a month.

Secretary HARRIMAN. About 70,000 tons a month is going to Britain from the British zone.

In the case of steel-making equipment, also, it was found necessary to scale down the CEEC requests. We propose to furnish such equipment to the extent of \$48,000,000 during the period ending June 30, 1949, as compared with a request of \$100,000,000. Substantial orders amounting to between \$60,000,000 and \$80,000,000 are already placed in the United States and much of the equipment which it is proposed be made available should come out of these orders. The reduced amounts will, nevertheless, make a substantial contribution to the CEEC program for expanding steel-making plants.

Mention should also be made here of the secondary demand on our steel supply involved in the furnishing of products made from steel, machinery of one kind and another. Taking this into account, the exports during the first 15 months are estimated to be 5,500,000 tons of ingot equivalent. This represents 5 percent of our ingot production. Moreover, there should be subtracted therefrom the volume of scrap generated within the steel industry proper and in the fabricating industries involved which is estimated to be 1,125,000 tons. In other words, the actual weight of steel in all forms, including machinery,



which will be exported under the program during this period will be about 4,000,000 tons.

Freight cars and trucks: While we fully recognized the critical need for rehabilitating rail transport to Europe, the requests of CEEC for freight cars were considerably reduced. The request for 47,000 cars in 1948-49 did not adequately take account of the substantial contribution that could be made by repair of war-damaged equipment and by the reorganization of transport facilities.

In view of these considerations and of the great needs within the United States, we propose to permit exports of only 20,000 cars during that period. Roughly speaking, these European cars carry about half as much as ours, so that is about 10,000 cars in United States tons. Incidentally, all of these cars will be going to western Germany.

Senator CONNALLY. All of them going to western Germany?

Secretary HARRIMAN. All of the 20,000 cars will go to western Germany where we have a great interest to get the coal moving and production going to balance the German economy.

Senator LODGE. Will they go from western Germany to eastern Germany?

Secretary HARRIMAN. I think one would have to ask General Clay as to how he is going to handle that. There has been, as you know, an interchange of cars. When I was in Germany last summer I think we sent good-order cars in and got bad-order cars back. That is, of course, a headache.

Senator LODGE. I got many complaints that the cars that went into the eastern zone were sunk without a trace, and never came back.

Secretary HARRIMAN. General Clay told me that it got bad and they stopped shipment and then they got some cars back. That, of course, is a very serious administrative problem that our authorities have in western Germany.

Senator LODGE. That would be a real rathole for freight cars, would it not?

Secretary HARRIMAN. I would hope that any new modern cars that we send them will be routed within Germany, or to the west, rather than to the east.

This figure of 20,000 cars is at a substantially lower rate than our recent exports to these countries as a whole.

Provision has also been made for about 65,000 motortrucks during the 15-month period. While the CEEC report assumed that United States parts would be imported and assembled in Europe, it is our view that Europe will, in part, continue to find it necessary to follow the traditional practice of importing complete units.

I would like to comment, as I thought perhaps there would be some questions, on the recommendations of the committee of 19 which I mentioned before, and I will go over some of their recommendations insofar as they relate to the subjects that I have covered.

While there are certain differences between the conclusions of the President's Committee on Foreign Aid and the program recommended by the executive branch, a comparison of the foregoing analysis with the recommendations of the committee reveals a broad area of agreement in the two sets of estimates.

I do want to emphasize the fact that all of these are estimates. The more one works on them the more one realizes that one is dealing with



the economies of 16 countries and our own availability and they must be considered as estimates until we have a competent organization set up to screen them in detail and to make the arrangements for supply.

In setting forth the reasons for an assistance program, the report of the committee stressed the vital importance of European recovery on political and strategic grounds and also pointed out the great importance of the European market to the American economy, both for direct trading with the United States and as a vital element in the restoration of those multilateral trading relationships which are a prime objective of United States economic foreign policy.

The committee estimated that for the first year of the program the United States Treasury should provide 5.75 billion dollars to finance the European deficit, including western Germany. The 6.8 billion dollars is, of course, for 15 months, whereas they speak of 12 months. The 6.8 billion dollars excludes the recommended appropriations for western Germany. So that this figure may be compared with the figure of \$5.90, at the annual rate of the executive branch program. In other words, their estimates are slightly lower.

The committee further estimated that the undertaking of a program of this magnitude would result in a total volume of United States exports and an export surplus over imports smaller than in recent experience.

Of equal importance, however, with such over-all magnitude is the probable impact of a foreign-aid program on specific commodities required from the United States.

Thus in the case of agricultural machinery the administration's program contemplates exports from the United States amounting to \$136,000,000—that is for a 16-month period—\$136,000,000 as against a range, the committee used the range figure of \$75,000,000 to \$125,000,000. So that that figure for the 12-month period I would assume would fall within that range.

For coal-mining machinery the figures are \$82,000,000 in the executive branch program, as compared with the committee's range of \$80,000,000 to \$105,000,000.

In the field of electrical equipment the administration's recommendation is \$95,000,000, as compared with a range of a larger proportion of finished steel products, and a lesser amount of the semifinished and crude—the contemplated total exports of steel-mill products and raw materials both—amounted to \$232,000,000, as compared with the committee's range of \$175,000,000 to \$300,000,000.

The administration's recommendation in the case of steel-mill equipment amounts to \$48,000,000, as compared with the committee's range of \$50,000,000 to \$100,000,000. Finally the program for the export of freight cars is identical with the estimates of the committee.

Senator LODGE. How about trucks?

Secretary HARRIMAN. I am not sure that the committee reported on trucks.

Mr. RICHARD M. BISSELL (executive secretary of the President's Committee on Foreign Aid). I believe it mentioned no specific figure on trucks.

Secretary HARRIMAN. I do not recall that the committee mentioned trucks.

Senator LODGE. I want to know if this figure of 65,000 motortrucks is bigger than they had prewar, smaller, or about the same.



Mr. BLAISDELL. We sent 26,000 trucks in 1938, 45,000 this past year.

Senator LODGE. This represents an increase, then, a substantial increase in trucks, does it not?

Mr. BLAISDELL. That is right.

Secretary HARRIMAN. Did you hear that figure, sir? 26,700 in 1938, 45,900 in 1947.

Senator LODGE. That is the point.

Mr. BLAISDELL. That is a 15-month period.

Secretary HARRIMAN. About the same as our current level.

Senator LODGE. It is the same as the recent postwar figure.

Secretary HARRIMAN. Yes.

Senator LODGE. But bigger than prewar.

Secretary HARRIMAN. That is correct.

Senator LODGE. The point I am getting at is why do we want to enlarge the use of petroleum-consuming methods of transportation in Europe? It seems to me we ought to encourage the coal-consuming type. They have coal; they have not got petroleum. They either get petroleum from over here, where we have a problem, or else they get it from parts of the world that are liable to be under the "iron curtain." Hitler built all those autobahns all over Germany, as you know, and as all of us who were overseas have seen, and he ran out of gas. He would have done much better if he had put that amount of money and effort into railroads.

I want to know why we feel it is necessary, in view of those considerations, to increase the figure for trucks.

Secretary HARRIMAN. Senator, I am giving this figure without being able to personally defend it. I do want to point out that your railroads carry your main traffic. Road transport has become an important aspect of all economies since the automobile internal-combustion engine came into vogue.

Europe has lost during this period a considerable amount of their road equipment. If you force them back to animal-drawn equipment—

Senator LODGE. Wait a minute. Nobody is talking about forcing them back to animal-drawn equipment.

Secretary HARRIMAN. I do not know how many of these trucks will take the place of animal-drawn equipment in terms of getting the produce back to and from the railroads to the supplying or consuming areas, and part of the reason for our wanting it put, for instance, tractors in Europe, which has the same implication that you speak of, which I think is a very important study to keep in balance, is that your animal population does eat food and the studies did indicate that somewhat greater tractor capacity would release agricultural production for human consumption rather than animal production.

Senator LODGE. How much of this trucking is going to be short-haul from the railroad station to the farm, and how much of it is going to be long truck line?

Secretary HARRIMAN. I have no information on that subject. Our committee did not make a study of that.

Senator LODGE. There is one place which causes them to want dollars. One of the things Europe has is its natural resources, after all. If Europe was organized efficiently, and not in 16 compartments, they could get a pretty good standard of life.



One of the things they have is coal. They have plenty of it. It seems to me we ought to be encouraging them to use coal as much as possible instead of being dependent on dollars, or dependent on the "iron curtain," for petroleum.

Secretary HARRIMAN. I would hope that the Administrator of this plan would be guided by the principles that you outline, Senator. I think they are very sound.

Senator LODGE. If you furnish any light for the record I will appreciate it.

Secretary HARRIMAN. I think we all recognize that road transport has become an economic method of transport to an appropriate degree. Generally speaking the petroleum situation, the figures during the period of this program, if I remember correctly, indicate that the per capita consumption contemplated during this program of petroleum products was about 10 percent per capita of what is used in this country.

Senator LODGE. We do not have to go outside and get it. It does not seem to me that it is economical for them to have to "fork up" dollars any more than is absolutely necessary, when they have this tremendous dollar shortage.

Secretary HARRIMAN. I agree with that point of view, and I hope the Administrator would bear it in mind.

Senator LODGE. Later; can we get something for the record to show why it is considered necessary to encourage this type of thing?

Secretary HARRIMAN. Mr. Bissell, on my right, worked on it as executive secretary of the committee of 19. I would like to have him comment on this, if I may.

Mr. BISSELL. No specific requirement for trucks, Senator, was included by the Harriman committee in its recommendations, the reason being that no such requirement had been included in the original recommendations of the Europeans. The recommendation of the Harriman committee was in the form, really of a criticism of the European program because it did not provide for truck imports, and it did not provide politically for measures to liberalize the international use of trucks in Europe, and generally, in the view of members of the committee, put too little emphasis on the expansion of road transportation.

I think in connection with what you have said the reason the committee came to that conclusion was in the belief that at least in the short run, for the next 3 or 4 years, it was going to be a harder job to expand rail transportation capacity adequately than to get a quick expansion of capacity in the form of road transportation.

For this period of 3 or 4 years, at least, placing a still heavier burden, already heavier than necessary on the railroads, would create difficulties in the way of added rolling stock requirements and the like, and be just as serious in terms of equipment needs, or more serious and more difficult to meet than these import needs for trucks. I think that was in their minds.

Senator CONNALLY. They did not ask you for any trucks, but you are going to give them the trucks anyway.

Mr. BISSELL. They apparently had in mind fairly heavy imports of parts. They did not have it in the European program.

Senator CONNALLY. You are going to give them 65,000, whether they want them or not.



Mr. BISSELL. What the Harriman committee said—which is the only thing I can comment on—is that consideration should be given to giving them trucks, and placing more emphasis on that mode of transportation and less on imports of railroad transportation equipment.

Senator CONNALLY. You talked about not wanting to give them any rolling stock, and you are giving them 20,000 cars, are you not?

Mr. BISSELL. That is correct.

Senator CONNALLY. So we are going to give them the rolling stock and the trucks, whether they want them or not. We are going to feed them trucks whether they want them or not.

Mr. BISSELL. I do not think, Senator, that they gave much consideration to the question of the uses of fuels.

Senator LODGE. That is the question I get to. They did not think about that aspect, and I think they ought to think about it.

Mr. BISSELL. They did not think about it as a long-run question. For the short run, for the next 3 or 4 years, all the evidence is that the Europeans will have great difficulties relieving their own coal shortage, and you are familiar with the fact that not only in this field of transportation but in many others, particularly power generation, the European plan calls for increased use of petroleum which I suppose they hope to get from the Middle East and therefore to get without the use of dollars. That is the best explanation I can give of the emphasis that was placed here on truck transportation.

Senator LODGE. I appreciate your answer, and it adds considerably to the subject. Of course we have a petroleum shortage here right at this moment, as you know.

I wish that something could be furnished for the record, Mr. Chairman, if you have no objection, that would show exactly, precisely, in detail, how this figure was arrived at, why it was arrived at, if regard was not paid to the question of fuel consumption why regard was not paid to that subject, how many of these trucks are to be used in short-haul and how many in long-haul.

In other words, a real break-down of the whole business.

Secretary HARRIMAN. We would be glad to do that insofar as it is available.

Senator LODGE. Thank you.

(The matter requested is as follows:)

#### EXPLANATORY STATEMENT WITH REGARD TO THE ESTIMATES FOR TRUCKS

Provision has been made for the supplying of approximately 65,000 motor-trucks during the first 15 months of the program. This 65,000 figure is broken down as follows: Fourth quarter fiscal 1948, total: 12,610, of which 6,700 is to be shipped knocked down for assembly in Belgium, Denmark, Netherlands, Sweden. The balance, 5,910, will be finished units. In fiscal 1949, the total export will be 51,700, of which 27,250 will be for assembly overseas by the afore-mentioned countries. The balance, 24,450, will be shipped as finished units.

The CEEC report showed a requirement of 47,000 freight cars for the year 1948. After many discussions in this country, this figure was reduced to 20,000 freight cars.

In reducing the 16 nations' requests for railroad equipment from 47,000 to 20,000 cars in 1948-49, it was determined that certain of their inland transportation problems could be resolved by the use of highway vehicles. In addition to their normal role in the various economies, trucks will be particularly important during the initiation stages of the rehabilitation program when the lack of rolling stock will prevent the railroads from fulfilling all transportation demands made upon them. It was also found that during the postwar period, highway transport has provided not only its usual service but has been employed during emergencies for long-haul movements of coal and other bulky commodities.



The recommended total of 65,000 motortrucks is not relatively large. In the first place, normal prewar United States export of motortrucks to these 16 nations averaged 30,000 units yearly. Moreover, 65,000 motortrucks probably will not increase the over-all inventory of motor vehicles in these countries. A recent estimate of the present registration of motor vehicles is 1,400,000, of which more than 50 percent are 10 years or more old.

In all likelihood the units supplied by the United States will be used only to replace obsolete units. Therefore, the allotting of these vehicles to the 16 nations will not increase their petroleum consumption.

Secretary HARRIMAN. May I say in passing that Secretary Krug, I understand, will be called by your committee, and the petroleum problems are under his definite purview. We are, of course, involved in connection with it, in a study of the export requirements, and it has been my impression that the most important aspect of that, which is vital to this country, is getting more ocean transportation, and more steel for equipment and transportation of petroleum products and the development of petroleum both in this country and in other parts of the world.

The committee of 19 indicated that in their opinion there would be a greater tanker shortage, unless something was done about it, in 1952 than there is now.

Mr. BISSELL. As great.

Secretary HARRIMAN. So that that ocean transportation is a subject which I believe great attention should be given to in terms of our own supply.

I believe also that everyone was taken by surprise in the substantial increase in the use of petroleum products in this country, and it has not been prepared for.

The CHAIRMAN. Can Mr. Bissell indicate who comprised the subcommittee of the commission dealing with this particular phase of the matter?

Mr. BISSELL. The chairman of it, sir, was Mr. Robert Koenig. It was the Mineral Resources Subcommittee. Other members of that committee I know were Mr. Granville Conway, as one, but I do not have a list of who the others were. There were two other committee members on that, as well.

The CHAIRMAN. The chairman was Mr. Koenig?

Mr. BISSELL. Mr. Koenig. That is correct. He is the president of Ayrshire Collieries Co. in Indiana, and was a member of the SHAEF staff during the war, in charge of coal production and distribution.

The CHAIRMAN. All right, Mr. Secretary.

Secretary HARRIMAN. In conclusion, I should like to refer briefly to the role of the Department of Commerce in relation to this program. We are at this time administering certain export control, allocation, and priorities functions, the necessity for which would, undoubtedly, continue with the European recovery program. I believe that such functions should be performed in an agency of government other than the one established to administer the European recovery program.

Decisions in respect to the exercise of these powers are now made on an interdepartmental basis under the supervision of the Secretary of Commerce in the manner prescribed in the Second Decontrol Act. In that way, the technical counsel and assistance of all agencies concerned are brought to bear on the many difficult and complex prob-



lems involved, including the evaluation of our own needs and those of the rest of the world. And it is my feeling that a new organization established to administer the European recovery program should be authorized to appraise the needs of the European countries, but not to decide what the total amount of our exports of any commodity should be, or what share should go to western Europe. The new agency would have a vital responsibility but in a limited field. Its primary assignment in this respect should be rather as the advocate for the participating countries—to initiate, approve, and present their programs—to participate in the discussions, but not to make the final decisions as between their claims, and those of the United States and the rest of the world.

The CHAIRMAN. Does that conclude your initial statement, Mr. Secretary.

Secretary HARRIMAN. Yes, sir.

The CHAIRMAN. I am somewhat perplexed about knowing just how to proceed to get the information that I am sure this committee wants in respect to the work of the Harriman committee. I know, for instance, regarding questions of administration, that former Senator La Follette was chairman of the subcommittee involved, and he is coming to testify a little later on the direct subject of administration from the standpoint of the committee.

I understand that the Secretary himself is not in complete agreement with the committee's report on the question of administration, or the viewpoint that Senator La Follette will present.

I do not want to prejudice Senator La Follette's presentation on behalf of the committee but inasmuch as the Secretary is here I wonder if he would not like to state his own personal view on that phase of the subject; then I would like to have him indicate how he thinks we can get the essential information which we need to indicate the extent to which the Harriman committee does approve the pending program, and in what aspects it disagrees with the program?

I will ask right now whether you think, Mr. Secretary, that perhaps Mr. Bissell could make a general statement on that subject today?

Secretary HARRIMAN. May I run over the two or three points that you have mentioned?

The CHAIRMAN. All right.

Secretary HARRIMAN. I am very glad that you will call Senator La Follette on the question of administration. As you say, I do not fully agree with the views of the committee. He was the chairman of the committee on administration that made the recommendations and the committee unanimously adopted.

If you want my views, I will express my own personal views. I think it would be better to have him called for that purpose.

On the other matters which relate to the reconciliation of the recommendations of the committee's report, and the recommendations of the executive branch, I believe that Mr. Bissell, who is here, can either today or any time, give that. He has arranged to make himself available to the committee.

The committee, as a committee, has not had an opportunity to study the administration's recommendations, and on the other hand, if there are any aspects or any points of view which require clearance, after you have heard Mr. Bissell if there are any other questions the



various chairmen of the subcommittees I am quite sure would be only too glad to come and testify if you find that there is sufficient of a variation of views to make it desirable to do so.

I think the quickest way to get at the divergence or the similarity of recommendations is to have Mr. Bissell available to answer the questions. That is why he came today, sir.

Does that seem to be a reasonable procedure?

The CHAIRMAN. Yes. Would you think that we should hear from Mr. Bissell before we undertake any examination by committee members so that we could handle them together?

Secretary HARRIMAN. Whichever you please. I am here to testify myself, as Secretary of Commerce. I will be glad to do whatever I personally can. If I find it is more desirable to have Mr. Bissell answer it, he is right here.

The CHAIRMAN. Would you care to make a general statement yourself as to the points at which the findings of the Harriman committee seem to challenge any phase of the proposal that is pending before this committee?

Secretary HARRIMAN. I think the principal one is the one in regard to the question of administration, and that has certain very definite similarities, but certain differences. I would prefer to have Senator La Follette explain what he considers to be the difference.

I must frankly say that I am more impressed with the inevitable way I believe this program is going to be administered, that it will work, than in the attempt to define by someone at this moment the precise operations. I will be very glad to give my own views from my own experience in dealing with these matters during the war, and some experience with them here, as to how I believe it will eventually work out, if you are interested in that, sir.

The CHAIRMAN. I will ask you this: I think we want to give Senator La Follette a fair opportunity to present the committee's point of view on this subject. Would you think it was better to eliminate the question of administration today from our consideration and let Senator La Follette present the committee's viewpoint, and you then return afterward on that subject, or would you think it was perfectly appropriate for you to proceed today?

Secretary HARRIMAN. Either way. I would be perfectly glad to answer any questions. I think it would be better for Senator La Follette to explain the views of the committee on the way it should be administered than for me to attempt to do it.

The CHAIRMAN. Have you anything to say on the balance of the question? To what extent and where the report of the Harriman committee would seem to fail either to sustain the pending proposal or to disagree with it in any substantial particular?

Secretary HARRIMAN. I have attempted only to cover the particular areas that I have testified about, and I do not know of any major difference of objective. The over-all figures are fairly close. The committee recommended a somewhat smaller figure based on 12 months as against 15 months. On certain items they were different in their estimates.

The State Department has had a longer period of time. I do believe, generally speaking, on the details of it, that the final answer the committee has said has got to be left to a flexible administration which will have to screen the requirements from abroad and our availabilities



here far more closely than the committee was able to do. The proposals that came from Paris were not a detailed list of goods, of course. They were general categories of goods, and a mass of further information would have to be assembled before specific conclusions could be reached.

Generally speaking, am I wrong in saying that I do not know any major area where there was a difference of objective, or difference of view?

Mr. BISSELL. I think that is correct.

Secretary HARRIMAN. There are certain areas. If you would like to have Mr. Bissell answer that, he is here.

The CHAIRMAN. Go ahead, Mr. Bissell.

Mr. BISSELL. I would like to comment that aside from the question of administration there are quite a number of differences which are individually not large in dollar terms in the committee's estimates of the magnitude of the program as compared with the estimates of the executive branch, and I think that secondly there should be mentioned one rather substantial difference of emphasis, as between both the discussions and the written conclusions reached by the committee, and the program as it has been presented in the written document that I have seen on behalf of the executive branch.

The emphasis to which I refer is one that is open to misinterpretation, but it is most important, I believe. The committee placed very great emphasis on measures to restore production in Germany. I think there, from such inquiry and discussion as I have had, specifically in the State Department, or elsewhere in the executive branch, that there is no disagreement whatever, either as to the specific measures proposed or as to the objective. But it is purely a difference in emphasis.

The conclusion of the committee was not that industrial recovery in Germany should be given a priority, as compared with recovery of our ex-allies immediately around Germany, or even that priority should be denied where the move is of equal value from the whole program to our ex-allies as compared with Germany. They were of the view, however, that where the recovery of Europe as a whole could plainly be advanced more rapidly by promoting the German recovery, by supplying essential imports to Germany as against their supply to some other competing area, that then the choice should be in favor of Germany, and that considerations of the most rapid and healthy economic recovery should rule.

I think that they were well aware that it is a dangerous issue, because if misunderstood, either deliberately as the Communists would be disposed to misunderstand it, or unconsciously, it could give the impression that the conclusion here stated was that United States resources would be used to build up an ex-enemy in preference to an ex-ally, and that was clearly, as I have explained, not the committee's intent.

I feel that that should be brought to your attention as a difference in emphasis.

The CHAIRMAN. That emphasis clearly indicates the opinion of the committee, the Harriman committee, that the recovery of western Germany is indispensable to any hope of success for the larger program.



Mr. BISSELL. That is correct, sir.

The CHAIRMAN. And that in turn requires a degree of western Germany integration which does not yet exist.

Mr. BISSELL. I believe that to be correct.

The CHAIRMAN. Go ahead.

Mr. BISSELL. I think they would also emphasize the fact that the United States Government position in this whole matter is a dual one. On the one hand, its functions as the United States Government is to supply funds and goods to European governments. On the other hand, it is also one of the three western occupying powers, and apparently becoming in economic affairs the dominant occupying power in the western zone and I believe the committee felt very strongly that in any plans, in any recovery program, both in its administrative side and in the handling of finances our second function, the second function of this Government, should not be lost sight of, and in its behavior as an occupying power that behavior must be wholly consistent with its behavior as a supplying and financing power.

The CHAIRMAN. Well now, I understood that your committee, instead of setting specific target figures, set range figures, high and low figures.

Mr. BISSELL. That is correct, sir.

The CHAIRMAN. Can you give us the figure proposed by your Harriman committee which is to be paralleled with the request for \$6,800,000,000 for the first 15 months of ERP as recommended in the pending proposal?

Mr. BISSELL. Well, I would like, if I may, sir—and I can more quickly give it to you in a little different form, if I may explain.

The CHAIRMAN. Go ahead.

Mr. BISSELL. The \$6,800,000,000 figure for 15 months, as Secretary Harriman explained in the first place is for a period of  $1\frac{1}{4}$  years, and not just 1 year. Secondly, it excludes the proposed appropriation for government and relief in western Germany.

If that figure of \$6,800,000,000 is expanded to include the proposed appropriation for western Germany, it becomes \$7,400,000,000, just under  $7\frac{1}{2}$  billion dollars. If you then take some four-fifths of that figure, to make it comparable with a figure for 1 year, for a 12-month period, it is reduced to \$5,900,000,000 in round numbers.

That \$5,900,000,000 compares with the final recommendation of the Harriman committee of  $5\frac{3}{4}$  billion dollars of funds to be appropriated, whether to the Army or to a new recovery administration for the whole European deficit, including that of western Germany.

Although their recommendation was for a single figure of  $5\frac{3}{4}$  billion dollars, they do develop a range of figures which were included in the report. The very lowest of those was  $5\frac{1}{4}$  billion dollars, which the committee believed to be unrealistic for a reason I will explain in a moment. The high was  $6\frac{1}{2}$  billion. There were altogether four figures developed, and the two middle ones that fell between those extremes were approximately the same,  $5\frac{3}{4}$  billion dollars.

The range of figures developed by the committee was intended to exhibit two different sets of factors which could affect the magnitude of the need. One of those, the physical availability of goods here and elsewhere in the Western Hemisphere, mainly the physical availability, and the other the level here of prices. The extreme low that I quoted



at  $5\frac{1}{4}$  billion, compared with the \$5,900,000,000 for the executive branch program, that lowest figure, assumes both acute shortages of goods and essentially bulk raw materials and foodstuffs, and prices materially lower than those at present prevailing, and I believe it is fair to express it as the judgment of the committee that it was quite unrealistic to make a calculation on the basis both of scarcity and of declining prices. It is for that reason that their recommended figure was the middle one of  $5\frac{3}{4}$  billion dollars, which makes allowance either for somewhat lower prices than now prevail, or else for shortages which will sharply limit the physical volume of goods that can be provided from this hemisphere.

The CHAIRMAN. Well, now, in arriving at the committee's figures, however, at many, many points, while you finally come out at about the same place, at many points in the calculation there is a very substantial divergence, is there not, between the committee and the pending proposal?

Mr. BISSELL. That is correct, sir. I was going to say that this apparent correspondence is in fact rather deceptive, because the differences in the component figures are of much larger proportions than these results would indicate, and I think the most helpful thing I can do, perhaps, instead of trying verbally to go through a lot of figures, which I will be glad to do if you wish, at least as a preliminary to that is to explain the general character of the differences.

If these figures are compared with one another, it appears that the Harriman commission estimates of European imports, that is, of the physical volume of goods to be supplied to Europe, were generally speaking more conservative—that is, lower than those of the executive branch.

On the assumption of lower limited availability of goods, that is, of scarcities, there was a figure of  $7\frac{1}{3}$  millions; on the assumption of high availability,  $8\frac{1}{2}$  billion dollars, as compared with  $8\frac{3}{4}$  billion as the comparable figure in the executive branch estimates.

So that even the highest figure for the total physical amount of goods to be supplied to Europe, the higher of the two totals used by our committee, was below the total used by the executive branch.

On the other hand, we were also very much more conservative, or lower in our estimates of the exports that Europe could achieve this year. And to quote the same comparison for the whole Western Hemisphere, the two figures developed for the Harriman commission were \$1,800,000,000 and \$2,200,000,000, as against nearly \$2,400,000,000, the figure used by the executive branch.

So that so far as these important tools of total European imports from the Western Hemisphere and total European exports to the Western Hemisphere, I think it is fair to characterize the difference by saying that our committee wished to lean over backward in the direction of conservatism, conservatism in estimating what would be available to ship to Europe, and conservatism in estimating what Europe could accomplish in the way of producing and marketing exports in the Western Hemisphere.

The CHAIRMAN. Do I understand that you did not have the figures in the pending proposal before you at the time your committee was at work?



Mr. BISSELL. No, sir; we did not, because the figures did not reach this form until nearly a month after the commission's report was submitted. We did, however, have in their then existing drafts all the preliminary technical studies that were made by the various Government departments in preparation for the program of the executive branch. And our estimates and our work generally leans quite heavily on those technical studies.

The CHAIRMAN. Well, although your final figures are not substantially lower than the pending program, and surrounding my question to you with the protective understanding that any figures have to be adequate if they are of any use at all, does not this whole comparison between the work of your committee and the work of the executive branch in sending down this budget clearly indicate that there is nothing sacrosanct about this figure of \$6,800,000,000? It might be less and it might be more, and we have not ipso facto ruined the program if we look into the figures and make some changes in them.

Mr. BISSELL. I think that will be a unanimous view of the committee, Mr. Chairman, although I hesitate to speak for 19 other people, let alone the chairman, who makes it 20.

The CHAIRMAN. Is there anything else you want to say on that point?

Mr. BISSELL. I would like to mention one or two of the other differences, Mr. Chairman, to indicate merely the kind of judgment that somebody has to make on this question of amounts.

One of the differences—in fact, this one difference is larger than the difference in the final figures that I first quoted in answer to your question—was in the extent to which shipments to Europe in this coming year, or the first year of the program, could be financed by the International Bank, and our committee assumed that on the basis of the lower of its range of figures that will be \$650,000,000; on the higher basis \$800,000,000. For a comparable 12-month period the executive-branch program allows only \$400,000,000. It is interesting to notice that the European countries in Paris allowed for over \$900,000,000, higher than anyone has used in Washington in making these estimates. And I assume that the figures put forward on behalf of the executive branch reflect consultation with the International Bank, but as you can see, a factor of uncertainty in our deliberations exists as to exactly how much the International Bank would be willing to finance.

It is generally agreed, I believe, that shipments of a sort which are appropriate for financing by that institution would amount to at least as much as the sums we have put in our estimates and allowed to be financed by the International Bank, thereby reducing the burden on the United States Treasury.

So the question comes down to one of the use of the bank's resources as between European claimants and needs in other parts of the world. And that can make a difference of several hundreds of millions, even in this first year, and, of course, a much larger one over the life of the program in the burden of the United States Treasury.

A final difference I may mention, if I may, sir, is in the estimate of the economic position of the so-called overseas dependent territories of the European countries. In the estimates put forward by the executive branch those territories are shown as having a favorable balance



of trade with the United States, with the whole Western Hemisphere, to the extent of nearly \$200,000,000 in fiscal 1949; to the extent of somewhat over \$200,000,000 for the whole 15-month period.

On the other hand, our committee estimated that they would have an adverse balance of payments very close to half a billion dollars in this first year, which as you can see percentagewise, of course, is a gigantic difference, and again that one factor is more than enough to explain divergencies.

I believe that the judgment there involved is not primarily an economic judgment but a political one, because extremely important in these dependent territories are the Dutch and British and French possessions in southeast Asia. They are not only important, but they have historically been earners of dollars for their home countries. That is particularly true of the British Malaya and the Dutch East Indies and their supplies, respectively, of tin and rubber. And therefore the judgment that underlies that element in the estimates is at least in very substantial part a judgment as to when or if those territories will be politically pacified, and if so, how soon thereafter they will be able to begin making substantial exports of petroleum products, rubber, tin, and other minerals, which could make a decisive difference in the dollar positions of the controlling European countries.

I mention these really to reinforce the point you yourself made, sir, but the sorts of judgments at every turn here go far beyond economic estimates that by merely the gathering of details statistical information can be settled as matters of fact.

The political imponderables, of course, are most important. I will mention one final difference, if I am not taking up too much of your time, that is illustrative of others. There is quite a difference in this first year in our estimates of the imports that the European countries will make from Latin America. We estimated appreciably lower imports. That difference turns almost entirely on one factor, which is the volume of grain that will be available for export to Europe from the Argentine. And that, in turn, depends partly on weather and partly on the political and economic policies of the Argentine Government. That again is a case where it was the policy of the committee to lean over in the direction of conservatism, and therefore to assume that we would not have a prompt and drastic reversal of Argentine policy, and that we could not necessarily count on particularly good weather conditions in that grain-producing area.

Again I submit that merely as an example of the fact that if one wishes to call those guesses, that is perfectly accurate, but the term simply means the most informed essentially political judgment that one can make together with the best guess that one can make on weather conditions, and why these figures cannot be sacrosanct when weather and politics in every country in the world, practically, enter into and drastically modify their size.

The CHAIRMAN. Also weather and politics here at home.

Senator SMITH. Could you tell us for the record what that difference was between the Harriman committee and the executive branch?

Mr. BISSELL. I can find it, sir, in a moment, and may be able to give it to you immediately.

The Harriman committee's low figure—I am giving these in tons—for "other American" which includes both Canada and the Argen-



tine, was some 7,400,000 tons. The high figure was about 8,700,000 tons. The executive branch figure was nearly 10,000,000; it was 9,950,000 tons, so that even the high figure was nearly  $11\frac{1}{4}$  million tons lower than the tonnage figure in the executive-branch program.

I might say that although those figures—all three that I have quoted—included both Canada and the Argentine, and although Canada is more than half of the total, the difference comes very largely in the Argentine figure.

The CHAIRMAN. Mr. Bissell, your Harriman committee did have before it the CEEC figures?

Mr. BISSELL. That is correct, sir.

The CHAIRMAN. And you very sharply reduced those figures?

Mr. BISSELL. Yes, sir; we did.

The CHAIRMAN. What would you say was the difference between the CEEC approach and the Harriman committee approach to explain that wide divergence? Of course, a fundamental difference is quite obvious, between one who is asking for something and one who is preparing to respond.

Mr. BISSELL. I think, sir, that the magnitude of the difference was the total imports from the Western Hemisphere, import requirements set down in the CEEC report being \$9,200,000,000 as compared to the figures of roughly \$7,300,000,000 and \$8,500,000,000 as the two figures that our committee came out with. So it is a sizable reduction in the European import estimate.

This is a guess, as I see it, but I would guess that between three-quarters and four-fifths of that difference did not represent a deliberate reassessment of the need and a reduction of the import estimate on grounds of need not being justified. It was a reduction on grounds of the availability of the commodities. I am sure that the largest single reduction occurred in the category of food, and that means, of course, mainly grains. And there it was on a more conservative estimate than had been used in Paris of the availability of grain for export from the principal exporting countries including, of course, the United States. The difference was probably small in the case of the British Dominions. It was large in the case of the United States. It was probably substantial in the case of "other American."

I do not think I could easily sum up the other differences. We made allowance for very little difference in, for no reduction, as I remember, and certainly not a substantial one in, coal requirements of the European countries from the figure they had stated at Paris.

However, we did—our committee did—reduce in its estimate their stated requirements for practically all types of industrial equipment. It was in that area that some judgment as to need was important, as well as judgment as to availability.

The field where I am quite sure there was the strongest feeling that the Europeans had grossly overstated, in a realistic sense of the word, their need, was that of agricultural machinery, and the program of the executive branch represents nearly as large a reduction in that field.

In others, such as electrical generating equipment, steel mill equipment and the like, reductions reflected for the most part our belief that this economy could not, at least in the early part of the program, spare the quantities of supplies contemplated in the Paris report.



I think it is fair to sum it up by saying that in the whole field of equipment it was the judgment of the committee that European programs were going to have to be scaled backward in time, that they were going to have to get their orders on the order books when they could; that in many instances where they did not already have orders placed in this country, although those are important with steel mill equipment and with mining machinery, in many other areas where they had not placed orders for industrial equipment, there was very little they could get at all in the first year of the program, and we also felt that they had underestimated the difficulties they would encounter in their own countries in building plant and setting equipment in place, and in constructing and putting in place the very much larger quantity of equipment which, of course, they propose to get there from their own domestic production.

And so I think it is a rough description of what our committee did to say that it scaled back by perhaps a year or two years, speaking of the 4-year program, as a whole.

The CHAIRMAN. I want to ask the Secretary one final question before turning him over to the committee.

I have several distinguished colleagues who always ask me one question every time I rise to present one of these bills of a related nature on the floor of the Senate. I would like to have you tell me how you would like to be quoted in response to the following question:

What effect will this have, will this program have, in creating a necessity for rationing and price control in the United States?

Secretary HARRIMAN. Well, Senator, I believe we are already confronted by serious inflationary pressures of domestic origin and I believe that we will have to face them in any event, and I believe that the controls that have been asked for should be granted. I want to add, however, that there is no question that embarking on a European recovery program, as well as the maintenance of our trade relations with South America and elsewhere, does add to our inflationary pressures and to the problem.

Specifically, I do not believe that, regardless of this program, we have enough meat to satisfy the legitimate needs of all of our people when they are working at good wages as they are today. That is a subject which Secretary Anderson will testify about, and perhaps I am treading on his province. The cost of living has gone up most in the food area. I think I am right in saying that 70 percent of the increase since June of 1946 has been in the food area. That, of course, does affect the question of wages and industrial costs.

But certainly the continuation of exports of grain will affect meat production. I cannot but believe that, since we have this relative shortage of meat, although more production than we have ever had. Meat has come on the market faster than it otherwise would because of the high price of grain, which in turn has been somewhat affected by the export of grain. Nevertheless, regardless of any exports, we would have that problem. And I do think we face in this country for a period ahead the problem of increasing production of certain types of desirable food, and during that period I personally do not feel that we can maintain stability if we attempt to use price alone as a means of rationing that type of food which, when people have money, they want and need.



I do not know if that is an answer, sir. It is an attempt to be realistic.

The CHAIRMAN. I will read it over tomorrow and see whether it is an answer.

Secretary HARRIMAN. When it comes to other commodities, I think, generally speaking, we have to consider the over-all aspect of it.

We have an unbalance of our exports as against our imports. Europe accounts for only part of that unbalance. The total last year was something approaching \$11,000,000,000 and that is an inflationary pressure. It is a little less than 5 percent of our total national gross product. If we were to pare the whole sum down it would reduce inflationary pressures. But I do believe that the pressures from home, the great demand pent up during the war of housing, of durable consumer goods, industrial plant expansion which is going on at the present time, and commercial construction, all add up to amounts of pressures which would be very real regardless of the European program itself.

The CHAIRMAN. Well, that is the point. I do not want to get into an assessment of the President's program, and I certainly would not ask you to testify on that subject in this abstract connection, because you are a member of his Cabinet. What I am trying to find out is whether, in your opinion, admitting that any export of short-supply commodities has an inflationary influence, admitting that premise, would you think that this program was sufficient by itself to force us into controls which otherwise would not be required?

Secretary HARRIMAN. I do not believe that it would.

The CHAIRMAN. That is categorical.

Senator Connally?

Senator CONNALLY. I want to ask the Secretary one question, and maybe another one when he answers this.

Mr. Secretary, I notice at the bottom of page 22 you say:

We are at this time administering certain export control, allocation and priority functions, the necessity for which would undoubtedly continue with the European recovery program.

You refer, of course, to the Department of Commerce?

Secretary HARRIMAN. Yes, sir.

Senator CONNALLY. You say:

I believe such functions should be performed in an agency of Government other than the one established to administer the ERP.

Why should it not all be in the same department? I am just asking you. I do not know.

Secretary HARRIMAN. I do not know of any better place to put it than the Department of Commerce. Modesty compelled me to put it this way. I must confess that if somebody else will undertake the exercise of the functions of export control, I would personally be delighted, because there is nothing but headaches in it. You never make any friends. There are equal pressures to get licenses for export and to stop them. I do not mean to be facetious. I do believe it should continue in the Department of Commerce. There have been some suggestions that they be transferred to the new agency, and I was referring indirectly to that suggestion.



Senator CONNALLY. Suppose the Administrator overseas felt like he just had to have some exports to some particular country of a certain article or commodity and the Department of Commerce said, "No, you cannot do that." Then what will happen?

Secretary HARRIMAN. The way we function now, and I think it will function the same way in the future, all of the agencies that are interested in seeing something done, whether it be restriction of export or whether it be expanding export, meet together, and out of that comes some recommendations, and I have the ultimate decision. If anyone disagrees with that decision, he goes to the President. I do not know of any case where that has happened so far. We have been able to iron out, when it gets to a Cabinet level, as reasonable men do, the pros and cons of the situation. There may be an occasion when we discuss it with the President, and that would have to continue.

I feel the Administrator should be on the same basis in his relation to me as a member of the Cabinet, the same as Mr. Krug, or Mr. Anderson, and that we deal with each other on a par basis. But I do not think that the Administrator who has the responsibility for the success of this program can decide—in the first place, if I were Administrator at that date I would not want it, and I would not think anybody would want that responsibility, but you get involved in a program, you want to be the advocate for it, and try to get as much as you can for that program, and I believe you would want to let the other responsibilities for our domestic production of agricultural commodities remain a responsibility of the Secretary of Agriculture. I would not think that it would be well to give the new agency decisions that affect our life in this country and decisions which affect our relations with South America and other parts of the world.

Now, it is working in the Department of Commerce—creaking—but I think on the whole you will find that decisions have been reached by common give-and-take have been good.

Senator CONNALLY. Of course, that is to ignore the new arrangement. You haven't got that problem.

Secretary HARRIMAN. I would fit the new arrangement into the present structure in connection with the controls I speak of as one of the most important factors to be considered. In other words, if the Administrator comes along and says that he must have fertilizer for his foreign program, that the food will otherwise be so much less in Europe, he must consult with and consider the problems of the Department of Agriculture in our domestic economy. And in all cases I have found the Secretary of Commerce and the Secretary of Agriculture fully alert to the problems abroad, and out of it has come a balanced judgment. Whether it be right or wrong, decisions have been made. And I think on the whole in the last year and a quarter that I have been home they have been wisely made.

The CHAIRMAN. Senator Wiley?

Senator WILEY. Just a question or two: In reply to Senator Vandenberg, if I understood correctly, you meant to say that if conditions were normal, and we entered into a program of this kind, in your judgment, it would not necessitate price control or allocations or the imposition of other controls. Is that what you mean?

Secretary HARRIMAN. I did not understand the question. I feel the controls will be necessary regardless of the European program.



Senator WILEY. Yes.

Secretary HARRIMAN. For a limited period of time. Fundamentally, I do not favor controls.

Senator WILEY. And that includes allocation of materials?

Secretary HARRIMAN. In limited areas, yes, sir. For instance, and I know you do not want me to go into too much detail, in testifying about the controls, steel is one of the most critical items affecting industrial production. I believe that there should be some direction on behalf of the most essential needs, such as petroleum production, agricultural machinery production, freight cars, and, on the other side, that we should go back to the experience of the war, when we found that it was desirable, and in the national interest to reduce the consumption of steel in the less essential purchases.

I do not think you can deal with giving priorities unless you reduce the consumption somewhere because otherwise you create greater difficulties in the whole economy. But I would not suggest that we go back to a system of allocation of steel throughout the industry. I think that would be chaotic and entirely unnecessary. It might be worse than the present situation.

Senator WILEY. I think in the forepart of your statement you stressed the rather hopeful signs, that there was an element of unification going on among the nations of Europe. I take it you meant on the economic level?

Secretary HARRIMAN. On the economic level. And may I correct the impression, if I was wrong; I said there is hope that the close relations which the European countries, the sixteen nations, have undertaken to develop may lead to permanent beneficial results. There is not yet much progress in that direction. The first step was the meeting in Paris, and the undertakings, the preparation of this report, which was the first real attempt to consider Europe as an economical unit.

I was speaking of the hope that might come from the close relationships which these countries have pledged themselves to develop during this period.

Senator WILEY. Do you think that from the symptoms as you observed them there is any indication of there becoming a political unity of any kind?

Secretary HARRIMAN. No, I do not see any symptoms of that type. There has, of course, been this one agreement between the Netherlands, Belgium, and Luxembourg on the economic basis, which has already been agreed to and which went into effect January 1, 1947. There are innumerable difficulties in accomplishing these purposes. There is no step that I know of of any kind regarding political unity.

Senator WILEY. If this program which we have been talking about should not be instituted, you still think there would be need for these controls?

Secretary HARRIMAN. In the United States?

Senator WILEY. Yes.

Secretary HARRIMAN. Yes, sir.

The CHAIRMAN. Senator Hatch?

Senator HATCH. No questions.

The CHAIRMAN. Senator Smith?



Senator SMITH. Mr. Secretary, I have one or two questions, and possibly they were covered by your report. Unfortunately I was detained on the floor and did not hear the opening of your statement.

But I am interested very much in steel and the equipment for hydro-electric development. Let us take steel first.

Do I understand that the Department of Commerce will have general supervision of the export controls so that in effect you will relate the development of western Europe to development here? Or were you thinking in terms, for example, of an item like freight cars?

You will be the Department that will determine that the United States will need so many freight cars, and for western European development we will need so many freight cars abroad. You will adjust that accordingly?

Secretary HARRIMAN. Well, at the present time, sir, we have two powers that relate to your question. One is the export controls which have been exercised during the war and since the war. At the present time there are about 6,000,000 tons being allocated—about 500,000 tons a month—to the countries that we have under control, the exports which we have under control, involving a million tons a year to Canada, and totaling about 7,000,000 tons. That is not related to any particular product, such as freight cars, but is a figure that has been arrived at by experience and discussions within the administration weighing the needs of the different countries abroad and how seriously it will affect the situation at home.

Of course, when you get down to individuals products you get more into the question of the end use here.

There is an additional authority which the Congress has given, which the President has delegated to the Department of Commerce, and that is the development of cooperative agreements between industry, and one of the subjects which is being discussed is the expansion of freight-car production in the United States, with the steel industry and with the car-building industry.

Senator SMITH. I used that more as an illustration.

Secretary HARRIMAN. Discussion has been with the idea of seeing how it can be done. That can be worked out on a voluntary basis, and progress can be made along those lines. We are going to discuss some other questions with the steel industry, such as petroleum equipment and petroleum pipe to improve the production and distribution at home; also agricultural machinery, because of its vital importance at home and abroad. But that is under the voluntary program.

I do not know if that answers your question, sir.

Senator SMITH. I think I draw the conclusion from that that you are contemplating, in the whole picture, not only an ERP, a European recovery program, but a European recovery program plus a legitimate development in the United States during this same period.

Secretary HARRIMAN. Certainly, sir.

Senator SMITH. And they are related to each other. We will prosper by Europe prospering, and, of course, Europe could not get along if we did not prosper.

Secretary HARRIMAN. It is really to some extent, so far as export controls, a continuation of exactly what we are doing today, because at the moment they are buying a good deal from us.



Senator SMITH. That raises another question which I will come to.

I saw, I think, in the President's message on this subject, and also in Secretary Marshall's opening statement, the statement made that our exports for this coming fiscal year will not exceed the exports of the last fiscal year, even if we take this program on. Is that true for over-all exports?

Secretary HARRIMAN. It is estimated to be somewhat less than this year. I have that in this statement here. The difference between the exports and the imports is estimated to be about \$900,000,000 less, and the over-all exports a little over a billion dollars less.

Senator SMITH. Then, if there is any inflationary effect from this program, it will be because of the fact that certain things in short supply were particularly hit by it; is that correct?

Secretary HARRIMAN. That is correct. Whatever the inflationary effects of our export business are, they have already been felt. They were already accounted for in the pressures that exist here.

Senator SMITH. But the charge is not quite fair that because we are thinking of pouring these millions into Europe, we are going to cause an inflationary condition in America, and everybody is going to suffer because of our taking that course?

Secretary HARRIMAN. No greater on an over-all basis than they are at the present time, and probably less.

I have made it plain, sir, and I do always want to make it plain, that the broad-minded policy—and I think wise policy—that has been adopted of helping general world recovery, because of our long-run interest in it, is causing part of the inflationary difficulties that we are facing at home, but it will be no greater than it is today.

Senator SMITH. I think we are agreed on that, that we are trying to weigh the whole picture and determine which is the wisest course from our own selfish standpoint to pursue in connection with this program.

Now, the next question, and then I will be through: It has been pointed out to me that this plan of the CEEC for a greatly expanded hydroelectric development, the development of power over there, is far in excess of any plan we have for ourselves here; that we need expanded electrical power development. The suggestion has been made that we are going to be called upon to export hydroelectric machinery, for example, far in excess of what we can afford to let go if we are going to develop our own hydroelectric power.

The suggestion has been made by a previous witness, I think by Ambassador Douglas, that the total electrical equipment that will be needed abroad that will be furnished by us is something less than 10 percent of their entire needs. I think I saw in your statement here even a lower figure than that.

I could satisfy some of my critics, some of my friends who are criticizing me for my position on this, where they say "Well, you are giving away all this electrical equipment to build up an enormous expansion abroad at the expense of an expansion we need in the United States."

Secretary HARRIMAN. May I first reconcile the figures. There is the power-generating equipment, and then there is miscellaneous electrical equipment.



The total exports to the world, not just to Europe, if we embark on this program and the administrator agrees to these estimates, will be about 8 percent of our total \$4,000,000,000 production of electrical equipment generally. That is 8 percent of our production. The CEEC people estimate that they will be producing about \$5,000,000,000 worth of equipment during the period, and our shipments would be only 1.4 percent of that. That is the over-all electrical equipment.

On generating equipment, I pointed out that there would be no generating equipment received right away. It would be in the latter period of the recovery program that any generating equipment would come from the United States. Most of the equipment for that purpose would come from their own production facilities.

I was somewhat puzzled myself by the size of their increase in production of electrical energy, and I believe I am right in saying—I haven't got the figures before me—before the war we had in this country about four times the energy per capita that they had in Europe, and although I am inclined to question the speed with which they can get their work done in developing internationally some of their power projects and otherwise, which they are considering for the first time, it is a very sensible program. But I agree with you we must not let anything we ship from here interfere with our growth which we vitally need in this country.

In many parts of the country we need substantially more power to protect our production and our domestic requirements.

Senator SMITH. With our export controls, the cooperation between your department and the administrator who may be in charge of this, you can watch our needs as well as their needs in working that out jointly.

Secretary HARRIMAN. That is correct, and I would hope that the decisions would be—if I participate in them, I would take the point of view that we would have to analyze the particular equipment that was required there, what its needs were abroad, to see whether it was needed here. You may know better than I do how the power development is, whether the particular projects could be postponed here 6 months or a year in order to fit in with requirements from abroad. It would have to be studied on an individual-project basis in order to arrive at a decision, but I would not recommend that we retard the legitimate development in the United States. We might suggest the postponement of the development to take care of future requirements and fit in with some of their needs, but not to interfere with the needs in our own country.

I do not know if I make myself clear. I would think we were in full agreement on that.

Senator SMITH. I think we are, and I wanted to make it clear to you that I understood that the public-utilities interests in this country were very much concerned about the magnitude of this proposed program in the light of the plans they think they should make for expanding the hydroelectric service all over the United States, or any other power-generating device—steam generation or anything else.

Secretary HARRIMAN. In all events, there is no plan in this 15 months' period to send any power-generating equipment to Europe. That would come at a later phase in European recovery.

Senator SMITH. That would come later than the 15 months' period, so that the immediate question is not facing us.



Secretary HARRIMAN. That is true. There has been a lot of legitimate concern of these different people, because they have heard of these huge projects without knowing the detail that has been presented to you.

Senator SMITH. One more question, and then I will be through. I understand that your so-called Harriman committee worked independently of all these other committees.

Secretary HARRIMAN. Worked entirely independently. Mr. Bissell can describe the way that committee worked. They had available and were in touch with each department that had information. They consulted with the committee from the European countries that was over here. They also consulted industrial groups who were familiar with not only the production requirements and needs in this country, but also that had experience in selling abroad and knew nothing of the requirements abroad.

Am I stating that correctly, Mr. Bissell?

Mr. BISSELL. Yes, sir.

Secretary HARRIMAN. But their conclusions were the independent judgment of these particular individuals, whether they are right or wrong. I have great respect for them in saying that. They included Mr. Chester Davis and Dr. Myers, who were the principal ones on agricultural questions. They were the independent judgment of those men. In connection with the steel questions, there was Mr. Batcheller; in connection with coal, Mr. Koenig, and so on, plus the members on the subcommittee.

Senator SMITH. The committee drew its own conclusions from its own method of reasoning, and your committee worked independently and with the different groups you had assembled to arrive at these conclusions, so it could not be said that this was one composite plan worked out in one tent. You worked in different tents and arrived at a somewhat different conclusion?

Secretary HARRIMAN. I think while I was out I facetiously said I was the only contaminating influence from the administration. I did not mean to be facetious.

Senator Vandenberg asked that question. I did not mean to be disrespectful in the terminology used.

The CHAIRMAN. You were not being disrespectful to the Secretary of Commerce, either, were you?

Secretary HARRIMAN. No, sir.

The CHAIRMAN. Senator Hickenlooper?

Senator HICKENLOOPER. Mr. Secretary, you have been testifying as to your views on this European recovery phase of the program, and the amounts involved. Have you taken into consideration the probable needs, or the probable requests that we will be called upon to consider for China and for, let us say, Central America and certain South American countries, and for Austria and for southeast Asia and other spots in the world?

Secretary HARRIMAN. In the opinions that the members of the staff of the Department of Commerce have given, and these discussions, we have considered all of the estimated requirements of the different countries. That is the way in which our present export controls are now handled. The future requirements the committee gave some consideration; I do not know how much.



Mr. Bissell, do you want to answer the question as to how much consideration they gave to possible future plans that are not now known? In other words, I think it is fair to say they have before them all of the presently known requirements of other parts of the world.

Mr. BISSELL. Senator, the committee did not explicitly consider the question at all of programs of any kind for other parts of the world. There is one place only in their analysis that the needs of other parts of the world enter in, and that is in the calculations very similar to those that the Secretary has quoted of the inflationary impact on the United States in the form of total exports and the net export balance. Naturally, in making that calculation exports to all destinations had to be counted, and in that sense, requirements of the whole world taken into account. However, in making that calculation it was, I believe, expressly assumed that there would be no further loans or grants or programs of assistance to areas other than western Europe, and that the demand for goods, for instance, from the Orient and Latin America and other areas would depend possibly on their own remaining dollar resources which they can spend, and mainly upon our imports from those areas, providing them with dollars.

So I think the answer is that no real consideration was given them.

Senator HICKENLOOPER. Am I to understand, then, that there is to be no consideration of any aid to China in the future, in the next 15 months, and no aid to any other areas in the world in the next 15 months?

The CHAIRMAN. That was not in the purview of Mr. Bissell's committee. His committee had just one job.

Senator HICKENLOOPER. Apparently that is true. But I am trying to find out whether this is a \$6,800,000,000 program, or whether we have more programs to consider in the next 15 months.

Secretary HARRIMAN. Of course Austria, Germany, and Japan, those programs that are known, have all been considered.

Senator HICKENLOOPER. Is the Austrian program considered?

Mr. BISSELL. Yes, sir. It is one of the participating powers in western Europe. And the western zone of Germany is included in all the calculations.

Senator HICKENLOOPER. Then am I to understand that we are considering this \$6,800,000,000 for the next 15 months and whatever program is considered for the remaining period of time without presently taking into calculations what we may be expected to contribute or be called upon to contribute to other areas in the world that are not in western Europe, and that that will remain a nebulous thing that will descend on us here sometime in the future as an additional amount?

Secretary HARRIMAN. This does take into account South America, which is one of the areas you spoke of, and our trade with them. That has been taken into account, and the other areas that are known.

The CHAIRMAN. May I also suggest to the Senator, because I totally agree with the objective he is searching for, that when the Secretary of State left the stand, he was instructed to send us as promptly as possible a complete inventory of every contemplated foreign-relief request for the next 15 months, so that pursuant to your anxiety, we



at least can have that total ourselves, even though the Harriman committee did not have it.

Senator HICKENLOOPER. The purpose of my question is merely to see whether the people who have been casting up accounts here have taken into account not only what we are expected to contribute to this program, but the anticipated programs other than this in the next 15 months. I feel that it is extremely pertinent as to what our economy can stand and what we can do.

Secretary HARRIMAN. Senator, as I understand it, the estimates which I gave you, which were prepared by the Department of Commerce for the next year, have taken into account the possible dollar resources which may accrue to other parts of the world from International Bank transactions, from private enterprise abroad, from dollar resources which these different countries have. They have not taken into account any grants that the Congress may make which are not known, except for the European recovery program.

Senator HICKENLOOPER. This whole business was started some time before the British loan was enacted, and I remember that a request, Mr. Chairman, was made at that time for a balance sheet of our anticipated commitments and what we were expected to meet, and so far as I know, the balance sheet has never been produced, and from time to time we are confronted with these additional amounts. It may not be possible to do that, but I do hope that sometime we can eventually get to a picture of the over-all charges on the American economy in this recovery program.

The CHAIRMAN. Well, I assure the Senator I totally agree with his desire for a total balance sheet, and the Secretary of State has been requested and has agreed to furnish as complete a balance sheet prospectively for the next 15 months as is possible.

Senator HICKENLOOPER. Now, in connection with the furnishing of finished steel, farm machinery, and matters of that kind in this program, do you have any break-down as to how many tractors, how many plows, how many items of farm machinery, are contemplated in this program?

Secretary HARRIMAN. We have it broken down to a certain extent.

Senator HICKENLOOPER. I am merely trying to inquire whether figures have been picked out of the air and somebody has guessed that they need so many dollars, or whether they have a specific estimate of the utility of farm machinery and where they need it.

Mr. BISSELL. Senator, when we encountered this problem in the Harriman committee there were in the papers supplied from the European conference in Paris some indications of physical quantities of machinery needed. We secured as much advice and help as we could from the farm machinery industry in the United States, and especially from men in those companies who had been connected with the operations of European subsidiaries. They, at our request, assembled in very short order the best account they could give of orders now on the books of the European producers; that is, of domestic European orders on the books of European producers. That was in at least several of the larger European countries a measure of the current demand for such machinery in those countries. Our belief was that orders actually on the books were a better measure of the demand than a global estimate.



That estimate yielded a figure vastly below the figure submitted by the governments in their Paris report, although it was, as the men who made it up warned us, very hastily assembled and therefore, subject to wide error.

The figures were also scrutinized from the standpoint of the type of equipment required but there was some confusion. For instance, they had quite a lot of heavy tractors in, and I believe that those are almost certainly intended for projects in the dependencies rather than for projects in the home countries. They plainly were not of a type that were suitable for a good deal of western European agriculture.

We examined that evidence as best we could, and the only physical units which we tried to break this down into were tractors, and tonnages of other types of machinery and equipment.

I certainly would not claim for our estimates that any one had the time to make a careful appraisal, district by district, in Europe, and had taken account of the needs of the people for particular crops and of petroleum supplies, by the way. There again, of their needs, I think we arrived at about as educated a guess as one could arrive at in the time available. I don't want to appear to exaggerate to you the accuracy. I know, however, and I would not want you to take away the impression that we said, "Well, this figure is too big and we will cut it about 20 percent," and that that is all we did. We did have available to us some estimates of the loss in animal power and the number of tractors, especially, that would be needed to replace them to a prewar level, and evidence of that kind.

Senator HICKENLOOPER. I am not necessarily critical of the work you did. That was not particularly my purpose in the question. I am merely trying to find out whether any accurate work sheets of detailed needs of these countries, based on an emergency recovery program, have either been furnished or are available, or whether it is more or less as you said, an educated guess as to categories.

Mr. BISSELL. I would say that needs for tractors in particular, such work sheets have probably been put together, but I think they were on the basis of a rather detailed guess.

With regard to certain types of machinery, my impression is that the evidence is much looser, and careful and accurate work sheets deducing the financial cost from a list of numbers of units of various types would not be available for other equipment.

Senator HICKENLOOPER. Did the Department of Agriculture have a look at these estimates for the agricultural field?

Mr. BISSELL. I think they were mainly responsible for the estimates in the program of the executive branch, and we used all their preliminary analysis.

Secretary HARRIMAN. I haven't the break-down of the different types of farm machinery with me. I have only got it by countries.

I want to say this: I dealt with these estimates during the war, and no matter what estimates are made in the beginning, what you have to do is really have people on the spot, and break them down and see the exact use there will be, and then fit them into our own production programs here if they are in tight supply, and whatever estimates are made at this time I do believe you have to accept as estimates. It is when you get down to the detail of exactly what ma-



chinery you want for what particular purpose that you get to beginning to do business.

Senator HICKENLOOPER. I hark back in my own mind to the allocation of farm machinery that was undertaken in this country during the war, and some of the completely uneconomic and unsound allocations that were made of types of farm machinery into areas that could not possible use them, leading to a lot of confusion at that time. I just wondered what the European allocation of farm machinery, in an area that has not been particularly extensive in its use of farm machinery in the past, may be. I think it should have some pretty careful examination to see that we do not send tractors into areas that cannot use tractors. I recall that we sent a bunch of rotary hoes out to Pikes Peak County, Colo., where they could not use them. I do not know that we will do that, but I think there is a field here that should have rather more than an educated guess as to the utility of this.

Secretary HARRIMAN. Senator, I find that I have the table showing the type of tractors and certain other types of farm equipment, including plows and harrows and cultivators and so forth, by countries. I will be glad to submit it to you, if you care to see it.

This is long. Rather than reading it, I will hand it to you. This breaks it down in the different categories by countries.

The CHAIRMAN. Do you want this in the record, Senator?

Senator HICKENLOOPER. Yes; I would like very much to have that in the record.

The CHAIRMAN. It will be inserted in the record.

(Following is the tabulation referred to:)



TABLE 1.—Total import requirements (from all countries) of farm machinery and equipment, specified European countries, 1947-48<sup>1</sup> (summary of material obtained in response to telegram No. 9)

Kind of machine or equipment	France	United Kingdom	Bizone area of western Germany	Netherlands	Denmark	Sweden	Greece	Ireland	Iceland	Austria <sup>2</sup>	Italy	Total
Crawler tractors:	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>	<i>Number</i>
Under 35 drawbar horsepower.....	2,000	454	-----	-----	100	-----	1,000	50	50	-----	-----	3,654
35-50 drawbar horsepower.....	1,000	338	-----	380	150	200	1,000	-----	60	-----	-----	3,128
50 drawbar horsepower and over.....	1,000	22	200	20	40	100	1,100	-----	20	30	250	2,782
Total.....	4,000	814	200	400	290	300	3,100	50	130	30	250	9,564
Wheel tractors:												
8-18 drawbar horsepower.....	6,000	-----	4,700	500	2,200	1,500	(3)	1,000	1,000	-----	-----	52,580
19-30 drawbar horsepower.....	24,000	480	2,400	1,300	3,800	2,500	(3)	1,200	-----	-----	-----	-----
Over 30 drawbar horsepower.....	2,000	1,497	700	800	1,000	2,200	(3)	200	-----	-----	-----	8,397
Total.....	32,000	1,977	7,800	2,600	7,000	6,600	-----	2,400	1,000	-----	-----	60,977
Garden tractors.....	-----	-----	-----	500	850	500	-----	100	25	-----	500	2,475
Tractor-mounted machines:												
Plows.....	40,000	100	2,400	1,500	2,500	3,000	400	1,000	600	-----	-----	51,500
Disk harrows.....	-----	-----	-----	1,500	1,500	-----	400	1,000	-----	-----	-----	4,400
Cultivators.....	40,000	-----	7,100	1,500	2,000	1,000	400	1,000	-----	-----	-----	53,000
Mowers.....	4,000	636	7,100	-----	500	3,000	400	1,000	1,200	250	-----	18,086
Sweep rakes.....	-----	-----	-----	-----	-----	-----	-----	50	-----	-----	-----	50
Potato diggers.....	-----	-----	7,100	-----	-----	-----	-----	-----	-----	-----	-----	7,100
Tractor-drawn machines:												
1-way disk plows.....	25,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	25,000
Grain drills.....	-----	1,242	-----	-----	-----	-----	200	-----	-----	-----	-----	1,442
Grain binders.....	7,000	1,245	1,800	1,000	2,000	1,000	400	1,300	-----	2,750	-----	18,495
Combines.....	4,000	445	5,000	400	500	-----	150	100	-----	100	115	10,810
Mowers.....	6,000	450	2,800	3,500	500	-----	200	400	-----	-----	-----	13,850
Potato diggers.....	-----	53	1,000	-----	-----	-----	-----	-----	10	-----	-----	1,063
Plows.....	10,000	450	3,600	4,000	2,500	6,000	3,100	1,000	170	230	300	31,350
Cultivators.....	-----	-----	4,300	2,500	2,000	-----	400	-----	400	-----	-----	9,600
Disk and other harrows.....	25,000	-----	4,000	3,000	1,500	1,000	1,400	1,000	650	250	250	38,050
Swathers.....	-----	50	-----	-----	-----	-----	-----	-----	-----	-----	-----	50
Beet loaders.....	-----	3	-----	-----	-----	-----	-----	-----	-----	-----	-----	3
Pick-up balers.....	2,000	1,316	-----	350	-----	-----	-----	-----	-----	-----	-----	3,666
Pick-up straw trussers.....	-----	-----	6,000	-----	-----	-----	-----	-----	-----	-----	-----	6,000
Hay rakes.....	-----	-----	3,000	-----	-----	-----	-----	-----	300	-----	-----	3,300
Sprayers.....	8,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	8,000
Cotton pickers.....	-----	-----	-----	-----	-----	-----	50	-----	-----	-----	-----	50
Hay loaders.....	-----	250	-----	-----	-----	-----	-----	-----	-----	-----	-----	250
Forage harvester.....	-----	35	-----	-----	-----	-----	-----	-----	-----	-----	-----	35
Beet harvesters.....	-----	17	-----	-----	-----	-----	-----	-----	-----	-----	-----	17

See footnotes at end of table.



TABLE 1.—Total import requirements (from all countries) of farm machinery and equipment, specified European countries, 1947-48<sup>1</sup> (summary of material obtained in response to telegram No. 9)—Continued

Kind of machine or equipment	France	United Kingdom	Bizone area of western Germany	Netherlands	Denmark	Sweden	Greece	Ireland	Iceland	Austria <sup>2</sup>	Italy	Total
	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
Horse-drawn machines:												
Grain drills.....			12,000	2,000			5,000					19,000
Binders.....			5,000	1,000	7,000		2,000	500				15,500
Disk and other harrows.....			24,600					3,000	30			27,630
Cultivators.....			27,000					3,000				30,000
Horse hoes.....			2,400									2,400
Potato diggers.....			9,000		3,000			3,000	100			15,100
Fertilizer distributors.....			6,000	4,000					225			10,225
Mowers.....		275	6,000	3,500	5,000			1,600	300	2,000	400	19,075
Hay rakes.....			11,500		2,000			3,000		500	700	32,850
Tedders.....		250	6,500	5,000	2,500	(4)			900			1,300
Beet lifters.....			1,300									1,300
Plows.....			135,000	3,500				3,000	50			141,550
Potato sprayers.....								500				500
Manure spreaders.....								3,000	2,000			5,000
Wagons and farm trucks.....					10,000				150			10,150
Green crop loaders.....		5							100			105
Scufflers.....		490										490
Stationary machines:												
Threshers.....							200	1,401				1,601
Balers.....		20	1,300	500			500			200		2,520
Seed cleaners.....							65					65
Hammer mills.....				50			300	800				1,150
Other feed grinders.....							300	100				400
Corn shellers.....							150					150
Blowers.....									500			500
Potato sorters.....			9,000									9,000
Chaff cutters.....			28,000									28,000
Hand implements.....			5 19,000	(6)		(7)	(8)	(9)	(10)			
Miscellaneous.....	(11)						(12)		(13)			

<sup>1</sup> A reply to telegram 9 was also received from Belgium, but it provided no basis for separating drawn and mounted machines. The 1947-48 requirements submitted by Belgium, which appear high for some machines, follow: 250 tractors, 20-40 drawbar horsepower, type not specified; 50,000 mowers; 40,000 binders; 10,000 each of horse-drawn rakes and tedders; and 200 combines.

<sup>2</sup> For Austria, the above data represent 1947-48 needs of United States machines and do not represent total import requirements.

<sup>3</sup> To be supplied later.

<sup>4</sup> No estimate for Sweden.

<sup>5</sup> Root cutters.

<sup>6</sup> 1,500 tons valued at \$1,500,000.

<sup>7</sup> Valued at \$100,000.

<sup>8</sup> 1,000 seed cleaners and 2,000 corn shellers.

<sup>9</sup> 2,500 tons valued at \$1,120,000.

<sup>10</sup> 100 tons valued at \$40,000.

<sup>11</sup> Grain drills, seeders, planters, distributors, and dairy equipment, a total of 25,000 tons.

<sup>12</sup> Steel for making farm machinery, a total of 30,000 tons.

<sup>13</sup> 15 drag-line excavators for agriculture use.



TABLE 2.—*Estimated import requirements of farm machinery and equipment, total and from the United States, specified European countries, 1947-48*

Kind of machine or equipment	United Kingdom		Netherlands		Austria	
	Total	From the United States	Total	From the United States	Total	From the United States
	Number	Number	Number	Number	Number	Number
Crawler tractors:						
Under 35 drawbar horsepower.....	454	454				
35-50 drawbar horsepower.....	338	338	380	380	(1)	
Over 50 drawbar horsepower.....	22	22	20	20	(1)	30
Total.....	814	814	400	400	(1)	30
Wheel tractors:						
8-18 drawbar horsepower.....			500	100		
19-30 drawbar horsepower.....	480	480	1,300	500		
Over 30 drawbar horsepower.....	1,497	1,497	800	800		
Total.....	1,977	1,977	2,600	1,400		
Garden tractors.....			500	200		
Tractor-mounted machines:						
Plows.....	100	100	1,500	1,000		
Disk harrows.....			1,500	1,000		
Cultivators.....			1,500	1,000		
Mowers.....	636	636			(1)	250
Tractor-drawn machines:						
Grain drills.....	1,242					
Grain binders.....	1,245		1,000	300		
Combines.....	445	405	400	150	(1)	100
Mowers.....	450		3,500	500		
Potato diggers.....	53	53				
Plows.....	450	150	4,000	1,000	(1)	230
Cultivators.....			2,500	1,000	(1)	400
Disk and other harrows.....			3,000	1,000	(1)	250
Swathers.....	50					
Beet loaders.....	3	3				
Pick-up balers.....	1,316	1,216	350	250		
Hog loaders.....	250					
Forage harvesters.....	35	35				
Beet harvesters.....	17	17				
Horse-drawn machines:						
Grain drills.....			2,000			
Grain binders.....			1,000	300		
Fertilizer distributors.....			4,000	500		
Mowers.....	275		3,500	500	(1)	2,000
Hay rakes.....						
Tedders.....	250		5,000		(1)	500
Plows.....			3,500			
Green crop loaders.....	5	5				
Stationary machines:						
Balers.....	20		500			200
Hammer mills.....			50			
Hand implements.....			(2)	(3)		
Miscellaneous.....						(4)

<sup>1</sup> Not available.<sup>2</sup> 1,500 tons valued at \$1,500,000.<sup>3</sup> 300 tons valued at \$300,000.<sup>4</sup> Spare parts 150 tons and 16,000 tractor tires.

Senator HICKENLOOPER. Senator Smith mentioned a moment ago the furnishing of electrical equipment. You indicated, and the tables show, that electrical equipment is not to be sent during the first 15-month period. Is it possible that the back orders in our own country are so great at this time for power equipment that we just simply could not furnish it if we wanted to during the first 15-month period?

Secretary HARRIMAN. I would not have thought, from my knowledge of that type of equipment, that we could not furnish it without undue hardship in this country.

Senator HICKENLOOPER. I have been informed that the back orders for electrical equipment, machinery of that sort, generating equip-



ment and all sorts of things of that kind, are so great for our own use in this country that unless we just moved in and took it away from those who had already ordered, and who had it in the production line, we could not possibly furnish it in the next 15 months.

Secretary HARRIMAN. My understanding is that that is correct. And I understand that some orders run into 3 or 4 years ahead. Whether these additional requirements can be fitted in or not I do not know, if they are approved at a later period.

Senator HICKENLOOPER. I am having a lot of difficulty reconciling the figures of the tables furnished in this presentation, this outline of European recovery, published by the State Department, but I hope to get those straightened out soon.

I would like to ask you, however, Mr. Secretary, what is your opinion as to the desirability of requiring recipient countries who receive capital goods or goods out of which gain can result, goods that will produce in turn other goods—the desirability of arranging so that some program of repayment over a period of time, under liberal terms, should be required? That is aside from goods that go to emergency relief and distress conditions.

Secretary HARRIMAN. Senator, as I understand the proposal, it is that a part of the aid that is given will be made in the form of loans. It will vary, I presume, country by country, depending upon the capacity of that country to pay over the years in each case, regardless of the exact character of the help that is given it. It may well be that some country can pay for its food, whereas, another country cannot even pay for some of the productive machinery that is sent.

I understand the program has back of it a concept with which I fundamentally agree, that it will not aid in world recovery if we burden these countries with debts which cannot be repaid through their exports. We can only be repaid by getting goods and services in return, and if there is little likelihood of our being able to get those goods and services returned, it will be damaging to recovery and make it more difficult for these countries to finance themselves through other more normal means, and that is a basic decision and, I would think, one of the most important decisions that the Administrator of this program will have to make, country by country.

And the wisdom of those decisions will be of great importance.

I do myself concur most strongly in the concept that part of this will have to be grants in aid, and yet that each country should be considered as to what obligation they can fairly assume to repay the United States for what has been generously given to them at this time.

Senator HICKENLOOPER. I have not totaled this, because it could not be totaled accurately in a short time, but my impression of the volume of goods that is proposed to go from the United States, or that we are proposing to sponsor by way of buying it off-shore and sending it abroad, is well over 50 percent of those units or products that go directly into income-producing results for those countries; that much less than 50 percent could come under the heading of food and emergency distress need. And I am greatly concerned as to the extent that we should invade our economy so far as taking income-producing goods and materials out of it and merely donating those to other countries who in turn will produce income and profit out of those physical goods. There may not be a clear-cut dividing line in some



instances, but certainly it would seem to me that some arrangement should be more seriously considered than has been toward adopting or establishing such an area of repayment as against an area of gift.

Secretary HARRIMAN. Senator, isn't the question as to what these countries can produce which we are ready to take? They can make a profit internally which can be used to expand facilities or increase consumer goods, whatever it may be, but unless they can produce something which we are ready to take, the obligation will not be repaid, no matter what agreements are made. And that is a very difficult question to answer. I do not feel, myself, in any position to answer what that proportion should be. I do not believe anybody will be able to answer it until a study is made of each country and how their balance of payments is estimated to work out, and then there will be that problem as we go forward, if this program is undertaken, and year by year followed through.

I do not think it relates, Senator, to the character of goods so much as it does to the economic productive condition which these countries find themselves in or will find themselves in during the course of the recovery program and thereafter, and their ability to supply goods which we can use ourselves.

Senator HICKENLOOPER. Well, I have no desire to see this country be cheap about its assistance.

Secretary HARRIMAN. I am sure you haven't.

Senator HICKENLOOPER. To people in distress. But I also have no desire, nor will I aid, in having this country foolishly profligate in the way it dissipates our resources, and the more or less Pollyannaish tossing about of resources that we do not have to give freely away. And I am greatly concerned as to the seriousness with which we approach this.

Had this been a number of years ago, when we had not invaded our own economy and used up a lot of our natural resources, we probably could afford the luxury of great generosity, and we have afforded the luxury of great generosity since the war is over. I do not think we can be accused of being cheap about our attitude toward these other countries. But we are now being asked to undertake a long-range program in which we may have to morally commit ourselves to see it through under certain conditions. Frankly, I am not convinced yet that we have approached it and calculated it on a sound, meticulous basis. It appears to me up to this point that we have merely taken the hurried calculations, roughly brought together by European nations, and we have juggled them around a little bit and added a percentage factor and reduced it by that much, and we say, "Here are the broad categories in which we must help." And I feel that our economy, especially as it now exists and the pressures that are on it, is just in too delicate a situation to approach any long-range commitments without a little more businesslike calculation, and a little more examination as to what it in the long run will do to our economy. It does not do a great deal of good, in my mind, to say that years from now, we will be much better off. We may get into the situation of the old suggestion that the operation was a success but the patient died. We may successfully bail out Europe, and we may do a magnanimous thing here, but our own economy may go through some substantial flip-flops.



I have this idea, that if you have 10 units of a commodity for sale and there is a demand for 11 units, the price goes up almost without limit. If you have 10 units and there is a demand for only 9, the price goes down, because there is one extra available that you cannot sell.

Now, on this question of pressures on our economy, without doubt, every ton or every dollar's worth of goods in short supply that we take out of this country to supply to this European recovery program is going to multiply the pressure on our economy almost in geometric proportions, because it is in short supply, and when we take out of short supply, we accentuate that demand. I feel that the details that give the cold picture as to what we are expected to go up against have not yet been soundly produced—I should not say “soundly” produced, but produced in sufficient detail so that this thing can be examined in any other way except as a sort of an over-all picture.

Secretary HARRIMAN. Well, Senator, may I say this: I believe that on an over-all basis the need is clearly there. But from my own experience, when I went to England, and with a small staff, it was not very long before we had a very good idea of the British economy.

Granted it was a wartime economy, but similar factors are involved in a peacetime analysis. We knew the food situation, we knew the production situation, we knew the rationing situation, we knew how they were living, and when we had a pretty good idea of that we made up our recommendations of what was necessary to keep the British people fed. By the same token, we analyzed their requirements of different products to get the maximum production of the British munitions and what they needed to maintain their minimum of industrial life and consumers' goods.

I think we did that pretty well, and that was one area where I spent 2½ years from early '41.

Regardless of the estimates that were submitted to Washington, you will never know the answers to the specific uses until you get a competent group specifically analyzing it, and I think of necessity one has to look upon this thing from the standpoint of the over-all situation in each country.

Their exports are not sufficient to meet their import requirements, which I believe has been shown and can be shown. As to exactly the type of equipment to be used, how it is to be used, how they can attain these results, that will require not a large staff but a highly competent staff, and it is not as difficult as I thought it was going to be. I have been through it, and I think we did a pretty good job, because most of our recommendations were accepted.

You remember we had our own requirements at that time. These requirements, when they come back, have got to be screened with the same character of screening that we did during the war.

Having been through that, I think we can deal with this thing if you establish competent machinery for doing it. I think the over-all proportions are substantially what is needed to do the job in the way that you say. We don't want to underdo it and not do it.

Now, the question of the effect at home: We are trying to do a great many things which we cannot do all at once. We all know that there are a lot of houses which are needed for our people. We know there are automobiles which people want. We know there are refrigerators and other things that people want; although on some commodities the



question of price goes up in relation to demand, it does not necessarily in connection with manufactured goods. We are going to have to defer, if we carry on this program, some of the pent-up demands which our people have, and that must be weighed by those who are making the decision as to whether the over-all effect is so serious that we should not undertake it, or, as I am firmly convinced, it is within reasonable capabilities and that it is wise for us to forego the attainment of some of the objectives which we have, or postponing them.

I cannot do any more than to say what I have said here, sir.

Senator HICKENLOOPER. I realize, and please do not misunderstand me; I am not asking for a lot of foolish details where you get into a maze of minutae that spoils your whole calculations. I am not suggesting that. But I am suggesting categories that will give a pretty detailed picture.

But, getting back to your action during the war, under the lend-lease proposals, it seems to me that a different approach was taken to this thing. Under lend-lease, as I understand it, every country that obtained aid by way of lend-lease either came here or went to our representatives abroad and there were certain things they had to do. They had to show, first, urgent necessity. They had to show, second, that the materials they sought from us were absolutely unattainable from any other sources. And then it had to be established that that material could be given to them with at least equal, if not greater, advantage to our common effort than if we retained it ourselves.

In other words, that burden of proof in the instances where they wanted materials was placed upon those countries, and it seems to me that the connotation in this act is that we are pushing this on them without the proof from time to time of necessity or unavailability, and that it will contribute more to them as time goes on and contribute more to the common effort of reestablishing economic balance than it would if we used it in our own economy.

I mean, it seems to me that we are not approaching this thing on the basis that lend-lease was administered, and I felt, myself, that lend-lease had a pretty good basis of administration.

Secretary HARRIMAN. I felt that by and large lend-lease did a first-rate job. But wasn't it much the same thing? You had general estimates of requirements and the Congress appropriated money, and then the detailed screening. The lend-lease equipment wasn't given based on the appropriation of Congress; it was screened here in Washington, it was screened in the countries of receipt, and aren't we going through much the same procedure, except I think you perhaps have even more detail now than you had in the lend-lease period? I wasn't here; I was on the other side. But it was my impression that rather large sums were voted on the broad analysis of what these countries needed, and then not even as much detail as we have here was available, and then the work began of screening and the particular commodities or products were never shipped unless all of the factors that you say were weighed. They certainly were weighed, and I would expect that the same procedure would be followed through by the administration of any program that was authorized.

Senator HICKENLOOPER. I am glad to hear you say that.

Secretary HARRIMAN. I had never assumed, sir, that the Congress would vote specific things to specific countries, but that you would



vote a program and give the authority to carry it out, and I would hope that there would be, as it is in peacetime, even greater care exercised, because there weren't the imponderable questions which you had during the war, and things that happened which were unforeseen, although there will be things happen which are unforeseen, as there have been in the past several years.

We don't know many things that are going to happen in the future.

Senator HICKENLOOPER. I think I shan't ask any more questions tonight, Mr. Chairman.

The CHAIRMAN. Senator Lodge?

Senator LODGE. I would like to have this proposition stated in terms of surplus. Can't we make a list of all the principal commodities that are going to be sent abroad under the terms of this bill—wheat, corn, oil, freight cars, ships, and so forth—and in one column indicate the annual American consumption and then in the next column indicate how much you expect to have during the 15-month period, and then in the final column show whether you are going to have a surplus or a deficit? Of course, obviously, if you don't take more than the surplus out of America you are not going to affect the price here at all, are you?

Secretary HARRIMAN. As I have said in my testimony, I don't think the job can be done out of surpluses.

Senator LODGE. You do not think it can be done out of surpluses?

Secretary HARRIMAN. No.

Senator LODGE. None of it?

Secretary HARRIMAN. Some of it, certainly.

Senator LODGE. Are there not some commodities in which we have enough surplus to supply agricultural needs?

Secretary HARRIMAN. We do know that in agricultural areas we have a surplus of fruits, for instance, which will move. We know we have a certain surplus of cotton which will move under the program. There are certain things that are in surplus; there are certain things that we can create without any great damage. There is certain machinery and machine tools. We have the surplus capacity. At the same time, we cannot get away from the fact that we have a shortage of steel, and whatever steel you take out of the country does affect our ability to build houses and automobiles and other things that we crave in this country.

The State Department has assembled this information. I think that the question of getting that tabulation might better be done by the State Department, if they are prepared to do it.

Senator LODGE. Well, I am running up against this all the time. I ask a question of the State Department and they refer me to you, and I ask a question of somebody else and they refer me to Snyder, and so it goes.

Hasn't the Department of Commerce got those figures? I would think they would have.

Secretary HARRIMAN. We have not a break-down in each case. I have given you some of the figures as to the percentage of our production that would be required in certain specific items.

Senator LODGE. I think it would be very significant to know to what extent we are taking out of surplus and to what extent we are not, because if we have a surplus and take that out of this country it does



not affect the price. I do not expect you to have it now, but I should think it ought to be possible, with all the human ability you have in the Department of Commerce, to make that tabulation.

Secretary HARRIMAN. We will attempt to get something up in co-operation with the State Department, if you want to put it on us. There is only one table here which was prepared by the Committee of Nineteen, which covers the textiles and the different items in that area—raw cotton, lumber, pulp, leather, rubber, and so forth. We will try to get something up along those lines.

Senator LODGE. I would appreciate it a lot. I have seen statements as to surplus in grain and certain other things, but I have not ever seen it done for all these commodities.

Secretary HARRIMAN. It would have to be a cooperative undertaking of several departments of the Government. We have the question of weather coming in, as to what our crops are going to be next year.

Senator LODGE. All of us are engaged in looking into the future. We all have to do that.

Secretary HARRIMAN. We are shipping now out of this country, not under export control, somewhere between 6 and 10 percent of our automotive production. That is being settled at the present time by the producing companies, based on how they think it is fair to deal with their customers and their future customers. Where there is a demand in this country for automobiles, any automobile that you ship out of the country takes it away from somebody who wants it or postpones his ability to buy it.

How serious you judge that to be is a matter of appraisal. Our automobile people seem to want to carry on an export trade because they want to keep their position in the foreign markets.

Senator LODGE. I saw more American automobiles in southern France than I have seen in this country.

Secretary HARRIMAN. You must have looked more closely, because the total over-all is only about 7 percent of our total production.

Senator LODGE. I have not been all over this country, but I was in southern France and there was a concentration of brand-new automobiles there that I never saw here.

Secretary HARRIMAN. They got some small share—7 percent—of our total automobiles.

All I am saying, or trying to say, is that it will not be categorical, because it is a question of whether the policies that we are pursuing now are the right ones.

Senator LODGE. It is a question of how you define the word "surplus."

But let's take the last year as the normal, and everything above that is surplus. Let's take that as a definition just for the sake of argument.

Secretary HARRIMAN. I do not know that a fellow who wants an automobile would consider that a surplus.

Senator LODGE. Take all the sales made last year of wheat, oil, and everything else, and call that normal; everything above that a surplus, and everything below that as deficit. That will give you some information on which you can tell the effect of this contemplation on the price level.

Secretary HARRIMAN. We will try to get it up in some tabulated form that will give you at least part of the picture you want.



(The matter referred to is as follows:)

STATEMENT SUBMITTED IN RESPONSE TO A REQUEST OF SENATOR LODGE FOR INFORMATION ON REQUIREMENTS OF COUNTRIES PARTICIPATING IN THE EUROPEAN RECOVERY PROGRAM IN RELATION TO UNITED STATES EXPORTS DURING THE PAST YEAR

Prior to the completion of the studies by the executive branch, the Department of Commerce had prepared estimates of United States exports to the European recovery program countries and to all other countries of the world, by commodity group, for 1946, for the first half of 1947, and for 1948, assuring the requirements submitted by the European recovery program countries in the Paris Conference Report. The report concluded that a total of 98.3 billion dollars would be needed by the participating countries during 1948 to finance the entire balance of payments deficit of visible and invisible trade, if the requirements listed were to be met in full.

In order to appraise the range of American exports during 1948, two alternative assumptions were made: The first, that no new appropriations for foreign aid would be approved; the second, that means would be found to finance the entire 8.3 billion dollar deficit. Account was taken of all other dollars likely to be available to the countries of the world for commodity purchases in the United States, including those resulting from expected imports by this country, remaining credit balances, the liquidation of gold and other dollar assets, of private investment, and of dollars which might be made available by the International Bank and Monetary Fund.

This analysis indicates that on the first assumption—no further foreign-aid appropriations—United States exports in 1948 to all countries would fall to 9.9 billion dollars in contrast to 14.9 billion dollars, the annual rate which obtained during the first half of 1947. This 9.9 billion dollars estimated export rate might be as much as half a billion or more lower inasmuch as it assumes a high level of imports and rapid rate of liquidation of remaining gold and dollar assets.

On the second assumption—that means to finance the 8.3 billion dollars deficit would be found—the expected export level would be 14.2 billion dollars, a figure \$700,000,000 below the annual rate of exports during the first half of 1947.

These estimates are presented in the attached table, which indicates that under assumption II, of the 10 commodity groups shown, in the fields of nonmetallic minerals and machinery and vehicles expected exports in 1948 would be higher than in the first half of 1947.

If the amount appropriated were to be 6.8 billion dollars, as recommended by the executive branch, it is clear that exports to the world in 1948 would be significantly lower in each of the 10 commodity groups than during the first half of the past year.

The Department of Commerce is now making a further study of the individual commodity requirements and availabilities for 1948 of the participating countries which have been submitted to the Congress, in relation to recent United States exports both to western Europe and to the rest of the world, and to expected United States production and consumption. This study will be forwarded as quickly as possible in further reply to the question raised by Senator Lodge.



## United States exports of domestic merchandise, 1946, January to June 1947 at annual rate, and estimates for 1948, by commodity groups

[In billions of dollars]

Commodity group	Total to all areas		To CEEC countries		To non-CEEC countries		To non-CEEC countries, 1948 estimated <sup>1</sup>		To CEEC countries, 1948 estimated <sup>4</sup>		Total to all areas 1948 estimated		Total to all areas, 1948 estimated in comparison January to June 1947 at annual rates	
	1946	January to June 1947, at annual rates	1946	January to June 1947, at annual rates	1946	January to June 1947, at annual rates	Assumption I <sup>2</sup>	Assumption II <sup>3</sup>	Assumption I <sup>2</sup>	Assumption II <sup>3</sup>	Assumption I <sup>2</sup>	Assumption II <sup>3</sup>	Assumption I <sup>2</sup>	Assumption II <sup>3</sup>
Foodstuffs.....	2.2	2.5	1.0	1.2	1.2	1.3	0.9	1.0	1.0	1.4	1.9	2.4	-0.6	-0.1
Animal and animal products, inedible.....	.2	.2	.1	.1	.1	.1	.1	.1	.1	.1	.2	.2	-----	-----
Vegetable products (inedible) (except fiber and wood).....	.7	.8	.4	.4	.3	.4	.3	.3	.3	.4	.6	.7	-.2	-.1
Textile fiber and manufactures.....	1.3	2.1	.4	.6	.9	1.5	.9	1.1	.3	.6	1.2	1.7	-.9	-1.4
Wood and paper.....	.2	.4	.1	.1	.1	.3	.1	.2	.1	.1	.2	.3	-.2	-.1
Nonmetallic minerals.....	.9	1.4	.3	.6	.6	.8	.6	.7	.3	.9	.9	1.6	-.5	+ .2
Metals and manufactures.....	.7	1.3	.2	.3	.5	1.0	.7	.9	.2	.4	.9	1.3	-.4	-----
Machinery and vehicles.....	2.2	4.7	.5	1.3	1.7	3.4	2.3	2.7	.7	1.6	3.0	4.3	-1.7	-.4
Chemicals and related products.....	.5	.7	.1	.2	.4	.5	.4	.5	.1	.4	.5	.9	-.2	+ .2
Miscellaneous.....	.6	.8	.1	.1	.5	.7	.4	.7	.1	.1	.5	.8	-.3	-----
Total.....	9.5	14.9	3.2	4.9	6.3	10.0	6.7	8.2	3.2	6.0	9.9	14.2	-5.0	-.7

<sup>1</sup> Includes recorded exports of United States merchandise but excludes goods shipped to the United States armed forces overseas for use as civilian supplies in the occupied areas.<sup>2</sup> Assumption I: It is assumed that no new appropriations for foreign aid will be approved by Congress.<sup>3</sup> Assumption II: It is assumed that means will be found to finance the entire balance of payments deficit of visible and invisible trade of the CEEC countries amounting to \$8.3 billion, as outlined in the Paris report.<sup>4</sup> On assumption that requirements as submitted by the CEEC countries would be met in full.

Source: Department of Commerce, November 1947.



Senator LODGE. I will very much appreciate it if you will.

Now, on page 12 you made an interesting statement. You said:

We are producing more than half again as much as we produced before the war, and we are eating more and better food, even as we share our bounty with our friends abroad.

Is it your belief that that consumption of more and better food is pretty generally spread throughout the population in this country?

Secretary HARRIMAN. I do not want to do what you say we always do, refer to somebody else.

Senator LODGE. You said this, did you not?

Secretary HARRIMAN. I think this is generally the case, that something like 40 percent of our population before the war was eating far better than the other 60 percent, and that at the time it was estimated that the Nation could consume about a third more food if the 60 percent got up to the diet of the 40 percent. This year I understand the figure to be that we ate about 16 percent more food, and therefore, roughly speaking, we have attained, from before the war to the present, about halfway between the general average then and now. The general average has gone up to that level of the higher 40 percent by about halfway. Am I making myself plain?

Senator LODGE. Everybody is eating better, but some are not eating as well as others, is that it?

Secretary HARRIMAN. Yes. In other words, before the war it was estimated that if the lower 60 percent ate as well as the 40 percent, we would be consuming a third more food, and this year we consumed, I think, roughly 16 percent more food, and therefore it is to be presumed that we about halfway covered that gap.

The CHAIRMAN. I believe the phrase in the last four Presidential campaigns was that a third of our people are ill-housed, ill-fed, and ill-clothed.

Senator LODGE. I was thinking of that phrase and wondering how the percentage had changed.

Secretary HARRIMAN. It has developed a very extraordinary situation, or at least it seems to be extraordinary to some of us, that we are going to have to scratch ourselves in order to produce the desired diets that people want with full employment, and what is considered approaching fair wages.

Senator LODGE. I noted a statement that you interpolated—I think it was not in the written text—in which I understood you to make a statement with which I profoundly agree, that the economic integration of Europe should be geared into this Marshall plan. You do feel that that is a very essential thing to achieve, do you not?

Secretary HARRIMAN. I think it is one of the great advances which can be achieved by this program if the objectives which the European nations have put forward are adhered to and we hold them to their undertakings. And I think we have for the first time, Senator, an opportunity to do it on a peacetime basis. I think we would be missing a great opportunity if we did not encourage those countries to go forward with the undertakings that they have undertaken.

Senator LODGE. I am very, very glad to hear you say that. I feel we face a historic opportunity to achieve that end.

Now, have you read this bill that we have before us here?



Secretary HARRIMAN. Yes. I am afraid I do not know all of the implications as well as I should or might.

Senator LODGE. Have you read it well enough to have an opinion on whether you think that the language in it is sufficient, whether it contains all of the language that is necessary to enable us to use our good offices to help these European nations achieve a united, integrated, economic situation?

Secretary HARRIMAN. I think it is beyond my function to decide what the Congress' wisdom should prescribe. I do have a feeling that this objective ought to be held out. I think it has to be handled with great skill in the relations with these countries. And I would not want to express an opinion as to the language that is used or should be used. The objective, I hope, is accepted by everybody as being one that we should keep constantly before us. I think you have for the first time opinions and forces at work which will make it possible.

I know back as far as the middle twenties, when I was involved in what has not always been a very proudly held up position, being an international banker, I attended a conference in Paris. It was in the mid-twenties, and I asked the men there—it was the International Chamber of Commerce—why we were making progress in this country while there was stagnation in Europe. Every one of them said the basic reason was that we had the largest economic area of free trade, that there would be no real hope for stability in Europe until they had more economic integration than they have now. It is a conviction that I personally have had for a long time.

Senator LODGE. I am very glad to hear you say that.

Secretary HARRIMAN. And whatever influence in government or as a private citizen I have, I will certainly continue to work in that direction.

Senator LODGE. Leaving this bill for a minute, and I quite understand why you would not want to comment on the specific terms of the bill, do you think it would be of use for the Congress to state, not as a condition precedent at all, but simply to state our conviction and our hope that that would be a good thing?

Secretary HARRIMAN. I would welcome such a statement. I don't know if this is clear enough. If it is not clear enough, I would hope the Congress would make it clear that we recognize the importance to Europe and to the world as a whole. I do not know that economic integration is the right word.

Senator LODGE. Whatever it is, we know what we mean.

Secretary HARRIMAN. Whatever is the type of word to use.

Senator LODGE. Now I would like to ask Mr. Bissell some questions.

If we have a big program to help China, let us say, coming in April or May, that would, of course, put an added demand on our resources here in this country, would it not?

Mr. BISSELL. It would; yes, sir.

Senator LODGE. And it might reduce some of the items in the Marshall plan for western Europe?

Mr. BISSELL. It might. It depends, of course, entirely on what type of assistance we chose to extend or had to extend to the Chinese Government. Naturally, if that assistance took the form, for instance, of some transfers of shipping, conceivably, or some transfers of military equipment in surplus, or transfers of monetary metals, they would



not be directly competitive. But if it meant a program of food or a lot of clothing or consumers' goods or certain industrial equipment, it would, I should think, impinge directly on us.

Senator LODGE. So in that latter field we are somewhat in the position that the military authorities were in during the war, in that if they made an effort in one theater, it was at the expense of another?

Mr. BISSELL. I believe that is correct.

Senator LODGE. That is a thing to bear in mind, is it not?

In making these studies and these figures, did you have your own staff?

Mr. BISSELL. Yes; we had a small staff, I suppose about a dozen or 15 people altogether. It is a little hard to define it as to numbers, because we used quite a few consultants, most of them from private industry, some for the whole period of the work on the study and some intermittently. Some of them were taken on as part of the staff for a few weeks, and many of them simply volunteered their services to help us.

Senator LODGE. Did you have enough people? Did you have all you needed to do the work?

Mr. BISSELL. We had neither the people nor the time to do—

Senator LODGE. That was going to be my next question.

Mr. BISSELL. We certainly did not have enough time, and I am inclined to think that more time would have been more valuable than more people. We were hardly able to start to work on the European requirements end of this program until the beginning of October. That gave us about 5 weeks. For at least the first 2 weeks after that time conversations were proceeding in Washington in which we played a part with the representatives of the European countries who had come over here from Paris. It really wasn't until those conversations were held that it was possible either for us or for representatives of the executive departments to probe the state of their knowledge to find out what additional information they might be able to supply, to ask for it in precise form, or to send off requests; and comparatively little of that additional information was available when our report had to be completed.

Senator LODGE. Are you fairly happy on the whole about your figures?

Mr. BISSELL. Yes. I think that within the limits of what is possible in the way of advance preparation for this type of program they are pretty reliable. But, I would certainly like to state, at least as strongly as the Secretary did, that I know of practically no instance, or negligible instances, in which, on the basis of the evidence now before us, I would think it proper to make a transfer, either of funds or of commodities to any one of these European countries. Perhaps in the case of foodstuffs and fuel there might be sizable exceptions, but otherwise I would say that the evidence just is not the sort of evidence on the basis of which these actual transfers ought to be made.

I have assumed, and I think most of the members of our committee assumed, that we would have something very like the lend-lease procedure, requiring rather detailed justifications, especially for industrial items, and of course most particularly for items that are in short supply. I am quite sure the evidence before us at present is not of that character and that in fact it is not possible to gather that kind of evidence until an organization is doing it on an operating basis.



The CHAIRMAN. And I do not want to anticipate a subject which I have deliberately postponed, but that in turn is totally dependent upon the creation of an effectively efficient business management of the business side of this business enterprise.

Mr. BISSELL. That is correct, sir.

I do not know whether that answers your question adequately, Senator LODGE.

Senator LODGE. I just wanted to know whether you were happy about the whole thing; whether you had enough people and had enough time, and whether you felt you had gotten to the bottom of it and were satisfied with the figures and you felt that the whole thing was tight and well thought out and polished, and everything measured up, or whether you felt everything was loose as a goose.

The CHAIRMAN. Well, you were happy when you got through.

Mr. BISSELL. I think the only way the answer can be summed up is by saying that I am happy about this only in the limited sense that I think it is about as good a job of appraisal as could be done in the time. I was not happy about having to do it in that little time, and although this is the kind of appraisal that has to be, probably, the basis for whatever decision this Government comes to, I hope this is not the basis upon which operating decisions and actual transfers are made.

Senator LODGE. Insofar as the legislative policy decision is concerned, it is as good as we could expect to get, is that not right?

Mr. BISSELL. I think that is correct. I, myself, feel that if we took, for instance, another month or two of gathering information and analyzing it, you would not be significantly better off in the quality of the evidence before you at the end of that time. I am perfectly sure that you could pick or I could pick a dozen or two dozen items here that, if we had a couple of months and some staff, and especially some people at the European end, we could collect evidence on this or that, and use—for instance, that we would like to have. But I think when you came to add it together the holes would be nearly as numerous and nearly as large 2 months from now, and you would be driven to the conclusion that as to advance planning, there is just about so far you can go and no farther, and you do not really get beyond that until a particular government says that in a particular steel mill they want a particular item of equipment to produce goods to a certain specification that they are going to use to build ships or locomotives, and they can tell you what companies are going to buy it, and you have a man on the spot who will go around and ask some questions. We, of course, had nothing faintly approaching that.

I am personally convinced that no part of the United States Government has or will have any organization like that until a program is in operation. And I am personally of the belief that most of the European governments themselves do not have such an instrumentality. That is why I feel that even another month or two of the gathering of evidence would not significantly advance the case.

Senator LODGE. So at any rate we do have these figures that the State Department has sent up, and then we have what is, in effect, an independent check of those figures by your body.

Mr. BISSELL. That is correct, but although it is complete independence in the act of bringing the judgment of persons to bear, you must of course realize that we had the same evidence to work on that the



State Department and the executive departments have had. In fact, we had rather less in the way of evidence than they had, because some has come in since, and we had a great deal less time to analyze it. The judgment is wholly independent.

Senator LODGE. You used Government sources and private sources.

Mr. BISSELL. That is right.

In any case, where we had anything from private sources we took care to see that it reached people in the executive departments who might wish to use it.

The CHAIRMAN. I think you had one additional advantage, and that is, a considerable number of members who in a lifetime of experience were expert in the related fields which they were studying.

Senator LODGE. Well, I want to thank you very much, Mr. Bissell, for your very interesting testimony, and I want to thank the Secretary of Commerce very much, and that concludes my questioning.

The CHAIRMAN. The Chairman is grateful to both of you. You are not released sine die. We will expect Mr. Bissell back with Senator La Follette, when we want to take up what in the Chair's opinion is the crux of this whole affair—an administrative formula which gives some promise of producing the results you all recommend. Until then we will excuse you with thanks, and the committee will recess until 10 o'clock tomorrow morning, when Secretary Anderson will present his bill of goods.

(Whereupon, at 5:30 p. m., the hearing was adjourned, to reconvene at 10 a. m. of the following day, Tuesday, January 13, 1948.)



## EUROPEAN RECOVERY PROGRAM

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TUESDAY, JANUARY 13, 1948

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D. C.*

The committee met at 10 a. m., pursuant to adjournment, in room 318 of the Senate Office Building, Senator Arthur H. Vandenberg, chairman, presiding.

Present: Senators Vandenberg (chairman), Capper, Wiley, Smith, Hickenlooper, Lodge, Connally, Thomas of Utah, and Hatch.

Present also: Senators Lucas and Thye.

Harvey Collison, special assistant to Secretary Krug.

The CHAIRMAN. The committee will come to order.

We have the pleasure this morning of the presence of the distinguished Secretary of Agriculture, Mr. Anderson. We will be happy to have you proceed in your own way.

### STATEMENT OF HON. CLINTON P. ANDERSON, SECRETARY OF AGRICULTURE

Secretary ANDERSON. Thank you.

I would prefer to read my statement and be questioned afterwards. But it is entirely all right if there are places where the Senators desire to break in.

Mr. Chairman, I appreciate this opportunity to discuss with you some of the food and agricultural aspects of the proposed European recovery program.

For the past 3 months technicians from the Department of Agriculture have worked with representatives of the Departments of State and Commerce in analyzing the food and agriculture proposals made by the Committee of European Economic Cooperation, both as to their production objectives and their import needs. They have gone over them country by country, commodity by commodity, using all of the resources of this Government. They have also made a careful analysis of the quantities of food and agricultural materials which the United States might reasonably furnish to the nations of western Europe over the next 4 years.

In the commodity reports entitled, "Food and Agriculture," "Fertilizer," and "Timber," which have been submitted to you, the evaluation of the European estimates and our specific recommendations are set forth in considerable detail.

Since you have these documents, I would like, in my discussion with you, to do two things: First, to describe briefly the food and agricultural part of our recommended program—what it envisions for the



receiving countries, and what it calls for from us; and second, to indicate what this food program would mean to the farmers and the consumers of the United States.

One of the chief focal points of any European recovery program must, unquestionably, be food. Most of you gentlemen have been to Europe since the war, just as I have. During the recent special session you made additional studies of the food needs of France, Italy, and Austria, in connection with emergency assistance which the Congress extended to those countries. So all of you are well aware of the critical food situation in western Europe.

I would like, however, to comment briefly on one or two aspects of that situation as they affect the prospects of genuine economic recovery.

Western Europe at best is dependent upon the outside world for much of its food. Before the war—specifically, in the years 1934 through 1938—the area as a whole produced only about two-thirds of its total food. The rest was imported. Some of the countries were even more dependent on outside food sources than that. The United Kingdom was less than one-third self-sufficient in food, western Germany about 60 percent, and Belgium, Norway, and Switzerland each were about 45 percent self-sufficient. Since the prewar period the food problem of western Europe has been intensified by a sharp drop in production and about an 8 percent increase in population.

Areas which depend upon a steady stream of food from outside inevitably suffer when that flow of food is disrupted. As you know, that flow has been greatly reduced during much of the 8 years which have elapsed since Hitler invaded Poland.

The European breadbasket in the Danube Basin, Poland and the Ukraine was first occupied by hostile armies and then devastated to such an extent that it is still far below prewar production. Large parts of eastern Europe have also suffered from drought in the post-war period. Such movement of food to western Europe as might otherwise take place is further slowed down by political barriers.

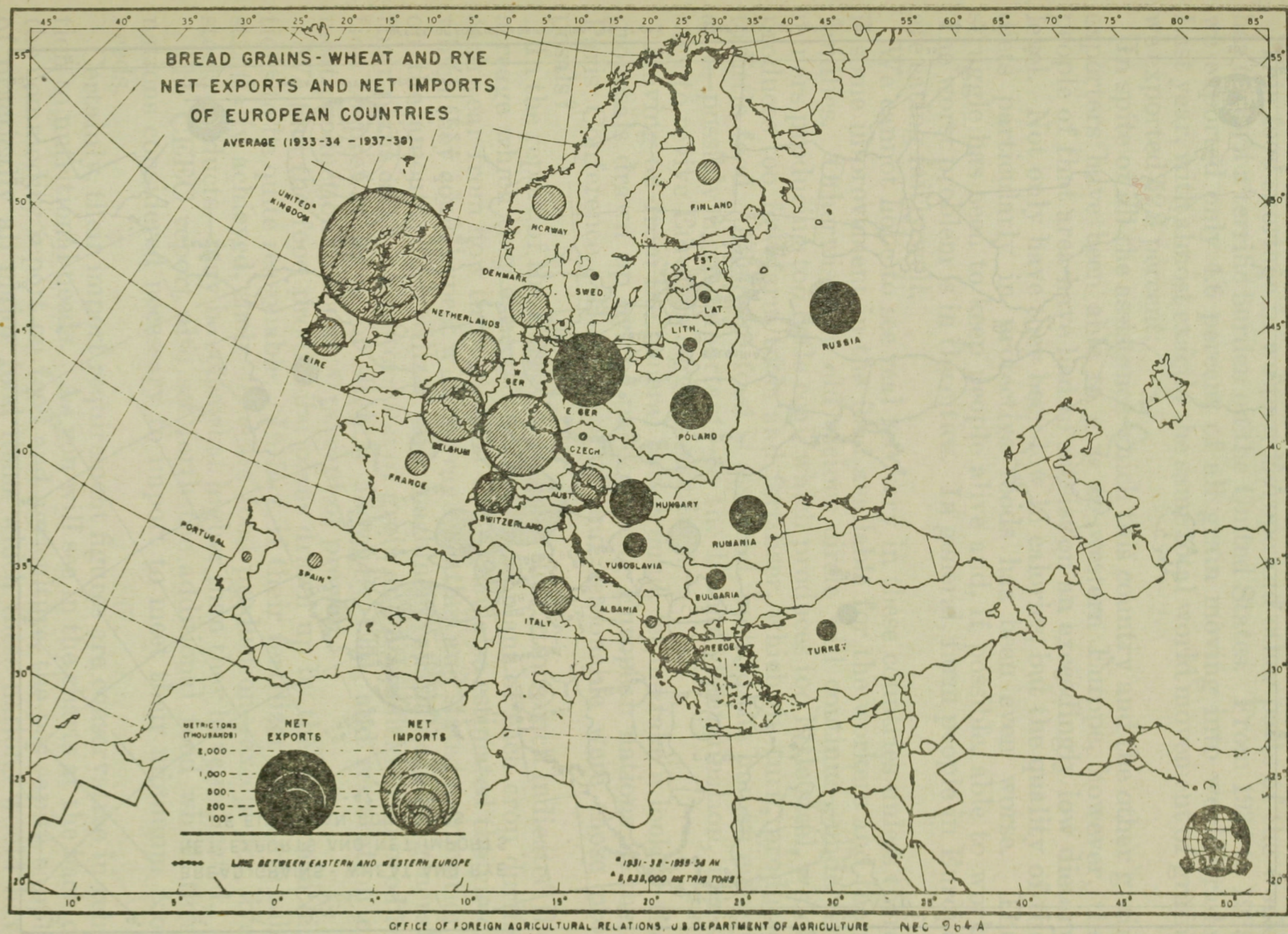
The situation is graphically portrayed in the accompanying maps.

Secretary ANDERSON. One shows Europe's food exporting and food importing nations before the war. You will note that if you drew a line between the surplus and deficit food areas it would coincide almost exactly with the political line which now separates eastern and western Europe.

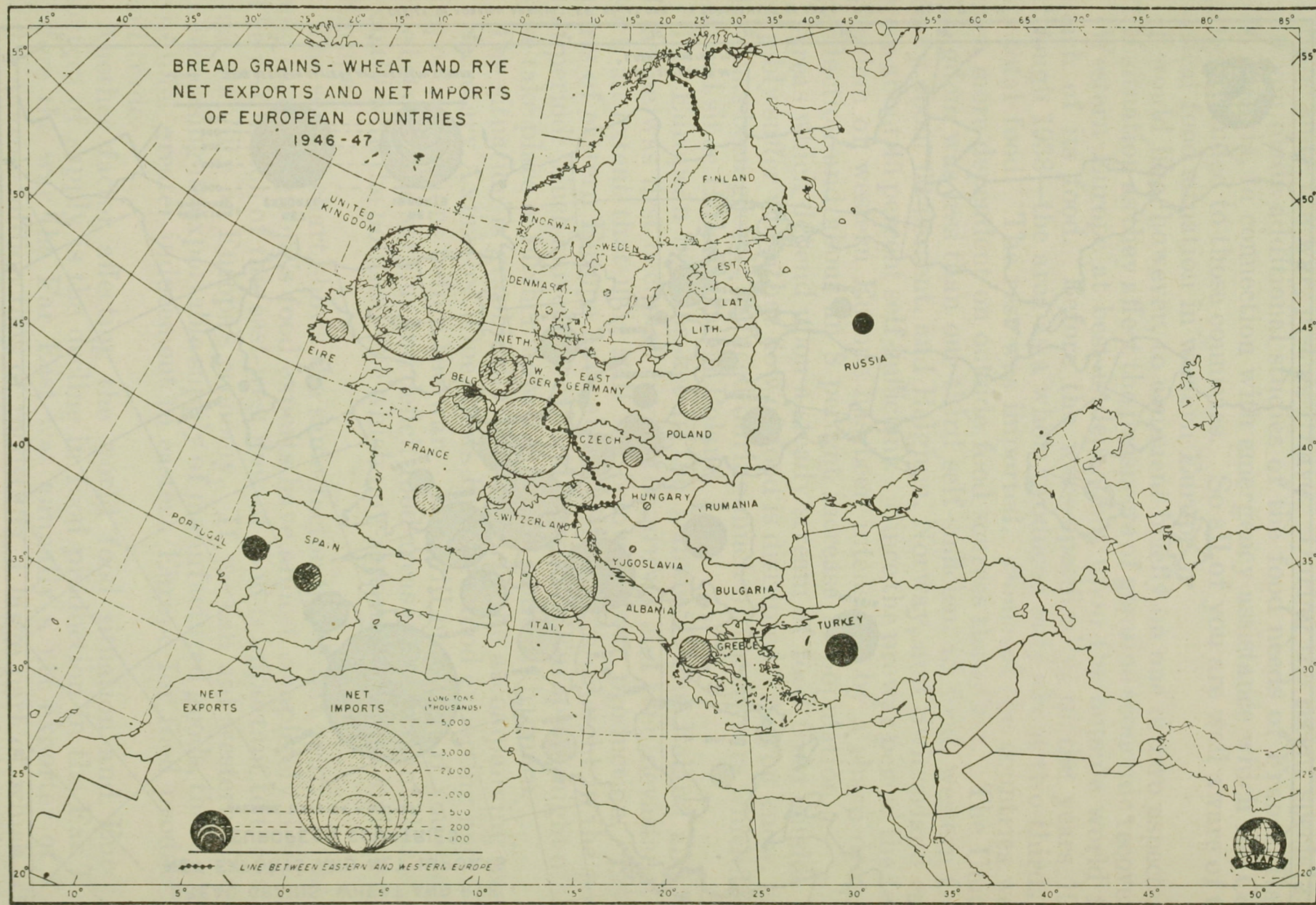
The second chart shows the same factors as of last year. It shows how eastern Europe's food exports have almost completely dried up. The restoration of this east-west flow of food is important to the long-time stability of Europe's economy. If we can aid western Europe in increasing its exportable supply of manufactured goods, those goods will offer greater inducement to eastern Europe for food production and trade.

Another factor affecting the world food situation and Europe's sources of supply is the decline in food production in the Far East. Before the war the Far East was annually a net exporter of four and a quarter million tons of foodstuffs, a large part of which went to Europe. In 1947 the Far East was net importer of six and a half million tons. That is almost 11,000,000 tons of food which could have gone elsewhere last year if the Far Eastern economy had been back to its old export levels. Eleven million tons is equal to well over half the total food exported from the United States last year.











Despite the effects of war, considerable agricultural recovery was being made in western Europe until the severe cold of last winter and the drought of the past summer. Since then, that area's agriculture like the rest of its economy, has been haunted by the continuing dollar shortage.

This food shortage in western Europe and other parts of the world has thrown a terrific burden on the United States. From 1934 to 1938 we exported only 4.6 percent of all grain moving into world trade. Last year, with almost exactly the same total world movement of grain, we exported 52.4 percent.

In spite of all the assistance which this country and the other grain exporters have been able to give to western Europe, however, the people of that area have had to subsist on an exceedingly low dietary level. Not only have they been low in calories, but the quality of the diets particularly in protective foods has been even worse. The struggle has been to keep people alive and, if possible, able to work. The worst problem is in the cities. In general, farm people in Europe are eating fairly well.

We cannot hope to see real recovery in these countries unless there is some improvement in the food available for the workers and their families. Otherwise the old vicious circle will continue—underfed miners producing too little coal, which produces too little steel, which produces too few farm tools and fertilizer, which, in turn, produces too little food. Adequate food is essential, both to the human energy and—possibly more important—to the human determination, necessary to revive Europe's lagging economy.

Moving on from the general background, let me take a look at the proposals drawn up by the participating European nations in their Paris Conference. How accurate and reasonable were those proposals?

In the report of the Paris Conference, the nations each indicated the acreage which they expected to be able to plant of each crop during each year from now through 1950-51. They also estimated the yields which they could expect with average weather and stated assumptions on the amount of fertilizer and machinery available. In general, their plans call for a restoration of grain and other field-crop production to prewar levels or slightly above by 1951, and restoration of meat production to about 90 percent of prewar.

We find the food production plans drawn up by the European nations to be quite reasonable. In fact, if their fertilizer plans are substantially achieved, their domestic food production—except for livestock products—may be somewhat higher than they have indicated.

The CEEC report also set forth the additional food which these nations considered necessary to import to meet their minimum food needs.

Certainly, their import requirement figures are conservative in relation to nutritional needs. As you will see in the charts at the back of the commodity report on food and agriculture, the per capita supply of practically all major food items which these nations would have from their planned domestic production combined with the stated import requirements at the end of the gradual 4-year increase would still be less than prewar.



However, need is only one criterion by which it has been necessary to judge the CEEC requests. The other is the ability of the food-exporting nations to supply the quantities of food called for.

We have studied very carefully the question of how much food the exporting nations, including the United States, might expect to furnish the European nations participating in this program over the next 4 years. Our studies indicate that for many items, particularly food grains, fats, and oils, food grains and other livestock feed, world supplies will be inadequate to meet the stated import requirements.

We have, therefore, revised many of their figures downward. Attached is table No. 1, which compares the two sets of figures.

I assume, Mr. Chairman, we will go back to that table at a later time and discuss it, therefore I will pass it for the moment.

The CHAIRMAN. Yes.

(The table referred to is as follows:)

TABLE 1.—Comparison of total import requirements<sup>1</sup> for participating countries, excluding colonies, for major food items from all sources as stated in CEEC report with United States estimates of availabilities, by fiscal years 1947-48 through 1950-51

[1,000 metric tons]

Commodity	1947-48		1948-49		1949-50		1950-51	
	CEEC estimates	United States estimates	CEEC estimates	United States estimates	CEEC estimates	United States estimates	CEEC estimates	United States estimates
Bread grains <sup>2</sup> -----	21,960	16,120	17,988	14,270	17,129	15,050	16,276	14,325
Coarse grains <sup>2</sup> -----	7,995	3,390	9,349	5,700	10,569	7,750	11,153	8,500
All grains <sup>2</sup> -----	29,955	19,510	27,337	19,970	27,698	22,800	27,429	22,825
Rice-----	295	56	352	140	441	220	562	303
Fats and oils (including butter)----	2,532	2,160	2,968	2,464	3,404	2,790	3,448	2,966
Oilcake and meal----	3,507	2,364	4,417	2,750	4,940	3,055	5,471	3,350
Sugar-----	2,164	2,497	3,053	3,056	3,205	2,972	3,339	3,082
Meat (including horsemeat)-----	2,425	1,883	2,603	1,933	2,746	2,018	2,995	2,071
Cheese-----	271	241	279	249	280	255	282	260
Processed milk-----	269	345	240	346	245	315	256	309
Eggs-----	335	315	346	209	323	242	332	289
Fresh fruit-----	2,291	2,475	2,811	2,818	3,161	3,184	3,408	3,461
Tobacco-----	237	278	247	328	258	343	257	344
Cotton-----	(3)	1,065	(3)	1,317	(3)	1,382	(3)	1,457

<sup>1</sup> Includes trade between participating countries.

<sup>2</sup> CEEC estimates corrected for revisions made by countries in mid-October 1947.

<sup>3</sup> CEEC estimates not available.

CEEC: Committee of European Economic Cooperation.

Secretary ANDERSON. Now, what food and agricultural supplies can the United States furnish through this program? Though the documents which have been submitted to you discuss each food item in considerable detail, I have tried to get this whole picture before me on one sheet of paper. This is table No. 2, which is also attached to this statement.

If I may say so, Mr. Chairman, we hope that we have been helpful in this table. It has been a hard one to get together. We hope it covers a lot of the questions that may be asked as to food requirements. We think the necessary information dealing pretty accurately with that whole picture is in this table No. 2.

(The table referred to appears on p. 310.)



Secretary ANDERSON. This table shows the quantity of each major food item concerned which was exported to all nations and to the participating European nations prior to the war, during last year and this year, and what is proposed for each of the other years of this program. The figures are given not only in the international language of metric tons but also in bushels and pounds and bales. These figures, remember, are not what the European nations asked for—they are estimates of the amounts this Government could furnish to the participating nations.

Let me talk about the items on this table for a few minutes.

The first thing which you will note—and this is an extremely important point to keep in mind—is that the proposed plan contemplates no greater food shipments to western Europe than we have been making for the last 2 years—in fact, they are appreciably smaller.

Now, I should like to discuss some of the more important commodities and the amounts which we estimate this country could supply.

Wheat: The most important agricultural commodity, of course, is grain—particularly wheat. Currently, our export program is going forward at a planned total rate of 450,000,000 bushels of wheat for the 1947–48 year. However, if the feeding of wheat should run as low as 200,000,000 bushels, as it well might, we could export 500,000,000 bushels of wheat and still keep 150,000,000 bushels in carry-over.

Last year we harvested about 74,000,000 acres of wheat, the largest acreage on record. The program here proposed envisions about the same acreage of wheat for the next 2 years, but since we cannot expect a repetition of last year's extraordinarily high yields, we dropped the total export figure in our estimates to 300,000,000 bushels for those years.

For the last 2 years of the plan we assumed that indigenous production in the western European countries would increase somewhat and that export availability from countries other than the United States would also increase, thereby reducing to 250,000,000 bushels the total United States wheat exports. That would allow us, in the interest of good farming practices, to reduce our wheat acreage somewhat for the two years following 1949 and still further after 1951.

In my judgment, wheat exports in these quantities do not involve too great a risk for this country to take. They would delay for a couple of years our start in adjusting to more desirable wheat acreages. But after that they would give us a gradual decrease in exports which would aid that downward adjustment.

Feed grains: Our estimates point to the conclusion that the western European nations cannot restore their livestock numbers as rapidly as would be desirable from their viewpoint, because they will not be able to import enough feed grain. As far as the United States is concerned, our estimates have been made on the assumption that we would export annually to all countries of the world about 100,000,000 bushels of coarse grains, most of which would be corn. This amount would be small in relation to our total production of corn which might be expected to run about 3,000,000,000 bushels a year.

Fats and oils: The United States in the past has been a heavy importer of fats and oils. During the war we became a net exporter of these commodities. This change came primarily through the expansion of hog production and increasing acreages of soybeans and flaxseed. Our exports of fats and oils to Europe under the proposed



TABLE 2.—Estimated food and agriculture exports from United States under European recovery program

Commodity	Unit	1934-38 <sup>1</sup>		1946-47 <sup>1</sup>		1947-48 <sup>1</sup>		1948-49 <sup>1</sup>		1949-50 <sup>1</sup>		1950-51 <sup>1</sup>		1951-52 <sup>1</sup>								
		Total United States exports		Ex-ports to ERP countries <sup>2</sup>	Total United States exports		Ex-ports to ERP countries <sup>2</sup>	Total United States exports		Ex-ports to ERP countries <sup>2</sup>	Total United States exports		Ex-ports to ERP countries <sup>2</sup>	Total United States exports		Ex-ports to ERP countries <sup>2</sup>						
		Amount	Percent of production	Amount	Amount	Percent of production	Amount	Amount	Percent of production	Amount	Amount	Percent of production	Amount	Amount	Percent of production	Amount	Amount	Percent of production	Amount			
Bread grains.....	1,000 metric tons	1,583	7.7	860	10,940	34.3	6,443	12,054	32.4	8,250	8,070	27.4	5,470	8,000	27.1	5,190	6,700	23.5	4,175	6,700	23.5	4,175
Do.....	Million bushels	58		32	402		237	<sup>3</sup> 450		<sup>3</sup> 305	300		205	300		195	250		155	250		155
Coarse grains.....	1,000 metric tons	979	1.3	654	4,202	3.7	2,426	1,600	1.9	825	2,200	2.1	1,100	2,200	2.1	1,600	2,200	2.1	1,775	2,200	2.1	1,775
Do.....	Million bushels	44		29	189		109	<sup>3</sup> 70		<sup>3</sup> 35	100		45	100		70	100		80	100		80
Total grains.....	1,000 metric tons	2,562	2.7	1,514	15,142	10.5	8,869	13,654	11.1	9,075	10,270	7.7	6,570	10,200	7.6	6,790	8,900	6.7	5,950	8,900	6.7	5,950
Do.....	Million bushels	102		61	591		346	<sup>3</sup> 520		<sup>3</sup> 340	400		250	400		265	350		235	350		235
Fats and oils.....	Million pounds	<sup>4</sup> 440	<sup>4</sup> 5.4	<sup>4</sup> 219	708	7.5	284	900	9.1	450	645	6.6	322	711	7.3	353	773	7.9	390	705	7.2	390
Meat <sup>5</sup> .....	do	<sup>6</sup> 216	<sup>6</sup> 1.2	<sup>7</sup> 87	499	2.0	235	150	0.6	( <sup>8</sup> )	75	<sup>9</sup> 0.3	0	100	<sup>9</sup> 0.5	50	150	<sup>9</sup> 0.7	100	200	0.9	150
Horse meat <sup>10</sup> .....	do	2	20.0	2	89	46.0	34	100	67.0	100	50	50.0	50	50	50.0	50	50	50.0	50	50	50.0	50
Eggs (shell equivalent).....	1,000 metric tons	<sup>11</sup> 1	<sup>11</sup> 1	( <sup>8</sup> )	227	7.4	160	210	6.8	180	70	2.4	40	50	1.7	20	50	1.8	20	50	1.8	20
Cheese <sup>12</sup> .....	Million pounds	1.3	2.0		152	12.6	142	210	17.5	200	210	17.5	200	140	11.7	130	135	11.2	125	130	10.9	120
Processed milk <sup>12 13</sup> .....	do	38.0	1.4	1.5	970	23.1	570	1,100	25.8	625	1,100	25.8	625	910	21.3	410	890	20.9	390	830	19.4	330
Fresh fruit.....	1,000 short tons	590.6	4.6	342.0	655.0	3.9	<sup>14</sup> 210.0	460.0	2.8	90.0	700.0	4.2	366.0	750.0	4.5	403.0	925.0	5.3	579.0	925.0	5.4	579.0
Dried fruit.....	do	191.6	36.0	142.0	129.3	28.0	87.8	<sup>15</sup> 220.0	33.3	<sup>15</sup> 180.0	140.0	28.0	121.0	120.0	24.0	114.0	100.0	19.0	80.0	100.0	19.0	91.0
Pulses.....	1,000 long tons	6.4	1.0		189.0	20.0	90.0	214.0	19.0	145.0	250.0	25.0	150.0	175.0	19.0	105.0	150.0	17.0	105.0	125.0	15.0	105.0
Tobacco <sup>16</sup> .....	Million pounds	<sup>17</sup> 420	<sup>17</sup> 32.8	<sup>17</sup> 293	<sup>18</sup> 663	<sup>18</sup> 32.6	<sup>18</sup> 520	475	25.0	401	520	33.7	439	540	32.8	454	535	31.7	445	535	31.7	448
Cotton.....	1,000 bales	5,296	35.1	3,273	3,640	42.1	1,898	2,500	21.4	1,150	3,500	29.9	2,400	3,500	29.2	2,396	3,750	31.2	2,514	3,750	31.2	2,633
Timber <sup>19</sup> .....	Billion board feet	<sup>20</sup> 1.72	<sup>20</sup> 3.0	<sup>20</sup> 54	<sup>18</sup> 69	<sup>18</sup> 1.0	<sup>18</sup> 27	<sup>21</sup> 1.50	<sup>21</sup> 2.0	<sup>21</sup> 72	1.30	2.0	.78	1.20	2.0	.73	1.10	2.0	.66	1.00	2.0	.51
Nitrogen <sup>22</sup> .....	1,000 metric tons	( <sup>23</sup> )	( <sup>23</sup> )	( <sup>23</sup> )	61.0	10.1	26.3	55.6	8.8	23.2	( <sup>23</sup> )	( <sup>23</sup> )	23.0	<sup>15</sup> 55.6	<sup>15</sup> 8.8	23.0	( <sup>24</sup> )	( <sup>24</sup> )	( <sup>24</sup> )	( <sup>24</sup> )	( <sup>24</sup> )	( <sup>24</sup> )



- <sup>1</sup> Fiscal year basis.
- <sup>2</sup> Exports to European recovery program countries exclude dependent overseas territories.
- <sup>3</sup> Based on current estimates of total export availability from United States of 520,000,000 bushels of grain.
- <sup>4</sup> 1937-41 average.
- <sup>5</sup> Dressed carcass weight plus edible offal.
- <sup>6</sup> Total exports; 1935-39 average.
- <sup>7</sup> Product weight, 1938 only.
- <sup>8</sup> Negligible.
- <sup>9</sup> Computed on basis of meat production, including edible offal, in neighborhood of 22,000,000,000 pounds per year.
- <sup>10</sup> Production will depend on quantity of horse meat required for export.
- <sup>11</sup> 1934-38 are calendar years.
- <sup>12</sup> Estimated maximum availability of supplies for export, 1947-48 and 1951-52.
- <sup>13</sup> Includes canned milk and dried milk.

- <sup>14</sup> Preliminary.
- <sup>15</sup> Estimated.
- <sup>16</sup> Percent of production converted from farmsales weight to export weight equivalent.
- <sup>17</sup> Average 1935-39.
- <sup>18</sup> Calendar year 1946.
- <sup>19</sup> All timber products (except fuel wood) converted into board feet equivalents, of actual wood volume.
- <sup>20</sup> Calendar year 1937.
- <sup>21</sup> Estimated calendar year 1947.
- <sup>22</sup> Includes only commercial production. Army production at ordnance plants in 1947-48 is estimated at 230,000 tons of which 47,000 is scheduled for western Germany. Balance to other occupied areas.
- <sup>23</sup> Not available.
- <sup>24</sup> No exports of commercial nitrogen after 1948-49 to European recovery program countries planned.



program would be more than offset by imports into the United States from other areas.

**Sugar:** The European requirements for sugar can be met adequately from their own production and from sources other than the United States.

**Meats:** The projected plans of the European countries call for substantial quantities of imported meats. Clearly, these import requirements will have to be met entirely from sources other than the United States for the next two or more years. Therefore, no exports of beef, pork, or lamb are included for the first 2 years, and any for later years will have to depend on conditions existing at that time. However, practically all of their meat imports in any period would have to come from Canada and the meat-exporting nations of the Southern Hemisphere.

**Dairy products:** The import requirements of the participating countries for dairy products have been stated to the United States in terms of cheese and processed milk. As far as processed milk is concerned, it appears that the United States can provide the European nations with the amounts they indicated as needed from us. We expect seasonally to have large quantities of dried skim milk available for export. For cheese, however, probably only about 90 percent of the stated CEEC requirements can be fulfilled from all sources. The United States can probably provide not more than one-third of the estimated import requirements.

**Fruits:** The enactment of a European recovery program will have considerable significance to our fruit industry. Historically, European countries have provided an outlet for a substantial portion of United States fruit production. Our estimates indicate that exports of both fresh and dried fruits to European countries may gradually increase under the program to prewar levels and possibly to slightly above.

**Tobacco:** The adoption of a European recovery program will be of great importance to United States tobacco farmers, since the area concerned has traditionally been our largest tobacco export market. Under the proposed program we estimate that the United States would export to the participating countries from 440 to 450 million pounds of tobacco annually. This quantity includes some tobacco for the occupied areas, is about the same amount that has been going to western European countries in recent years—a period during which we have been exporting no tobacco to occupied areas.

**Cotton:** The participating nations' apparent import needs of raw cotton during the 4 $\frac{1}{4}$  years of the proposed program total some 27,640,000 bales. Of this, 10,723,000 bales, or about 39 percent of their total imports, are estimated as available for import from the United States. This compares with the United States share in Europe's imports of 37 percent in the last full year preceding the war, and with 43 percent in the 5 years 1934–39. These quantities from the United States represent approximately the amount of cotton which we now believe will be available for export after domestic requirements are satisfied and reasonable provision has been made for exports to other world destinations.

**Timber:** Timber is another of the essentials to a European recovery program. It is required in the form of pit props for coal production;



for rehabilitation of railroads, freight cars, and other structures; in the manufacture of boxing materials for shipment of essential commodities; and for reconstruction of factories.

Prewar, the western European countries produced about 70 percent of their own needs and imported the balance. The requested amounts from the United States average slightly less than 700,000,000 board feet per year—only a little above prewar. The volume of timber requested from this country appears to be quite moderate and within the limits of what we can supply. These quantities would amount to between one-half and two-thirds of our probable total timber exports to all countries and between 1 and 2 percent of our total expected production.

By exporting types of timber not in major demand in this country, we should be able to furnish these small amounts without making any appreciable difference in our domestic situation.

Two other forest products, rosin and turpentine, will be available in sufficient supply to fill normal European needs.

**Fertilizer:** In order to meet the food production goals called for in this program, western European countries will need more fertilizer. Most of this fertilizer will be supplied from increasing European production and imports from sources other than the United States. The proposals which we have made call for continuance during the next 2 years of United States nitrogen exports to western Europe at about our present rate—which is about 8 percent of our total commercial supply.

For the last 2 years of the program western Europe should be producing sufficient nitrogen to meet its domestic needs. We also propose to continue shipments of phosphate rock at about the present rate which is about 4 percent of our domestic production and less than one-third of our prewar exports to these countries.

**Farm Machinery:** Secretary Harriman already has spoken about the estimates of farm machinery to be sent to the participating countries. The amounts planned for export—probably somewhat less than 10 percent of our total production—are much lower than the quantity requested. The proposed exports would represent a slight increase, but this would be offset by increasing production in this country, so that machinery available to United States farmers would continue at about the present rate. We shall need to make sure that the exact amounts and kinds of machinery furnished these nations will be fitted to their needs and can be utilized to best advantage.

Those are the main agricultural items which we propose to furnish the participating nations under this program. From the standpoint of our farmers it will mean sharing a small amount of farm machinery and nitrogen fertilizer. From the standpoint of our consumers the effect of our proposed exports should be less noticeable than the effects of the exports in recent years. Our total food exports there will be decreasing emphasis on scarce foods and increasing emphasis on more abundant foods.

From the standpoint of the European nations, food in these limited quantities will mean severe austerity. But we believe they will be high enough to provide the minimum amounts needed for the success of the European recovery program. Certainly it would endanger the success of the entire undertaking if the movement of food into the



participating countries falls below the level which we have indicated.

In spite of the austerity of this contemplated western European food level, it cannot be reached without maximum effort of all countries concerned. Other non-European nations must do all they can to increase their aid to Europe. Such increased aid from nations whose food exports appear subject to expansion are included in our proposed program.

Members of our State and Agriculture Departments have been in conference with some of these nations during the development of the proposed program. The Department of Agriculture hopes, through the authorization given it by the recent special session of Congress, to be of assistance to some of these nations in increasing their exports. On Thursday I discussed this new legislative authority with one of the committees of FAO and explained the various ways in which we might encourage some other nations to increase supplies available for export.

Now a word about the assistance which the Department of Agriculture can give in the administration of this program. With regard to food and agricultural raw materials—and I can speak only in that field—I feel strongly that the existing machinery of the Department of Agriculture should be fully utilized. Our major service would no doubt be in the procurement of foodstuffs destined for Europe. Fortunately we have the Commodity Credit Corporation which has had years of successful experience doing just that. CCC has carried on such functions, not only for the Department of Agriculture, but also for the War Department, UNRRA, and a large number of foreign governments, including many of those participating in this program.

The load which would be required under this program would be small indeed in comparison with what we did during some of the war years. The proposed program calls for exports of only about \$1,673,000,000 worth of food in 1948-49. In comparison the Commodity Credit Corporation purchased in fiscal year 1944, \$4,550,000,000 worth of foodstuffs—almost three times as much as would move under this program in its biggest year. Actually CCC would probably not be called on to procure the entire amount of food exported under this program. Many items not in tight supply would no doubt be purchased by the European countries through normal trade channels.

Through CCC we not only have the flexibility of a corporation but also personnel experienced in dealing with the food trade.

Perhaps the most important point in this connection is the experience that the CCC has gained in buying large quantities of grain with as little disturbance to the market as possible. It takes skillful operations by an experienced organization to accomplish this. Unskilled operations of the magnitude necessary to obtain contemplated export supplies could be disastrous.

In addition to the service which CCC can render here at home, it is also available to aid in increasing production in other countries, as I mentioned a moment ago. Furthermore, the Department of Agriculture with its vast storehouse of scientific information, stands ready to give all technical assistance possible to other nations, subject, of course, to available funds.



In closing, I should like to give you my conclusions about the importance of this program. First of all, it is essential that farmers have a good market in Europe.

During the 1920's and the 1930's from 60 to 75 percent of all our agricultural exports went to the countries participating in this program. This was especially important to our producers of cotton, wheat, and tobacco. Even though our exports dropped off in the 1930's, the percentage of the total going to western Europe remained high.

Our farmers are now producing a third more food and fiber than they were before the war. They have revolutionized farm production and the revolution is here to stay. Our farmers are not going to give up their new machines or their high yielding varieties, their improved insecticides or their improved methods of cultivation. We are going to have abundance of agricultural production, and we shall continue to need export outlets for some of our most important farm commodities.

Among the various groups testifying before the House and Senate committees on long-range agricultural programs, there has been general agreement that for many years to come we will need sizable export markets. We shall need them for cotton, wheat, tobacco, lard, rice, and certain fruits and vegetables.

What I am saying, put another way, is this: As we have studied the question of what this program will mean to our farmers, we have had to ask ourselves what would happen if the economy of Europe were allowed to disintegrate and if it provided little or no outlet for United States farm products. That prospect would not be pleasant to contemplate. Furthermore, our farmers need the kind of domestic market that comes only with full employment, and we need foreign trade in order to maintain markets for industry and jobs for workers.

My second conclusion is that this program is workable. From the standpoint of the European nations, the food program we have proposed though scaled very closely, should furnish the minimum energy required for a complete recovery program. I must add, however, that with any less food I do not believe the people of these nations could muster the spirit and drive necessary to accomplish sustained economic recovery.

The program is also feasible from the standpoint of our own agriculture. Not only can agriculture do its part but in the long run it should benefit from doing so. It is true that this program, together with other foreign and domestic requirements, will continue temporarily the strain on our grain-producing areas. It will delay our return to more desirable land-use practices and make necessary a more intensive conservation program.

But after the first year or two, as this program puts less and less emphasis on cereals, it will fit in with our needed production shifts. And as I have just pointed out through its effects on employment and demand for farm products in this country, this program would aid, either directly or indirectly, all our farmers.

I also have a third, and final observation. Not only will this program be of long-time economic benefit to our Nation, and not only can we carry it through—we have no practical alternative but to carry through a program of this magnitude. In the final analysis the question at stake here is the establishment of enduring peace. I know of



no greater contribution which the United States could make toward that goal than in this proposed program to help the freedom-loving nations of Europe in their struggle to help themselves.

The CHAIRMAN. That is a very helpful statement, Mr. Secretary. I take it that your over-all conclusion is that this pending proposal is supported by intelligent American self-interest itself. Is that your over-all conclusion?

Secretary ANDERSON. Yes, it is; Mr. Chairman.

The CHAIRMAN. And you underscore the interest of agriculture in that?

Secretary ANDERSON. Yes. We feel that agriculture needs a market and that this country will have certain other requirements that it will want, and that agriculture is able by this process to put itself in a position to help now, and then subsequently to enjoy that market.

The CHAIRMAN. I wish you would refer back to the tables now that you presented and discuss on the basis of some exhibits from those tables the difference between the CEEC requested estimates and the ultimate United States estimate which is included in this plan for the first 15 months, and indicate the extent of the reduction and on what basis it was made.

Secretary ANDERSON. Mr. Chairman, the outline of bread grains gives you an indication of how we operated. This work was participated in by members of the staff of the Department of Agriculture along with the representatives of the other departments concerned, and with representatives of countries as well.

We have had, as you well know, several years' experience in trying to estimate what requirements are going to be and what nutritional standards must be.

In bread grains, for example, we received an estimate that would involve some 21,960,000 tons for these countries in 1947 and 1948. We felt that the total from all sources—not just the United States, but a United States position on the total from all sources—would be 16,120,000 tons into these countries because, as you recognize, the United States has to take into consideration the fact that we have occupied zones, we have commitments to Japan, commitments to China, we have some requirements for India, and we have obligations to Cuba, for example, where we get sugar in exchange. Therefore, we have to look at the whole picture.

Looking at that whole picture the United States felt that the total that might come from all sources on bread grains during the year 1947-48 was 16,120,000 tons, rather than 21,000,000 tons, a reduction, therefore, of 5,840,000 tons in bread grains alone.

For the next year, 1948-49, the CEEC countries estimated that they would need 17,988,000 tons. As I indicated to you, we felt that our shipments of grain in 1948-49 would have to drop somewhat from the level we had this year of our shipment of coarse grains, and that therefore the most that we could see developing from the export countries, as the picture now looks, was 14,270,000 tons. Therefore there is a drop of some 3,718,000 tons in the second year.

The drop in the third year is not quite as substantial. The estimate from the countries themselves was some 17,129,000 tons. We feel that 15,050,000 tons would be sufficient.

The last year, of 16,276,000 tons estimated, we feel that 14,325,000 tons is all they can reasonably expect from the importing countries



because we feel that their own domestic production will be building up in those intervening years, and if there is not an indication given to them at this time that our supplies may drop off, and their supplies are to be built up, that there will not be the incentive to some of the peoples of those countries, perhaps, to restore their own agricultural production as rapidly as they should.

The CHAIRMAN. Any figures in this area of commodities beyond the first year are pretty nebulous, are they not?

Secretary ANDERSON. Yes, they are. Except that we do feel we know about how rapidly the grain situation in some of these countries can improve. You do have, fortunately, in agriculture, a rather long record of experience. We have had an International Institute of Agriculture whose headquarters were in Italy. It was operated by all nations for a long period, and some very good agricultural information is available.

That would indicate about how far, for example, France can rebuild its cereal production, and about how far we can expect that the bizon of Germany could build up, and therefore we have tried to take those figures into consideration in determining how much needs to be available from the exporting countries.

They are, I will grant you, nebulous. I would not want to maintain they are completely scientific but I do say they have a statistical background.

The CHAIRMAN. They have increasing validity the nearer we get back to the present moment.

Secretary ANDERSON. That is right.

The CHAIRMAN. How do these estimates that you have made compare with the estimates that were made by the agricultural group on the Harriman commission?

Secretary ANDERSON. Mr. Northrup, who is with me, worked along on both groups, and he says they are pretty close.

The CHAIRMAN. Could you say in general whether they are lower or higher?

Secretary ANDERSON. We would like to send it to you because we have not checked against them. They are not identical, but they are extremely close.

The CHAIRMAN. Do not let it burden you in any detail. But if you could submit for the record a general indication of whether your recommendations are higher or lower, and in what general particulars, as compared with the Harriman commission report, it would be very helpful to the committee.

Secretary ANDERSON. We will furnish it for you, Mr. Chairman.

(The matter referred to is as follows:)

#### UNITED STATES FOOD AND FERTILIZER EXPORT AVAILABILITIES: A COMPARISON OF HARRIMAN COMMITTEE AND EXECUTIVE BRANCH ESTIMATES

1. The Harriman report does not contain estimates of United States export availabilities for specific food commodities other than grain. Consequently a commodity-by-commodity comparison between the Harriman committee and executive branch estimates is not possible. The following quotation from the Harriman report (p. 45) gives the committee's general conclusion as to United States food export availabilities:

"(c) *Other foods.*—It has been noted above that with weather equal to the 1937-46 average, United States grain exports to all destinations might average about 10 million tons a year during the period of the Marshall plan.



"Exports of foods other than grains could in general be maintained at or near 1946-47 levels and could in some cases be increased if necessary financial and distributive arrangements can be worked out. Such commodities as dried fruits, dry peas, dry beans, and nonfat dry milk solids could be made available in larger quantities than yast year.

"The CEEC requirements of food and feed from the United States have not been spelled out in detail except for the figure of 9 to 10 million tons of grain. Since some United States grain will go to other areas, it seems likely that our grain exports to Europe will average significantly lower than the CEEC estimate over the 1947-51 period, even assuming a rapid recovery of rice production in the Far East. It is understood that the CEEC estimates of dollar cost also assume a substantially larger quantity of meat from the United States than is likely to be available. This item was relatively small in tonnage but large in dollar value. Judging from over-all dollar figures, stated requirements for other foods in the aggregate are well within our ability to supply."

2. It is possible to compare the aggregate dollar figure for food, feed, tobacco, and fertilizer as submitted by the executive branch with high and low estimates given on page 82 of the Harriman report. The executive branch figures for 4½ years total 5,141 million dollars, compared with a range of 4,350 to 5,320 million dollars estimated by the Harriman committee for a 4-year program. If April-June 1948 is omitted from the executive branch total the resulting figure of 4,725 million dollars is quite close to the center of the range given in the Harriman report.

*Estimated costs of United States exports of food, feed, fertilizer, and tobacco to CEEC countries, selected periods, 1948-52*

[In millions of dollars]

Period	Executive branch esti- mate  (1)	Harriman committee estimate	
		Low avail- ability  (2)	High avail- ability  (3)
1948 or 1948-49.....	<sup>1</sup> 1,251.7	1,150	1,270
4-year total.....	<sup>2</sup> 4,724.6	<sup>3</sup> 4,350	<sup>3</sup> 5,320
April-June 1948.....	416.6		
4½-year total.....	<sup>4</sup> 5,141.2		

<sup>1</sup> July 1948-June 1949.

<sup>2</sup> July 1948-June 1952.

<sup>3</sup> 1948-51 (4 years).

<sup>4</sup> April 1948-June 1952.

Source: Column (1): Outline of European Recovery Program, p. 115, appropriation table 1 (sum of lines 1-13, 15, and 16). Columns (2) and (3): European Recovery and American Aid, p. 82, tables 7B and 7C, line 1.

The CHAIRMAN. Mr. Secretary, the thing which seems to trouble a large sector of the country, and certainly a large sector of Congress, is the effect of this program—let us deal now just with the first 15 months—the effect of this program on the domestic consumer situation. I notice you say on page 7:

No exports of beef, pork, or lamb are included for the first 2 years.

Does that mean, then, if we had to have meat rationing in the United States that this particular export program would be responsible for no part of the necessity?

Secretary ANDERSON. Yes. The meat situation in the United States has no relation and has had no relation to the export situation for the last 12 months. I mean to say that we have enjoyed now a fairly adequate meat supply because we have been slaughtering very rapidly during this year. We will have probably a rather reduced supply dur-



ing this next year because of the corn crop and because we have been slaughtering heavily this year.

But we will not be exporting any meat to make any difference whatever in the general picture. We will not be sending meat to Europe, and the amount that we send to Latin America, which is extremely small, and is only a relative few percent of our total production, has been going there for a long time. It is an American trade that is well established, and which our exporters are not anxious to lose.

But it has no relationship to this relief problem. It is not contemplated that any of the meat that would be used in this program will come from the United States for at least 2 years.

Now, why do I put a 2-year limitation on it? If we should have a large corn crop in 1948, if we should have the type of corn crop that we had in 1946, and thought we were going to have in 1947, and the acreage will be plenty to take care of it, then we would very rapidly build up our pork population, or could if the price relationship is favorable, and after that has been done and the needs of this country are adequately cared for, we might find that we had another 3,300,000,000 bushel corn crop and would want greatly to increase our production of hogs, in which case certain cuts of pork might be available for export.

We have sent certain types of fat back to Europe, and certain other varieties that are not particularly desirable sometimes in the American market, and we might export some of that after 2 years, but not before.

The CHAIRMAN. I am confining my inquiry at the moment to the first 15 months because I think it is now pretty generally agreed that beyond the first 15 months it is hardly worth the time it takes to discuss what is going to happen.

Secretary ANDERSON. Yes, sir.

The CHAIRMAN. I would like, then, to have you discuss from your viewpoint the question of the impact of the entire food program for the next 15 months in the domestic necessity for food allocations or food rationing or food price control. I take judicial notice of the fact that the administration program seems to contemplate the possible necessity for the application of some or all of these types of control.

I would like to know in your thinking to what extent the program here involved will contribute to those necessities, and whether or not the necessities would exist regardless of this program.

Secretary ANDERSON. Mr. Chairman, I will try to do that. If we may start with meat, which is probably the most conspicuous in the public eye at the present time, for the next 15 months the program will involve nothing which will change in any way the necessity for or lack of necessity for a program of meat rationing or a program of meat price controls. The meat situation is wholly apart from the export program, or from the so-called Marshall plan.

As far as wheat is concerned, I think it is safe to say that the wheat price ought not be influenced by the Marshall plan. Mr. Chairman, I am not trying to quibble when I say "ought not" because I have tried to maintain for a long time that there is nothing in this year's export program that justifies a violent fluctuation in the wheat market, and sometimes some of the rises that have taken place in the wheat market.



If you take the total of this year's production, 1,400,000,000 bushels, and subtract from it what we think the use is going to be—500,000,000 bushels for human food, 200,000,000 bushels, perhaps, for animal food, 85,000,000 bushels for seed and farm waste, and so forth—if you make some liberal allowances in those fields you will come out with a figure that may run as much as 900,000,000 bushels.

You subtract that from your 1,400,000,000 bushels and you have 500,000,000 bushels. So you ought to be able to take that whole 500,000,000 bushels out of the picture and never have it involved in our domestic picture at all. Actually the needs for food, feed, and seed will run well below 900,000,000 bushels and we will actually have a surplus in our domestic situation over and above the whole export program even if it goes as high as 500,000,000 bushels.

So that theoretically—and I am only laying a premise for what I say about next year—theoretically we could remove the 500,000,000 bushels out of the market by some sort of a set-aside and still have remaining an adequate supply of wheat which should not be subject to, let us say, gyrations. But if the statement was made upon the board of trade that the Commodity Credit was in buying flour or was in buying wheat, it automatically would lift the price.

The hardest thing we have to face all during these past 6 months is whether or not we should ever let it be known that we were in the market buying, or what we should do when we do move into the market, because the fact that we move in tends to lift prices.

So that I have tried to say to you that next year's program ought not to affect the price of wheat. Due to congressional limitations there should be a carry-over of 125,000,000 to 150,000,000 bushels.

I think we would have achieved that same carry-over in any event. It is a desirable figure, and one which I am quite sure we could achieve without any undue disturbances. I am merely using it because it happens to be written into the legislation.

But if we have that much carry-over, and we have another crop that could be good—it could be bad, too, no one can tell now what the weather is going to be—but the snows, the rains that have come in the areas of tremendous wheat production seem to leave us with the probability of a crop that may run 1,200,000,000 bushels, and later figures indicate that it might get as high as 1,300,000,000 bushels.

Now, with that carry-over of 150,000,000 bushels, in a crop that might run 1,200,000,000, or 1,300,000,000, we have another supply of wheat that runs about 1,400,000,000, carry-over plus crop.

Our figure next year contemplates only the export of 300,000,000 bushels of wheat from all sources as against 450 or perhaps 500 million this year. So that the probabilities are that if we started to subtract that from our total output, even if our production was only 1,300,000,000, and we took off that 300,000,000 bushels for export, we would have a billion bushels left, and there is not a possibility under heaven that the people of the United States could use 1,000,000,000 bushels of wheat.

The reason I say it could have some influence is that we might have some discouraging crop reports. Senator Capper full-well knows that his State, which is extremely important in our wheat picture and in our record crop, poured in some 300,000,000 bushels last year and we have had some reports indicating that the output this coming season might go as low as 100,000,000 bushels. The current estimate



is that it will be about 150,000,000 bushels. I think by the time it gets through it may grow to 200,000,000 bushels or more.

But other areas have better crops than usual. So that normally, if we get decent growing weather there should be no impact on our domestic economy or on the needs to put price controls on wheat or flour because of the operation of the Marshall plan or exports under it.

As to corn, any shipment of corn right now in any large quantities would be the occasion for a holiday on the corn markets. The corn situation looks to be tight. Actually the figures that were produced the other day show that it is not being consumed at too great a rate. The figures that I had were merely figures of stocks on hand and are not as accurate as the figures we will have on use. But that figure on stocks indicated to me that the corn picture was not as bad as it might have been.

The mere fact that the price has been high has tended to keep down the consumption of that corn to some degree, and therefore our corn picture is not extremely tight domestically, but the announcement of a large export of corn, or almost any export of corn at the present time to these European countries, would have a bad influence on our grain markets and upon our domestic costs.

Therefore, we have not included an unusual amount for next year. We have said 100,000,000 bushels of all types of coarse grains. We have said that a large part of it could be corn. But it could be oats, it could be in many other things. If we had another extra big oat crop we might want to ship considerable quantities of oats.

Therefore, as far as wheat, meat, and corn are concerned I see no possibility that any exports under this program would have any relationship to the need or lack of need for price controls or allocations on those commodities.

When you get into the field of fats and oils I am not so sure. Almost any export of fats and oils has its effect upon something else in the picture. We are going to be short of fats and oils during a large part of 1948. We are going to be short of them because of the situation on hogs. We are asking that hogs be marketed at lighter weights. That results in less lard. We are also going to probably have less numbers of hogs. Our present indications are that the spring pig crop may be down even a few percent under the goal which we had, and that it will drop below 50,000,000 pigs which is a relatively small production.

The result is going to be that those will be thriftily raised and therefore will not come to market with surplus fat on them and therefore we will not have an overabundance of lard.

We could have substitutes in the shape of cottonseed that will help out. We could have and we may have a great deal of help from copra. We have had it already from the Philippines and we may get assistance from other areas.

The fats and oils picture may improve, but it depends upon countries other than the United States as well. I am speaking not only of European countries, I am speaking of countries in the Pacific area from where normally a large production of copra should come.

I think, however, to answer your question, that there is nothing in the export program now contemplated that has any effect on our domestic economy, or the need for rationing or price controls.



Generally speaking the export of any quantity of fertilizer would hold down the production we might otherwise get. It is hard to believe the sudden increase in demand for fertilizer in this country. Quantities that we never talked about before are being requested by farmers. That is why they have been able to turn out their record productions, of course.

So the export of only 8 percent of our nitrogen and 4 percent of our phosphate rock does reduce to a limited degree the total amount of output that we might have of agricultural products, and therefore theoretically may influence the general level of agricultural prices because if you had an abundance of some other things you might have a tendency to drop agricultural price levels a little bit.

I feel that in the export of fertilizer that there may be a little tiny segment that may have its price implications. But it is very small, and I think can safely be ignored.

Now, as to farm machinery.

The CHAIRMAN. Before you leave fertilizer, how much export of fertilizer is contemplated under this program?

Secretary ANDERSON. About 8 percent of our nitrogen, and about 4 percent of our phosphate rock.

The CHAIRMAN. And how does that compare with our export last year?

Secretary ANDERSON. About the same. We have planned to continue the nitrogenous exportation at the same rate as the last 2 years. That is a matter of IEFC allocation.

On the fruits I am sure that no export of fruit is contemplated that will affect our fruit situation. We find ourselves in a situation where many fruits are in very substantial surplus position. Citrus fruits are down to about 25 percent of parity. I think it is safe to say that unless there is a great change in demand for these fruits that we probably will have more citrus acreage than we know what to do with right at the present time. As population grows, and possibly demand grows, some of that may be taken up.

We did get quite a substantial planting of citrus properties before and during the war, and when they come into full production it does present a problem as to what to do with all the quantities of these goods.

So that our problem in the United States is not to worry about whether the export of citrus fruits and certain other fruits is going to so reduce our domestic supply as to produce high prices. It is whether or not we can find markets in our own country for these products at prices that permit their harvesting and handling for our own program.

The CHAIRMAN. So that at that point you need exports.

Secretary ANDERSON. We need exports badly. As a matter of fact, Mr. Chairman, we stepped into the market this year and bought raisins. I think that action was a little misunderstood in some quarters on the theory that we were trying to support prices. I was not nearly as concerned about supporting prices as I was in trying to see that a price was obtained that would permit the harvesting and proper handling of these fruits because Europe had always been a market for our dried fruits. We shipped them to England, we shipped them into the Low Countries, we shipped them into the Scandinavian countries, and they like it, and they want those foods.

I thought it was too bad for any type of food to be wasted so we bought some quantities of those not so much for the effect upon price



as trying to get a price that would forbid its spoiling in not being processed.

I do not believe that anywhere in the fruit picture, either dried or fresh, there will be anything in this program that will cause any concern.

As to sugar the world sugar picture is very, very different than it was only a short time ago. Cubans expect now to harvest another great crop of sugar that may run more than 6,000,000 tons. We have set our import figures so that we will probably take from Cuba somewhere in the neighborhood of 3,400,000 tons. I think we have not yet announced a definite amount. But it will be somewhere in that general neighborhood from the Cuban crop.

It is quite easy to see that the Cuban crop alone possesses the necessary reserve to take care of these other countries as to whatever they may need. Cuba will require some 300,000 tons domestically. That would still leave 6,000,000 tons that theoretically could move in the world market, with us taking about  $3\frac{1}{2}$  million tons of it. I hope we may take more before we finish. But if we take only the  $3\frac{1}{2}$  million tons of it then you can count on quite a bit for the occupied areas because it is a very cheap form of calorie and then there still remains all the sugar that could possibly be put into this program or into the general export needs of countries that would be buying from Cuba.

So that sugar as an item can be completely written off the list.

We have felt that we could take processed milk and cheese during these flush periods and export it to the European market to substantial advantage. That will prevent, perhaps, a collapse at certain times of the year in markets when you would ordinarily get a great flood of these things. But it would make for more orderly marketing all during the year by our being able to skim these off in flush periods and transport them at reasonable prices to Europe during that time.

I do not think there is anything in the milk field, the dairy field, that needs cause us any concern.

As to eggs, if our per capita consumption of eggs in the United States would get back to something like our prewar figures we would be looking for markets in eggs. We are eating great numbers of them, and therefore we could not have any tremendous quantities to export right now. We will have as the flush period moves on in the spring. We will try to gather them up then and make them available and ship them as we have in the past, and some quantities that we picked up last spring are now finding their way into some of these countries.

Tobacco is a field where we hope to see quite a revival of American trade. Tobacco is an important segment of our agricultural economy and is an American product that is growing in acceptability in certain markets. We have always exported lots of tobacco but many countries used other types of tobacco and blended with our tobaccos.

As has happened in many other things, during the war a great many American soldiers were all over the world and some countries acquired a taste for types of American cigarets and therefore I think there is a greater market for American tobacco products abroad than there has been for a long time. It comes at a time when it means no shortage for us because we do have large reserve stocks of tobacco brought by the closing of these markets for a short time.



The dollar situation has compelled Britain and Sweden and many other countries to stop buying. The dollar situation stopped the Spanish tobacco monopoly from buying when it was over here pleading with us to sell it tobacco in exchange for their pesetas.

The whole foreign exchange situation has resulted in the accumulation of tobacco stocks in this country which we can well afford to move on this program.

As to the cotton, we think that the export figures set up in our calculations are well within the ordinary exporting capacity of this country. We always enjoyed a very good European market for our cotton. We were not shipping quite as much just prior to the war. I think the figure I have used in here is 37 percent. But if you will go back beyond that you will find that a large share of the European market belonged to America, and ordinarily would return to the American cotton grower.

The amounts that we have set up to be exported, I am assured by not only our cotton experts in the Department but by people in the cotton trade and cotton producers, are figures that we can well sustain and do not impose any unusual or extreme difficulties on us, and therefore should cause no great fluctuations or changes in the price situation.

I have tried to answer your question, Mr. Chairman. If there are particulars that you would like to have me comment on I would be happy to do so.

The CHAIRMAN. I think you made a most persuasive statement, Mr. Secretary, and I would like to testify on my own account that it is the most direct answer that I have heard in the course of these hearings in response to a difficult inquiry.

Secretary ANDERSON. Possibly I have rushed in where angels feared to tread. It would not be the first time.

The CHAIRMAN. I hope that your wisdom and prophecy are justified by events.

Senator Connally?

Senator CONNALLY. You beat me to it. I just wanted to compliment the Secretary on his familiarity with all these matters, and with the lucidity with which he expressed the situation. I think you deserve compliments along those lines. You made a fine composition. I hope you are correct, and I am sure you are.

I do not know whether I care to interrogate the Secretary in any great detail.

Secretary ANDERSON. May I say, Mr. Chairman, that the Department of Agriculture—and I take no credit for this because it was started long before I was connected with that Department, and it will continue long after I leave it—has had the very fine program of statistical research.

It has, I think, the finest agricultural library to be found. It has paid a great deal of attention to trends in other countries. It has made a fine study of agricultural possibilities, nutritional standards, and so forth, around the world.

Most governments, I think, would be quick to say that the Department of Agriculture in the United States has gone much farther than most departments of agriculture around the world. It is these people in the Department that make this sort of a presentation possible. They know what they are talking about.



The CHAIRMAN. Your testimony is on one of the most highly controversial points which we shall confront in the congressional discussion of this question. I think the preoccupation of many of our colleagues is with the impact of this program on the domestic economy. You leave me rather breathless with your presentation because I would think, fundamentally, that any exports have some sort of an impact on domestic price levels. I should like to hear anybody else quarrel with you who knows enough about it to do so.

Senator Capper?

Senator CAPPER. All I have to say, Mr. Chairman, is that I have been most favorably impressed by this statement, as you were. I think the Secretary is entitled to credit for having analyzed the agricultural picture about as well as I have heard it here in a long time. We are fortunate in having his conclusions. I believe he is on the right track.

The CHAIRMAN. You agree with his conclusions, Senator?

Senator CAPPER. I do.

The CHAIRMAN. Well, you are a great expert also in this field.

Secretary ANDERSON. I regard that as a great compliment from Senator Capper, because he certainly is.

The CHAIRMAN. Senator Thomas?

Senator THOMAS of Utah. Mr. Chairman, I agree, of course, with all that you have said. I would like to see these documents come in, and we have at least realized the fruition of a long lot of statistical data which proves the point. But when documentation may get to the place where it is indoctrination we poor fellows on this side of the table dare not ask any questions at all because we are so swamped by all these facts and figures.

I have asked one Secretary if they made any comparison, any statistical comparison, with these 16 countries after the last war. We realize the factors are many, the world is never the same as it always was, and you never will be able to work out statistics in a place so that you will be able to take care of all the situations that are presented at any time.

But there is one thing I think that is lacking in this great scheme, and that is a comparative study with the years following the last war. The war was different, and the countries are different, but at the same time the agricultural recoveries of 1919, 1920, 1921, are significant.

For example, you have worked out a scheme, this whole Marshall-plan scheme is worked out on the basis of 4½ years or 5 years, when you hope to get some kind of stability. What is the stability set for? We had, for example, standardization for bringing of the franc to its proper place in 1926. Those are things that we know. Yet there was great devaluation.

Now, have statistics been taken in regard to the agricultural field—you can get them there better than anywhere else—for those years after the last war?

Secretary ANDERSON. I have not seen a set of statistics. I participated in discussion with people in the Department of Agriculture, but when I tried to draw lessons from the last war I found a wholly different situation.

If I may make a personal reference, Senator Thomas: Shortly after I took over my duties I began to worry as to what was going to happen after the war. I thought the best place for me to go to find out what



happened after the last war was to try to find out what took place in the Department of Agriculture after the last war. I found a two-volume biography, or autobiography, by a man who was then Secretary of Agriculture. I read it from one cover to the other, and there is not one word in it that tells me anything about the food situation.

The literature of that period is strangely silent on what problems the Secretaries wrestled with. It is a difficult period to try to find anything about.

I have had a good many discussions with folks who were then in the Department. I think from those discussions I have come out with a feeling that the big difference this time from the last time is that in the last war they formed two lines of trenches in France, and they dug deeply into the ground around it and fought within their barbed-wire entanglements and with their more limited weapons. But the great bread basket of Germany and of all Europe was untouched, and, therefore, as soon as the war ended they merely started in to go back home and harvest their crops.

That was the biggest single factor, I think, in the change in the circumstances now and the circumstances then. But there is another very significant factor, and that is manpower.

After the last war the armistice was signed and people went back to their natural occupations. This time, as you well know, we have a great many million people as prisoners of war.

The number is debated, and whether they are all freed or not I guess is not too much of an argument.

But there are rumors, and you recognize it, that 2,000,000 of them may still be in one country.

I am not an authority on these figures. I merely say that great numbers of people who might otherwise have returned to their homes and put crops back into the soil were held in another country, helping to rebuild perhaps that other country because of the extreme damage inflicted by the airplane and the bombs this time.

Those two things, I think, have changed the whole situation, so that the lessons that you might learn after the last World War are not of much value to you in this period we are in now.

Senator THOMAS of Utah. One more question, and this will end in complimenting the Department, of course, but are you getting the sort of fluid information you need from your agricultural attachés throughout the world?

Secretary ANDERSON. Yes; I think so. I never knew what they were until I got on this job, and never paid much attention to them until the second round of food problems arose.

The difficulties we got into in 1945 were on top of us. Some of my friends in the Senate and House know I was snowed under from daylight to dark, early and late, with problems of when we were going to stop rationing of this and when we were going to stop something else, and never got a chance to get any sort of detached viewpoint.

These last few months I have had a chance to become acquainted with some of these men. I have talked to them in their own countries, and I have seen the reports that they have brought me from other areas. I met with the representatives of one government and had the agricultural attaché present when the conference took place.



I am greatly impressed with the knowledge that those men have of conditions and with the very fine assistance that we have had from the State Department in the obtaining of material.

Senator THOMAS of Utah. One more statement and I am through. I am making the point to my own satisfaction, Mr. Chairman, because you and I both started life in the age of the hunch, when our fathers carried on business by hunch.

I, of course, have had to fight in educational fields for recognition of the statistical study as being worth while and things of that kind.

Now, Mr. Secretary, I want to ask you point blank, Do you think that all of this statistical gathering is worth while?

Senator THOMAS of Utah. And do you think that it is possible then for nations to live in accordance with some definite information and some planning as well as they lived on the basis of hunch?

Secretary ANDERSON. Yes, indeed. And may I give you just one sample?

When I was trying to get ready to move from the House of Representatives over into the Department of Agriculture I tried to find out why it was that certain shifts in agricultural production had taken place, and why it was that in some areas we seemed to have missed the boat; why in other things we had done a good job.

I found out that as early as 1939 the Department had decided it would send people abroad to see what happened if a country went to war, what happened on diet, what happened in a great many fields, and the result of that was a pamphlet published by the Department in 1940 on the Challenge of Underconsumption.

That pamphlet pointed out that if war came to a country the feeding habits of that country changed, that because there was full employment, because it was necessary that men spend long hours in factories, catching up with a country that was ahead of all of us in military preparations there had to be high standards of nutrition; that we could not afford to take certain areas of cotton land in the South when we already had several million bales of cotton in warehouses and allow that to produce cotton again. We had to tempt those farmers to go into the production of soybeans, to give us protein feeds of various kinds to build up our nutritional standards.

That was followed by a definite policy to start then persuading farmers to do these things, and one of the reasons why we had fine diets during this war, and one of the reasons why we had abundance of milk and various other things, was that there had been some advance planning. That is why we have been so anxious in our dealings with these other countries to try to see to it that they, themselves, have calculated what their countries are likely to need as a result of impact of war in the months that come ahead, and I say to you that of all the things we have done down there, I am probably more interested in statistics than I am in anything else. I cannot help it.

I wonder, Mr. Chairman; I do not wish to clutter up your record, or impose upon your good nature, but I have a chart that some day I intend to do something with, and have not done anything with it. I regret to say I have not sufficient copies of it here, but this committee has been so nice to me that I thought I would like to say that I have this information and will be glad to leave it with the committee and furnish you with copies of it later, if you wish, because it has to do



with this transport program of ours and the purchase of wheat in the market.

I became curious as to whether buying for this export trade was a thing that might drive markets up and down, so I have a chart that shows where the price of wheat was from July 1946 to December of 1947, and how our purchases came into that picture, how they were rather extensive while the price of wheat stayed fairly level; then, as soon as the story of the short corn crop came out, how wheat dropped out of the market but the price went up; how it stayed up for a long time, then it dropped. We moved back into the market pretty heavily, but it stayed down; then again, we moved out of the market and it stayed up.

All I can say is that I find it difficult to attribute price movements to export programs. I still feel they are influenced by other things—human belief that the price is going up—just as in meat we are influenced by new demands on the part of consumers rather than perhaps the shortages of it. We have more meat per capital coming ahead of us than we enjoyed for years and years and years, and it is not enough because their dollars are there.

Senator CONNALLY. Mr. Secretary, in that connection, of course, the decline in corn production would necessarily affect the price of wheat, would it not?

Secretary ANDERSON. Yes; but it did not affect it, Senator, in the way that it has affected it sometimes in the past. Sometimes in the past when corn was short, farmers had to turn to feeding wheat. In this instance the price of wheat was already so high that farmers found it undesirable to feed wheat, and so it dragged the price up along with it, I think, unquestionably, just because there has always been a relationship between the two, but I do not think it needed to have dragged it quite that far.

Senator CONNALLY. But it did?

Secretary ANDERSON. I do not say that I know anything about this. This is completely out of my field. But nonetheless we have tried to follow it through, and I thought, Mr. Chairman, I would leave it to you, and if you want to subsequently incorporate it in the record, we will be glad to furnish the committee with copies of it.

The CHAIRMAN. Mr. Secretary, I do not want to interrupt the balance of the members of the committee on their questions, but there is one thing I neglected to ask you about which is involved, either directly or indirectly, in the impact of this program on our agriculture, and that is the export of agricultural machinery. Is that in the purview of your discussion?

Secretary ANDERSON. Yes; and it is something on which I have spent a lot of time, because you may recall that UNRRA started to export tractors to Europe some time back and the Department of Agriculture protested against the export of some of those tractors, because we had information from our people that sometimes those tractors got into the hands of people who did not understand the use of them.

It is a hard thing to explain, but somehow these American boys who tinker with automobiles and live with the mechanical age that we have over here can be handed a tractor and you can tell them to fill the crankcase with oil, and they will do so and they will run that tractor for a long time successfully. But to somebody who has not



had that experience, the shipment of tractors abroad is not always as useful as it can be.

I checked up yesterday, and I am sorry that I handed to Senator Buck the figures, but I showed him the farm tractors manufactured, and the farm tractors exported, and what remained for the people of this country. And I stated to him that the number of tractors remaining for the American farmer was larger in 1947 than at any year in our history, and it was. We just had a terrific number of tractors available.

The CHAIRMAN. But not enough?

Secretary ANDERSON. Not enough; no, not enough, and for a reason, Senator.

The reason is, I think, not that there aren't as many as we have known in the past, but that the farmer today finds it difficult to hire farm labor, and sometimes finds the price too high, and so he has to mechanize, not because it costs him so much more to run a team than it does a tractor, but because the man behind that team costs him too much money.

I used to do all my haying with teams, but I cannot afford to at my place any more. I had 40 people in my haying crew regularly. I do it now with three or four, because a team can walk 2, 2½, or 3 miles an hour; a tractor will walk 14 or 15 or 10, and the difference in that rate of speed at which the tractor mows or rakes or cultivates is the essential factor in determining whether the farm operation is or is not a success.

So the farmer has to get tractors, because the man who runs the team costs him so much money that he cannot afford to have five men behind teams. He can have only one man behind a tractor, so there are not enough from the standpoint of the change that has taken place in our mechanization of farms.

There are large numbers of them. There was one year in the war when apparently more farm tractors were retained than last year. I didn't think so; I may have misspoken. We do not have a final figure on 1947, but at least 1947 is a large year, and next year is going to be higher, and the amount of tractors that will be going abroad is very heavily reduced. We, in the Department, took the figures that came to us and we got hold of farm machinery people who knew the situation well; we got hold of our agricultural attachés, and we crossed out, struck out of it, tremendous requests for farm machinery.

For example, as you fly over Europe you see the small farms that have been developed by the inheritance of property and the division of that land through inheritance. You see border lines and fences and you realize that a large-type tractor cannot operate advantageously in that area, yet there were requests for innumerable crawler-type tractors that could not possibly do a day's work. So we crossed out tremendous quantities of that heavy machinery that we did not think would do a good job. I do not know exactly how much we took out of the farm-machinery picture, but we took a lot—more than 50 percent.

An important part of tractor sales abroad is the ability of the machinery company to supply instruction to the man who runs it in the field. I am glad to see Senator Wiley nodding approval, because strange as this may seem, some of the tractors sent to Greece by UNRRA weren't put into operation until a long time after they landed



there. Some of the tractors that were supplied immediately after the war were utilized a short time and then stopped, because no oil had been put in them. Our boys, who have lived in this sort of mechanized atmosphere understand that. But it is not always possible to make someone who has never had the benefit of training understand it. So you must always be sure that in supplying tractors and other types of American farm machinery, motor-driven, that somebody is there who can explain how that must need to run, and can come back and check up on it regularly, even after delivery has been made to the farmer.

Senator WILEY. On that subject of experts or know-how, what has the Department done in this program?

Secretary ANDERSON. Well, we have simply made sure that the program matches the know-how that will be available, and we have cut down those things and those quantities until we know that the amount of farm machinery supplied can be intelligently handled.

I visited last summer, Mr. Chairman, a farm in France operated by a young man some 35 years of age who had on the walls of his home the latest agricultural publications from this country and from many other countries. He read and spoke several languages. He had the finest set of American farm machinery I have ever seen. He had the newest set I had ever seen; some farm machinery that I had not yet seen that had just been turned out by an American factory and had been shipped abroad to him because he does have an experimental farm. This man joins with other farmers and they run their own experimental farm. The scientific work of the Department of Agriculture in France does not translate itself always to the actual operation in the field, so these farmers maintain their own experiment station to which they jointly contribute, and try out machinery and try out plant varieties, and so forth.

This young man could have taken any piece of machinery and run it. He did have the know-how, and many of his neighbors did, and for that individual you can send all you want to send. But they are limited compared with the American farmer.

Senator CONNALLY. Have you examined this estimate of 65,000 tractors under this program? Yesterday, we had the estimates here that they were planning to give them 65,000 tractors.

Senator LODGE. That was trucks, Senator.

Senator CONNALLY. I believe it was trucks.

Secretary ANDERSON. I am not familiar with the truck figure, Senator.

Senator WILEY. I want to say, Mr. Secretary, that my conclusion agrees with your own; that probably what Europe needs, most, above actual sustenance, is adequate and expert brains. That not only applies to the farms but to practically everything else, and I have had very distinguished Englishmen, as well as continentals, say that "what we want is American brains over here," and that is why I ask the question: What, if anything in this program, is envisaged to get American brains over there, to see that what we do send over there is properly utilized?

Is there anything like that definitely contemplated?

Secretary ANDERSON. Yes, indeed. In the case of German areas, for example, I know that the visit I had with German farmers in Stuttgart this summer convinced me that the finest thing we had sent into



Germany was a group of former Extension agents and others well versed in agricultural lines and the agricultural organizations of this country that were helping them in the development of their agricultural plans.

Senator WILEY. I understood your conclusion to be that in your opinion the export of grains and other things made no serious impact upon the question of price here in this country.

Secretary ANDERSON. I have tried to say, Senator, that it should not. I have said that every time it is announced that we are going to ship grain or going to ship flour, the price seems to move up and down. But what I am trying to say is that there is plenty of wheat in this country after our export program is taken out to be more than a normal crop, and therefore, I do not think price should rise as a result of that. But it does, and I cannot explain why. It does, nonetheless.

Senator WILEY. Perhaps I should have put it this way: Your conclusion was that the export, what is contemplated, would not be any serious factor in determining whether or not controls became necessary. Is that the way you want to say it?

Secretary ANDERSON. Yes; I think so, because we do not need to ration particularly because of an export program. For the rest of this year it is going to be difficult to meet what I think a decent grain-export program ought to be without conservation measures. I feel that while we can ship the 450,000,000 bushels that we have contemplated shipping of wheat, we ought to ship 500,000,000 bushels, and that we could do so with conservation programs, and it would be profitable to us to do those things. If that is contemplated in controls, then I would want to exempt that part of it.

What I have tried to say is that I do not think the export of grain would result either in necessity for price controls or rationing in actuality. The difficulty is that other factors come into it as soon as you say you are going to buy, and I see them come in. I do not know exactly what does it, but I do know that prices go up as soon as we step into the market.

Senator WILEY. Irrespective of export, do you think those factors are present so that it will be necessary to have allocations and fixing of prices?

Secretary ANDERSON. I think it is going to be necessary to have allocations on meat if we want to do any sort of a decent job of dividing up the meat supply this spring. I am not certain that it will get that tight, because it could happen that we continue the slaughter very heavily into our herds. We are reducing our cattle population this year from 81,000,000 to perhaps 76,400,000. That is a very substantial reduction of cattle population. There are some very good prognosticators in the Department who think we will continue to reduce it during 1948. If we did, we might have reasonable supplies of meat for quite a while during 1948, because you can always eat into your principal that way and not have a shortage of meat.

I have felt, and feel quite honestly, that we will not do that; that we will have a supply of meat that will run down as low as 120 or 125 pounds per capita, and that when it gets down that low, with the present very high consumer demand, which is much higher than we normally have experienced, we will have a tough time making



the meat go around, and I have felt that we should get ready for the possibility that that could happen.

I found out the other day, in checking around, that just to get hold of a supply of ration evidence, if you wanted to ration meat, would take you in the neighborhood of 2 to 3 months, and therefore it is a long process, and I think if we are going to do it, we should get ready for it. If we do not do it, probably the cost of getting ready for it will not be too great.

I am really trying to explain that I have not been out demanding that we start to ration something tomorrow, but I think there may come a time when we would want to.

Senator WILEY. Along with the rationing goes price fixing?

Secretary ANDERSON. Not necessarily. I have said, and tried to say yesterday at the hearing in the Senate Banking and Currency Committee, that I would certainly go along with Senator Flanders in his desire to see something prepared for rationing without at this time passing on a price-control situation. I think that rationing could be administered without price controls. I say that it is better with price controls, and that if meat stands out as the bad boy in our society, if it starts to get out of hand and out of price ranges that disturb a great many other things in our whole economic structure, then something should be done to try to hold it in line.

Senator WILEY. Do you think, Mr. Secretary, that there is any difference between the time we are living in now and wartimes?

Let me put it this way: Do you think the American people are as amenable to price fixing and allocations in peacetime as they would be in wartime?

Secretary ANDERSON. Senator Wiley, I have tried to answer that question honestly before, and I will try it again now. I was in the Department of Agriculture when the war terminated. I saw that the rationing program encountered all sorts of difficulties. I sat at the meeting in the White House in which OPA recommended the termination of certain rationing programs in December 1945, and I heard the statement made over and over again, "We are losing our voluntary rationing boards two to three hundred a week."

I know that OPA was losing those ration boards at the rate of 200 a week, and that they were folding up on them, that they were not able to hold them together. I recognize all of that, but I also know that one of the reasons why they were losing them was that people were impatient of their restraints and thought that immediately the war was over they should be out of them and that everything would be all right. Here they have found 2 years after the termination of the war, or more, that because of conditions world-wide, and because of conditions here at home we find ourselves with a situation that becomes pretty difficult for many housewives as they start to buy meat. And if enough of those people feel that they want controls, then I think the controls will be successful.

Senator WILEY. It is a big "if," is it not?

Secretary ANDERSON. I said this, Senator, when somebody asked me about rationing. I said that all rationing is pretty largely voluntary. Even if you have a law, it has to be pretty well accepted before it can be very effective.

Senator WILEY. Have you any judgment as to the extent of black markets in peace and in war? Is there any difference?



Secretary ANDERSON. No; I do not know. There were very extensive black markets all during the war as well as there were during the period of peace.

Senator WILEY. Would they be more extensive in peacetime?

Secretary ANDERSON. I do not know. They were pretty bad during the war.

Senator WILEY. You were pretty well acquainted with them, were you?

Secretary ANDERSON. I thought I was.

Senator WILEY. I think that is all.

Senator CONNALLY. Mr. Secretary, is it not the attitude, though, of the American people, that if they are convinced, and if they are informed, of the necessity of making these sacrifices, even in peacetime, there is a very strong disposition to make them, if it is for the general welfare of the world and ourselves? I believe that.

Secretary ANDERSON. But it does start out with that conviction on their part.

Senator CONNALLY. Oh, of course.

The CHAIRMAN. Senator Hatch?

Senator HATCH. Mr. Secretary, I wonder if you have available the exact figures of the number of tractors that are now contemplated for export under this program?

Secretary ANDERSON. Our difficulty, Senator, is that the request included industrial tractors as well as agricultural tractors, and we will have to furnish you with a statement giving as much information as we have regarding tractors and other farm machinery exports under the ERP.

(See statement inserted on page 348.)

Senator HATCH. In that statement would you also include the number of tractors that will be available for the American farmer here in this country?

Secretary ANDERSON. I furnished some data along this line yesterday to Senator Buck in the Banking and Currency Committee, and I do not have it along with me today, but I will furnish a table for the record at this point. This, however, will be only a historical table with data through 1946.

*All tractors (excluding garden tractors) manufactured and sold for use in United States, 1929-46*

Year	Manu- factured	Sold for use in United States		Year	Manu- factured	Sold for use in United States	
		Total	For farm use <sup>1</sup>			Total	For farm use <sup>1</sup>
	<i>Number</i>	<i>Number</i>	<i>Number</i>		<i>Number</i>	<i>Number</i>	<i>Number</i>
1929.....	223,081	155,310	-----	1939.....	205,685	170,508	-----
1930.....	196,297	128,265	-----	1940.....	274,196	231,878	-----
1931.....	69,029	90,959	-----	1941.....	342,093	307,800	-----
1932-34.....	( <sup>2</sup> )	( <sup>2</sup> )	-----	1942.....	201,701	184,933	-----
1935.....	156,858	132,848	-----	1943.....	134,701	111,109	76,271
1936.....	221,246	179,236	-----	1944.....	293,991	248,705	198,857
1937.....	272,439	237,618	-----	1945.....	289,302	225,685	179,209
1938.....	189,274	154,954	-----	1946.....	284,176	226,894	203,199

<sup>1</sup> Data prior to 1943 not available. It is estimated that tractor sales for farm use in the larger years shown approximated 211,700 for 1937, 210,000 for 1940, and 278,500 for 1941.

<sup>2</sup> Census was not taken.

Source: Compiled from data collected by U. S. Department of Commerce.

NOTE.—Sent to Mr. Cooper, BAE, from Mr. Bray, State Department, on Jan. 19, 1948.



Senator HATCH. We would like to have it. As I understood you to say, the tractors available for 1947 were the largest at any period in our history.

Secretary ANDERSON. I looked back and saw that a year during the war showed that apparently that was not true. I had a figure for 1940 which I thought was the highest figure. That was 231,000.

The farm-machinery working group for the European recovery program has estimated that farm-machinery production in the United States will increase about 15 percent in 1947 over 1946, and on this basis the number of tractors available for domestic agriculture would approximate 235,000.

In 1941, apparently, just before we actually got into the war, when plants were running at full capacity, we furnished about 307,000 units but this included a few thousand for nonfarm use, so my statement is in error so far as it being the greatest year. During that 1 year of war preparation we did supply a great number of tractors in the United States.

But other than that 1 year, this next year 1947, will, I am quite sure, be the largest year and the figure is something like 235,000.

Senator HATCH. In your testimony about the factors entering into this great demand for farm machinery, with all of which I agree, there is another factor, is there not—that of the great amount of cash the farmer has on hand today that enables him to buy machinery, which many could not do in previous years?

Secretary ANDERSON. He has the cash, but I do not believe that his inability to get tractors and farm machinery in the past was always due to his lack of financial resources. One of the things that plunged the farmer sometimes into bankruptcy was the fact that he bought equipment that he could not pay for.

Senator HATCH. They bought too many on credit because they did have cash. That is a factor that enters into the prosperity of farmers.

Secretary ANDERSON. Unquestionably. There is a huge demand for farm machinery by farmers because they know that their money, if turned into a new hay baler, or a new tractor, or a new type of plow, will be useful to them, and they keep hearing stories about the possibilities of inflation, and they regard this good sound machinery as a proper hedge against inflation.

Senator HATCH. Also in your statement you said, on page 11, "The proposed program calls for exports of only about \$1,673,000,000 worth of food in 1948-49," which is approximately one-third of what it was in 1944, when the figure you gave was \$4,550,000,000 purchased by the Commodity Credit Corporation. That was not all exported.

Secretary ANDERSON. No.

Senator HATCH. That was already due to the war effort?

Secretary ANDERSON. We did all sorts of buying for the armed forces, and our purchases ran up to very high figures, and we did lots of buying for other countries, and so forth.

The figures are not completely comparable. One is an export figure; the other is a total-purchase figure. I was merely trying to show that purchasing in that size was not an unusual operation for our department.

Senator HATCH. Would it be possible to give us the amounts that were actually exported?

Secretary ANDERSON. Oh, yes.



Senator HATCH. Do you have any idea what that comparison would be?

Secretary ANDERSON. The difficulty is that anything sent to American armed forces overseas is not regarded as an export.

Senator HATCH. Whether it is regarded as an export or not, it actually went out of the country and was not available here at home. Do you have those figures of how much went to the armed forces overseas?

Secretary ANDERSON. No. The armed forces could supply that figure, but we were always, I suppose then for security reasons, restricted. We never showed amounts for export to the armed forces. It always showed as domestic consumption.

I am informed, and I believe reasonably correctly, that about half. This figure was the largest export we made to these countries.

Senator HATCH. I am certainly glad to have your entire testimony on the farm and agricultural situation, Mr. Secretary.

Secretary ANDERSON. Excuse me a minute. About \$2,100,000,000 of that \$4,500,000,000 was for export.

Senator HATCH. Then it is still in excess of the proposed program?

Secretary ANDERSON. Yes.

Senator HATCH. What I started to say was, there is nothing in this program that would call for the upsetting of the normal channels of supply and demand here at home?

Secretary ANDERSON. No.

Senator HATCH. That is all.

Senator CONNALLY. Is it not also true that population, the farm labor population, has a tendency to decline?

Secretary ANDERSON. It has declined very rapidly.

Senator CONNALLY. And that is one reason they want more agricultural machinery. If a farmer cannot get labor, he has to meet that by mechanizing some of his production? Isn't that true?

Secretary ANDERSON. That is correct.

The CHAIRMAN. Senator Hickenlooper.

Senator HICKENLOOPER. Mr. Secretary, do you have available there the population of these 16 European relief countries?

Secretary ANDERSON. If you will just give us a few seconds to locate it. Your committee has a report, "The Committee of European Economic Conditions, Volume 2, General Report," at page 59, which has all these populations listed. If you want any particular one, I will be glad to give it to you.

Senator HICKENLOOPER. I am trying to get at the total population of the 16 countries.

Secretary ANDERSON. 225,000,000 is the estimate for 1951 and 1947 is estimated at 219,000,000. That does not include the western zone of Germany. Adding that on, it is 269,000,000 at the present time, and an estimate of 277,800,000 in 1951.

Senator HICKENLOOPER. That is near enough. I do not want to be too exact about it.

Do you have any figures here showing the usual volume of bread grains consumed by that population prewar?

Secretary ANDERSON. Yes. We estimate that prewar these areas consumed, per capita, about 190 kilos per person.

Senator HICKENLOOPER. My difficulty is metric tons and kilos.



Secretary ANDERSON. If you add hectares to it and quintals to it, you will get up to the situation that some of us find ourselves in. I talked to a group in Paris during the cereals conference, and no two of them were using the same medium of money exchange, weights and measures, or anything else, and I needed an interpreter for figures, but not for language.

Senator HICKENLOOPER. How much wheat did they produce prewar? Do you have any idea of that?

Secretary ANDERSON. All of them? No. Now we come to the metric tons. Prewar, about 34,000,000 metric tons. In all the countries and Germany, 1946-47, they think they produced 28,404,000, and we think they produced about 31,000,000. In 1947-48 their figure is 21,209,000 and ours is 23,928,000.

Senator HICKENLOOPER. That is the result of the drought and a bad crop year?

Secretary ANDERSON. Yes.

Senator HICKENLOOPER. That is 24,000,000, our estimate?

Secretary ANDERSON. Practically, yes.

Senator HICKENLOOPER. What is your estimate that these countries, including western Germany, should produce this year with a normal crop?

Secretary ANDERSON. We are counting, for 1948-49, on 31,358,000; 1949-50, 33,470,000; 1950-51, 35,471,000; and about the same the next year.

Senator HICKENLOOPER. We propose to send into those countries this year, according to your chart, 8,250,000 metric tons of bread grains which, added to the anticipated production of 31.3 million, would give them almost 40 million metric tons.

Secretary ANDERSON. We have a higher figure than 8,000,000.

Senator HICKENLOOPER. I am taking it from this big chart here under column 47. No; that is 1947-48. 1948-49, I beg your pardon, appears to be 5,470,000 metric tons of bread grains.

Secretary ANDERSON. That is from this country only. The total figure is more than that.

Senator HICKENLOOPER. What is the total figure? Do you have it there?

Senator HICKENLOOPER. If you add 14,270,000 to 31,300,000 you get 45,228,000, and I understand you to say that the volume of bread grains needed in those countries was 34,000,000 tons.

Secretary ANDERSON. No; no, no. That is the production in metric tons.

The production that we have, we estimate, for 1934-38 was 33,951,000—that is their estimate of it, and ours is 34,055,000. Take an average figure, 34,000,000 tons is their production. But they always had to import. Their total supply should be around 47,000,000 tons.

Senator HICKENLOOPER. 47,000,000?

By that supply we would be immediately, for 1948-49, approximating their prewar needs.

Secretary ANDERSON. Yes. Now if you will take the 47,000,000 tons and add about 10 percent for population increase, you come away with a figure of over 51,000,000 tons and you use that 51,000,000-ton figure against the 45,000,000-ton figure, so we are coming somewhat close to their need.



Senator HICKENLOOPER. About 6,000,000 short of what you estimate proportionately they needed prewar.

Secretary ANDERSON. That is right.

Senator HICKENLOOPER. What is the present available visible number of bushels of wheat in this country at this moment?

Secretary ANDERSON. Visible stocks? Stocks on farms January 1 were 428,000,000 bushels, but we must add to that, of course, a substantial quantity of other wheat that is not a total figure, because you have stocks in elevators, warehouses, on tracks, and so on.

Senator HICKENLOOPER. Do you have any figures on the stocks in elevators and warehouses?

Secretary ANDERSON. On about the 23d of January we will have rather complete reports, but the rough estimate we have now would be about 803,000,000 bushels total wheat in this country on January 1.

Senator HICKENLOOPER. In elevators?

Secretary ANDERSON. All over the country, in interior mills and elevators, commercial terminals, merchant mills and elevators, and in transit. That is an estimate. We will have a fairly accurate figure on January 23.

Senator HICKENLOOPER. I am not holding you to the exact bushels here. I merely want your best estimate at the moment, and I do not know a better place to get it.

Secretary ANDERSON. We think that is a fairly good guess.

Senator HICKENLOOPER. What is your estimate of the domestic necessities, the domestic needs for wheat in this country between now and the end of the fiscal year?

Secretary ANDERSON. 455,000,000 bushels. That I had better breakdown, because we may have revisions.

It should make about 260,000,000 bushels for human food; about 20,000,000 bushels for the spring wheat crop because we have already taken out 65,000,000 bushels for the winter wheat crop for seed, and for feed and for animals, 6 months, a very generous estimate, 175,000,000 bushels.

My personal estimate would be closer to 100,000,000, maybe 125,000,000.

Senator HICKENLOOPER. That would make up your total of around 455,000,000?

Secretary ANDERSON. If you use 175,000,000 for feed and farm waste, it does. If you use 125,000,000, it would make about 400,000,000 bushels.

Senator HICKENLOOPER. We propose to export in the last quarter of this year to these countries exclusive, I think, of the occupied zones, exclusive of Germany—that is, as nearly as I can interpret the \$200,000,000 reservation for German industries—something over 87,000,000 bushels for this program.

I get that from the Secretary of State's pamphlet here. I do not work fast enough to transpose between the various tables.

Secretary ANDERSON. March through June, it is not just the last quarter in any of the figures.

Secretary HICKENLOOPER. I do not know just how the Secretary figured.

It says "April through June, 2,375,000 metric tons." That is on page 116 of the pamphlet: "April-June, 1948 twenty-three hundred and seventy-five thousand metric tons."



That would be 2,375,000 metric tons.

Secretary ANDERSON. There is a footnote there that points out that that is if we get up to 570,000,000 bushels all grain exports; yes. That is all right, on a 570,000,000 total figure; yes. But if you do that, you have to drop the feed wheat figure to 125,000,000. If you will refer to my statement, I said that we were talking about 450,000,000 bushels of wheat for export, but if we had a low-feed wheat consumption it might be 500,000,000 bushels, or a total of 570,000,000 bushels of coarse grains and wheat.

I should not give you a maximum disappearance and a maximum shipment, too. Do I make myself clear? I am not sure that I do.

Senator HICKENLOOPER. The figures I have here, and as I say I realize these are estimates—I am not holding you to them exactly—are somewhere around 803,000,000 bushels presently on hand from all sources, in elevators, on farms, in warehouses, in storage.

Secretary ANDERSON. Yes.

Senator HICKENLOOPER. That our domestic needs between now and July 1, 1948, are 455,000,000 bushels.

Secretary ANDERSON. That is right.

Senator HICKENLOOPER. That would leave a residue of 250,000,000 bushels.

Secretary ANDERSON. And if you see that figure, then you must use the low figure over here of 1,625,000 tons as the need for the last quarter. That is in footnote No. 3.

Senator HICKENLOOPER. Then I am interested in just reconciling some of these figures. The State Department proposes to ship 2,375,000 metric tons of wheat in the last quarter.

Secretary ANDERSON. That is right, and if you do that, then we should take a figure of 405,000,000 bushels in place of 455,000,000 bushels. In the statement I tried to say that the figures I had used were based on the present wheat export goal of 450,000,000 bushels. That could be raised by savings in the feeding of grain, and this figure I am changing is a grain-feed figure—it is on page 6, I believe, at the top of the page—I said, currently our export program is going forward at a planned total rate of 450,000,000 bushels of wheat.

However, if the feeding of wheat should run as low as 200,000,000 bushels, as it well might, we could export 500,000,000 bushels, so I am quite happy to have you take the 500,000,000-bushel figure, which the State Department is using and on which they get the figures you are talking about, and thereby cut the grain-use figure that I have given you to 125,000,000 bushels. You use one complete set or the other complete set, but not the two maximums.

Senator HICKENLOOPER. I am getting a little more confused all the time.

Secretary ANDERSON. Let me start again. We will start with one figure that we regard as fixed. That is the amount that will be needed for human food.

Senator HICKENLOOPER. Let's start with the amount we have on hand, because we have to have it on hand before we can export it.

Secretary ANDERSON. Eight hundred and three million. From that you take a figure of 260,000,000 bushels.

Senator HICKENLOOPER. What does that represent?

Secretary ANDERSON. Human food.



Now, from that take 20,000,000 more. That is seed. Now, you have your point of departure.

You can either go on the basis of a total export program of 570,000,000 bushels, or a total export program of 520,000,000 bushels, all grains. One involves the export of 500,000,000 bushels of wheat, and the other involves the export of 450,000,000 bushels of wheat.

Senator HICKENLOOPER. We do not plan on exporting between now and July 1, 500,000,000 bushels of wheat?

Secretary ANDERSON. No; but the figure the State Department uses has to be based on one of those. I say, if the grain-feed figure is small, we can export 500,000,000 bushels during the year July 1947 to June 1948. If the grain-feed figure is large, we have to stay at 450,000,000 bushels, and somewhere in between there, depending on how it works out.

So you next take off 125,000,000 bushels for feed if you are trying to reconcile with the State Department figure—125,000,000 bushels for feed during the last 6 months.

Senator HICKENLOOPER. I am trying now to get "for other purposes."

I don't know what figure the State Department used now. I am using 87,000,000.

Secretary ANDERSON. That is based on a 570,000,000-bushel export.

Senator HICKENLOOPER. Roughly, I get, whether I am using right figures or not, 152,000,000 bushels left for other purposes between now and July 1, and I am wondering if our demands for shipment of bread grains to other places between now and July 1 will consume that.

Secretary ANDERSON. No.

Senator HICKENLOOPER. So that we will have on July 1, then, in your opinion, a net carry-over of grain remaining from whatever supplies were produced last year and carry-over and everything else? We ought to have a net supply of wheat over and above domestic needs and export needs of something over 100,000,000 bushels.

Secretary ANDERSON. With the carry-over, yes.

Senator HICKENLOOPER. Total bushels of wheat on hand?

Secretary ANDERSON. Yes. The total export figure would be about 240,000,000 bushels for the last 6 months, because we exported about 260,000,000 bushels in the first 6 months.

Senator HICKENLOOPER. I have been unable to find out whether these figures include the bread grains that we ship to the occupation forces in Germany.

Secretary ANDERSON. They do. The State figures do include them.

Senator HICKENLOOPER. They include the grain shipped to the occupation forces?

Secretary ANDERSON. That is right.

Senator HICKENLOOPER. Can you give me the total amount in bushels, if you have it, of wheat, that has been shipped out of this country or exported, since July 1, 1947?

Secretary ANDERSON. To date?

Senator HICKENLOOPER. Yes, sir.

Secretary ANDERSON. To January 1, it was about 260,000,000 bushels. At the end of February it will run up to 332,000,000, because we have already made our shipping schedules up and I can just as well give you the figure at the end of February as at the end of January.

Senator HICKENLOOPER. 331,000,000 bushels?



Secretary ANDERSON. 334,200,000 of wheat and flour.

Senator HICKENLOOPER. Now, in the fiscal year, 1948-49, according to the State Department figure, they propose to ship from the United States 5,820,000 metric tons of wheat or bread grains; that is, to these 16 European relief countries. As I calculate that, that is about 263,000,000 bushels of wheat.

Secretary ANDERSON. Five million tons? No; it is about 37 to a ton. That is 205,000,000, Senator.

Senator HICKENLOOPER. Oh, yes, I beg your pardon. I had the wrong figure. I was taking the figure of 7,200,000 metric tons from other sources that are going in addition to that. I was figuring 36.7 bushels to the metric ton.

Now, the 250,000,000 bushels, or whatever it is, just by way of significance, that we are expected to furnish in this relief program to these 16 countries in the year 1948 and 1949 exceeds the entire wheat production of the State of Kansas.

Secretary ANDERSON. Well, Senator Capper would tell you that it is not safe to take that as an assumption, because they get up to 300,000,000 bushels many times. Senator Capper will tell you they have a better book out there than you are using, and that is their checkbook, and they know they sold 300,000,000 bushels last year and they hope to do it again.

Senator HICKENLOOPER. In 1945 they produced 207,000,000 and in 1946 they produced 216,000,000. Those are the latest statistics that I could get.

Secretary ANDERSON. They had out there the most phenomenal weather that you could ever imagine, and of course a large acreage. They had perfect growing weather, and they got around 295,000,000 bushels.

Senator CAPPER. It is the greatest wheat State in the world.

Secretary ANDERSON. I did not ask for any advertising, but I got it, I see. I will admit that, too, Senator. It was close to 300,000,000 bushels.

Senator HICKENLOOPER. That is the biggest crop they ever had. It is normally somewhere around 215 or 220 million bushels on an average, I would think.

Secretary ANDERSON. They have introduced a new variety that has helped the yield a couple of bushels per acre, but they did have phenomenal growing weather. It was perfect.

Senator HICKENLOOPER. And that is somewhere around 20 to 25 percent of the normal entire wheat production of the United States.

Secretary ANDERSON. Twenty percent they generally turn in.

Senator HICKENLOOPER. Easily 20; last year it would be 25 percent.

Secretary ANDERSON. No, it was 1,400,000,000 total, and they had about 300,000,000.

Senator HICKENLOOPER. It is a lot of wheat.

Secretary ANDERSON. Yes; it is.

Senator HICKENLOOPER. Now I am concerned about the impact of taking this tremendous amount of wheat for a specific purpose and not necessary in the ordinary economic channels of international trade. We are pointing this entire tremendous 23 percent of the American wheat production exported abroad for a specialized purpose which is bound to go into a specialized economy, and not in the normal channels



of trade, and I think that is a thing we will have to think about; it is bound to affect our agricultural economy, I think.

Now I would like to ask you just another question or two about the pressures that not only these grains but some of the other foodstuffs would bring. It has seemed apparent to me in the past that it was the evident shortage of corn that contributed very seriously to the rise in the price of wheat, and the anticipated shortage for our full domestic needs here of both corn and wheat, and that they, in turn, have a direct effect upon the price of meat in this country, and a direct effect upon the marketing light of both cattle and hogs. I am not currently familiar, within the last few days, with the weight of cattle that have been going to market. Hogs have been going to market light. That, in turn, means less meat on the frame. Also they are not raising spring pigs out our way, simply because of this very high price of corn and the corresponding high price of wheat, which would be a substitute feed in many places if it in turn were not so high.

But I have been very much convinced that it was the definite shortage, over-all shortage of grains in this country that has been the direct cause, that is one of the direct contributing causes, of this inflationary spiral in foodstuffs.

Therefore, I was interested in your statement that you did not believe that this program would contribute to that increasing spiral of prices. I value your judgment, Mr. Secretary. That is why, as I say, I was interested.

Secretary ANDERSON. I simply say that I think the supply of wheat in this country was sufficient so that it need not have had violent fluctuations and rises. When we know that there is remaining in this country 950,000,000 to 1,000,000,000 bushels of wheat, we know that that is a lot of wheat. And even if the export program ran 450,000,000 or 500,000,000 bushels, there would still remain more wheat than we normally use, more wheat than we normally grow, a terrific amount of wheat.

Senator HICKENLOOPER. But it would indicate to me that there must be some anticipated substitute use for wheat in this country or it could not possibly, with a surplus, support these very high prices. I do not know that I can put my finger on it, but there is some reason other than just speculative activity or something of that kind that is sustaining this tremendous price of wheat, and it must be a shortage situation; otherwise it could not be sustained this long, in my judgment.

Secretary ANDERSON. We went out of the flour market and the wheat market for quite a little while at one period, and tried it out one day. I said, "Just let them go in and buy 1 carload of flour," and the next day the wheat market moved up, and I noticed that Commodity Credit buying had moved it up. It does not matter what you buy, the minute Commodity Credit moves in to buy a thing, everybody says, "That is a good reason to move it up."

I don't want to clutter your official record with what might be extraneous material, but from 1930 clear through 1946 the disappearance of wheat ran 750,000,000, 718,000,000, 625,000,000, 628,000,000—figures like that. Only 1 year did it get high, and that was a year in which we had a great feed-wheat program of 1943, because we could not possibly use all the wheat we had in this country, and we had to move 487,000,000 bushels of it into a feed-wheat program, offering to supply



it almost at very low cost, extremely low cost, to farmers who would try to feed it.

All these other years we have been down to a feed use of 143,000,000 bushels, and in the calculations I have given you I have used a total of 250,000,000 bushels.

Senator HICKENLOOPER. Perhaps I am somewhat sympathetic with Senator Thomas when he asked about the reliability of statistics. The book may say that the price should not be that high, but the price is that high. The book may say, based on what the book says about surpluses, it should not be that high, but it seems to me that some place there is some pressure, outside of hysteria, and it must be economic pressure that sustains that price, and I am wondering if it isn't an actual shortage and a definite shortage for utility in this country. I am not trying to give an answer.

Secretary ANDERSON. I have not said, Senator, and I am not going to say, that the condition of the corn crop, 850,000,000 bushels below the previous year's crop, was not a very discouraging influence to people who were looking at grain stocks, and those people felt that that would result in higher prices for corn, and consequently, higher prices for wheat, and it did. And I certainly would not contend that that low corn crop did not have any influence on the wheat price. It did.

Senator HICKENLOOPER. I think the minute wheat drops because of the vacuum in the corn supply that you will find wheat at a certain differential in price moving right into the former corn-usage area.

Secretary ANDERSON. Somewhere within half a dollar.

Senator HICKENLOOPER. And I think that is probably contributing to sustaining the price of wheat, but then maybe we can find that out later.

Now, in your statement you said there is no meat planned for shipment.

Secretary ANDERSON. For the first 2 years.

Senator HICKENLOOPER. That is right. However, the State Department says they are going to ship 7,000 metric tons of meat in April, May, and June of '48 and they are going to ship 23,000 metric tons of meat in the fiscal year of '48 to '49. I am not saying that you are going to ship the meat, but who is right in this thing?

Secretary ANDERSON. The State Department is all right in that. Those are our figures, which we supplied them, and they are based on a possible consumption of horse meat abroad. Horse meat is not popular in the United States. We are shipping some horse meat. Maybe I should modify my statement. I said no beef, pork, or lamb. I did not get into the horse meat, because we are not really sure that we will ship the horse meat, actually.

Senator HICKENLOOPER. I just wanted to make clear that in these tables that were presented to us, they have these figures for the shipment of meat, and they are going to eat a lot of horses over there because it goes up in 1949 and 1950 and '51.

Secretary ANDERSON. That is not from the United States, because some of that is Mexican canned meat, and so forth.

Senator HICKENLOOPER. I wanted to get it cleared up because this table specifically says, "from the United States." It is on page 116.

Secretary ANDERSON. The first 2 years I am assured it is only horse meat, and after that it is horse meat plus the possibility that we may



have pork by that time. But the statement says that no beef, pork, or lamb will go, and we are not planning to ship beef, pork, or lamb.

Senator HICKENLOOPER. Can you tell me generally the areas in which it is contemplated to ship tractors and power machinery? Will it go into Germany? Will it go into France or Africa or where?

Secretary ANDERSON. I do not believe I could answer that. France has a very large demand for it. We do not know, actually.

Senator HICKENLOOPER. I do not mean the numbers, exactly, that go here, or how many go there. I am wondering where they will go.

Secretary ANDERSON. I would think that France would be the largest recipient of tractors.

Senator HICKENLOOPER. There should be somebody who has the know-how to determine who is going to use the complicated machinery that we were talking about awhile ago, and I would be concerned about who was going to make that determination. If the Department of Agriculture made it, they would determine it from the farm machinery know-how angle. If somebody else is going to make the allocation, I have seen some peculiar things happen on that.

Secretary ANDERSON. Let me just say that when these first requirements came over, the Farm Equipment Institute set up a special group; I have forgotten the man's name, but he came from the International Harvester Co.—Morrison was his name. They set up a special group and made a very special study of it from the standpoint of what American companies knew from the export outlets in these areas, and they knew from their export outlets that certain countries should not have these quantities of farm machinery and heavy type tractors, and they were very helpful in analyzing these requirements and we, then, in turn were helpful, I believe, in persuading the State Department and others that they should be scaled down, and my guess would be that the State Department would ask our advice again.

Senator HICKENLOOPER. May I ask you one more question? I am thoroughly sympathetic with doing everything reasonable to sustain our own economy here by way of stimulus, but what good is tobacco to a hungry man?

Secretary ANDERSON. Well, I do not know.

Senator HICKENLOOPER. Unless we are going at this on a basis of economic stimulus, instead of a necessary stimulus. I wonder why we are justified in spending half a billion dollars for something that does not add any particular nourishment to human recovery.

Secretary ANDERSON. I am sure that I asked the same question. I said, "Are you going to ship them only eating tobacco?" But I found out there were other factors entering into it; that, for example, the dollar spent for wheat might get you better results if a small portion were spent as well as tobacco.

I do not know the exact basis upon which it is figured, but I do know that when cigarettes are available as rewards for certain types of very heavy labor, that they are able to get production quite beyond what they are able to get by offering money at a time when currencies are not very well stabilized. I do know that General Clay in Germany has persistently refused to allow the importation of tobacco under the present circumstances, but he also has recognized that if he had a little bit different financial situation, he could make very good use of it.



That determination is not mine, and one that I would not make. I felt, Mr. Chairman, that my responsibility was to say whether tobacco would be available if the Administrator felt he should have it, and I have certified that it is available and could be utilized if he wants it.

I think the Administrator would have to settle the nutritional value of tobacco, Senator, because I do not believe it has much, myself.

The CHAIRMAN. I disagree with you completely. I think it is indispensable.

Secretary ANDERSON. I apologize. I did not notice that the chairman was smoking.

Senator HICKENLOOPER. I agree with the Secretary that the caloric benefits of tobacco probably are not very great, but it may add something to comfort.

Secretary ANDERSON. I think it is a desire to restore normal trade activity, and tobacco is a part of that normal trade activity.

Senator HICKENLOOPER. I am merely trying to fix whether we are going at this on a basis of need and the necessity under an emergency situation, which will continue, or whether we are trying to go at it on a commercial trade route basis, and that would be one element in it. That is a very sizable amount.

I do not think I have any more questions at this moment.

The CHAIRMAN. Senator Lodge?

Senator LODGE. In your table No. 1—

The CHAIRMAN. Senator Lodge, would you prefer to recess? It all depends on how much time you want. You are entitled to everything you want. If you can get through in 15 minutes, I thought perhaps we could finish and then recess.

Senator LODGE. I do not think I can possibly get through in 15 minutes.

The CHAIRMAN. Then I think we had better recess, if you can come back, Mr. Secretary, at 2 o'clock.

Secretary ANDERSON. Yes.

The CHAIRMAN. Thank you. We are recessed.

(Whereupon, at 12:35 p. m. a recess was taken until 2 p. m. of the same day.)

#### AFTERNOON SESSION

(The committee reconvened at 2 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order.

Mr. Secretary, Senator Lodge wants to chat with you a little while.

Senator LODGE. I want to thank you for the useful information that you have added to our record. And I want to ask you a few questions.

In your table No. 1 there are these figures for the import requirements for these 16 nations for meat, including horsemeat. What other meat is there besides horsemeat?

Secretary ANDERSON. The table, I think, was drawn up because after 2 years there may be a possibility that there may be some pork from this country.

Senator LODGE. How about 1947 and '48? In the table here it says that the United States estimate is 1,833,000 metric tons of meat, including horsemeat, as an import requirement.

Secretary ANDERSON. There will be meat available in Canada and Argentina and other areas. I am not sure whether that is in there



or not. But I know that from this country there will be nothing but horsemeat available during this year.

Senator LODGE. So the word "meat" in this case does not refer to any meat from the United States?

Secretary ANDERSON. For the first 2 years.

Senator LODGE. That is what I am talking about.

Secretary ANDERSON. You referred to table 1?

Senator LODGE. Yes. You have the words "meat (including horsemeat)" and I wanted to know what the meat referred to, what kind, and where from.

Secretary ANDERSON. I am certain that that is correct, that nothing from the United States but horsemeat for the first 2 years, and after that time we will be able to review the situation to decide if anything else can be made available.

Senator LODGE. Thank you. I was very pleased at your view that the effect of this program on our own economy was so optimistic. Do I get the correct impression when I say that you think that the American people will be able to go on eating in just the same way as they eat now?

Secretary ANDERSON. In 1947 we ate about 18 percent above our prewar levels and we feel that in 1948 we may only eat about 15 or 16 percent. But it is due to the fact that we will have a substantial shortage of meat during 1948. Other than meat we will be able to eat substantially as we do now.

Senator LODGE. That is a very clear and interesting answer. Except for meat we will be able to eat as well as we have been.

Secretary ANDERSON. That is right.

Senator LODGE. And the meat does not depend on shipments abroad.

Secretary ANDERSON. No.

The CHAIRMAN. I did not know there were that many horses left.

Secretary ANDERSON. Yes. The tractor process, Senator, has resulted in a great many horses coming under the auction blocks and being used for meat. Its competitor, of course, is dog biscuits and things of that nature.

Senator LODGE. Then it is safe to say that you believe that there is nothing in this program insofar as food is concerned which in any way jeopardizes the health or the physical welfare of the American people?

Secretary ANDERSON. That is correct, Senator.

Senator LODGE. Taking these commodities listed in table 1, as I listened to your testimony I got the impression that in the case of bread grains, in the case of tobacco, and other commodities, we could ship to Europe from a surplus. Is that true?

Secretary ANDERSON. Yes. The tobacco, we have surplus stocks of. We have acquired a good deal in the recent sales.

Bread grains, we have a supply of wheat that is above our requirements. How much above is somewhat—

Senator LODGE. Is that a surplus?

Secretary ANDERSON. Yes.

Senator LODGE. Can you indicate how many other commodities in which we have a surplus?

Secretary ANDERSON. Yes; we have substantial surpluses of fruits, we have small surpluses, at seasons, of potatoes, probably we have seasonal surpluses of eggs and some dairy products.



Senator LODGE. And in the other things we have deficits. Is that right? Coarse grains, rice, fats, and oils.

Secretary ANDERSON. Temporarily we have a coarse grain situation that is bad because of the short corn crop. Fats and oils still are short.

Senator LODGE. How about rice?

Secretary ANDERSON. World wide, rice is short. We have an exportable surplus.

Senator LODGE. You have a surplus?

Secretary ANDERSON. But it is pretty well committed to countries that are fairly closely tied to us, such as Cuba and the Philippines.

Senator LODGE. How about oilcake and meal?

Secretary ANDERSON. Ample supplies; we have had some arguments about it. We have not exported as much as the trade thinks we should. But we do have an ample supply.

Senator LODGE. Sugar?

Secretary ANDERSON. The world supply of sugar is in very good shape. We, of course, import into the United States very substantial quantities.

Senator LODGE. What are we doing with sugar? Are we refining the sugar here and then sending it out?

Secretary ANDERSON. Yes. We refine sugar here but it is generally on direct purchase, being brought to American refineries and simply sent on as a continuous process.

Senator LODGE. Of the sugar, how much sugar are we sending to the 16 nations in the first 15 months of this program?

Secretary ANDERSON. None from the United States.

Senator LODGE. None from the United States?

Secretary ANDERSON. Some might be refined here. But they call it a transit shipment. It comes out of Cuba, lands at our east coast refineries, and moves on across the Atlantic. It does not actually enter the country as far as entering our commercial channels.

Senator WILEY. We do not pay for it?

Secretary ANDERSON. We do not pay for it.

Senator LODGE. How about cotton? Have we a surplus of cotton?

Secretary ANDERSON. We have a surplus of cotton.

Senator LODGE. To sum up, we have a surplus in the following: bread grains, rice, oilcake and meal, cheese, processed milk, tobacco, cotton, and potatoes; and a deficit in coarse grains, fats, and oils. Is that right?

Secretary ANDERSON. We do not have much surplus of oilcake and meals. I simply said the supply is ample. The trouble is, you get into peanuts and you have a question of how much of them might be edible and how much might be fats and oils. We in the Department regard the supply as ample.

There may be a small exportable surplus but the general fats and oils situation is sufficiently tight so that they have to tie together.

Senator LODGE. Suppose we had a big demand on us next spring to feed several hundred million people in China. How far could we go with that? How big are our surpluses? Are they big enough to take on an oriental Marshall plan, as well as the western European one?

Secretary ANDERSON. No. I ought to qualify that. I am not trying to complicate this situation, but I would like to say that if we made the same utilization of our bread grains as some countries do, we would



have plenty of cereals so that we might be able to take care of a very serious situation in China.

Wheat goes much further, fed directly to human beings, than it does to animals and then translated into food.

We in the United States use the great portion of our grain crop that way. A great many other countries consume as high as 70 percent of their grains directly as human food, 80 percent in one country, and very little going into animals.

If we slaughtered our dairy herds and slaughtered our other animals, which you will recognize we are not going to do, we could supply cereals to other countries.

But following our normal pattern of life we would not have any remaining quantities to take much of a part in the help of China. We have something set aside for China, but it is relatively small.

Senator LODGE. So that if we hold to our existing food habits in this country and we are confronted with a demand to send food to China, that would have to be made at the expense of these shipments to western Europe?

Secretary ANDERSON. Either that or at the expense of our livestock population.

Senator LODGE. I was assuming we were going to hold to our existing set-up regarding livestock.

Secretary ANDERSON. Yes, sir. We did point that the programs as outlined by the State Department and the Marshall plan requirements do not take up all our exportable quantities. There are some quantities remaining. Those are at present remaining under IEFC.

But they are relatively small quantities in the case of China, India, and our Latin-American friends. They are not large quantities.

We will have available grain for China. We plan to ship grain into China. But it is a rather small quantity.

The CHAIRMAN. May I interrupt? You say you have these plans for grain to China. Is that in contemplation of the program which the State Department is intending to submit in respect of China?

Secretary ANDERSON. No; I think not. I think that was an IEFC request from China which we face without regard to whether China will obtain aid from the State Department or have cash resources of its own, or what it may do.

For example, we have allocations that are going to be made to Latin-American countries. We assume that money will be forthcoming to us to take care of those. We make allocations on that basis.

Sometimes, as in the case of sugar, it develops that they are not able to go through because of dollar requirements. Therefore, sugar requirements were canceled from France and Switzerland and Sweden and many other areas. But we set them up on the basis of what seems to be needed and what we seem to have available. And there is something set up for China in that regard.

I think it is not a great deal. In any event it is something that would range from 30,000 to 50,000 tons in all for the Chinese areas in the first 6 months of 1948.

Mr. Rhodes handles that for me. I think that is about right.

Senator LODGE. I was interested in what you had to say about tractors. I remember so well during the war the trouble that we had with our allies in Europe with the tanks and trucks and other types of automotive equipment because on the average the young man in the Old



World is not mentally mechanized. On the average, our young man is. Of course, it does not do any good to give people equipment unless they know how to service it, or unless there is somebody there who does know how to service it.

Secretary ANDERSON. I am glad that you have checked with us on that. We have had some pretty heated arguments in defense of our position.

Senator LODGE. You are absolutely right. You would see a tank allocated to one of our allies. You would hear a little rattle. In the American Army if you heard that rattle it would be taken off and fixed. With some allies, the next day it would go on rattling until about the end of 10 days, and then it would not be any good at all, and it would be out for weeks. There is no appreciation of the gasoline engine because they have not had it and grown up with it as children.

Also, there is this factor: There is the question of fuel. Did you take that into account in considering the tractor figure for Europe? Did you take into account the problem involved in getting petroleum products?

Secretary ANDERSON. Yes.

Senator LODGE. You did?

Secretary ANDERSON. Yes.

Senator LODGE. And you decided that in spite of the difficulty, in spite of the fact that they either had to get it over here or else they had to get it from a part of the world which might be under other influence, it was still worth doing?

Secretary ANDERSON. Yes.

Senator LODGE. You did consider that?

Secretary ANDERSON. Yes.

Senator LODGE. How does your tractor figure compare with the Harriman Commission's figure on tractors?

Secretary ANDERSON. We were not able to finish checking back and forth with it.

I am sorry, I thought I had with me a condensation of the Harriman report.

Senator LODGE. Could you find that and put it in the record?

Secretary ANDERSON. We would like to. I would much rather check it.

(The matter referred to is as follows:)

#### TRACTOR REQUIREMENTS FOR ERP

Neither the Harriman Committee Report nor the report prepared by the executive agencies made precise quantitative estimates of the number of tractors that could or should be exported to western Europe under the ERP.

The CEEC Report estimated net tractor import requirements from all sources of 30,000 in 1947-48; 13,000 in 1948-49; 12,000 in 1949-50; and 10,000 in 1950-51, or a total for the 4 years of 65,000, practically all of which they would like from the United States. These amounts, however, may include some industrial tractors as well as farm tractors.

The Harriman Report did not estimate the amount that actually could be exported—but indicated that "the stated requirements for medium and light tractors probably can be met by continuing the present rate of exports." In the case of heavy tractors, most of which would be track-laying, the Harriman Report indicates that the requirements are surprisingly large—larger than the total sales of such track-laying tractors by United States producers for farm use, including both domestic and export market.



Although the analysis by the executive agencies has not indicated the precise number of tractors we could afford to export against these requirements, I agree with the Harriman Report in general that the relatively small number of light and medium tractors—probably 14,000 out of the total—could be supplied without very great impacts on our total supply. I also believe that the heavy tractor requirements will have to be very closely scrutinized and that only a small percentage of the stated requirements can be met unless our own production could be very sharply increased.

The present estimates of exports of farm machinery from the United States now before the committee as shown in appendix tables 1 and 2, on pages 115 and 116 of the Outline of European Recovery Program have been stated only in dollar value and for all kinds of farm machinery, including tractors. For 1948-49 this amount is \$136,300,000, or about 51 percent of the stated net import requirements for that year. For the 4-year period, the United States estimate is \$545,100,000, or about 58 percent of their stated net total import requirements.

It is believed that the United States can meet the farm machinery export estimates implied in the executive agencies' figures shown above and, in addition, have available slightly larger quantities of machinery for United States farmers than were available to them during the last 2 years.

**Senator LODGE.** The Harriman Report recommended 65,000 trucks, for which the nations of Europe had not even asked. Frankly, there are many reasons to doubt the advisability of increasing the amount of petroleum-consuming vehicles in Europe, for two reasons: first, the lack of petroleum, and secondly, the difficulty of maintenance.

**Secretary ANDERSON.** I think, Senator, it would be helpful if I add right there that we recognize that factor. But there is another factor which also enters into it, and that is that the livestock that would be used for motive power consumes precious grains. You get up to that horrible dilemma where you have to choose between the using of grain which could be used for human food or the using of petroleum in order to run tractors.

In general we felt that it was not yet possible to expand grain production rapidly enough to take care of human needs, to say nothing about increasing their power if we used animals.

So generally speaking, our approach was through the use of tractors as far as we thought they could be serviced and as far as we thought they could be given instructions in the operation of it.

**Senator LODGE.** Of course, we have a petroleum shortage here right now.

**Secretary ANDERSON.** Yes, sir.

**Senator LODGE.** And the other petroleum can go behind the "iron curtain" at any moment. So a tractor that has no gas in it is no good, and a tractor that is stalled or stuck because somebody has maltreated it and does not know how to fix it. A mule is better than that; is it not?

**Secretary ANDERSON.** Yes. But the mule eats forage that we need for dairy cows that provide milk.

**Senator LODGE.** The mule eats. But he pulls. And a stalled tractor does not do anything.

**Secretary ANDERSON.** That is entirely right.

**Senator LODGE.** I would like to ask you the same question I asked Secretary Harriman, and that is to prepare a table which will show this surplus business for these commodities. In the first column, show the production, the estimated production, for the 15-month period of all these different commodities.

In the second column show the consumption for that period, calculated on the basis of 1947 consumption.



In the third column show the surplus or the deficit.

In the fourth column show the amount that is planned to be sent to Europe.

I think that would be very helpful to a very great many Members of the Senate.

(The table referred to is as follows:)

*Estimated United States supply and utilization of specified commodities, 1948-49 fiscal year*

Commodity (1)	Unit (2)	Total available supply (3)	Domestic <sup>1</sup> disappear- ance (including carry- out) (4)	Quantity avail- able for export (5)	Estimated exports	
					Total (6)	To ERP coun- tries (7)
Bread grains-----	{1,000 metric tons-----	34,232	25,875	8,357	8,070	5,470
	{ Million bushels-----	1,280	968	312	300	205
Coarse grains-----	{1,000 metric tons-----	118,354	115,878	2,476	2,200	1,100
	{ Million bushels-----	5,406	5,296	110	100	45
Total grains-----	{1,000 metric tons-----	162,586	141,753	10,833	10,270	6,570
	{ Million bushels-----	6,686	6,264	422	400	250
Rice-----	1,000 100-pound bags--	23,000	11,650	<sup>2</sup> 7,850	<sup>2</sup> 7,850	400
Fats and oils (including butter).-----	Million pounds-----	12,485	11,760	<sup>3</sup> 645	<sup>3</sup> 645	322
Oilcake and meal-----	1,000 metric tons-----	6,015	5,830	185	185	<sup>4</sup> 150
Meat <sup>5</sup> -----	Million pounds-----	23,200	23,125	75	75	0
Horsemeat-----	do-----	100	50	50	50	50
Eggs (shell equivalent)-----	1,000 metric tons-----	3,474	3,404	70	70	40
Cheese-----	Million pounds-----	1,370	1,160	210	210	200
Processed milk-----	do-----	4,940	3,840	1,100	1,100	625
Fresh fruit-----	1,000 short tons-----	18,000	17,300	700	700	366
Dried fruit-----	do-----	600	422	178	140	121
Pulses-----	do-----	1,045	795	250	250	150
Sugar-----	do-----	<sup>6</sup> 10,000	9,800	200	200	152
Tobacco-----	Million pounds-----	5,350	4,675	675	<sup>7</sup> 595	<sup>8</sup> 503
Cotton-----	1,000 bales-----	14,800	11,300	3,500	3,500	2,400

<sup>1</sup> Based on estimated available supplies. With the exception of meat and eggs, will permit per capita food consumption equal to or greater than 1947 for applicable commodities.

<sup>2</sup> Does not include 3,500,000 bags estimated shipments to United States territories.

<sup>3</sup> Does not include 80,000,000 pounds shipments to United States territories.

<sup>4</sup> Does not include production from oilseeds imported into ERP countries.

<sup>5</sup> Dressed weight plus offal.

<sup>6</sup> Includes Puerto Rico and Hawaii.

<sup>7</sup> Export weight equivalent of 520,000,000 pounds.

<sup>8</sup> Export weight equivalent of 439,000,000 pounds.

Senator LODGE. I have two more questions. The first is, What is the extent and the scope of the Government's activities in artificially supporting agricultural prices at the present time?

Secretary ANDERSON. We are supporting potatoes, very occasionally now, and not too regularly. There will be a surplus of Maine potatoes. It is moving away pretty rapidly, too, but we are buying some potatoes from Maine.

I think we are buying some in other northern areas. The total amount of purchases will be extremely small this year as compared to last year, of course.

We are, of course, a long way from the support prices on wheat and corn and all those products.

Senator LODGE. You mean you are over the support prices?

Secretary ANDERSON. The support price on wheat would be down to about \$2.08, and of course, the price has gone way beyond that.

We have a support program on poultry, but we are not buying any on it. We announced a support program when they said that they were afraid to start dumping the culling chickens on the market, and



we were asking that they be culled down to 400,000,000 birds. In order to reassure the farm organizations that the price would not be demoralized because of rapid marketings we said we would be ready with a support-price program. But we have not had to use it at all. Poultry prices have firmed somewhat, and it was never necessary to do that.

Senator LODGE. Has that reflected itself in the price of eggs?

Secretary ANDERSON. No. We are not supporting the price of eggs. Eggs are getting down a little bit, sometimes toward support prices, and other times they move up. We have not had to worry very much about the egg market at the present time.

We think that in the spring, in the next 60 days from now, there will be a very large outpouring of eggs. Under those circumstances if consumption is down to the usual per capita consumption we may be receiving some fairly substantial quantities of eggs. If so, we will be able to take care of the requirements of these at support-price figures instead of what are now market-price figures.

Senator LODGE. Does that complete the enumeration of commodities on which you are supporting the price?

Secretary ANDERSON. Tobacco. Very substantially in tobacco.

Senator LODGE. You do not regard that as a necessity to life?

Secretary ANDERSON. I am informed that the list should be peanuts, tobacco, potatoes, and some dried fruits. If it would be of interest, Senator, I would like to say something off the record.

(Further discussion was continued off the record.)

Senator LODGE. You know as well as I do that there are lots of housewives all through this country that are astounded at the idea that the Government is involved in keeping the prices of food higher, given the fact that it is already so high in some fields. I keep getting complaints all the time that if a few commodities are reasonable in price, why for heaven's sake let them stay there because it will be more than made up by the exorbitant costs in other lines.

You know what I mean.

Secretary ANDERSON. Yes, indeed. But wherever we support a price of this nature we do it in furtherance of the mandate of law, with the sole exception that I mentioned this morning of the dried-fruit situation where I was trying to conserve food.

I do believe if we had a long study of the whole question of support prices—and I am sure the agricultural committees will have it before price-support legislation comes up for the possibility of renewal—that it will be considered desirable to go into the question of whether these support prices raise or lower the cost of living.

Personally, I feel that the support price on wheat, encouraging the widest possible acreage on wheat, has been beneficial in keeping down the price of wheat rather than raising it.

The fact that we have had a 1,400,000,000-bushel crop has been the greatest deterrent to very high world wheat prices that you could imagine. When you realize that there are countries where wheat prices are well above us, and realize that many countries have been anxious to buy our wheat at above our present prices, if we would only export to them, I think we see there is some argument on the other side of it. I know this is not the place to go into it.



Senator LODGE. There is always an argument on both sides of every question. But certainly common sense would indicate that in general the net effect of supporting the price is to keep the price up and increase the cost of living.

Secretary ANDERSON. With the exception that it works in peculiar fashion. The support price on potatoes was so good that it brought about an astonishing outpouring of potatoes and has kept the potato price from ever getting out of hand from that time on. Whereas the other prices have moved up very substantially.

Senator LODGE. Are you sending any potatoes to Germany?

Secretary ANDERSON. Some. Not many.

Senator LODGE. We are not having that repetition of what happened last year, when they burned the potatoes and had these huge piles photographed in the newspapers?

Secretary ANDERSON. No.

Senator LODGE. That has not happened again, has it?

Secretary ANDERSON. No. We had a small amount of potatoes that were destroyed in the South. They were potatoes that were destroyed as they carried a heavy amount of moisture and were potatoes that would not have either been shipped or stored. When we found no possible place to distribute them to charitable institutions or to other groups that might want them they were destroyed.

But it was a trifling amount of potatoes. Very small compared with the rest of the crop.

Senator LODGE. I just want to express the hope that you are going to go easy on this price-support business as long as so many housewives are having so much trouble making both ends meet.

On page 2, at the bottom of the page, you say:

The second chart shows the same factors as of last year. It shows how eastern Europe's food exports have almost completely dried up. The restoration of this east-west flow of food is important to the long-time stability of Europe's economy. If we can aid western Europe in increasing its exportable supply of manufactured goods, those goods will offer greater inducement to eastern Europe for food production and trade.

I have several questions. First of all, the failure of eastern European production to move into western Europe is not due solely to poor crops, is it?

Secretary ANDERSON. No.

Senator LODGE. There are political factors, are there not?

Secretary ANDERSON. Yes.

Senator LODGE. Have not the crops there been fairly good recently?

Secretary ANDERSON. They were this year in the Ukraine. They were not particularly good in eastern Germany. They were just fair in Poland. They are not remarkable in any area over there.

I think it would be an interesting inquiry at some later period as to why they are down. But in the case of eastern Germany it is true that the present people forming the policy over there have not had the same regard for conservation and the same careful type of agriculture that the Germans had.

Also, I think it would be entirely truthful to say that in the area of Germany that has gone into Poland a great many of those farm homes were simply deserted and in a short time the soils deteriorated very rapidly.



So that a part of the answer is poor farming. A rather larger part is political.

Senator LODGE. Is it not true that behind the iron curtain generally, in Russia and the satellite countries, they have had a better crop in 1947 than they had had for years, since before the war?

Secretary ANDERSON. Not since before the war. The Russian crop in 1947-48 is substantially better than the 1946-47 crop, at least to the extent of 10,000,000 tons. But it is substantially below the 1935-39 average.

I am not going to pose as an authority for those figures because I know how difficult it is to get accurate information. These are the best figures that we can obtain.

Senator LODGE. Assuming that they are fairly accurate, they indicate that the recent crop is 10,000,000 tons better than since the war, at any time since the war?

Secretary ANDERSON. Yes, sir. At least 10,000,000 tons. Maybe a little more than that.

Senator LODGE. At least 10,000,000 tons better?

Secretary ANDERSON. Yes.

Senator LODGE. Do you know of any move to share this grain and this increased production with the less fortunate nations of western Europe?

Secretary ANDERSON. Yes. Just within the last few weeks the movement of 750,000 tons of this to Great Britain, to the United Kingdom has been announced. Four hundred thousand tons have gone to Czechoslovakia. One hundred thousand-some to Poland. Three hundred thousand, I guess. And quite a bit to Finland. I am not able to give you the exact figures on that.

At one time, within the last 2 or 3 weeks there were missions from six countries in Moscow negotiating at the same time. They represented Belgium, Benelux, and several groups of that nature.

Some of that grain is moving. We feel that they will surely export from Russia 2,000,000 tons this year, and might export more.

Senator LODGE. How does that compare with what we are going to export?

Secretary ANDERSON. It is a small fraction of what we are going to export.

Senator LODGE. What are we going to export, in millions of tons?

Secretary ANDERSON. Fourteen million, roughly.

Senator LODGE. So we export 14,000,000, and they put up 2,000,000?

Secretary ANDERSON. Yes.

Senator LODGE. Thank you, very much.

The CHAIRMAN. They charge for their 2,000,000 also, do they not?

Secretary ANDERSON. My understanding is that they do, Senator. But I do not know too much about their transactions.

The CHAIRMAN. Thank you very much, Mr. Secretary, for your presentation.

Secretary ANDERSON. I appreciate this opportunity very much, Senator.

The CHAIRMAN. We are greatly indebted to you for the illuminating presentation you have made. It was a fine statement.

Secretary ANDERSON. I will supply this material that I have been requested to supply.



The CHAIRMAN. Thank you, very much.

Secretary ANDERSON. Thank you.

The CHAIRMAN. The Secretary of the Interior will be the next witness. You may proceed in your own way, Mr. Krug.

**STATEMENT OF THE HONORABLE J. A. KRUG,  
SECRETARY OF THE INTERIOR**

Secretary KRUG. I have written a statement that I would like to furnish to the committee. I would like to read it, if I may, and then submit to questions if the committee has any.

My purpose in appearing before your committee is to discuss the proposed European recovery program as it would affect our domestic economy, particularly some of our raw material and related resources. The testimony of Secretary Marshall, Ambassador Douglas, Secretary Harriman, and Secretary Anderson before this committee has impressed me again with the fact that this program constitutes an essential forward step in providing for peace throughout the world. I believe that this program is necessary to assure the best utilization of the world's vast resources for the benefit of people everywhere.

The humanitarian aspects of the proposal are in the best tradition of the American spirit of cooperation and friendliness. They need no further underlining from me. I am convinced, however, that the European recovery program is also a sound business venture on our part because of the role that the recovery of Europe will play in stabilizing our own economy and assuring our future well-being. In addition to discussing this point, I shall evaluate its effect upon specific commodities coming directly under my cognizance. Finally, I will discuss the future of this country's resource position as it is influenced by our current expanded economy and the aid program.

**RESOURCE CONSERVATION AND WORLD TRADE**

The time is past when a Secretary of the Interior could look simply to the resources within our own borders in considering the problems of providing the materials necessary to the future of our vast industrial enterprise. When this Department was established 100 years ago, the interior of our country seemed a storehouse of raw materials that could provide an inexhaustible source of security and opportunity for our industry, our trade, and our people. Today everyone concerned with the conservation and development of our resources and the future of our industry must necessarily consider world needs and world availabilities.

The resources of the United States are, of course, vast; and they still constitute the basic support of our industry and trade. But many of our essential requirements must be secured from abroad, and the list of items that we must import is a growing one. It is my firm conviction that our long-run interests lie in restoring world production and world trade in order that our own industries and our resources can be intelligently developed and their products effectively exchanged for those of the rest of the world. This conviction is based upon a realization of our own needs. It is the basis for my belief that the European recovery plan is essential to our own well-being and security. Multilateral trade throughout the world must be restored.



Underdeveloped areas must be brought into production quickly and effectively. This requires the establishment of a stable productive economy in Europe. Without such a development of trade, I fear that we should soon find ourselves an island surrounded by misery and a level of civilization whose inroads we could not long hope to resist. It is against the achievement of the goal of world peace and well-being that we must measure the difficulties of this period of world reconstruction and development.

Aside from the fact that prosperity is indivisible, that depressions are as catching as the common cold, one of the primary requirements for maintaining our current level of production over a long time will be availability of raw materials. We as a nation are passing from a land of plenty—a land of relative self-sufficiency—to a nation requiring greater imports of many basic necessities. In the field of petroleum, for instance, we are becoming a net importer and will likely continue to be such at an accelerated rate in the future. Our heavy requirements for tin, manganese, chrome, and many other metals have for a long time been secured through the import of these basic essentials. In copper, lead, and zinc, however, we have only recently become a net importer. To be sure, every effort should be made to develop our own resources and to learn to use lower grade ores in order to increase domestic production, but we shall be faced with the necessity of importing increasing quantities of these materials, if our future is to be characterized by high levels of production and employment.

Supply impacts are relatively few. The Report on National Resources and Foreign Aid prepared under my supervision, at the direction of the President, appraised the resources of the United States in the light of possible foreign requirements, in order to help determine the extent to which we might safely and wisely continue to provide foreign aid. It shows those areas where difficulties may be encountered and indicates possibilities for resolving some of those difficulties. I believe it also provides a sound basis for thoughtful consideration of our national resources problems.

I shall not attempt to summarize the report or to reiterate its conclusions. Instead, I wish to emphasize those points relating to our domestic economy that you will want to consider in connection with the program now before you.

In the first place, it must be remembered that the economy of the United States is operating at its highest peacetime levels and in many areas of our economy we are exceeding our wartime peaks. This high utilization of our agricultural and industrial capacity is taxing our facilities heavily and is itself creating problems that must be solved. Our greatly increased population, which must be fed, clothed, and gainfully employed; our improved standard of living; our tremendous industrial production capacity—all these have an impact on our resources regardless of how plentiful they may have been.

Obviously any program of exports would superimpose an additional load, but the difficulties of the burden on the camel's back must be solved whether or not augmented by the foreign aid straws. I believe we want to continue current high levels of employment and production in this country. Certainly we do not want unemployment and depression as a cure for our current headaches. The problem of



meeting current shortages in such a manner that the period of shortage is kept to a minimum is a challenging one. But it is one we cannot sidestep whether or not we participate in a program of foreign aid.

Not all of the requirements for European rehabilitation present difficulties, as you know. Many items of machinery and equipment can be made available with little impact on our domestic supply. Secretary Harriman has told you of the relative magnitude of shipments of specific commodities under the aid program as compared with our normal export of these same items. In many of these the aid-program quantities are actually less than our normal export volumes.

There are, however, certain basic world shortages that must be cured if the world economy is to get off dead center. It is these shortage items, most of which are basic to European recovery, that will result in supply difficulties here in the United States. The world shortage of wheat, fertilizer, coal, oil, steel, and items of equipment made from steel, must be resolved through the most careful joint action by industry and governments throughout the world. The supply of these basic commodities must be used during the next few years in such a manner that they will have the greatest effect in solving the problem of world shortages, so that we may be assured that these shortages will not continue indefinitely. The primary objective of the aid program is recovery.

Coal: Basic to the European recovery program is the increased availability of its energy resources. Coal and oil may properly be viewed together as two of the principal energy sources. Coal is the major energy source, providing the basis for Europe's transportation; it provides most of the electrical power; it provides their artificial gas, which is the sole source of mechanical and thermal energy essential to their industry. It is essential to the manufacture of needed fertilizers; it is an essential in the production of steel. It is the very heartbeat of their economy. The iron and steel, fertilizer, chemical, textile, and metalworking industries have all been limited over there by coal shortages, with consequent effects upon industry generally. Without coal, recovery is impossible.

The European nations are aware of the essentiality of coal. They are practicing stringent economy in its use, just as they are in the case of oil and electric power, both of which are rationed. They are giving priority for coal to urgent industrial users at the expense of other industrial users and such necessities even as home heating. They have set optimum production goals for themselves which, though technically achievable, can be obtained only under the most favorable conditions and with the highest degree of organization and hard work. The nature of the task facing the principal coal-producing countries is illustrated by the program of the United Kingdom. Their production for 1951 is set at 50,000,000 tons above the 1947 goal or an increase in output per manshift of more than 20 percent above prewar and more than 25 percent above current performance. That is certainly a real objective. By 1949 production in the participating countries, excluding western Germany, is expected to surpass prewar production, and by 1951 production is scheduled to exceed 1938 levels by almost 45,000,000 tons. Coal production in western Germany is expected to rise and to be close to prewar output by 1951.



Current European production is estimated at about 485,000,000 metric tons, compared with prewar production of 575,000,000 to 600,000,000 tons. Effective demand in Europe is estimated to be almost 100,000,000 metric tons annually in excess of production, or substantially more than the amount included in the ERP requirements.

The immediate requirements under the program are below Europe's imports of United States coal for the past year, which totaled 40,696,000 net tons, and they taper off rapidly after the end of the current fiscal year.

Against the December 1947 monthly rate of United States production of 55,368,000 net tons, or 50,230,000 metric tons, ERP requirements are—

Metric tons average per month—

April to June 1948	3,417,000
1948-49	2,750,000
1949-50	1,250,000
1950-51	458,000
1951-52	231,000

Thus, the peak European recovery program requirements will amount to 6.8 percent of our monthly production at present production rates. After the winter of 1948-49 requirements will taper off sharply to 2.5 percent of our monthly production during 1950-51 (based upon current production rates) and 0.9 percent during 1951-52. Assuming that the coal industry in this country will continue at its current high levels of productivity, these requirements can be met without affecting our own consumers.

I have prepared for the benefit of the committee some information of our production of bituminous coal and I think you will see in studying these figures that with respect to bituminous coal, the requirements should not be a very serious matter.

Bituminous coal production in this country was 533,922,000 net tons in 1946 and 619,000,000 in 1947. Production was below possible levels owing to a shortage of railroad cars. During the second half of 1947, localized shortages of low-volatile coal for heating purposes occurred in different parts of the United States, but these shortages have since been overcome with the recent increase in coal-car supplies. With this improvement has also come a steady increase in the rate of production. If the current rate of production can be maintained, total production for 1948 should at least approximate 625,000,000 tons, which would meet all domestic and foreign requirements.

I want to emphasize that the European recovery program coal requirements are relatively small in terms of our total production; they are insignificant in terms of our vast coal resources. While they are much greater than Europe's imports of United States coal before the war, which amounted to about 11,000 net tons in 1938, they will not, even at the peak, be as great as Europe's United States coal imports during 1947.

The deficit in European coal production is primarily due to lack of mining machinery with which to produce coal; lack of transportation facilities, especially railroad cars, and lack of adequate food, clothing, housing, and other things that the miners need in the three largest producing areas: Britain, Poland (including German Silesia), and Germany. The program seeks to remedy the most pressing of these shortages and consequently to provide a lasting basis for recovery of



coal production. Obviously, for the long run, Europe must produce its own coal.

The bulk of the coal included in the European recovery program requirements is bituminous coal, which is in largest reserve in the United States and is produced in greatest quantity. Reserves of the higher quality low-volatile coal for coking and metallurgical purposes, as well as for smokeless household heating, are not as great, but there are still many years' supply at present rates of depletion. The heavy demand for this type of coal has created a sufficient scarcity of coking coal to require the mixing of high-grade coking coal with inferior grades, even in our own industry. Other efforts are needed to preserve these coals, but the amounts required in the European recovery program are not sufficient to seriously aggravate the problem of depletion of our own reserves.

**Petroleum:** The unprecedented demand for petroleum in this country and consequent shortages complicate the problem of meeting the essential oil needs in the European recovery program.

Two facts must be borne in mind:

First, petroleum products are a key item in the rehabilitation of Europe and must be supplied if industrial and agricultural production are to be revived and essential transportation maintained.

Second, the bulk of European requirements will be met from the Middle East and the Caribbean areas, and the United States will not send abroad one drop of oil or oil products that will not be more than offset by imports of petroleum, into this country.

I do not think I have to tell this committee how essential oil is in the European program. I have detailed some facts and they are for the information of the committee.

European air-and-road transports and a considerable portion of its rail-and-water transportation are dependent upon petroleum. The expanded European food program is based in great measure upon motorized agriculture. For industrial and domestic fuel, petroleum products are essential. And most important, lubricating oil is vital to all industrial activities. Because substantially all of these petroleum products must be supplied from abroad, the program assumes continuation of drastic controls to limit oil consumption in the participating countries and its use for only the most essential purposes. Even with the increased dependence upon motor transport, the requirements for motor gasoline, for instance, is expected in 1952 to be 5 percent below the 1938 figure. The per capita consumption of petroleum in 1951 will be one-tenth that of the United States.

At this time, it is impossible to predict the precise sources for meeting European requirements. Every effort is being made to step up production throughout the oil-producing areas of the world. The increase in production in the Middle East must be accompanied by construction of new refining capacity in the Eastern Hemisphere.

The participating countries have in the past taken a large proportion of American petroleum exports. They accounted for 42 percent of the United States exports of liquid petroleum products in 1938, 43 percent in 1946, and 38 percent for the first 9 months of 1947, on an annual basis.

To be sure, the export of oil to Europe and to other traditional areas of American export will add a burden to our overtaxed oil facilities. However, by far the greater problem has been the sudden increase in



our own demands from 367 gallons per capita in 1941 to 608 in 1947. That will give you gentlemen some idea of the problems the petroleum industry has had to cope with.

Senator LODGE. Mr. Secretary, it is also true that we have a very real shortage of petroleum in the eastern part of the United States at this moment, is it not?

Secretary KRUG. Yes, sir.

Senator LODGE. But you contend this export of oil abroad is not going to have an adverse effect on that?

Secretary KRUG. No, sir. I will tell you frankly, it does add to the problem. But the problem, however, would be extremely serious with or without those exports, and something must be done to solve it. I can tell you a little later some of the things that are underway to that end. I know that you are very much interested in that.

Senator WILEY. That does not limit it simply to the eastern part of the United States. We have trouble in the Middle West, too.

Secretary KRUG. Yes, sir. It is a little more serious in the East, but it is almost as bad throughout the Middle West; as a matter of fact, in the entire area east of the Rocky Mountains.

Senator WILEY. And you are taking steps to remedy it in both sections?

Secretary KRUG. I will tell you what is being done. I am not sure that the steps are adequate. We are going forward with everything in our power at the moment. I can describe those a little later.

In short, the total amount of petroleum that will go into the foreign-aid program is not expected to exceed 2 to 3 percent of our available supply, and it becomes smaller than that as the program moves forward.

Again, we must remember that in any event our exports will be more than counterbalanced by increased imports of crude oil, fuel oil, and other products. It is expected that our imports for 1948 will be increased 10,000,000 barrels over our imports for 1947, whereas our exports will be less by at least 14,000,000 barrels. United States production will also be increased by 95,000,000 barrels in 1948 over 1947.

Whether our own current shortages become more severe will depend in some measure on the severity of the weather and the ability of the petroleum industry to operate continuously at peak levels. Increases in United States consumption of 115,000,000 barrels in 1948 are expected.

Petroleum is a key to European recovery. Europe must have the minimum amounts requested from the United States if she is even to have a chance to help herself. She must have petroleum if she is to survive. The availability of export controls in this country will assure a continuing opportunity to appraise the relative need for American oil exports and to reduce them at any time it appears that they are being used for nonessential purposes.

Our job, for the protection of our own petroleum consumers, and in order to do our part in the supply of necessary products to Europe, is to take every step to increase oil supplies here and abroad and to curtail the nonessential uses of oil. This task will require the cooperation of Government, industry, and the public.

In order to assist in meeting our fuel problems and to make available to the Government the fullest measure of information and ideas, I shall continue to call upon the National Petroleum Council which



has been established for this purpose. In addition, I shall set up a National Coal Council that will similarly be representative of the coal industry. While these groups are primarily needed for consultation on domestic problems, they shall be of great value in aiding the Department of the Interior to meet its responsibilities in the European recovery program.

We have some charts that I think the committee might want to look at briefly, which picture some of the important aspects of the coal and oil problem.

Secretary KRUG. This shows the relationship between coal production and coal exports for 1939, 1944, 1946, and 1947. Those little black coal cars show our production, the average monthly net tons, 37,000,000 back in 1939 went to a wartime peak of almost 57,000,000, and in the past year we almost equaled that peak.

In this next year we can go above it if we must, and our projected demand will carry us above it.

These white cars indicate the exports, and you will see that the exports are not very important in the total. Assuming we have continuous production in the coal mines this year, we should not find any great difficulty in taking care of all of our own coal requirements with enough remaining to meet the demands of the European recovery program.

The CHAIRMAN. Is that a hopeful assumption?

Secretary KRUG. There are factors in the picture, Senator, that I would not try to forecast.

Down at the bottom of this chart, you see the demand of the aid program starting with a level about what we have been doing in April and June of 1948, and gradually moving down the scale, and at the end of the period virtually disappearing as the coal mines over there get back into full production.

This chart gives you an indication of the total world and European oil requirements, the round circle showing the total requirement in millions of metric tons and the slice of the pie indicating the requirements of these countries in Europe.

You will see the general increase from 255,000,000 metric tons just before the war to the astonishing total of almost 490,000,000 metric tons in 1951 as the world gradually modernizes its industry to take advantage of petroleum products.

The corner of the pie representing the demands of this section of Europe indicates the gradual shift from American sources to the Middle East, the general area representing Middle East supply, and you will see by 1951, according to the program, the Western Hemisphere has gradually moved out of the picture as the Middle East and the refineries in the Eastern Hemisphere come in to take over their requirements.

This chart gives you some picture of the proved reserves in petroleum, and I want to make clear there that that does not realistically reflect the total reserve, because all of these areas have vast deposits still undiscovered.

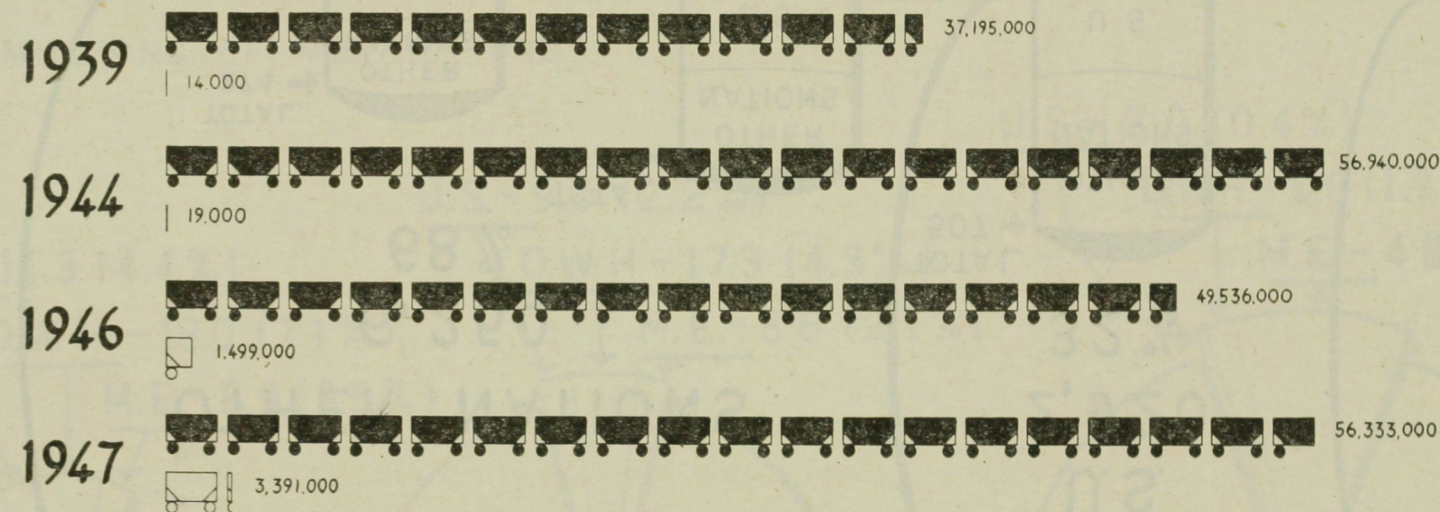
These are the known proved reserves of petroleum.

It shows that in January 1947, in millions of metric tons, we had something like 30 percent of the total in the United States, having 2,920,000,000 metric tons, the other nations having 6,250,000,000 metric tons.





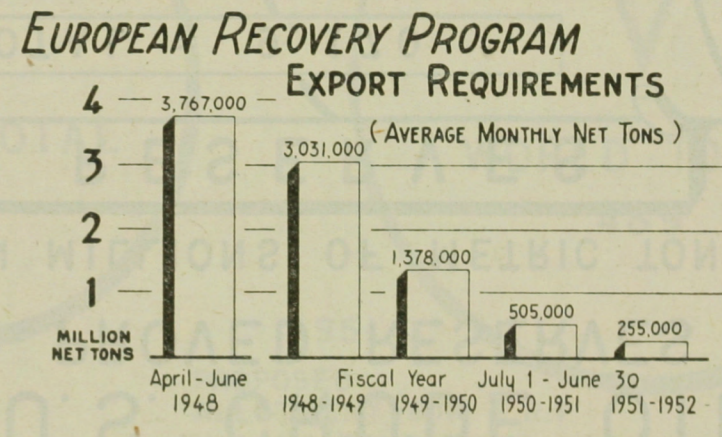
# COAL UNITED STATES COAL PRODUCTION AND EXPORTS TO EUROPE

( AVERAGE MONTHLY NET TONS )-



## Legend

-  PRODUCTION OF 3,000,000 NET TONS
-  EXPORTS OF 3,000,000 NET TONS

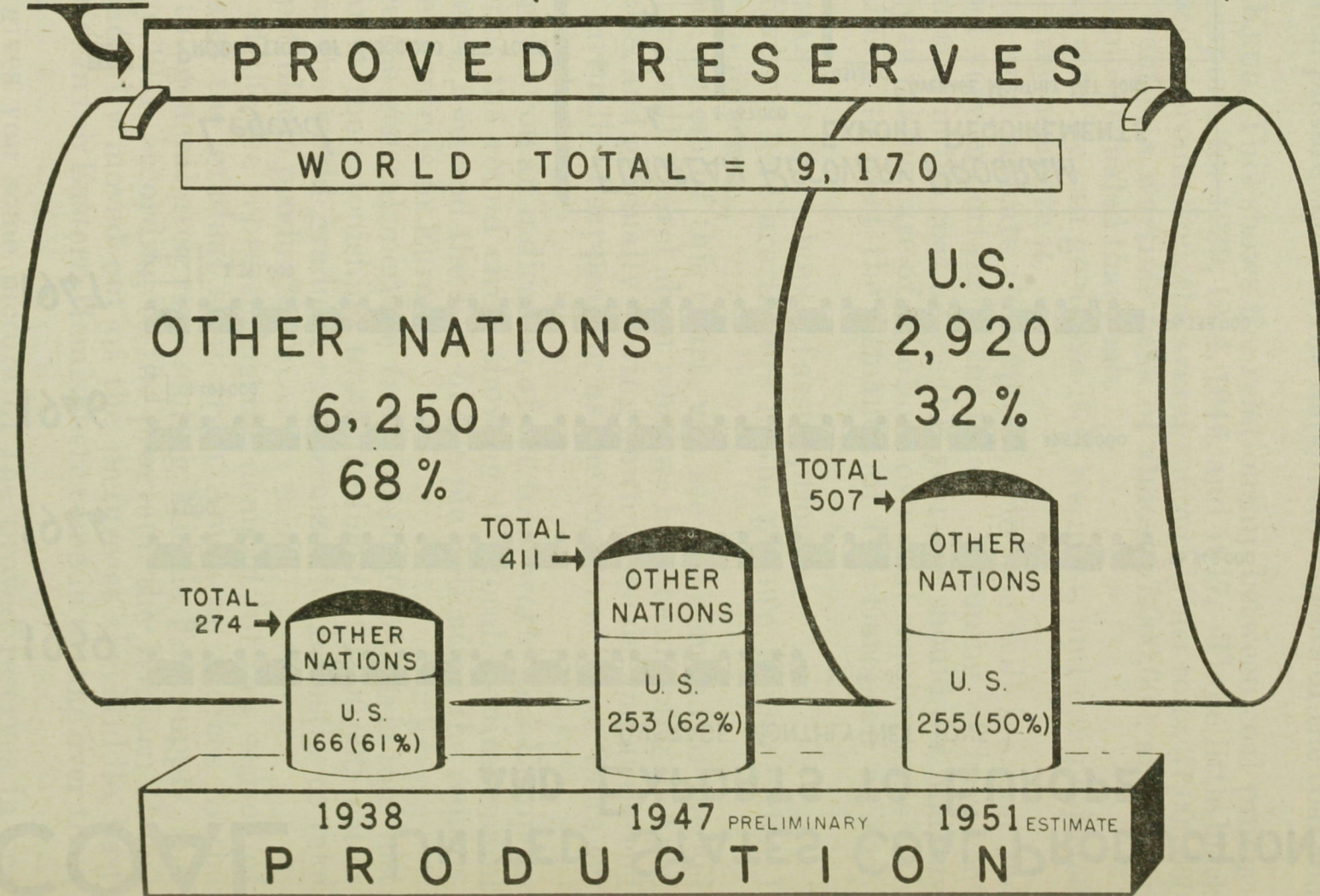




# WORLD AND U.S. CRUDE OIL PRODUCTION AND PROVED RESERVES

JANUARY 1947

(IN MILLIONS OF METRIC TONS)

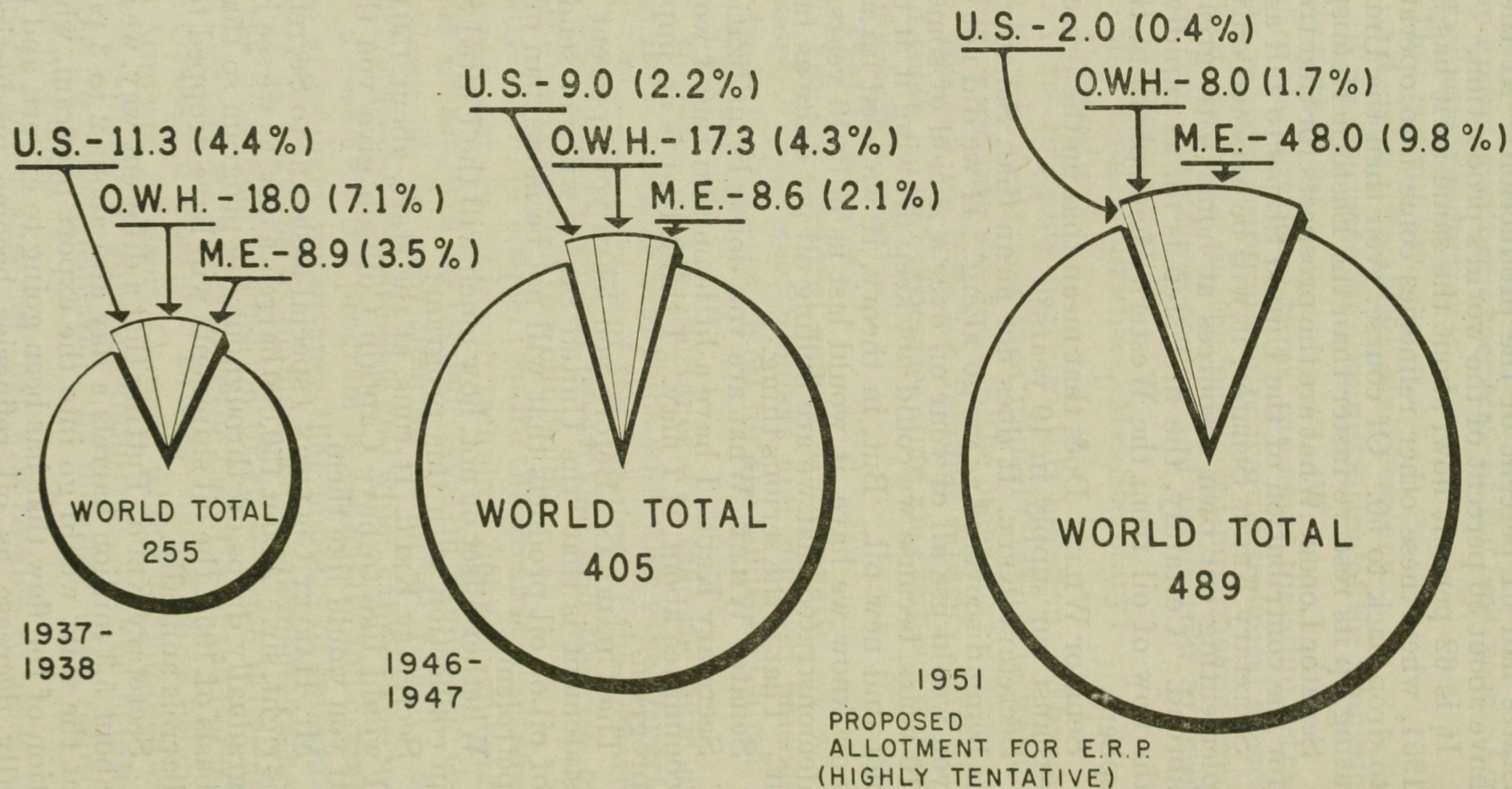




# WORLD AND EUROPEAN OIL REQUIREMENTS

SHOWING PORTIONS REQUIRED FOR EUROPE FROM THE  
U.S., OTHER WESTERN HEMISPHERE, AND THE MIDDLE EAST

IN MILLIONS OF METRIC TONS





However, in terms of production, the United States has always been one of the big factors. This gives you the production figures at the bottom of the chart. You see that back in 1938 the United States had 61 percent of the production. At the present time we have about 50 percent of the world's production.

It is 62 percent now, about the same as it has been running. In 1951, when these other refineries come into operation, we expect it to drop back to 50. Of course, even then the United States will be using up its reserve faster than the Eastern Hemisphere.

Senator LODGE. What are the prospects for that trend to be arrested; for the contribution of the United States to fall as the years go by?

Secretary KRUG. Senator, it will be arrested only in terms of supplementing our own resources at home with greater imports from abroad. Certainly, the first step is to, as rapidly as possible, stop the flow of oil from the Western Hemisphere to the Eastern Hemisphere.

Senator WILEY. Does that mean that on the present basis we would exhaust our supply in 10 years?

Secretary KRUG. It does not mean that, Senator, because more oil is being discovered as we go along. If we did not discover any more you would use all of your oil over a period of somewhat longer than 10 years, because we could not keep drawing it at this rate if we did not find new oil. But, in theory, if we used up all the oil that we now know we have, it would last us only 10 years. Experience has demonstrated that we are finding oil not quite as fast as we are using it. That is the serious thing.

Senator WILEY. What are you doing by utilization?

Secretary KRUG. I have a little on that that I would like to tell the committee about, if I may. I think that is an important part of the program.

The CHAIRMAN. Before you leave your present calculations, your statement is that "the United States will not send abroad one drop of oil or oil products that will not be more than offset by imports of petroleum."

Whether offset or not, how much will the United States send abroad in connection with this program?

Secretary KRUG. It runs, at the start, about 150,000 barrels a day. I would like to have Captain Collison give you the specific figures, if you would like them.

Mr. HARVEY COLLISON (special assistant to Secretary Krug). That is right, sir. About 150,000 barrels a day, as we see it now. Then that gradually drops off throughout the program so that eventually, on a basis of 1951, the oil shipments will have dropped to about 15,000,000 barrels annually.

Secretary KRUG. Putting that a different way, we are now producing about 5.3 million barrels a day and about 2 to 3 percent of the total at the start would go into the export program, which is a continuation of the flow that has been going to export, and that would gradually decrease as oil refineries become productive in the Eastern Hemisphere.

The CHAIRMAN. How does that compare with our export for last year?



Secretary KRUG. It is at about the same rate.

Mr. COLLISSON. Last year it was about 180,000 barrels per day, Mr. Chairman.

The CHAIRMAN. So the new program at least does not contemplate an increase in export over our experience of the past year. On the contrary, it anticipates a reduction?

Mr. COLLISSON. That is right, sir.

The CHAIRMAN. All right. Go ahead, Mr. Secretary.

Secretary KRUG. With respect to the administration of the program, I have only the following to say.

The Department of the Interior, I think, can assist the administrator of the European recovery program in providing technical advice on the problems that will arise in the participating countries and as to the ability of our domestic economy and production to meet the demands of the program.

Senator WILEY. May I interrupt there, Mr. Secretary?

Secretary KRUG. Certainly.

Senator WILEY. I am probably naive in this question. Why do we export 150,000 barrels a day and then import? Why do we not keep our own and let somebody else tend to the other job?

Secretary KRUG. Because we have the refining capacity here and they do not have it there. Their refineries were knocked out during the war and have not been restored.

Senator WILEY. That is the reason?

Secretary KRUG. Yes, sir. And of course, traditionally, we were always the processors of petroleum products and supplied finished products, starting back, I suppose, with oil for the lamps of China.

Senator WILEY. Thank you.

Secretary KRUG. In general, such assistance will take the form of advice on specific matters in the several fields with which the Department is concerned. Through the use of the facilities of the Department, duplication and overlapping can be avoided and the cost of administration of the program held to a minimum.

Coal and oil matters will, of course, require the greatest assistance from the Department, but, in addition, technical help on mineral production projects abroad will be needed. Aid in evaluating the production capabilities of the participating countries relative to minerals and materials needed here at home and which can be expected to be imported as a result of the program is especially important. I consider it to be of primary importance that imports of minerals in short supply here at home be so planned as to augment, rather than discourage, the maximum production of these same materials in this country. These matters will require the facilities of the Bureau of Mines and the Geological Survey. In this connection, I believe that the National Minerals Advisory Council, which is composed of representatives of our domestic minerals industries, will be helpful in making available the recommendations of industry with respect to these and related problems.

The Department has other agencies that will be able to assist in the program. For instance, the Fish and Wildlife Service will advise on matters involving the rehabilitation of the foreign fishing fleets and the effect on our own fishing industries of shipments of such supplies,



equipment, and gear to the participating countries. The Department of the Interior also has technical staff in the electric power field. The Department can make these available to the Administrator for consultation in connection with power matters and possible related irrigation projects.

The administration of the plan, insofar as the Department of the Interior is concerned, would not require the formation of a new activity or division in the Interior Department but rather the delegation of specific responsibilities to those existing agencies in the Department whose experience and normal functions would establish their competency.

It would be desirable to have in my office a small group of three or four men as a focal point for the assignment of tasks and for forwarding of information to the Administrator or other Federal agencies involved.

Complicated controls are unnecessary: As stated in my report on national resources, I believe it is possible to meet the demands of the European recovery program without seriously impairing our own domestic economy. I believe that the program is a sound approach to a better utilization of the world's resources and an essential step toward the establishment of our own well-being. To be reasonably successful it will require careful administration and the maximum cooperative efforts of Government and industry.

As to its administration abroad, I see no more need for complex controls than I consider necessary here at home, and I do not believe that we should attempt to set them up. In the first place, with export controls available to cut off shipments, we need only adequate information to assure ourselves that items in short supply are being put to essential use.

Finally, I have never believed in centralizing authority and, here as in other instances, I suggest that mistakes made on the site are more easily remedied than those made many thousands of miles away. The fact is that we can turn off the tap at any time if the program is being mismanaged.

#### NEED FOR CONSERVATION PROGRAM

In addition to Government-industry action to break supply bottlenecks, we must go forward with intelligent and intensive-conservation programs. We cannot maintain our current levels of consumption—quite aside from any foreign-rehabilitation program—unless we look to our basic assets—our land, forests, mineral reserves, and other raw materials and our capital plants and facilities. It is more than the old question that confronted our forefathers—of eating our seed corn. It is also a question of preserving the very land in which we would plant it and the implements and materials necessary to make it grow and become useful.

We should reemphasize and accelerate programs to conserve our own natural resources. Present levels of consumption resulting from our tremendous industrial development and steadily increasing population cannot be satisfied without seriously impairing our resources. I am particularly concerned with the need for the conservation and development of energy sources which are of vital importance to our future prosperity.



I strongly advocate the development of our water-power potentialities with its attendant benefits in the fields of power generation, flood control, navigation, and irrigation.

Further exploring the energy field, I propose that we intensify present programs for the development of synthetic liquid fuels in this country. The present world-wide shortage and our own domestic proved petroleum reserve of only 21,000,000,000 barrels underlines this problem. We should plan now for the development of the production of synthetic liquid fuels in this country and thus avoid a future dependence upon an insecure source of supply from distant lands.

We already have under way experimental projects for the production of synthetic liquid fuels from natural gas, bituminous coal, lignite, and oil shale. A natural-gas synthetic-liquid-fuels plant is now under construction by oil interests in Texas and a similar plant is under way in Kansas. Even though our supply of natural gas is relatively limited, further development along this line should be undertaken immediately.

About 20 percent of the total coal reserves in the United States are in the form of lignite. These lignite deposits aggregate over 900,000,000,000 tons and would have a conversion value to synthetic liquid fuels of approximately 500,000,000,000 barrels, or about 25 times the present proved petroleum reserves of the United States. It is for that reason that I think increased experimentation and pilot plants in this field are extremely desirable.

In the matter of extraction of oil from our oil shales, we have one pilot plant in operation in Colorado, but this is not enough. The oil-shale reserves of the United States are estimated as capable of yielding over 90,000,000,000 barrels of crude oil, or about five times our proved petroleum reserves. And that is a very conservative figure of the amount of oil shales available in this figure.

Senator WILEY. Do you have any cost figures on hand?

Secretary KRUG. Yes. The cost figures are still tentative, but they indicate that even with what is known now they would be approximately competitive with petroleum at present prices.

Expansion is desirable in the experimental work along the lines of the plant now under construction by combined oil and coal industrial interests in Pennsylvania for the gasification of bituminous coal and the manufacture of synthetic liquid fuels. In short, all of these programs under which industry and Government could intensify their cooperative efforts to effect a long-term solution to our energy problem should be expanded.

As with our energy resources, we must continue to expand the other foundations of our economy by encouraging the use of lower grade ores and developing new economic techniques of extraction and utilization. Finally, we must protect our soils, forests, and grazing lands by sound programs of conservation and development.

The CHAIRMAN. You do not seem to have a very optimistic outlook toward the contribution of atomic energy in this field.

Secretary KRUG. I have deliberately eliminated that, Mr. Chairman, because I do not think I am competent to talk about it. But I do think atomic energy can make a contribution in this field, too.



The CHAIRMAN. It could be that it would be revolutionary, or it could be that it would not amount to anything.

Secretary KRUG. Yes, indeed. I think we should push it to the limit because we certainly need the energy source that might be available there.

The effectuation of these programs for the conservation and development of our resources will be aided by the European recovery program which is designed to bring about world recovery. Such recovery and the revival of world trade will continue and strengthen our present prosperity, by making available raw materials and by providing markets for our products. Continued prosperity in America will make possible the strengthening of its resource base in the programs I have mentioned.

Prosperous farmers can afford the tools and materials needed to protect their land and engage in other conservation practices. A prosperous nation can more easily undertake the larger programs that are needed to give strength and continuity to its prosperity.

To sum up, I want to reiterate my support of the European recovery program as a wise investment in world recovery and our future well-being. We can do the job from a standpoint of our resources and facilities: indeed, the export burden under the program is not likely to be as great as the one we handled last year. Some of the supply problems will be knotty, but they will diminish as the world economy gets into production.

We must do the job because we want to assure peace and plenty for ourselves and for the world.

The CHAIRMAN. Mr. Secretary, you have not said anything about the contemplated acquisition of strategic materials under the ERP plan. Do you consider that an important factor or not?

Secretary KRUG. Yes, I do. I do not think that it is practical to assume that the amounts that we lay out immediately can be returned in raw materials although to the extent that they can and are not needed for trading credits or exchange of goods with other countries they should be brought back.

But for the long range I think the recovery of Europe, as I tried to say in the statement, will give us the only opportunity we will have to expand the base of our resources and an opportunity to import the things we will need. And I think over the long pull the repayment possibilities are considerable through exploiting the mineral resources of the rest of the world.

The CHAIRMAN. We will reverse the committee roll call order in the cross-examination, as a matter of fair play. Senator Lodge?

Senator LODGE. In connection with strategic raw materials it is, of course, true that for them to give us materials in the immediate future would have an adverse effect on their dollar position, but why can they not pledge themselves to repay us over 10, 15 or 20 years? This is a long-time proposition.

Secretary KRUG. Senator, I do not think that at the moment we or anybody else knows what the potentialities for repayment will be in specific periods. I think that if we were to try at this time to fix any formula to that end we might defeat the very purpose we are attempting to achieve, namely, to get their economy going again so that they can take care of themselves.



Senator LODGE. That is not quite what I mean. I want them to get their economy going. I am talking about their paying us back once their economy is going again.

Secretary KRUG. I understood that to be your question, Senator. The point I am making is that I would not know the timing as to when their economy is going to reach a point where they can load upon it an export of raw materials for which they did not get dollar exchange or exchange in kind. That day should come if this program accomplishes its purpose.

Senator LODGE. Would you agree with this, that while the program is limited in its written concept to 4 years that undertakings under it could perfectly well extend for 10, or 15, or 20 years?

Secretary KRUG. Yes.

Senator LODGE. Last Wednesday, Mr. James Boyd, the Director of the Bureau of Mines, made the following statement in an address at the Maryland University, and I quote:

The United States has been consuming its mineral resources at an ever-increasing rate. The United States itself is self-sufficient in only 11 of the most critical industrial minerals. Minerals which we must import from abroad are extremely vital. It is absolutely essential that we accumulate adequate stock piles. Our foreign policies must facilitate the importation of those minerals that we cannot produce in sufficient quantities at home, and must encourage the development of foreign mineral resources for American capital.

Do you agree with Mr. Boyd's statement?

Secretary KRUG. Yes, sir. Completely.

Senator LODGE. Do you think that the provisions of the draft bill—have you read this bill, by the way?

Secretary KRUG. Yes, sir.

Senator LODGE. Do you think that the provisions of it are adequate to accomplish these ends?

Secretary KRUG. I would not want to say that there are not modifications or improvements that might be added. I do not know of any specific arrangements that I would want to see incorporated in the bill. And in discussing this with people who understand the minerals picture I cannot find anyone who knows enough about the mineral supply situation in these other countries, or what they might do, to incorporate features of that kind in a bill at this time.

I think you recall the Herter committee made a study of this and submitted some tables as to what they thought might be obtained from various countries and the areas which were not in short supply. Frankly I do not know where they obtained the information. But we do not have available to us any information that would check those figures.

I think it would be a sad mistake to put any kind of a strait-jacket in this bill other than the general desirability of our arranging for world trade that will bring to this country the material that we need for expanding peacetime economy and to protect against future emergencies.

Senator LODGE. So you would rather leave it up to the Administrator to do it and not try to write it out in too much detail in the bill itself?

Secretary KRUG. That would be my thought, sir.

Senator LODGE. To what nations will this coal go that we are talking about?



(The matter referred to is as follows:)

DEPARTMENT OF THE INTERIOR,  
OFFICE OF THE SECRETARY,  
Washington 25, D. C., January 15, 1948.

COMMITTEE ON FOREIGN RELATIONS, UNITED STATES SENATE.  
(Attention Mr. C. C. O'Day, clerk.)

MY DEAR MR. O'DAY: On page 767 of the transcript of testimony before the Committee on Foreign Relations of Tuesday, January 13, 1948, Senator Lodge asked the Secretary of the Interior a question which was at that time unanswered due to the lack of factual data on hand. The question was as follows:

"Senator LODGE. To what nations will this coal go that we are talking about?"

The answer to this question is as follows:

"Secretary KRUG. I do not have at this time accurate information as to the specific quantities of coal which will go to the individual countries under the Recovery Program. Actually shipments under the program will be made to practically all of the participating countries. The principal coal producing countries of Europe, namely, United Kingdom, western Germany, France, Belgium, and Netherlands, have all set targets which they hope to achieve in their own domestic coal production. Thus, for example, the program contemplates that the United Kingdom will so rehabilitate its own production that it can once again assume its traditional role of supplying not only its own markets but substantially all the other markets of Europe. If the United Kingdom approaches this condition of becoming once again an exporter, shipments of coal to the United Kingdom from this country will be not only stopped but the quantities shipped to the other participating countries from this country will be diminished by the amount of coal which the United Kingdom can export. In 1947 coal was exported in varying amounts to all of the participating countries with the exception of Luxembourg and Turkey."

I would appreciate it if you would have the above answer inserted in the transcript of the testimony.

I have examined the transcript of the testimony which you so kindly forwarded to me and have noted therein a few minor corrections. I am enclosing herewith the copy of this corrected transcript.

N. H. COLLISON,  
*Special Assistant to the Secretary.*

Senator LODGE. While you are looking that up I will save time and ask you another question.

On page 16 of your statement you said, and I quote:

We must protect our soils, forests, and grazing lands by sound programs of conservation and development.

You also made a general and forceful plea for conservation with which of course I am very heartily in accord. Have you enough law on the statute books, and have you got enough money, to do the things you want to do?

Secretary KRUG. We have perhaps too many laws and not enough money.

Senator LODGE. That is just exactly the information that I wanted to have. You are the man to whom we look to preserve the national resources of America, without which this country would not be a great country. If there is something that you need to do your job I wish you would not be bashful about it but come out and tell us.

Secretary KRUG. I would be very happy to come to see you, Senator. There are a lot of things that we need and I think we need them desperately. I have been preaching it now not only for the last year and a half, but for the last 5 years.

Senator LODGE. For example, what do you need?—

Secretary KRUG. We ought to have more money to reforest vast areas of this country that could be forested, and where trees would



grow, and where now the line is marginal. It is now absolutely lying idle.

We need funds and the technical help to survey our resources and materials and to find ways of using the vast marginal deposits which we know about in this country.

We should do something about the erosion of our soil and very little is being done.

We should do something more effective in making use of the water that is now running to the sea. I was looking at some figures this morning. One single hydroelectric project will save 15,000,000 barrels of oil a year. This is just one single project designed to use a resource that now is being wasted.

There are literally hundreds of those in this country.

We should develop the synthetic-liquid-fuels program to find a way to use the shales and lignites that now are unused. There are literally dozens of programs of that kind that I think are vitally needed in the country and are decades behind the time when they should have been started.

Senator LODGE. And that waste is a far greater drain on our resources than any drain contemplated in this program, would you say?

Secretary KRUG. Yes. The loss each year is many times the amount involved here in resources and money.

Senator LODGE. Will you ask Congress for what you need and count on my assistance?

Secretary KRUG. Thank you, sir.

Senator LODGE. On page 18 of the Krug report appears the statement, and I quote:

Our exports of petroleum and its products to Europe cannot be considered as a drain on our national resources.

Surely it must be some sort of a drain.

Secretary KRUG. I think I had in mind, in the period we are talking about, to bring in from the outside more than the amount that we are exporting. In terms of our own supply it really does not constitute a drain. Of course you can always say, "If you brought in more you would buttress your own resources" and you would.

Senator CONNALLY. Right there, may I interrupt, Senator Lodge?

Senator LODGE. Certainly.

Senator CONNALLY. We have always been an importer of oils from Venezuela and other fields of that kind, which we refine here and then export again, have we not?

Secretary KRUG. Yes, sir. The American oil industry got its start by supplying high-grade petroleum products not only in this country but throughout the world.

Senator CONNALLY. Throughout the world?

Secretary KRUG. Yes, sir. These countries have looked to us to do that over a great period of years. They have never provided the refineries on their own to do the job.

Senator CONNALLY. So they have been counting the statistics as exports when as a matter of fact essentially they are not exports, because they are just refined and processed imports that we brought in from other countries. Is that right?

Secretary KRUG. That is the way it is at the moment. Of course initially it was our own crude that was exported in the form of finished



products. But at the present time we have become a net importer. So you can fairly say that the goods we are exporting are processed imports.

Senator CONNALLY. That is all. Thank you.

Senator LODGE. I have one more question, Mr. Secretary, and it bears on the matter we have referred to before, and that is the petroleum shortage here in the United States. In the part of the country where I live we are having one of the worst winters we ever had. There is more snow on the ground than I have ever seen. The petroleum situation is critical. It is just a question of whether we will be able to get through the winter without very serious effects to health and general welfare of the community.

Do the shipments of oil that are contemplated to Europe under this bill have an adverse effect or a direct bearing on the oil shortage that is such a vital thing in the eastern part of this country, and also to the rest of the country?

Secretary KRUG. To be completely frank, Senator, I would have to tell you that as to the shortage, any export of oil adds a little to our dilemma. But if you were not exporting any you would not perceive the difference for any period of time in your situation in New England. That is why I say we must deal with the basic problem, which is getting enough oil to meet our total requirements.

We cannot do that overnight. So the only intermediate step that will help, really two steps are—one, to spread the available supply as best we can, so that the hardship can be shared by all to a limited degree; and the other, by voluntary conservation of petroleum and gasoline.

As you probably know, the petroleum industry has recently undertaken a very large campaign to obtain voluntary conservation of petroleum products. They are planning to spend over \$1,500,000 in the coming calendar year. I think that will help. I am afraid it will not go far enough.

We found out during the war that when we tried out all of those things they helped a little bit, but in the end only one thing worked, and we had to, on a mandatory basis, allocate fuel oil, and subsequently to allocate gasoline.

I hope that the voluntary steps will go far enough to relieve the situation and make that unnecessary. But I think it is extremely doubtful that they will.

Senator LODGE. Admitting that Europe needs a certain amount of petroleum, do you not think that it would be a mistake to seek to develop and increase the European demand for petroleum over and above the normal figure?

Secretary KRUG. Yes; it would be a mistake, and that is one of the advantages of this program, as you will see from the figures that it contemplates that during this period Europe will become virtually independent of the Western Hemisphere with respect to petroleum products by installing its own refineries and by using middle-eastern oil as a raw material. I think that is an essential step. We can no longer become the supplier of exports to the Eastern Hemisphere.

Senator LODGE. Of course there is an element of insecurity in the oil from the Middle East. But that is another question.

Secretary KRUG. In terms of our own aid I am suggesting that in addition to expanding our own resources as fast as we can that we



get busy with synthetic fuels. But the Eastern Hemisphere certainly ought to take care of its own oil supply.

Senator LODGE. I heartily agree with that, and I am glad to hear you say that the time is not far distant when Europe will not be looking to us for petroleum any more, but will be looking to the Middle East, as I understand from what you just told me.

Secretary KRUG. Yes; sir.

Senator CONNALLY. Was not the development of the Middle East primarily to do that very thing—to supply the European market and relieve the United States?

Secretary KRUG. It was. As you probably know, a number of leading American oil companies worked to the end of getting their raw-material supplies from the Middle East and doing the refining over there, rather than using our crude and our refineries to supply Europe.

Senator CONNALLY. It takes care of it two ways; it takes the European market off the backs of the American producer.

Secretary KRUG. Yes; sir.

Senator LODGE. That is all I have.

The CHAIRMAN. Senator Thomas?

Senator THOMAS. Mr. Chairman, I have no questions. I am awfully happy that the Senator from Massachusetts is going to join us in developing Utah and putting her on the map with the conservation program and the development program. But I do think this, and I think we ought to say it: Those of us who have been through the strategic-material program right from the very beginning tried to get it started. We learned that it is a domestic problem and not a foreign problem.

We are going to learn before we get through with this relief program that it is a domestic problem, and not a foreign problem.

The United States is so much against itself whenever we try any kind of development. We have shipping habits that have to be broken down in order to carry out a coal program, the like of which you suggested now.

We have economic habits that have got to be changed.

Just think of the fear that the American people and American industry had of the strategic materials bill when it was first introduced. Remember that it took us not 1 year or 2 years, but it took us nearly 5 years to produce the first bill. And then that came after tremendous opposition on the floor of the Senate.

One of the fine things about this fine program is that you at last see some dreams coming true.

Senator CONNALLY. On the "hot oil" bill—I happened to be chairman of the subcommittee that handled it when I first came here. Just see the changed attitude in regard to conserving our oil resources. Then everything seemed to be so plentiful. And that is not very long ago.

I cannot help but say, Mr. Secretary, that I know your Department is all the time thinking about this, but the mention of your marginal mines, your marginal methods, things of that kind, the uneconomic mines that we have in our country that can be made into economic mines, if we use the products for certain purposes, and use them at the proper time, the whole program is a program based upon knowledge.



That we are starting to think the thing through is the most hopeful sign that anyone has ever seen in the whole history of this country.

Secretary KRUG. Thank you.

The CHAIRMAN. Senator Smith?

Senator SMITH. Mr. Secretary, I was interested in your statement on page 6, where you say, speaking of Europe: "Without coal, recovery is impossible." I agree with that completely, having been to Europe this summer and having had occasion to look into the coal situation.

You go on to indicate that there are certain targets of coal production which are amazing to me. I just want to ask you this question: If our program is based on those targets being attained, are you convinced in your own mind that those targets are possible and will be obtained? And if they are not to be obtained, does our coal export have to be kept up during this period to maintain European production in other lines?

Secretary KRUG. This is mostly a reaction rather than an informed conclusion. But I think their targets are set a little too high, and that in order to do what is contemplated in the program we might have to export in the end a little more coal than is included in these figures. I do think we have enough coal in the picture to take care of that should it develop. I think it is a healthy sign that they have put their targets up where they have something to shoot at and where they do have a job of work cut out for them.

Senator SMITH. I agree with that. I think it is true. I think to have a target is good, but in connection with this whole program there are certain assumptions and we have to check very carefully to be sure we are not doing a little wishful thinking.

Take the English situation, as an example, where you suggest that their production for 1951 is set at 50 million tons above the 1940 goal, which I recall was 200 million tons. That is a tremendous increase over their production, and with their present difficulties I have a little difficulty in seeing how that can be attained, as eager as I am to see such a goal attained.

Secretary KRUG. I think it is a little high. But as you probably know, the British for the first time are going into our methods of strip mining of coal which ought to help greatly in stepping up production. We never would have been able to achieve our goals in this country had it not been for the rapid development of the strip-mining technique.

Senator SMITH. Of course that is true.

The point of my question was simply that you did have in mind that this might be a little oversanguine assumption, and in case it is an oversanguine assumption, there is still enough leeway in your figures not to have the whole program break down, where you say, "Without coal, recovery is impossible."

Secretary KRUG. That is right, sir. I think the committee does have in mind that in all these estimates of need you will have to allow some flexibility in the hands of the Administrator, because you will find some of these targets which they have outlined to be impossible for, perhaps in some cases, reasons beyond their control. Others can be achieved and more, and you will have to adjust within the program with the expectation that you are going to bring the whole thing out with a happy result, although you do not get exactly the quantities in each area that you have now estimated.



Senator SMITH. You are figuring in this whole coal production on a big expansion of the Ruhr, I take it?

Secretary KRUG. Yes, sir.

Senator SMITH. And that means incorporating western Germany into the whole western European economic set-up?

Secretary KRUG. Yes, sir.

Senator SMITH. And the development of German steel production the same way?

Secretary KRUG. I assume western Germany will be treated as any other country in this aid program.

Senator SMITH. That is my own interpretation of it.

When we come to petroleum, which is the other important item that you lay great stress on, I am trying to see where the responsibility is going to be so far as we are concerned in protecting the United States in that respect. My first question is this: Will the Interior Department handle the export controls? I mean to say, is there danger of us exporting too much so far as our own reserves are concerned? And if so, will you be able to say, "So far and no further?" Or will some other Department have that authority?

Secretary KRUG. The Department of Commerce handles all the export controls, and it is my personal view that that is the way it should be done. I think they ought to be in one place. We are looked to as the principal Government agency supplying information and counsel, and while we have had differences I do not look to any great difficulty in getting them to go along in the position that we think is sound.

Senator SMITH. I would expect they would follow your judgment, based on your superior knowledge of the actual situation in petroleum, for example.

Secretary KRUG. They do not always agree with us, but I think we have a fair quarrel with them.

Senator SMITH. Then they are really the watchdogs of the whole control situation?

Secretary KRUG. Mr. Ball just tells me that in petroleum they have taken our recommendation on every case where there has been a dispute.

Senator SMITH. Well, now, Mr. Secretary, I know a number of people in the oil business who do not seem to share the view that there is real danger of a shortage of our oil reserves. Their argument is that every time we begin to approach what appears to be a depletion of reserves, we get to greater depths or we get new oil fields opened up, and we have always found and we always will find that there is practically an unlimited supply of petroleum resources.

I take it from your testimony you do not quite share that view, or perhaps you are more conservative in your presentation of the case so as to be on the safe side.

Secretary KRUG. Frankly, I do not share their view in that respect, but if they are right it is fine, and if they are wrong we should not suffer for it.

Senator SMITH. I think that is a safe position to take. But the thought occurs to me from part of your testimony—I have become quite alarmed over the apparently dangerous situation we are in—



where you get into the whole discussion of the synthetic possibilities, and your statement over here with regard to oil shales, on page 16:

The oil-shale reserves of the United States are estimated as capable of yielding over 90,000,000,000 barrels of crude oil, or about five times our crude-petroleum reserves—

I begin to take heart. You feel that we have areas where we can save ourselves through these other processes that you are suggesting?

Secretary KRUG. If we will. We have in the crust of this country a tremendous storehouse of things that can be used to support our economy. To change from the traditional pattern takes time, it takes experimentation, it takes money, it takes courage. We have always been able to do that in the past. The tempo, however, during the past 20 years has been pretty fast, and I think we must be careful not to get behind the procession.

For example, there are almost unlimited deposits of materials that would make magnesium and aluminum in this country—almost unlimited. And yet it takes a long time to substitute aluminum and magnesium for other materials where the basic supplies are not so plentiful. And I think it is certainly our responsibility to keep pointing this out, so that the people in industry will go ahead with the development work needed to be ready for it.

I think one of the great tragedies of the war was the fact that it ended before we had answered some of the questions that now are not being answered. For example, four experimental plants were built to process low-grade ores into alumina to make aluminum. Those plants were completed at great cost, but no work was done in them because the war ended about that time and no further moneys were appropriated. So we do not know for sure whether those particular plants can process low-grade ores of those particular kinds or not. We ought to find out.

The same with magnesium. We know we can make it. We know what ores will make it. But we have not completed the steps as to how we use it in our manufacturing processes, how we cast it and how we roll it, extrude it; what jobs it will do and what jobs it will not do. Those things ought to be done, so that we can make use of the things we do have in plentiful supply.

Senator SMITH. So you are interested in some applied research in science of that kind?

Secretary KRUG. Yes, sir.

Senator SMITH. You almost persuade me to join the Senator from Massachusetts in saying that the Senator from New Jersey might join him in backing you up in some of these explorations.

The CHAIRMAN. I think we had better recess this session before the sawdust trail gets all worn out.

Senator SMITH. This isn't a sawdust trail; this is just a stimulation of imagination. It is not anything in connection with repentance. It is just the other way. We are just getting a vision of something.

Just one more question, Mr. Chairman, and I will be through.

The bill before us has a stock-pile policy in it. You know what I mean by that.

Secretary KRUG. Yes; I do.

Senator SMITH. Our getting from other countries, possibly in return for the aid we are giving, certain materials that we will stock pile for future use.



Is it the responsibility of the Department of the Interior to estimate in what areas those stock piles should be, what kind of raw materials, and the quantities that it would be advisable to store, or whatever our policy is? You have the responsibility, in other words, of putting the heat on that policy and saying, "Yes; we want more of this," "We want more of that," "We can get this from A country," "We can get this from B country," and so on? Or who will have the responsibility to do it?

Secretary KRUG. I would not call it a responsibility. I am pleased to say we have the opportunity of putting the heat on the people who are primarily concerned; under the present set-up the Army and Navy Munitions Board and the National Security Resources Board have had the primary responsibility. But we are represented on both, and we are in constant touch with their people, urging what areas are critical and what ought to be done, and we have had no difficulty getting complete cooperation from them.

Senator SMITH. I do feel those are areas in which we have a big opportunity.

Secretary KRUG. Yes, indeed.

Senator SMITH. I think there is a great opportunity, and it is a part of this program I am enthusiastic about because it seems to me we have a quid pro quo there that we can very reasonably look forward to in developing the whole plan.

Mr. Chairman, that is all the time I will take.

The CHAIRMAN. Senator Connally?

Senator CONNALLY. Just a little brief comment. I want to approve heartily and congratulate you on your views about synthetic fuels, substitutes for gasoline.

Now, some of the oil people contend, as has been suggested here, the supply of petroleum is unlimited. Well, of course, that is not so. The whole inside of the earth is not oil. Some day it will be depleted or used up. Is it not true that while we have been getting plenty of oil heretofore, the increased use of petroleum is just growing by leaps and bounds in all sorts of new machinery—all these tractors and every kind of thing on earth that is using gasoline? I understand they are using Diesel engines in England to dig coal with, so the coal itself has to fall back on gasoline.

I think your Department will do a great service if it can continue its research on the possibility of these synthetic fuels, because we are going to have to have them—maybe not ourselves, personally, but our great-great-grandchildren or somebody is going to have to fall back on those resources. Is that not true?

Secretary KRUG. That is true, sir.

I want to make clear, if I did not before, that we are not a lone apostle in this program, crying in the wilderness. Industry has been cooperating in it, and one of the great projects for the gassification of coal, for getting liquefaction of coal, is being financed entirely by one of the big coal companies and one of the big oil companies. I think they are planning on putting \$120,000,000 into it. I am having a meeting sometime this month with the leading companies in this field, to see if we cannot get together and work up the maximum program for further experimentation. It is something that must be done, and we are getting some very thorough support from the coal industry and from the oil industry.



Senator CONNALLY. I congratulate you. That includes the whole industry?

Secretary KRUG. Not the whole coal industry; no, sir.

Senator CONNALLY. Its leaders and others, whom you no doubt can think of?

Now, about this shale. You say that the possibility of the production of oil from shale is 5 times as great as our supposedly known reserves?

Secretary KRUG. Our known reserves; yes, sir.

Senator CONNALLY. Is most of this shale capable of strip mining, or would you have to mine it?

Secretary KRUG. That which we are counting on is that which we figure can be mined economically. There are various areas of the country that have shale at lower depths, and we have not added that into this reserve. But even that included in the reserve is shale that is mined, rather than stripped, in many parts of the country. For example, our own operation out in Colorado takes a seam of shale out of the side of a mountain by going in horizontally. And there are vast areas in the West that have deposits of that kind.

Senator CONNALLY. Of course the costs of that would be much greater than for a strip mine.

Secretary KRUG. Yes, sir; although we have found very cheap ways of getting it out of deposits of that kind.

Senator CONNALLY. I believe that is all.

The CHAIRMAN. Senator Wiley?

Senator WILEY. I have no questions. I just want to say it is good, in a program like this, when we are talking about building up Europe, that we have someone like you, sir, to be talking about building up America.

Secretary KRUG. Thank you, Senator.

The CHAIRMAN. You have had a pretty good afternoon here, Mr. Secretary.

Senator HICKENLOOPER, do you want to discuss anything with the Secretary of the Interior?

Senator HICKENLOOPER. Is there anyone else who wants to ask questions?

The CHAIRMAN. No.

Senator HICKENLOOPER. I am the last man on the totem pole here?

The CHAIRMAN. Yes.

Senator HICKENLOOPER. I am sorry, Mr. Chairman, that I was late.

The CHAIRMAN. That is mutual.

Senator HICKENLOOPER. I do not want to plow ground that has already been plowed here.

Senator CONNALLY. It has been pretty well cultivated.

The CHAIRMAN. We have not plowed much ground; we have just been planting orchids.

Senator CONNALLY. Yes.

Senator HICKENLOOPER. I do want to ask a question, too, about this oil situation.

I think Mr. Douglas a couple of days ago said that the needs for petroleum in these participating countries by 1949 will be at the annual rate of somewhere in the neighborhood of 50,000 tons—

Secretary KRUG. I do not recall it on an annual basis. We are talking about the figures on a daily basis. It starts, so far as our require-



ments, at 150,000 barrels a day, and gradually tapers off toward the end of the program.

Senator HICKENLOOPER. There you get me all twisted up on these metric tables and hectares and things like that. I hope we can get down to a common unit of what supplies we are putting in.

Secretary KRUG. You tell me what you want and I will give you that particular figure.

Senator HICKENLOOPER. I asked Ambassador Douglas if these minimum supplies of petroleum of these participating countries were considered to be essential to the success of the so-called Marshall plan or this aid plan. His answer was, "Yes." I asked him where it was anticipated that this oil would come from, and he said, "Largely from the Middle East."

Secretary KRUG. I think 5 or 6 million barrels a year or something like that from the Caribbean area and a substantial amount, perhaps equaling that, from the United States.

Senator HICKENLOOPER. Then I asked him: "Assuming that the sources of oil from the Middle East—Arabia and those countries in there—were not available during the life of this plan, where would the oil come from?"

Now, would you assume that hypothesis, and tell me where the oil would come from if it is essential to the success of this plan?

Secretary KRUG. Yes. At the start of this program part of the oil would come from the United States, part would come from the Middle East, and part would come from the other Western Hemisphere countries, largely South America.

Senator HICKENLOOPER. Now let us get down to my question. Let us assume that we cannot get any appreciable amounts of oil from the Middle East. Where will oil come from?

Secretary KRUG. It would have to come from this country and South America, because there are no other sources of oil open.

Senator HICKENLOOPER. And about what tonnage of oil per year would you anticipate is available from South America under any circumstances for export in connection with this European recovery plan?

Secretary KRUG. I think these figures, Senator, are probably about as good as any we have. I think we are tapping South America now, either for our own requirements or for their needs, or for export, about all we can get out of it, and the figures indicate that for 1946 and 1947—and this is in terms of millions of metric tons—I think you have one of these charts before you there. Look at the center circle, and you find here that the world total requirements for oil are 405,000,000 metric tons, which is the figure marked in the center circle. In that piece of pie at the top of the circle is indicated the requirements of these countries, and you will see there that roughly 9,000,000 metric tons come from the United States, 8,600,000 from the Middle East, and 17,300,000 from other Western Hemisphere countries, largely South America.

By 1951, assuming this program works out as expected, the share from the United States would be down to 2,000,000 metric tons; from other Western Hemisphere countries down to 8,000,000; and the Middle East would be up to 48,000,000. So while at the present time, of the total world supply, the part which goes to these countries is roughly 8 percent, of which we are taking about 25 percent, South America about 50 percent, and the Middle East about 25 percent, by the end of



this period it will have shifted to a point where practically all of it will be coming from the Middle East.

Senator HICKENLOOPER. That is assuming that the Middle East supply continues to be available and increases according to plan.

Secretary KRUG. Yes; and also assumes the oil refining capacity is rehabilitated or built in western Europe to refine the products once you get them from there.

Senator HICKENLOOPER. Well now, first, Mr. Secretary, the whole purpose of my question is, I wonder what is going to happen to our oil reserves if the Middle East supply fails. And I am not so certain that the chances are too good that it is going to be as available as our program here on paper would indicate.

Secretary KRUG. I share your concern, and if the Middle East is denied to the world as a source of oil supply, the other proposals which I have indicated in my statement must be pushed even harder than I have indicated.

Senator HICKENLOOPER. That means the United States, does it not?

Secretary KRUG. Yes, sir; although they relate to other than oil alone. I have proposed the maximum development of synthetic fuels from lignite and from oil shale as well as the use of hydroelectric power to conserve the use of oil.

Senator CONNALLY. We might put an embargo on oil from the United States under this plan, could we not?

Secretary KRUG. At any time under this plan, if our domestic economy is threatened, we can shut off the flow of oil.

Senator HICKENLOOPER. I thoroughly understand that avenue of protection that is open to us. We can shut it off. But I am making certain basic assumptions. One of them is that the Ambassador to Great Britain, who testified here, Mr. Douglas, said that oil in this quantity was essential for the success of the Marshall plan. Now, you take an essential out of the Marshall plan and it will fall.

Secretary KRUG. That is right.

Senator HICKENLOOPER. It is one of the pillars.

Secretary KRUG. If we cannot provide oil to Europe the Marshall plan will fail.

Senator HICKENLOOPER. If we make a moral or other commitment to go through with a program of economic support with certain goals of aiding the European countries to get back on their feet, we certainly have whatever moral commitment or legal commitment or contractual commitment we make, and we are pretty well bound to see it through if they do their part.

Secretary KRUG. Yes, sir.

Senator HICKENLOOPER. All right. If one of the essential pillars of this thing fails, then we have got to dig some place in our own reserves in a very substantial amount to see that we furnish that prop, to see that we support that prop where it failed, and I am wondering whether we ought not to think about what is going to happen to our own oil reserves if we have to dip into them to supplement, or to even replace, if you please, the Middle East oil reserves that we so happily think will be available throughout the proposed life of this plan.

Secretary KRUG. Senator, if the Middle East cannot be counted on to contribute raw materials, crude petroleum, to Europe, then to make the plan work we would have to provide more than is now being planned. If we have to provide more than is now being planned, it



would create serious repercussions here. It could be met, however, if we have the will to make this plan work. We would have to do it through rationing of fuel oil and gasoline in this country.

The CHAIRMAN. May I ask a question?

Senator HICKENLOOPER. Yes, sir.

The CHAIRMAN. If the Middle East supplies are cut off, have you not so totally disrupted the European economy that this plan or no other plan would sustain? Haven't you got to reorient the entire situation at that point?

Secretary KRUG. I think that is right, Senator. I do not know just what the nature of the assumption the Senator had in mind might be. If it is cut off from the factors I have been thinking about, I think we would be in for something far more serious than merely sending this specified quantity of aid to Europe.

Senator HICKENLOOPER. The flow is not quite as vigorous now as we had hoped it would be by this time, is it, from the Middle East?

Secretary KRUG. No, sir; it is not.

Senator HICKENLOOPER. That is what I thought.

Senator CONNALLY. It is there, though.

Secretary KRUG. The oil is there.

Senator CONNALLY. It is a question of getting it out and refining it; is it not? And the people that own it certainly want to sell it at some time or other, and I cannot see any probability of the Near East being out of oil for a long period.

Secretary KRUG. There is no physical problem there at all, Senator. The oil is there in vast reserves.

Senator LODGE. May I ask a question? I would like to direct your attention to this middle circle here of the world requirements. That shows that 8.6 percent of the world oil requirements at the present time are being met by the United States, the Western Hemisphere, and the Middle East. From where are the other 91.4 percent of the needs being met?

Secretary KRUG. Those percentages relate only to the oil used in these particular European countries. The balance of the total reflects oil that is coming from the United States, from Western Hemisphere countries, and from Russia that is being used in other places in the world. In other words, our own consumption here in this total is a very large part of this piece of pie—65 percent of the total.

Senator LODGE. So, taking the rest of the world total, we would take another big piece of that; would we not?

Secretary KRUG. That is right.

Senator HICKENLOOPER. Mr. Secretary, I do not want to pursue this point to burdensome limits unnecessarily, but I have the feeling that if the Middle East oil supply is not available to us there is no other place in the world where we can augment the oil supplies available for this program except the United States. In other words, the other areas of the world that are supplying oil today are not necessarily open to us, with the possible exception of South America.

Secretary KRUG. That is true, but before I can answer that question, Senator, I think you would have to outline to me the circumstances under which the Middle East oil would not be available.

Senator HICKENLOOPER. They are not working there now; are they?

Secretary KRUG. At the moment they are not working on the pipe line.



Senator HICKENLOOPER. That is right. And there isn't any definite date for the resumption of work on the pipe line; is there, that you know of, at this moment?

Secretary KRUG. There is a lot of talk going on at the moment. I think it is mostly talk.

Senator HICKENLOOPER. I do not think it is beyond the realm of sensible consideration as to what might eventuate over there in one way or another, and I am just concerned about our own reserves of our irreplaceable resources here.

Secretary KRUG. The only thing that I can see that would really stop the flow of oil from the Middle East is a situation of war. If you have some other circumstances that would stop it, I just do not know about it.

Senator HICKENLOOPER. I am not discussing methods. I am just concerned with the result of whether or not the oil flow is stopped, and in the pipe-line situation it is certainly stopped at this moment.

Well, I think that answers my question.

The CHAIRMAN. Mr. Secretary, is there any parallel between your report and the Harriman commission report which permits a comparison of the two on any estimates or figures or anything of that character?

Secretary KRUG. I think I can explain it this way, Mr. Chairman: Our report relates primarily to the physical end of the picture—how much of each of these various materials can we produce and are we producing and how are they used. It measures the physical impact of our own domestic demand against our supply and our imports, and presents all the physical statistics.

The Harriman study used that largely as the basic information which it took to apply judgment in the other field, the fiscal field, the field of inflation, the economic field. We did not attempt to do that. So, in effect, our report is the raw material that the Harriman group used in coming to its conclusions.

The CHAIRMAN. So that there is no possibility of a collision between the findings of those two reports?

Secretary KRUG. No, sir. I do not think there are any factors that are not about exactly alike.

The CHAIRMAN. All right, Mr. Secretary. I think that completes our work with you, and we are indebted to you for your appearance.

I will not attempt to add to your bouquets. You have had enough.

Secretary KRUG. Thank you, Mr. Chairman.

The CHAIRMAN. The committee will recess until 10 o'clock tomorrow, when the Secretary of the Treasury will appear.

(Whereupon, at 4:05 p. m., a recess was taken until the following day, Wednesday, January 14, 1948, at 10 a. m.)



## EUROPEAN RECOVERY PROGRAM

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WEDNESDAY, JANUARY 14, 1948

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D. C.*

The committee met at 10 a. m., pursuant to adjournment, in room 318 of the Senate Office Building, Senator Arthur H. Vandenberg (chairman) presiding.

Present: Senators Vandenberg, Capper, Wiley, Smith, Hickenlooper, Lodge, Connally, Thomas of Utah, and Barkley.

Also present: Senators Millikin and Thye; Dr. Frank A. Southard, Jr., Director, Office of International Finance, Treasury Department.

The CHAIRMAN. The committee will come to order.

We are very glad to have with us this morning the distinguished Secretary of the Treasury.

Mr. Snyder, we would be very glad to have you proceed in your own way in the presentation of your comments.

### STATEMENT OF HON. JOHN W. SNYDER, SECRETARY OF THE TREASURY

Secretary SNYDER. Mr. Chairman, I have a prepared statement I would like to read into the record.

The CHAIRMAN. Very well.

Secretary SNYDER. The President, in his message, has laid before you the administration's proposal for a European recovery program and in greater detail the Secretary of State and others have described the need for assistance to Europe and the manner in which, and extent to which, it is recommended that American assistance be given. The financial aspects of the program have been carefully considered by the National Advisory Council on International Monetary and Financial Problems. This is a program for the economic recovery of Europe; it is not merely a relief program. The Council throughout has approached the foreign financial policy issues involved to determine what specific lines of action would most effectively contribute to this basic objective of economic recovery. As Chairman of the Council, I welcome this opportunity to set forth the conclusions reached by the Council and then to comment on the financing of the program.

First, I shall review the principal financial aspects of the program, then say something about the measures which we shall expect the European countries themselves to take, and finally comment briefly on the financing of the aid program.

The first matter which I wish to take up is the question of the form in which aid should be extended to Europe. This assistance should



be provided as a combination of grants-in-aid and loans. The criterion for selecting one or the other form should be the capacity of the participating countries to earn, in the years to come, the dollars which would be needed to pay interest and principal. We must keep in mind that these countries have already incurred an obligation for large annual payments of interest and amortization arising from the dollar loans extended to them over a period of years by the United States Government or the United States private capital market. We should take care not to insist that these countries contract additional dollar debts which will absorb so much of their dollar earnings as to operate to the disadvantage of future trade and private investment. If the entire aid for European countries were to be on a loan basis, it would be practically impossible for them to meet the additional annual charges from their earnings of dollars, even after trade and investment return to normal. The proportion of total aid which can prudently be provided on a loan basis must depend on the estimate of the borrowing country's capacity to repay in dollars and also on the degree of flexibility which can be introduced into the terms of repayment.

The International Bank may be expected to finance part of the capital requirements of the European countries, particularly where they require the financing of permanent additions to their equipment. It does not seem likely, however, that the bank will be able to carry the whole, or even the major part of the program which properly ought to be put on a loan basis. We propose, therefore, that when the Administrator for Economic Cooperation decides, after consulting the National Advisory Council, that it is desirable to extend aid on a credit basis, he will allocate the funds to the Export-Import Bank of Washington, which will then make the loan as directed and on terms specified by the Administrator in consultation with the National Advisory Council. This procedure will enable the Administrator to draw upon the broad experience of the Export-Import Bank in the making of foreign loans. Incidentally, this is one example of the manner in which the National Advisory Council would perform its customary role of coordination of United States foreign financial policy. I shall be glad to describe this role in greater detail if the members of the committee wish me to do so.

The CHAIRMAN. I do not want to interrupt your statement; but just for my information, at that point, if the National Advisory Council, under the terms of the pending proposal, asked the Export-Import Bank to make loans, does the Export-Import Bank have any option in respect to its decision, or is it required to make the loan?

Secretary SNYDER. The National Advisory Council might recommend that they make loans. The final decision is within the Board itself.

The CHAIRMAN. Of the Export-Import Bank?

Secretary SNYDER. That is right.

The CHAIRMAN. There is no change in that status of autonomy of the Export-Import Bank?

Secretary SNYDER. This recommendation here, though, Senator, is in connection with funds that might be provided under this aid program.

The CHAIRMAN. I understand that.



Secretary SNYDER. In that case they would be directed to make the loan, do you not see, with funds provided by the Administrator?

The CHAIRMAN. In other words, they would then become the administering agent of the higher recovery authority.

Secretary SNYDER. That is correct.

Senator CONNALLY. The money would come from the Administrator, would it?

Secretary SNYDER. That is correct. He would allocate the money to the Export-Import Bank. It would not come out of the Export-Import Banks' appropriations.

Senator CONNALLY. Naturally the Advisory Council would have complete authority for the directing of the way it should be done.

Secretary SNYDER. The Administrator would do that in consultation with the National Advisory Council at which time it might be measured against other loans or other commitments being made by other agencies. Such coordination is the purpose of the National Advisory Council.

Senator THOMAS of Utah. Does that mean that the Export-Import Bank is merely a bookkeeper in these affairs?

Secretary SNYDER. In this particular instance they are the bookkeepers, except that they pursue the administration of the loan, and they do bring to bear advice and counsel through their experience. They would have an important advisory part.

The Chairman of the Export-Import Bank sits on the National Advisory Council, so he would have considerable say in the discussion and bring out points that he might well call to the attention of the Administrator and might influence his feeling one way or the other in the light of previous experience in certain details.

Senator THOMAS of Utah. In other words, he may be in a position to keep the Council from making requests of him, may he not?

Secretary SNYDER. He might, if he could convince the Administrator. The Administrator would be the one who would have the final determination.

The CHAIRMAN. Then the Export-Import Bank, in connection with this particular category of loans, has no total independent function?

Secretary SNYDER. It would not have; no, sir. But it is just a matter of trying to keep in a central operation the money that is loaned, United States funds that are loaned outside of the Government.

Senator WILEY. Has there been any break-down, approximately, as to the amount of gifts and the amount of loans?

Secretary SNYDER. No, sir. I do not think that has been prepared, unless you have requested some previous witness to supply it.

Senator WILEY. There is no approximation, either, as to how much of these funds are to be gifts.

Secretary SNYDER. I think Mr. Douglas testified on that, did he not?

The CHAIRMAN. He said that it had been estimated that the loans would range between 20 and 40 percent of the total. Is that a figure to which you do not associate yourself?

Secretary SNYDER. That is generally agreed upon—in that area; yes, sir. But of course actually when it works out it is going to be the Administrator applying the facts as they are, as he approaches each loan. I think it would be difficult to approach any closer than that figure at this time.



The CHAIRMAN. I think that is true. Excuse me, Senator. But inasmuch as Senator Wiley has brought that phase of the matter up at this point, would you rather proceed with your statement and return to this later?

Secretary SNYDER. It is perfectly all right. Whichever you want. We are trying to get the most good out of this.

The CHAIRMAN. All right. Let us pursue it, then.

I think it is of great importance to the congressional estimate of this burden to know whether there is any reasonable justification for a prophecy that from 20 to 40 percent of the \$6,800,000,000 can go in loans.

Secretary SNYDER. Frankly, I would not want to prescribe too narrow an area because it is almost hanging a flag up, that this is what we are expecting.

The CHAIRMAN. Yes, I understand that.

Secretary SNYDER. It may be that with the Administrator getting into the job, when he sits down and pursues further the situation in each country, he may find ways of putting more in loans than presently might be expected would be possible. So I do not want to hang up a limitation there of an amount by making a guess of what part would go into loans and what part into grants-in-aids which is too closely confined because my view might be taken as the objective rather than an estimate of what might be the final result.

The CHAIRMAN. I do not want you to hang up a limitation but I would want you to hang up a floor.

Secretary SNYDER. That is what I am fearful of, of putting a floor there. If we make it too low, they might say "That is all they are expecting to be in loans."

If you put it too high we might be subject to criticism that we overestimated the amount we could loan. It has got to be a wide area because as things stand right at this minute it is going to take much more intimate study to determine exactly what the amount is. Because it is going to be based on their ability to pay, whether it is a loan or not.

The CHAIRMAN. I understand your dilemma in the presence of a question of this sort, Mr. Secretary, and I think you would be very foolish to commit yourself to any definite figure. I quite agree with you that we do not want to mislead the other countries in respect to what would satisfy us in the range of loans.

But the fact remains that it is a tremendously important fundamental, it seems to me, for us to know whether those who have put this plan together—and you are one of the principal ones in respect to its final aspects—whether they have any reason for reliance upon a range such as from 20 to 40 percent, which is a pretty wide range for loans which are loans in the actual sense of the word with the contemplation of repayment.

Secretary SNYDER. Senator, I am fully sympathetic with your position and that of all of you gentlemen, because I know that you would like to know if you appropriate a certain amount of money, how much of this is going to be repayable, probably, and how much will be absolute grant. I know that is important.

But then, when you approach the problem from our side it gets to be a difficult thing. There is a broad range of views. Ours is certainly that we should require repayment in every practical instance, that we



want the proper administration of these funds and we want them to be put to the most effective use, and that we want to restore to the taxpayer the greatest portion of the funds that we can and still carry out the objective of restoring Europe.

So it is a practically impossible task to narrow it down to any figure that is closer than the one which has been given.

The CHAIRMAN. I would be quite content if you were to agree with the figure that has been given, not as a commitment but as an intelligent judgment.

Secretary SNYDER. We have subscribed to that testimony.

The CHAIRMAN. Then you agree, as I understand it now, that there is a reasonable expectation that the loans—using the word in a real sense instead of a fictitious one——

Secretary SNYDER. The repayment loan.

The CHAIRMAN. Yes, that the loans anticipated under this program for the first 15 months would range from 20 to 40 percent of the total?

Secretary SNYDER. We feel like that is a fair estimate, yes, sir.

The CHAIRMAN. That is important because if it was at the low level of 20 percent the repayment would be \$1,300,000,000, which would reduce the net value of this \$6,800,000,000 to \$5,500,000,000. If it went to the upper range of 40 percent it would reduce the net impact of the \$6,800,000,000 to \$4,200,000,000. For a fair consideration of the \$6,800,000,000 I think we are entitled to an educated guess as to whether or not that total will not finally be substantially reduced and with it the burden upon the American Treasury.

Secretary SNYDER. I do not feel so, sir. I just cannot be precise.

I would like to be, because I know that when we are talking to you, we are making an application to you for a line of credit—that is what we are actually doing—and I know in my bank I want people to give me just as accurate information as they possibly can, when I am making a loan. But this is an instance where I want to be perfectly honest with you and fair as to what I present.

At this time I do not think we can get much closer to the amount. But I think that is a fair estimate based on present projection.

The CHAIRMAN. That is all I want to know. As I now understand it you are saying that it is impossible to make anything like a definite prophecy in this loan area. But that in your judgment it is reasonable to anticipate that the loans—using the word in its literal sense—under the \$6,800,000,000 figure, might range between 20 and 40 percent of the total?

Secretary SNYDER. I think so.

Senator WILEY. Mr. Chairman?

The CHAIRMAN. Senator Wiley.

Senator WILEY. Mr. Secretary, this plan now has been under consideration for a matter of 7 months, and the evidence here pretty conclusively shows that conditions in England, France, practically all the European countries, are better; that is, the economic conditions have picked up. It is thought that perhaps this plan or a modification of it will not become law for months to come. It seems to me that if that general tendency continues, or even if the 7 months' basis that we speak of is taken into consideration, outside of the question of food that you ought to be able, or someone ought to be able, to give us a pretty concrete answer as to what loans will be made.



I think that just to say that you are in no position to say what can be reasonably made in the nature of loans is sort of jumping over the fence.

Secretary SNYDER. Senator, these matters under consideration here have been under constant review. This final presentation to you is not bottomed on the situation 7 or 8 months ago when this first started, but when on circumstances existing the program was finally presented to you a comparatively short time ago. It has been under constant review up to that time and the conditions under which we are discussing this are the latest that we can present to you, not those of on 7 or 8 months ago.

Certainly in recent days there has been a betterment of the economic situation in certain of these countries in Europe. But I do not know that conditions are better than they were along in the fall or summer of last year or the summer. I do not know whether they are much better than they were a year ago.

There are certain conditions that are considerably better today than they were a year ago. But there are others that we have to constantly be considering and measuring at all times.

I want you to feel that I, from my personal point of view, and those who have preceded me, feel the same way. We want to give you just as honest an estimate about this as we can. But we do not want to tell you something that we cannot pretty well back up.

Senator WILEY. I appreciate that. But if the very basic stones, you might say, of this whole procedure were worked out months ago there must have been, it seems to me, talk between our folks and those folks over there as to what they could afford to loan, and what they could not afford to borrow. I am trying to get at something concrete.

Our people are very much concerned, as the mail indicates. We have our own problems. We are taking vital materials to give to the folks over there, and I think our people expect us to be just as realistic and practical as possible, regarding the needs of the other folks, without creating in them a perpetual leaning tendency.

So I am wondering when and if the Congress might be able to get something concrete on this subject.

Secretary SNYDER. I am in thorough accord with you, Senator, on what you have said. I know particularly the concern we have in this country because in the Treasury we are dealing with the problem every day. I know the vital importance of keeping our own country strong. So I am just as concerned as you are in trying to make this aid have as little repercussion on our own economy as we possibly can.

Certainly, as we progress in the program, we will try with improvements that take place in Europe, to swing more into loans than into grants-in-aids. There will be a definite charge to the Administrator, that as he approaches these loans, these agreements with the individual countries, he will operate on the basis of up to date conditions. He certainly will not bottom his conclusions on any testimony or figures or discussions earlier than the current time in which he is making the agreement.

And if conditions have bettered why certainly he will take full advantage of the improvement and swing as much of the funds into loans as he can possibly do in carrying out the purpose of the whole aid program.



As the time advances these betterments might take something off at the end of the program that we are talking about. But in these earlier stages—for this particular year, and this particular appropriation that we are discussing now—I think that we can reasonably say that the funds which have been suggested are pretty certain to be needed and that as the European countries progress and develop possibly the funds can be lessened. To the extent that their improvements, the funds they can be taken off at the end of the program.

The CHAIRMAN. Go ahead with your statement, Mr. Secretary.

Senator CONNALLY. I would like to ask a question.

The CHAIRMAN. Senator Connally.

Senator CONNALLY. Will not a great deal depend, Mr. Secretary, on the character of the project? In other words, if it is a permanent capital investment like a new electric light plant you would regard that, of course, probably as a loan and some other project that might be of a different character might be a grant.

Secretary SNYDER. I think that the basic measure must be the ability to repay, but certainly in those capital items they are certainly more likely to have the ability to repay through the earnings of those investments. I would not want to make any line there that this should be made into loans and this into grants-in-aid, because sometimes the whole advancement to the country might well be a loan, if the country is in condition to repay.

Senator CONNALLY. On the other hand it might well be a grant.

Secretary SNYDER. It might well be a grant. I would not want to divide it up.

Senator CONNALLY. Even bankers cannot always forecast which fellow is going to pay his notes and which cannot.

Secretary SNYDER. There have been losses.

The CHAIRMAN. Mr. Secretary, the fact that the criterion which you are setting under this program for loans is the capacity to pay ought to mean that whatever loans you do make are good loans. At least better loans than some of the other loans we have had experience with.

Secretary SNYDER. That would be the guiding principle, I am sure.

The CHAIRMAN. Go ahead.

Secretary SNYDER. It is also important that the American business enterprises be given opportunity to participate in the recovery program by making new investments abroad, or by expanding existing facilities where the program calls for additional capital equipment. In this way they will contribute to the restoration of Europe, while at the same time they will be carrying out their own programs for expansion abroad. But we must recognize that new investments would be made at a time of great uncertainty and that investors may anticipate encountering difficulty in converting their earnings or their original principal into dollars. To facilitate private investment, therefore, it will probably be necessary for the Government to guarantee the convertibility into dollars of local currency earned by the investment or available for the repatriation of the original investment. While we may expect that the participating countries will try to make dollars available, it is possible that they will not have adequate dollars to permit conversion. The Economic Cooperation Administration should not be expected to guarantee American companies making these investments against normal risks, but merely to give them a transfer guaranty. We propose that not more than 5 percent of the funds appro-



priated by Congress for the program should be obligated for these guaranties, and that the guaranties themselves should not exceed the amount of the original investment and should not be extended more than 10 years from the termination of the 4-year program.

Some people have argued that the participating countries should pay for part of the program by using up their gold and dollar assets in the United States, and by liquidating the dollar 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 economic-recovery program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold and dollar balances to a point where they would not have adequate funds to operate smoothly through ordinary commercial and financial channels.

Senator LODGE. You mean the gold and dollar balances held by the governments of those countries or the gold and dollar balances held by the individuals of those countries.

Secretary SNYDER. It is a composite.

Senator LODGE. You put them on the same footing?

Secretary SNYDER. Most of the gold is in the hands of the governments right now.

The CHAIRMAN. Are you going to discuss the question of hoarding gold later in your statement?

Secretary SNYDER. We can discuss it to the extent that you would like for us to and we are in position to.

The CHAIRMAN. It bears upon this question of gold and dollar assets. The charge is made, is it not—and I think even sustained by the Treasury to some extent—that there is a very substantial hoarding of gold and American dollars abroad?

Secretary SNYDER. We have had a great deal of intimation to that extent. There is no actual proof of it. We have taken it for granted that there is, in many instances. The only way to bring that gold out is to get the countries back into operation and to encourage the people to bring it out of hiding because there is no law that could possibly be passed which could make them produce it in Europe.

The CHAIRMAN. We made them produce it in the United States by law, did we not?

Secretary SNYDER. We have a different respect for our Government on the part of our people. This is what has to be rebuilt, and which will be rebuilt in the foreign countries as the countries get back on their feet economically, and it will bring those hidden assets to light.

As the countries improve, the bringing of the hoarded assets to light will lessen the burden on this program.

The CHAIRMAN. I agree with you that we cannot parallel the ability of some of these foreign governments to end gold hoarding by law, as we did, because they have not the comparable stability.

Should not these bilateral contracts, which are to set up the quid pro quo targets, include an obligation to proceed to the maximum practicable degree to bring out hidden gold and hidden dollars?

Secretary SNYDER. I think definitely, yes. And the best procedure to do it is to stabilize their economies. Stabilization restores con-



fidence in the people to bring those hidden assets out. That is what we are asking them to do, what we are requiring them to do. Each one of the countries which we enter into agreements with, will undertake to stabilize its economy at the earliest possible moment, stabilize its budget, improve its tax-collection system, and improve its whole governmental set-up in the fiscal field. That in itself leads right to the greatest encouragement to bring these hidden assets back into play again.

The CHAIRMAN. That is true. But the obligation is expressed as a generality.

Secretary SNYDER. I think it is more than a generality. We are going to try to see to it that as we advance aid to them they are making definite and positive steps toward stabilizing their economies.

The CHAIRMAN. There would be no objection, would there, to underscoring this particular method as one of the things which clearly requires attention?

Secretary SNYDER. In my opinion there would not.

The CHAIRMAN. How about foreign investments in the United States still held by citizens of these 16 participating countries. Is there any information available on that subject?

Secretary SNYDER. We have some information available on that. We think—according to the best statistical information we have on those assets that have been taken—there are about \$4,800,000,000 of foreign-held long-term assets in this country as of June 30, 1947, by the 16 nations involved in this program.

The CHAIRMAN. Of what does that essentially consist?

Secretary SNYDER. It is made up of different types of investment in this country; some stockholdings and bondholdings; and there are certain trust funds that are invested here and things of that sort.

The CHAIRMAN. At one point in our international fiscal relationships an effort was made, as I recall, to get these foreign countries to transfer these foreign assets and available assets abroad for local use; was there not?

Secretary SNYDER. England accomplished that approximately 100 percent. Most of the British-held assets in this country have been turned in to the British Government and the Government has been using the assets for its operations. They have made very effective use of the assets.

The CHAIRMAN. So that this \$4,800,000,000 figure that you suggest would not be dominated by British investments?

Secretary SNYDER. Not dominated, but a great part of it is British investments. But they are held by the Government rather than individuals, now. They have turned their holdings into the Government for control during this period. That is, during the war that they did this.

Senator BARKLEY. With reference to this gold that is hoarded, or supposed to be, is it not impossible for the government to take steps in any country, or to indulge in such private inspection as would reveal the total amount of gold held by the people? If it is hiding or buried underground some place, the government would not be able to find out if there is any hoard. And if there is any, we would have to have policemen on every farm and home to find it.

Secretary SNYDER. And then we might not find it.



Senator BARKLEY. We would have to be there every day and night to see that the fellow did not move it. So it is impossible to find out how much gold there is.

[That being true, the only way to bring it out of hiding is to institute such financial reforms as would make it attractive to the holders of gold or other dollars to bring it out and into circulation.

Secretary SNYDER. That is my belief, Senator. I testified to that effect.

The CHAIRMAN. And this can occur only when the governments are strong enough to institute orders to accomplish the result.

Secretary SNYDER. Of course, with the right type of government.

Senator BARKLEY. But even in that case the government could only assess a penalty against the nonconformance of the citizens with the orders.

Secretary SNYDER. Many of the countries have already done that and still have not been very effective.

Senator BARKLEY. Even in this country the Government cannot go out and dig up the gold if it is hidden. It can penalize the man who has hidden it and refuses to produce it. Fortunately, our people have as a rule obeyed the laws referring to that.

Secretary SNYDER. You remember when the Germans went into France, they instituted about the most severe penalties—threatened penalties—that were ever instituted to try to make the French bring out the gold that we are talking about right now. They were completely ineffective. They even lined people up with firing squads and shot them, put them through various uncomfortable situations trying to get information out of the people as to their neighbors. It was very ineffective.

I think we get back continually to the fact that we have got to encourage the establishment of governmental policies in which the people have respect and which will improve their economies. That will be the best way of attracting the gold out.

But I see no reason for not flagging the problem and bringing it into the discussion, Senator, as you suggested.

Senator LODGE. Taking foreign assets as a whole, you do not want to create the impression, do you, that they are to be a sort of a financial untouchable?

Secretary SNYDER. By no means, Senator. By no means. We are just trying to approach this thing from the viewpoint that we are boiling down to the difference between what the participative countries are able to do themselves and what it is necessary for us to do to get them started back on the road to economic recovery.

Senator LODGE. The impression has been created that the foreign assets in this country and other parts of the world should not be touched, that we ought to leave them alone, that we can tax our own people until we are blue in the face to implement this program, but that we must not touch these foreign assets.

You do not subscribe to that idea, do you?

Secretary SNYDER. I do not subscribe to any untouchability of these funds. It is a question of employing them to the best use to fit into the program that we are trying to aid the participating countries to accomplish.



Senator LODGE. Do you think that all assets held by foreigners who are citizens of these 16 nations should be pledged to the service of the Marshall plan? Put into the service of this plan?

Secretary SNYDER. I do not know if it is feasible to do that. It should be explored, of course, to see if that can be properly worked out.

Senator LODGE. I mean so far as it is feasible.

Secretary SNYDER. I personally see no objection to that being given consideration.

Senator LODGE. I was hoping you would do a little more than saying you saw no objection to giving consideration. I was hoping you would say yes, you thought these foreign assets should be pledged to the service of the Marshall plan just as the American assets are pledged to the service of the Marshall plan. I am just a little disappointed in that.

Secretary SNYDER. By no means. I quite agree with what you said, and I agree that the foreign countries' assets should be pledged to the repayment of the loan the same as the United States assets are being pledged to supply the money. It is the national obligation that is behind this fund which we are going to give them. The taxpayer is providing it.

The nation to whom we are loaning the money should be required to pledge its entire national credit back of the repayment. I quite agree with you on that. But when you get into the individual property of a person I have to give due consideration to the individual situation. That is why I said that I would not be quite ready to state yes, unless they bring out every one of those assets and pledge them. I would certainly have to have a greater understanding of exactly what those assets were, and their availability for pledge.

Senator LODGE. I am not trying to go into the administrative details.

Secretary SNYDER. You and I are in perfect accord in the way you stated it, Senator.

Senator LODGE. Principles and policies is what I am trying to discuss. It seems to me that you just cannot defend either before an American audience or a foreign audience, for that matter, a proposition whereby the people of moderate means in this country are being taxed to support a foreign-aid program which the well-to-do people abroad are not helping to support. I just do not see how you can defend that policy.

Secretary SNYDER. I do not try to defend anything, because I am not proposing such a matter. We have under way a definite study right now in the NAC, as to the most appropriate way of making those funds available to the program. We are in accord. I thought you were asking me specifically to prescribe something at this moment as to how best to use them. That is something that we are definitely giving a great deal of study to, to try to come up to make a proposal that would be workable.

Senator LODGE. I was going to come to the detail later. First of all, I want to come to the broad policy that these foreign assets should be pledged to the service of the Marshall plan just the way the American assets are.



Secretary SNYDER. We have already agreed on that, because we have no specific pledge of individual assets behind the Marshall plan. It is the Nation as a whole that is behind it.

Senator LODGE. You have the whole United States pledged to it?

Secretary SNYDER. That is right. The countries have their whole credit pledged behind the loan, too.

Senator LODGE. Are you satisfied that these countries have really made a rugged, enthusiastic, two-fisted effort to get these assets?

Secretary SNYDER. May I finish the testimony that has a bearing on the question? And then we will continue this discussion. I think it might clarify some of the points that we are bringing up. If that is agreeable, Senator.

Senator LODGE. Certainly.

Secretary SNYDER. I do not want to stop any questioning that you might have.

Senator LODGE. That is all right. I will get another chance to ask you some questions later.

Secretary SNYDER. I do not want to stop any of your questions.

Senator LODGE. You will not stop any of the questions. I am going to ask them no matter what happens.

Secretary SNYDER. I will not attempt to stop them. Let me put it that way.

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 a wise policy for the United States to require European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

Even if these countries could liquidate all of the property owned by their citizens in the United States, they could not pay for more than a small part of the program. We estimate that as of last June 30 the dollar assets held by persons in the recipient countries amounted to about \$4,800,000,000. Of this amount \$1,500,000,000 consisted of direct investments, and a considerable part of the remainder also consists of holdings which would be difficult to liquidate. Some of these assets are already pledged for loans, while for many of the countries involved the amounts held here are negligible.

Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from the United States. We certainly will not object to the governments using these funds. The question of policy for us to decide is the extent to which we can help these countries in obtaining control of these assets.



In the case of unblocked assets, the only way the European governments can get control of them under present circumstances is through the compliance of their citizens with local laws. In fact, a considerable portion of the assets formerly blocked in the United States has been unfrozen as a result of such action. While we do not have exact data on unblocked assets, we believe the amount is comparatively small.

A large part of the blocked assets are still blocked because their owners have not obtained from their own governments the certification that there is no enemy interest in their assets, which is required by the United States Treasury before the assets are unblocked. The National Advisory Council and the executive departments concerned with this matter are giving very careful study to this problem. We hope to reach a final view as to the most satisfactory solution of this problem very shortly, and I should like at that time to appear before you again to outline our program.

That is about the extent to which we deal with the foreign-held assets in this country. Senator, if after that you have some further questions I will try to pursue them further with you.

Senator LODGE. Have you a list of the names and other particulars of the French holders of \$1,500,000,000 of assets in this country?

Secretary SNYDER. What does that represent, Senator, the \$1,500,000,000?

Senator LODGE. I was told the United States Treasury had a list of the names of French holders of \$1,500,000,000 of assets in this country.

Secretary SNYDER. We have a list based on a census in 1941, but it is an unconfirmed list, as of any later date.

Senator LODGE. Are you making any effort to get those people to "kick in" something to help out on this plan?

Secretary SNYDER. You mean on the blocked assets now? Which are we discussing, the blocked assets or the free assets?

Senator LODGE. Either.

Secretary SNYDER. In my testimony I have just said that under the blocked assets we are trying to put those in such position that the holders will come forward and get them certified—the governments of the countries of which they are nationals might have some opportunity to get the use of those funds.

That is the study I have mentioned where we are trying to find some way to come to you and recommend the best way to proceed to make those available for the use of the country in which the national is located to aid in the program.

Senator LODGE. Do you hope that these people will be made to bear a share of this burden equivalent to what the American citizen has to pay?

Secretary SNYDER. By all means; we are certainly in full accord on that.

Senator LODGE. You did not say so. That is why I asked you. I did not understand you to say so.

Secretary SNYDER. I was probably getting into how we were going to do it, rather than the desire to do it. We certainly feel that the people who live in foreign countries and have assets over here should utilize them to the full extent to help out in the redevelopment of their own country. We certainly believe that.



But how we are going to do it is what we are trying to find a way to recommend to you. In some instance it may take congressional action to do it. Do you not see?

Senator LODGE. Do you feel like using all of our proper pressure on these governments so that they will make their own citizens contribute to the operation of this plan?

Secretary SNYDER. I do not think we are going to have so much trouble trying to get the Governments over there to take the steps. It is a matter of how we are going to help them accomplish it.

I think we will find that those countries over there are going to be more than willing and eager to try to make full utilization of those investments that their nations have in this country.

Senator LODGE. Do you not think that a little friendly pressure and words of encouragement from Uncle Sam will have a beneficial effect?

Secretary SNYDER. That is what we are trying to propose to you. Just the minute we can work out a proposal that will be effective we are going to propose that very thing. I said that.

Senator LODGE. Have you—some of the people in your Department must have, I am sure—made a study of the nonenforcement of tax laws in Europe?

Secretary SNYDER. We are thoroughly acquainted with that.

Senator LODGE. You know very well that for centuries over there they did not collect the tax.

Secretary SNYDER. While I was in Europe this past summer I talked with various governments, the officials of the governments, on that very subject, and was pleased with the force with which they were thinking about trying to improve that situation.

Senator LODGE. And if something was done whereby those people in Europe were made to pay their taxes, 95 percent of the people in Europe would share in not running any risk in interfering with any close sentiment of the patriotism or anything. You are not humiliating any country when you say that this little group that has been ducking and dodging and evading their responsibilities for generations in Europe shall be made to kick in.

Secretary SNYDER. We are in thorough accord on that principle. I thought the question you were asking at this time is how are we going to do it.

Senator LODGE. I am going to ask you that. I want to know first of all, do you want to do it?

Secretary SNYDER. We are trying to do it. It is not a matter of whether we want to or not. We are actually working and have been for some weeks to try to find a proper method to propose. It is not a matter of a future "yes, we think we would like to do that." We are actually trying to find the way now.

Senator LODGE. I am glad to hear you say that because in the official document that was sent up here in support of this European recovery program, on page 79, appears this statement which I took to be the official statement of the executive branch in regard to this subject, and I have read it very carefully and I would like to read it into the record:

In addition to their gold and short-term dollar assets the participating countries possess certain long-term dollar assets totaing 4.9 billion dollars according to estimates made in the United States. Only the United Kingdom, Netherlands, Switzerland, and France among the participating countries possess really sizable holdings of such assets. In many instances these assets and their owners are not



known to the foreign governments. In some cases the values have been estimated on the basis of book valuations. Some of the assets are not readily disposable at reasonable prices. The assets provide current income annually to Europe and help to this extent to reduce the balance of payments deficit. In some instances, also, these assets may be important to the continuation of established international business relationships. Any income from the Swiss portion of these properties is not, of course, applicable to the deficits of the other countries.

Now, there is nothing in there that leads anybody to believe that a rugged effort is going to be made to put these assets to the service of this plan. Everything here is an extenuation of the idea of not touching it. Do you see what I mean?

Secretary SNYDER. I think it was a matter, Senator, of causing the countries to liquidate those assets and dispose of them, and then just have the bare dollars left. That has no bearing on your suggestion that we try to marshal the assets to put them behind the Marshall plan program. It is not necessary, a liquidation of them. Let them continue to earn the dollars but have them marshaled as a sort of background and a part of the national backing of the loans that might be made to the respective countries.

I think the intent of that statement was that it might not be wise to force the liquidation of the assets that are held in this country. I think that is the intent behind it.

Senator LODGE. There are two propositions involved in this thing. One is the proposition of classical economics involving dollars and exchange, and the other is the proposition of justice. We have to consider both of them. It certainly is a stark injustice to tax the rank and file of people in one country for this European-aid program, and to let the well-to-do people and the privileged class go free in another country, is it not?

Secretary SNYDER. We are in complete agreement on that.

Senator LODGE. Would you object to including in the bill some language stating that "It is the sense and hope of Congress," or of the United States, "that the recipient government will exert every effort to utilize these assets to the end that the well-to-do people abroad bear their fair share of this enterprise?"

Secretary SNYDER. Perfectly all right. Perfectly all right.

Senator LODGE. In the newspapers you read about these countries being flat and prostrate and you go to the countries and you see the same old class hatred, the same arrogance on the part of a little group. That has always been one of the reasons why the governments have been so weak, because the people that ought to behave themselves and pay attention to business and be unselfish and exert leadership are just thinking of No. 1 all the time. You know what I mean.

Secretary SNYDER. I am perfectly in accord with what you are saying. I thought you were approaching the method.

Senator LODGE. You see them going around in big flashy cars. I will not mention names because it is invidious to do that. But you go to these countries that are supposed to be flat on their backs and in all of those countries there is a group still living on the fat of the land, and I think it is an outrage. Do you agree with me?

Secretary SNYDER. In a restricted area, that is true.

Senator BARKLEY. I would like to ask you this question. Ambassador Douglas testified the other day that one of the losses in annual income to these recipient countries was losses from American investments or foreign investments amounting to billions per year. I assume



that was a net loss, and that in arriving at that net loss all the income derived from any foreign investments still in Europe is taken into consideration.

Assuming that is true, would not the complete liquidation of such assets that now exist and which pay dividends, or from which any income is derived, increase the amount of that net cost beyond the \$2,000,000,000 point to the extent to which income is being received on assets that still exist?

Secretary SNYDER. It would have a direct bearing on it. We know that there are some countries in Europe that have never had a complete balance in their payments on exports and imports alone. They have had certain invisibles that have always made up the difference. These were the income from foreign investments, from their shipping and from their insurance business abroad and things of that sort.

As those disappear it puts the country in a more difficult position to meet its export-import balance of trade.

Senator BARKLEY. Such assets that are not yielding something would be difficult of liquidation.

Secretary SNYDER. A number of those assets are included in these figures.

Senator BARKLEY. Nobody would buy a stock, for instance, that does not pay a dividend, merely because some foreigner owned it.

If you sold all of the 4.8 billion dollars for cash, that cash would be spent and there would be no further income on it. That part of it which is now paying would cease, of course, to be an item of international trade if the assets were liquidated and no income derived; therefore, no credit accrues to the country owning international property.

So it might result in increasing the net loss of the income that these nations derive from foreign investments, might it not?

Secretary SNYDER. As I understand the Senator, he is not advocating the actual liquidation of these assets, but bringing them under control where they can be helpful in the program.

Senator BARKLEY. The only way they can be under control and be helpful is to take the income derived from them.

Secretary SNYDER. That is true. England has done that very effectively. They marshaled all their resources, all their foreign holdings, and they have been using them, using the income, right along.

Senator LODGE. England has required its nationals to convert their dollar holdings into sterling, has she not?

Secretary SNYDER. They have been paid for these holdings, but the Government is holding those assets still. Many of them have not been liquidated. They have been holding them and getting the dollar earnings that the assets bring in.

Senator LODGE. I do not think I understood you. I understand that England has required its citizens to convert their dollar holdings and get sterling in exchange.

Secretary SNYDER. That is true, but the British Government has not liquidated all of them. They have liquidated some of them.

Senator LODGE. Why can't the French Government, the Italian Government, the Greek Government, the Belgian Government, and all the rest of them do precisely the same thing?

Secretary SNYDER. That is exactly what we are trying to come to the suggestion of.



Senator LODGE. Do you think they should do that?

Secretary SNYDER. I do.

Senator LODGE. You do?

Secretary SNYDER. Yes.

Senator LODGE. That is what I am glad to have stated, because it has not been stated before, and Senator Barkley even, I think, thought in terms of the income, did you not, Senator?

Senator BARKLEY. That was part of my question. If you liquidate assets that bring no income, it is very difficult. You have to liquidate them by selling them to somebody. If they do not bring any income, very few people are going to buy them. If you liquidated all of them at face value, you would have \$4,800,000,000 in return for them, and that \$4,800,000,000 would be available in some year for expenditure, but the total income derived from that amount of assets would cease, and would therefore not be an item of international credit thereafter.

Senator LODGE. Of course, I am not suggesting that these foreign assets be liquidated overnight. I do not think you can do that. But is it not true that it is perfectly simple to set up a machinery whereby it can be accomplished over a certain period of time?

Secretary SNYDER. It is not too simple a procedure, Senator.

Senator LODGE. But the British have done it.

Secretary SNYDER. They have not liquidated them, though.

Senator LODGE. They have liquidated some of them.

Secretary SNYDER. They have liquidated some of them, and unfortunately in many instances they suffered great losses by a forced liquidation, and that is the point that I keep trying to bring out, the policy of forced liquidation. If it is a matter of marshalling the assets behind the funds advanced on the Marshall plan, that is something else, with the Government holding those and not forced liquidation. That is what I keep trying to emphasize.

Senator LODGE. But at least this is true, is it not, that in the United Kingdom, there is a feeling, and a justifiable feeling, that all echelons in the population are making a major contribution, bearing their share of the burden; whereas, in a lot of these countries it is a well-known fact that there is a small, bloated, selfish class of people whose assets have been spread all over the place, and that that is a very bad thing for the morale of those countries, and it is a bad thing for the morale over here.

Secretary SNYDER. There is no doubt about that, and we are perfectly in accord with trying to bring that area into support of their own country's operations. We are working on that.

Senator THOMAS of Utah. Before we leave this matter of the use of private investments to help out in this fund, as I understand your testimony a paragraph or so back, Mr. Secretary, it seemed to imply that we are standing now for a complete reversal of the philosophy of the Johnson Act so far as private investments in foreign countries are concerned.

Secretary SNYDER. If we do anything with the private assets that are in this country——

Senator THOMAS of Utah. I do not mean that. I mean the encouragement of the private investors to help with the recovery program.



That means a reversal, as I understood you, of the theory of the Johnson Act, does it not?

Secretary SNYDER. Which theory? I do not recall.

Senator THOMAS of Utah. As I understand the Johnson Act, it is to make it impossible——

Senator BARKLEY. That has been repealed.

Senator THOMAS of Utah. Yes, it has been repealed, but it has been repealed by an act of war, and at the same time I think your statement is the first time that a public official has come out advocating a return to conditions that existed before the Johnson Act became law. Is that true?

Secretary SNYDER. Well, of course, as has just been stated, that act was repealed by Congress, and is no longer effective. We are trying to work out the best approach to this problem that we can, to give every possible assistance that we can to the program, because we do not want to aid beyond what is necessary to bridge the gap between what the countries can do themselves and what is necessary to get them to moving economically.

Senator THOMAS of Utah. Of course that is exactly what we did. There would not have been any Johnson Act if there had not been a First World War. It was in an attempt to use private funds to give aid to foreign countries that brought about what Senator Johnson thought was the necessity for his act. I never favored his act, because I can never conceive of anybody liquidating a debt without borrowing some money somewhere.

Secretary SNYDER. This is not a matter of our advocating that any country confiscate their holdings under an act.

Senator THOMAS of Utah. No, it is straight, out-and-out proper investment, carried out in a proper way. You have to sell to the American people, I suppose, to get money to use in a private way in the recovery program. But do you go as far in your statement as to assume that our country should act as it did after the First World War, and use private funds in exactly the same way as we did before, or are you advocating some sort of limitation on it so that we will not have another Johnson Act?

Secretary SNYDER. We are advocating that each country should marshal every possible asset it has for its own recovery and if there is a national in that country who has great holdings abroad, he should get behind his government.

Senator THOMAS of Utah. That is not the point. I am referring to the use of our own private funds for recovery purposes in foreign countries. That is what the Johnson Act stopped; was it not?

Secretary SNYDER. How are we using our own private funds?

Senator BARKLEY. Back in your paragraph where it seemed to me you advocated private investments.

Secretary SNYDER. Oh, where we are advocating private investments it would be purely a voluntary matter of private corporations and private individuals wanting to invest their money abroad. We would simply be encouraging people to invest to the extent that we would guarantee the convertibility of his earnings from the local currency into dollars.

Senator THOMAS of Utah. That is, then, a complete reversal of the policy which the Johnson Act forced upon us, is it not?



Secretary SNYDER. That we could not encourage foreign investments at all? Yes, I think it is, if that is the case. I see no reason from my personal point of view, why we should not encourage our people to make proper investments in foreign countries—not with the idea of trying to obtain control over the economic situation in those countries, but in the matter of reinforcing our foreign relations and our free trade with the foreign countries.

Senator THOMAS of Utah. Of course, the sales of stock after the last world war were all thought to be legitimate and all thought to be proper, and that is what you expect to do. I am thinking only of the theory, Mr. Secretary. We have got to the place where officially the American Government is suggesting that we will, or do, reverse the theory which was enforced in the Johnson Act.

Secretary SNYDER. I am not trying to reverse any theory or anything of the sort. I am simply stating a conviction before this group here.

Senator THOMAS of Utah. Let us put it this way: If the Johnson Act was the law of the land, you could not advocate what you are advocating.

Secretary SNYDER. But it does not happen to be the law of the land. Congress repealed it.

Senator THOMAS of Utah. Then I think you have reversed the theory of the Johnson Act.

Secretary SNYDER. I did not intend to reverse any theory. I was simply advancing certain views I had.

Senator WILEY. Mr. Secretary, in relation to what has just been discussed as the investment by private investor, if I understand correctly, if this plan should provide for \$6,800,000,000 the first 15 months, then over and above that the Government would be willing to guarantee 5 percent, or \$340,000,000 in private investments.

Secretary SNYDER. No, with regard to the 5 percent part of that total amount, the provision is that no more than 5 percent of the total could be used for that purpose, and it does not say set aside 5 percent; it says that no more than 5 percent can be used.

The Administrator, in making those guarantees, if he made them, would have to restrict the guarantees to 5 percent of the total amount authorized.

Senator WILEY. So that instead of \$6,800,000,000, if 5 percent were guaranteed, it still would be \$6,800,000,000?

Secretary SNYDER. That is correct.

The CHAIRMAN. Before you leave that subject, since we are on it, Mr. Secretary, will you be good enough to turn back to page 2 of your statement, where I find myself perplexed in respect to these guaranties. At the bottom of the second paragraph you say, "The Economic Cooperation Administration should not be expected to guarantee American companies making these investments against normal risks."

Then you say, in the next sentence, "The guaranties themselves should not exceed the amount of the original investment and should not be extended," and so forth.

Is there any connection between the two suggestions that these guaranties should not exceed the amount of the original investment, and that they should cover the amount of the original investment?

Secretary SNYDER. In this sentence: If "X" company makes an investment in a foreign country, and it is forced by conditions to liqui-



date its property in that country, never should the convertibility of the local currency back into dollars exceed what he put in that country. But the investor is not guaranteed that he will get the money out of the property. The guaranty will cover only what he sells the property for in that country under the conditions then existing only the local currency he gets in his hands.

The guaranty is to guarantee the convertibility of that currency back into dollars, and it does not guarantee that he will always sell his property for the amount he invested. It only guarantees that if he sells it, he can convert the proceeds into dollars.

The CHAIRMAN. So the guaranty is purely a guaranty of convertibility?

Secretary SNYDER. It is a transfer guaranty, yes, sir, and that is all. That is solely the extent of it.

The CHAIRMAN. I think it is very important that that should be plain.

Secretary SNYDER. That is absolutely and definitely the limitation on the proposal. It is not to guarantee the success of any project at all. The guaranties would simply provide that if a person invests in a participating country through his own business judgment, the earnings which he gets there in local currencies can be converted to dollars, or that in the final liquidation of his property, whatever he receives on the market in local currencies, he can convert that currency into dollars.

Senator HICKENLOOPER. Suppose it is expropriated. Suppose the Government moves in and just takes it, and says, "We will talk later about what we pay for it"?

Secretary SNYDER. Until he actually got some local currency in his hands through a settlement with the Government or something of that sort, this would not apply. This is only guaranteeing, when he is holding in his hands foreign currencies from his business operations, that we will convert it into dollars.

Senator WILEY. On what basis?

Secretary SNYDER. On the official exchange rate at that time.

Senator WILEY. In other words, if he invested \$1,000,000 in a plant now in France, and the basis at this time is 5 francs to the dollar, and 10 years from now he sold the plant and he got only the equivalent of 5,000,000 francs, but the basis there was 50 francs to the dollar, he would only get the dollars back on the 5,000,000-franc basis.

Secretary SNYDER. This guaranty is only affected by the current rate of the exchange at the time that transaction is made. You see, right now you cannot convert certain currencies into dollars. There is no way of doing it, hardly, at the current rates. The proposal would just guarantee the investor that he could always get back into dollars from the local currencies. It would not be guaranteeing him any exchange profits or anything of that sort.

Senator WILEY. It might not be any guaranty at all, if I understand your proposition.

Take my concrete example. You invest a million dollars in francs today, and let's say the francs are convertible at five to a dollar. You are investing 5,000,000 francs in France today on the present basis of the dollar. But 10 years from now, or 2 years from now, or 6



months from now, the way francs are going, they might be 50 francs to the dollar.

Now then, where is he?

Secretary SNYDER. That gets back to the business judgment of the man making the investment. He has to think those things out himself before he risks money in the foreign country. We are not trying to guarantee profits in any sense. We are only telling him that any time he wants to get out of that country, or get his earnings out of that country, we will see that the funds are convertible into dollars.

It is no guaranty of the business risk whatsoever. The investor has to determine his chances in the particular country for continuation in business. He has to figure that out himself.

It is no guaranty of the exchange rates, either. We simply tell him if we give him such a guaranty that any time he gets local currencies out of the operation of his business we will see that he gets them into dollars, up to the amount of his original investment.

Senator WILEY. It is all right, so long as the business man understands it.

Secretary SNYDER. The Administrator's job is to make it clear to him, if he applies for such a guaranty, that he must know that—that we are not guaranteeing the business judgment of any man, nor the success of his business. That is his business risk which he takes. The only thing is, many businessmen are disturbed that if they operate in the participating countries they cannot get their earnings back into dollars over in this country.

The CHAIRMAN. They are not only disturbed, but that actually is a handicap to many present business operations abroad.

Senator SMITH. I would like to ask one question in this connection.

Mr. Secretary, does this principle apply to any business carried on abroad today?

Secretary SNYDER. Only to those who apply to the Administrator for new investments abroad.

Senator SMITH. In connection with ERP?

Secretary SNYDER. That is correct.

Senator SMITH. I have had the question brought to my attention by the movie producers today, which are circulating their products all over the world. They are getting these foreign currencies and they are blocked from going further unless they can convert them.

Secretary SNYDER. This would only bear on new projects that take place after the plan is set up, and the Administrator is in charge, and he makes the guaranty. It must be something that takes place after that.

Senator SMITH. And this would not apply, then, to the foreign publications that some of us are so anxious to see get into these foreign countries, where they can't convert, like the Readers Digest, Time, and those publications?

Secretary SNYDER. Not unless after this plan is in operation a publishing company wants to go over there and establish a plant. It would then apply to the Administrator for a guaranty under this recovery program. The project has to be something, though, that is helpful in this program.

Senator SMITH. That is what I want to get at. Part, of course, of the helpfulness of the program will be technical publications for tech-



nical advancement. I refer to such a project, for example, as the Herald Tribune, which is published in France at the present time. There is discussion of expanding that and getting it into other countries in the French language, in order that the whole program would be understood.

Would a project of that kind come under this act? We have been studying that in connection with the Voice of American program. It is terribly important that we get some clearance for these people that we are urging to help us in that way.

Secretary SNYDER. I think probably the State Department could give you better testimony on the value they put on that than I, but if it is determined that it is part of the advancement of this program that the company make a further expansion of their plant and it seeks a guaranty from the Administrator, that would fit under the program. But it would have to be determined that it is helpful and part of the program.

Senator SMITH. I want to bring out especially that it does not contemplate anything that is not part of the ERP program, and it has to be approved, then by the ERP Administrator, whoever he may be, before it can come under the relief provisions of this legislation. Is that your thought?

Secretary SNYDER. The test actually gets down to whether or not the Administrator would approve doing it with the funds that he has available, and then if he gets private funds to substitute for the public funds, that is where the guaranty would be used.

He has to determine, No. 1, "Would I approve the expenditure of these funds that are under my control by that country for this project? If I would, then certainly we can substitute a private company who wants to do it, and we will give them a guaranty, within the 5 percent."

Senator SMITH. I see. Thank you very much.

Secretary SNYDER. It will not be possible to obtain all the goods needed for the recovery program in the United States, nor would it be desirable to attempt to do so. Some commodities are in short supply here, and purchasing abroad would leave more available for our own population and would, in many instances reduce the net cost of the program. The needed amounts of food cannot be obtained in the United States. A large percentage of the requirements of grain, fats and oils, meat and other agricultural products can be procured only in other countries of the Western Hemisphere. In this manner we can make it possible for countries in the Western Hemisphere to supply larger amounts of foods and materials to Europe and at the same time maintain essential imports from the United States.

Senator SMITH. Mr. Chairman, might I ask a question at this time?

If that is true, why should not these other countries be asked to extend the credits, rather than we be asked to furnish the dollars?

Secretary SNYDER. To their capacity to do so they should. I think it is contemplated that some \$700,000,000 will be forthcoming in the first months from Western Hemisphere countries.

Senator SMITH. So far as we can do it, we are asking other countries to grant credits where they have the commodities to furnish, rather than that we should pay them dollars for those commodities.

Secretary SNYDER. That is true. They are being asked to participate by two different methods, either by extending credits or by a lower price, which also would be helpful—either way.



Senator SMITH. We have been told, for example, that a very high price is being paid for grain from the Argentine for our dollars, and it is hard for us to understand why that should be the case when there is no reason why they should not cooperate by giving credits for those commodities.

Secretary SNYDER. That is definitely being taken under consideration.

Senator SMITH. Are we going to have a record of those countries and the amounts of credits which they will extend?

Secretary SNYDER. I do not have those data available, except to the extent of the general over-all figure of about \$700,000,000 that is contemplated in this first bill.

Senator SMITH. I recollect that those figures are going to be furnished, as to what these other countries are going to allow credit for.

The CHAIRMAN. My recollection is that the Secretary said the \$700,000,000 was based on historical experience during the past year or two, and that it was expected that the continuing credits would parallel those of previous years. I do not think there is any way that anybody in our Government can set down in anything except as a guess what these other South American countries will do by way of continuing trade balances with Europe.

Senator CONNALLY. Well, Mr. Chairman, it was purely an estimate.

The CHAIRMAN. That is all.

Senator CONNALLY. Nobody knows whether they are going to give anything as yet.

Secretary SNYDER. That is correct. And it will not be known, Senator, until actual negotiations are had with those countries.

Senator SMITH. I realize that. You cannot furnish it now. What I am getting at it that it is part of our plan, so far as possible, to have those countries extend those credits so we are not the only country participating in this over-all European recovery.

Secretary SNYDER. That is definitely true.

Senator SMITH. That is what I wanted to bring out.

The CHAIRMAN. Go ahead, Mr. Secretary.

Secretary SNYDER. It is the opinion, therefore, of the National Advisory Council that the Economic Cooperation Administrator should be authorized to expend funds for the procurement of supplies for the recovery program outside of the United States. This would relieve pressure upon goods and services in short supply in the United States, and would in some instances have the further effect of assisting third countries in maintaining needed imports from the United States. We definitely would not permit the use of dollars to buy goods abroad where the supplies available in the United States at reasonable prices are adequate for our needs as well as for the requirements of foreign countries. In any case, all purchases would be made according to an agreed program, and the administering agency would control the use of the funds appropriated by Congress. In addition to purchases in the Western Hemisphere, there are special instances where it may be in our interest to procure certain essential products in one participating country for delivery to another, making payment in dollars. For example, we might buy steel or coal in one participating country for delivery to another. The dollars which are received would then be used by the supplying country to pay for imports from the United



States, thus reducing the need for direct expenditures by the United States for aid to the supplying country.

Senator HICKENLOOPER. Mr. Chairman, may I ask a question about that last paragraph?

The CHAIRMAN. Yes, indeed.

Senator HICKENLOOPER. I do not follow the reasoning of those last two sentences there, where you suggest, Mr. Secretary, that we take dollars and go into a participating country and buy materials to ship to another participating country, and then you reach the conclusion that that kind of transaction would lessen the requirement for our expenditure of money. It seems to me the dollars come out of our pocket.

Secretary SNYDER. It will not lessen the total amount, but it would lessen the dollars required directly by the supplying country. It would be moving the dollar requirement from one country to another.

The CHAIRMAN. Sort of a revolving fund.

Secretary SNYDER. It is aiding in the reestablishment of the economy of the supplying countries, because it builds up their industries, and at the same time does not require any more dollars from us.

Senator HICKENLOOPER. It would require just as much.

Secretary SNYDER. It might require just as much; yes, sir; but it is a revolving fund that helps each country advance to the best possible advantage.

The CHAIRMAN. All right; go ahead.

Secretary SNYDER. If the recovery program is to be successful adequate measures for the monetary stabilization must be taken promptly and with vigor by the European countries. At the Paris meeting the 16 participating countries undertook "to apply any necessary measures leading to the rapid achievement of internal financial, monetary, and economic stability while maintaining in each country a high level of employment." They have recognized that recovery is not possible as long as inflation continues, and unless production is increased. The measures which should be taken must vary somewhat from country to country, but the general outline is clear. Budgets should be brought into balance rapidly, so that the necessary expenses of government can be met without increasing the public debt and without increasing direct inflationary pressures. In most countries modifications in tax structures and control of expenditures will be needed. As determined steps are taken, the trend toward budgetary balances, increased production, and steadying prices will all interact upon one another to facilitate stabilization.

The Administration proposes that each country receiving aid from the United States shall enter into a separate agreement with this Government, which will cover the terms on which aid will be given. The European signatories will undertake to adopt the financial and monetary measures which are necessary to stabilize their currencies and to maintain and establish proper rates of exchange. These agreements will also cover such matters as cooperation with other countries, the proper use of the goods supplied, and the establishment of a separate account for the local currency equivalent to the aid supplied in the form of grants. Moreover, each country would agree to supply the United States Government with full information about any pertinent aspect of the recovery program and to give a report on the program to its own people. On the basis of the information which the cooperat-



ing countries will give us, and also from the reports of our own missions in these countries, we can be informed about the situation and so be in a position to discuss with the country the measures which it has taken, or ought to take, to contribute to the recovery of Europe and its own stability.

Senator SMITH. Mr. Secretary, might I ask you a question about these agreements? You state here that these countries will undertake to adopt financial and monetary measures which are necessary to stabilize their currency. Does that mean we will write into the agreements with them the measures they are going to take, or they will simply undertake to take necessary measures, which obviously might open the door to a wide divergence of opinion as to what the necessary measures will be?

Secretary SNYDER. Of course, the Secretary of State probably could discuss that more properly because of his foreign-relations responsibility, but personally I doubt if we could be too specific about just what they had to do and the method that they should use, because then we would be taking too active a part—

Senator SMITH. That is what troubles me in that whole concept. When you say, "They will take measures necessary," if that is all the agreement says, you might come into a distinct disagreement with them if they are not succeeding in what measures they are taking and if they are not getting results.

Secretary SNYDER. That will be the measure. If the results are not forthcoming, then it is the continuing responsibility of the Administrator to keep his eye on that loan, and he can slow up his advancements.

The CHAIRMAN. Yes. If we are not getting results, our position would be such that our Administrator can say, "Nothing doing."

Secretary SNYDER. That is the continuing responsibility of the Administrator.

Senator SMITH. I understand that. I think that is the best sanction we have in the whole show. I think that is very true. I was wondering if we were going to try to spell out in these agreements the kind of measures they must take.

The CHAIRMAN. I think the Secretary of State has already testified on it, and I think the answer is that we do not intend to dictate detailed ways and means of reaching results. We do intend, in these bilateral agreements, to describe the results which we require and the continuity of our cooperation is to be contingent upon the continuity of the delivery of the goods under the agreements made.

Secretary SNYDER. That would certainly be my personal attitude, Senator, and I think that is the intent.

Senator SMITH. That was what I thought was the purpose of the thing, but I was not quite clear from this statement here whether we were planning to go into these details.

Senator CONNALLY. The agreement is for the life of the plan, of course. It has to be continuous or it is nothing, isn't that true?

Secretary SNYDER. That is correct.

The CHAIRMAN. And the self-help has got to be continuous in delivering the results of the promised cooperation.

Secretary SNYDER. It has to be progressive; yes, sir.

The CHAIRMAN. Go ahead.



Secretary SNYDER. We have a direct interest in assuring that the aid we provide to Europe makes a maximum contribution to the reduction of inflationary pressures and the restoration of stability. To this end we propose that each participating country will deposit in a special account the local currency equivalent at an agreed rate of exchange to the dollar cost to this Government of the goods supplied through grants-in-aid. These accounts should be drawn upon only for constructive, stabilizing purposes. In many instances it will probably be best either to let the accounts remain idle or to authorize the use of this local currency to effect a net reduction in the Government's debt. There may be instances, however, in which it might also be used for reconstruction or development, or other purposes which would contribute to the increase of production in the country. In the view of the National Advisory Council, such expenditures should be undertaken only in agreement with this Government.

The CHAIRMAN. I just want to interrupt you to make the record clear. At the point where you say these accounts should be drawn upon only for constructive stabilizing purposes, it is my understanding that the accounts may be drawn upon for our internal administrative expenditures.

Secretary SNYDER. That is true. I said "also," not "only," sir. "There may be instances, however, in which it might also be used for reconstruction or development"—oh, you mean up there? You are correct. I am glad you got the record correct. We will have to pay our own operating expenses of our personnel abroad. That is correct.

The CHAIRMAN. All right.

Secretary SNYDER. I wish to make it clear that the National Advisory Council, in considering the financial measures which the European countries should take, had very much in mind the necessity of preserving the spirit of free and friendly cooperation between this Government and the European governments. I am sure this country does not wish to dictate to these friendly countries either the particular measures they should take, or the exact manner in which they should be taken.

The adjustment of some exchange rates may be expected in the course of European recovery. Inflation in Europe in certain instances have given rise to exchange rates which result in an overvaluation of the currencies in relation to the dollar. This state of affairs has tended to hinder the exports of such countries and, at the same time, to make imports relatively cheap in terms of local currency. In some cases countries have resorted to export subsidies, by means of special exchange rates, or have used other measures in conflict with our own long-range international economic program.

The determination of an appropriate exchange rate is a very complex matter, involving the widest range of considerations relating to prices, costs, and balances of payments. The difficulties in setting exchange rates under present conditions are such that, although the rates of some of the participating countries will certainly have to be adjusted, the timing of these adjustments will vary from country to country. Accordingly, it would not be good policy for us to insist upon an across-the-board modification of exchange rates before we extend aid. The revision of rates of individual countries should instead be considered as a part of a developing program of internal



and external stabilization in conjunction with United States assistance. To insure that these revisions will be undertaken where necessary, the recipient countries will be asked to agree that when, in the opinion of the United States Government, their exchange rates are imposing an unjustifiable burden on their balances of payments, they will consult with the International Monetary Fund about revision. Countries which are not members of the Fund would be expected to consult directly with the United States Government. The National Advisory Council is making continual studies of the exchange-rate problem and is the agency directed by Congress to coordinate policy in this matter.

After progress has been made toward internal stabilization in the European countries by balancing budgets, increasing production, and expanding trade, the time will arrive when it may be appropriate to make stabilization loans which would give greater assurance to the people of the participating countries that the stabilization will be permanent. There is greater confidence in the stability of money if there is gold or dollars in the hands of the central bank. At the appropriate point in the program it would be well worth while to give countries this additional assurance by extending a loan to provide monetary reserves. If the loan is given prematurely, the reserves might be dissipated through balance-of-payments deficits. A stabilization loan, to be effective, should come when there is reasonable assurance that the internal situation of the country concerned is satisfactory, and that it will be able to maintain its exchange rate at a stable level for a considerable period of time. It is not likely that this situation will be reached immediately, but it is possible that in the course of 1948, and probably in 1949, some countries will be in a position to use stabilization loans effectively. At the appropriate time Congress may then be requested to appropriate additional funds to be used by the United States Stabilization Fund to make these loans.

Before I conclude my remarks on this phase of the European recovery program, I should like to comment briefly on the amount needed to carry it out. The President has recommended that \$6,800,000,000 be appropriated to support the program during the 15 months ending June 30, 1949. The National Advisory Council has carefully reviewed the procedures which have been used by the interdepartmental committees of experts in arriving at this figure. These procedures involved a critical examination of European needs and of availabilities in the United States and in other major supplying areas, and careful estimates of European dollar income and resources. The National Advisory Council believes that this approach is sound and has concluded that the recommended amount is needed to achieve the objectives of the program.

The CHAIRMAN. Before you leave that paragraph, has the National Advisory Council also studied the Harriman report?

Secretary SNYDER. Yes, sir; we have looked at that report very carefully.

The CHAIRMAN. Where the Harriman report disagrees with the program as officially presented, do I understand that you have umpired the dispute in favor of the State Department already?

Secretary SNYDER. No, sir. You might get together and determine a figure, and someone else might get together and determine on a



figure. What the National Advisory Council has done is to examine the method used for the State Department by the interdepartmental technical committee in arriving at this \$6,800,000,000 figure, observed the manner in which the problems were approached, and concluded that the result is as definite a plan, as scientific a plan, as could be developed at this time. The committees did not accept the figures as presented in the plan by the 16 countries, but they studied it carefully as to conditions there and here, and revised many of them. The approach to arrive at the final figure seemed to us to be as good as could be done and as careful a study as could be made at this time. We are not trying to argue this figure against any other that might be arrived at. We just believe that this was arrived at with proper attention to detail.

The CHAIRMAN. With the understanding that you are discussing the scrupulous methods used in arriving at the figure, I can agree with your statement. If you are underwriting the precise figure which is presented—

Secretary SNYDER. That would be impossible, Senator.

The CHAIRMAN. All right; go ahead.

Secretary SNYDER. But we do think it is a fair figure to be presented and it is as good a figure as you can get for this particular time.

The CHAIRMAN. It is not the same figure at which the Harriman Commission arrives, and their methods were equally scrupulous and equally meticulous, and I assume you have equal respect for their recommendations.

Secretary SNYDER. We have great respect for the people who prepared that report.

The CHAIRMAN. All right; go ahead.

Secretary SNYDER. Finally, I should like to make a brief comment concerning the financing of the program. It would serve no good purpose to ask the European countries to put their own houses in order if we, ourselves, adopted methods which might accentuate inflation in the United States or upset our own economic stability. It is my firm opinion that we should finance the European recovery program within a balanced budget. I am confident that, so long as we pursue a sound fiscal policy, we shall be able to cover the cost of the European recovery program out of current revenues.

The CHAIRMAN. Now, Mr. Secretary, if you will go back once more to this question of guaranteeing investments, there is one further question I want to ask you. This guaranty is not to exceed 5 percent of the appropriation, and as Senator Wiley indicates, that means that the guaranty for the first 15 months is a maximum of \$340,000,000.

Secretary SNYDER. Yes, sir.

The CHAIRMAN. I also understand you to say that that \$340,000,000 is included within the \$6,800,000,000.

Secretary SNYDER. That is correct.

The CHAIRMAN. Therefore, when you start out on this enterprise, inasmuch as these guaranties run for 14 years, I assume that first of all you have to set aside \$340,000,000 out of the \$6,800,000,000 for these purposes.

Secretary SNYDER. That could be approached in two methods. One would be to meet the Government's obligation each year and appropriate enough each year to carry that out, the guaranties; the other



would be by writing into the appropriation bill a no-year provision, so that an amount equal to guaranties outstanding would continue to be available until it was needed or the guaranties expired.

The CHAIRMAN. Nevertheless, if the \$340,000,000 is to definitely and specifically come out of the \$6,800,000,000, until the end of the 14 months you cannot spend that \$340,000,000 for anything else.

Secretary SNYDER. That would be entirely up to the Administrator, sir. He would have to control the amount. He would not necessarily commit the full \$340,000,000 at all. He might go through the first year and make no commitments.

The CHAIRMAN. I quite understand that.

Secretary SNYDER. Yet he would have to measure, because when he makes such a commitment he is relieving some pressure on the amount of money that the Government would have to provide.

The CHAIRMAN. I agree.

Secretary SNYDER. So it is going to be a matter—I don't think he would have to set the whole amount aside; he would have to bear in mind the possible need for it as he went along. But each time that he made such a commitment he would be relieving part of the pressure on the funds that he had to use furnished by the Government.

The CHAIRMAN. That is right. I am agreeing to all that. But still I am getting back to the proposition that in the course of these 15 months he has constantly got to keep at least tentatively in mind the fact that there is a potential commitment of \$340,000,000 out of this appropriation.

Secretary SNYDER. That is correct. As part of his business management, he has got to remember and project. He will be constantly talking with and getting the feel of business, as to whether they are going to establish or expand industries over there. No business concern is going to decide overnight to put a plant in any of these countries. The study of a project by a business concern may be a long-range program of months. So the Administrator will get an indication as to whether or not there is a likelihood of being called upon for such a guaranty, and then he will provide for retaining a certain portion of his funds for that purpose, as that need develops.

The CHAIRMAN. Now I am down to the point where I am somewhat confused. I find that the \$6,800,000,000 is arrived at without any item that I know of, any contingent item, for this guaranty. Is that not true? Is there any item in the \$6,800,000,000 which covers this contingency guaranty?

Secretary SNYDER. This is Dr. Southard, Director of the Office of International Finance. May he answer that?

The CHAIRMAN. Yes, indeed.

Dr. SOUTHARD. The program envisages various kinds of projects, whether electric power plants, oil refineries, or agricultural implement factories, which are the very ones that would be suitable for private investment. We go back to the basic test, that the Administrator would give no guaranties except for projects which he would in any event have to cover in carrying out the program. Therefore we have not needed to make a separate estimate of the particular projects, which would be covered by guaranties.

For example, we have a considerable item for oil refineries. Some of those refineries, we hope, will be carried out by private companies,



through guaranties—by American companies. If they are not willing to act, the refinery program is still to be carried out; it still stands as a part of the total program which will be carried out, therefore, either by loans or by grants. That is why you will not find anywhere any break-down of what is intended to be done over in Europe in particular segments, a sort of reserve to be carried out in given amounts by guaranties.

Secretary SNYDER. If the guaranty is made, the amount required is reduced by that much.

The CHAIRMAN. But the \$6,800,000,000 is reduced as a result.

Secretary SNYDER. It might be. For instance, if the program provides for an oil refinery, and a private company goes in and invests the necessary funds under a guaranty, then the total funds available for expenditures by the Administration are reduced by the amount of the guaranty.

The CHAIRMAN. And also reduces the \$6,800,000,000.

Dr. SOUTHARD. I think, Mr. Chairman, we would be prepared to agree categorically that to the extent that the Administrator makes guaranties in a given year he would then not go ahead and spend the money for other purposes, even though he did not need to use the money in that year to meet guaranties. In other words, he might make guaranties for \$200,000,000 worth of projects in the first 15 months. He might not actually have to spend anything, theoretically, for guaranties, if the transfer situation was a good one. He would then not have the right to go ahead and spend in that fiscal year that \$200,000,000 for the purposes of the program. It is in that sense that the Administrator would save the Treasury money in that 15 months.

The CHAIRMAN. Well, then, as I understand you, the net of it is that to whatever extent the guaranties are given, the \$6,800,000,000 capital investment is reduced; is that correct?

Secretary SNYDER. For expenditures for that purpose; that is right.

Let's put it this way: Suppose the figure in there for refineries—I don't know how much it is—is \$50,000,000, and private company comes along and is willing to build part of that refinery program that costs \$10,000,000. Then the guaranty for the \$10,000,000 would in effect be deducted from the \$50,000,000, and the Administrator would not thereafter be permitted to allocate more than \$4,000,000 for remainder of the oil-refinery program.

The CHAIRMAN. And the \$6,800,000,000 would be reduced by \$10,000,000?

Secretary SNYDER. In effect it would be. At the same time the guaranty would provide for the construction of the facility that is contemplated by the program.

The CHAIRMAN. I quite understand that. I am trying to get at what we get for the \$6,800,000,000, and now I understand that I am correct when I say that to whatever degree these projects are transferred to guaranteed loans the charge against the total \$6,800,000,000 is reduced accordingly.

Dr. SOUTHARD. Yes, sir. We had two purposes in proposing guaranties; first, to reduce the amount of public funds that would have to be used in the program; and, secondly, to encourage American private participation, and the first one means that we must say "yes" to your question.



The CHAIRMAN. Then at that point the potential insurance obligation you have accepted in turn becomes a charge against the \$6,800,000,000.

Secretary SNYDER. That is correct.

The CHAIRMAN. If we are willing to carry our own insurance, as we do in all other departments, we could reduce the \$6,800,000,000 by any amount contained in the potential obligation.

Secretary SNYDER. That would be a potential requirement for an appropriation. It would be an obligation for which funds that would have to be committed in some fashion, or else we would rely each year on an appropriation to be made by the Congress.

The CHAIRMAN. That is what you do in connection with all your other insurance risks.

Secretary SNYDER. Such as what, sir?

The CHAIRMAN. You do not insure the Capitol. If it burns down, you have to go down and build it over again.

Secretary SNYDER. But we are insuring private companies in this case, and not our own property. We are insuring private companies who would want some sort of assurance that funds would be provided. Maybe the company would be perfectly willing to accept the Government's promise that it would make available funds when they became necessary.

The CHAIRMAN. If that isn't good, nothing would be good.

Secretary SNYDER. That would be practically the same as providing an appropriation, Senator, that the Government obligates itself for a 14-year period to supply funds. It would be practically the same as making an appropriation and earmarking the funds for that purpose, would it not?

The CHAIRMAN. I do not know. But somewhere in this transaction it looks as though we had a little elastic on the \$6,800,000,000.

Dr. SOUTHARD. Mr. Chairman, not if that envisages that we would earmark certain funds to be used solely for guaranties, because such an arrangement would mean that if by chance—and we have no way of predicting the reaction of American business—in the course of the first 15 months companies came forward for only a relatively small amount of guaranties, then for lack of the funds the Administrator would be unable to carry out the program.

The CHAIRMAN. I follow you.

Dr. SOUTHARD. For that purpose, until we know that the guaranties have been extended, there is no way of saving money under the program. Then we can really save money by one fiscal device as against another.

The CHAIRMAN. All right. That is just what I am talking about. You envisage one contingency, to which I agree, namely, that if this fund were set aside it would hamper the capital investment available to the Administrator. On the other hand, if the Administrator invests all of his \$6,800,000,000 and then provides to make some guaranties, somebody else is holding the bag.

Secretary SNYDER. He could not do that, because if he has committed his \$6,800,000,000 and the 5 percent is not available, he is limited to 5 percent of the \$6,800,000,000, and if he proceeds to commit himself up to the whole \$6,800,000,000 there are no funds left for guaranties.

The CHAIRMAN. All right. And if he was successful in committing himself up to 5 percent of the first year's appropriation for guaran-



teed investments abroad, he would have \$340,000,000 which he would have transferred from the public charge to the insurance charge.

Secretary SNYDER. That is correct.

The CHAIRMAN. Therefore the \$6,800,000,000 would be reduced by \$340,000,000 plus the potential charge against the insurance.

Secretary SNYDER. It would be reduced in terms of actual expenditure.

The CHAIRMAN. That is right. And the only charge against the reduction is the potential charge of the insurance.

Dr. SOUTHARD. That is exactly right.

The CHAIRMAN. Then, if he succeeded in getting \$340,000,000 worth of private investment, and we were satisfied to carry the insurance ourselves, the appropriation would become \$6,460,000,000 instead of \$6,800,000,000.

Secretary SNYDER. That is something that could be taken into consideration in subsequent steps, if we see in this first period that the Administrator has extended certain guaranties. If you look to the later steps, you might give that idea consideration, because funds to meet the guaranties may not actually be required in the then current circumstances.

The CHAIRMAN. I think we understand each other.

Senator HICKENLOOPER. If you are going to leave this subject, I may say I do not understand what the Secretary means up to this point. Maybe you do. I do not.

The CHAIRMAN. I think I do, but I have no criticism of you for finding it somewhat foggy.

Senator HICKENLOOPER. In other words, you do not take issue with the fogginess of my understanding?

The CHAIRMAN. No, sir.

Secretary SNYDER. We will certainly be more than pleased to make it as clear as possible.

Senator HICKENLOOPER. I am not clear whether the Secretary has clearly answered this question, assuming that the program goes into effect with the \$6,800,000,000 and assuming that at the beginning of the program the full 5 percent of guaranties is made—that is, \$340,000,000. Then do I understand that you are saying, Mr. Secretary, that thereafter, during the 15 months, there is only \$6,460,000,000—

Secretary SNYDER. It is \$6,800,000,000 less the \$340,000,000.

Senator HICKENLOOPER. For total expenditure in the entire program?

Secretary SNYDER. That is correct.

Senator HICKENLOOPER. All right.

Senator THOMAS of Utah. In other words, wherever private funds come in, public funds are reduced.

Secretary SNYDER. Except for the guaranty.

Secretary THOMAS of Utah. Except for the guaranty.

Secretary SNYDER. That is correct.

Senator THOMAS of Utah. Is it a valid premise that money lent or given is completely wasted if it falls far short of the amount needed for the purposes of recovery?

Secretary SNYDER. I do not think so. Of course, we would not want to extend less than we think the program will require. We have found that in banking, that we have to be pretty realistic in loaning money for a project, that we do not underloan. It is just as bad



to underloan as it is to overloan in any project. If you mean that when under changing conditions the money that was originally planned for a project would not be sufficient, the entire matter would be lost, I do not think so. We would have seen how matters were developing. We would have been living with the project constantly to see that the funds were applied properly and that whatever was done was accomplishing a certain definite step toward the ultimate goal that we are planning.

Senator THOMAS of Utah. In other words, your program is flexible enough so that it can flex when conditions change?

Secretary SNYDER. It can flex considerably. If we are talking about reducing the amount that is to be allowed in the middle of this time, I have considerable doubts as to the advisability.

Senator THOMAS of Utah. You would hate to be asked what you are going to do in the fourth year of this program, would you not?

Secretary SNYDER. I definitely would; yes.

Senator THOMAS of Utah. That is my point. In other words, it is a continuing program to meet conditions as the conditions are as you move into the field.

Secretary SNYDER. Without doubt.

Senator THOMAS of Utah. What weight should be given to political and security considerations in passing upon each application for aid?

Secretary SNYDER. What do you mean by that? Do you mean the local political situation? Well, that is a question that I think, again, the Secretary of State should answer. That is a foreign-policy matter which I think he could better approach than I.

Senator THOMAS of Utah. In other words, then, your Advisory Committee would follow the suggestions of the Secretary of State about—

Secretary SNYDER. On strictly foreign-policy matters we would have to be guided by him. We do not want to set up in our National Advisory Council another group on general foreign policy. We stick strictly to the financial side. We must get guidance from the Secretary of State as to the propriety of taking a step that has political implications.

Senator THOMAS of Utah. The Harriman report states that before the second world war few of the European countries could afford to invest more than 10 or 15 percent of their national incomes in capital investment. Some European countries now plan to step up this rate to 20 percent or more. This is the query, Is it possible to carry out such a rate of capital investment?

Secretary SNYDER. I would like to study that one, and try to provide you with the answer. I would not want to give a saddlebag opinion.

Senator THOMAS of Utah. May we have an answer for the record, because these questions are made primarily for the record, Mr. Secretary?

Secretary SNYDER. Yes.

Senator THOMAS of Utah. If not, what effect will there be on the production program? I will leave all of these questions with you.

Secretary SNYDER. Any of those that you supply us, we will try to work up an answer for you.



Senator THOMAS of Utah. What portion of the CEEC program of investments is actually worth while? I think you had better leave an answer formally, if you will. I will give you these questions afterward, Mr. Snyder.

The CHAIRMAN. What do you mean by "worth while"?

Senator THOMAS of Utah. That is what I will leave to the Secretary. The whole point is dealing with futures, and when I say "dealing with futures" I do not mean in a financial way. But so far two of the Secretaries have felt that historical studies are not worth while in drawing conclusions about this great program. Some of us lived through the period between the first world war and the last world war, and we cannot get it out of our systems. To me, for example, memory has a tremendous effect on the kind of questions I ask and the kind of answers I expect.

Secretary SNYDER. I could see a very important bearing of what you are talking about. I can also see what the other Secretaries probably had in mind, that conditions are in a sense unique in Europe right now, and they cannot give too much weight to the historical background. Yet on the other hand I can well see that the historical background of the people themselves, and their traits, might have an important bearing. So it is a question that I can understand. I do not know whether we can answer it or not.

The CHAIRMAN. All I meant was that I should begin to get pretty nervous if you had to have a staff meeting to determine whether you were going to make loans that were not worth while.

Secretary SNYDER. Were you talking about the loans we were going to make?

Senator THOMAS of Utah. Yes.

Secretary SNYDER. Oh, I misunderstood you. I thought you were talking about the self-help part of the program. If it is a loan, I thought we made that perfectly clear, that we are going to attempt to make good loans when we make them. I misunderstood you.

Senator THOMAS of Utah. The CEEC program is based upon the assumptions that as production expands and capital development is undertaken in accordance with the CEEC program, the credits of the western European nations with other countries outside the Western Hemisphere, notably in the Middle and Far East, will expand and can be applied against deficits with the American continent, and the prices of Europe's imports will decline after 1948.

Now, were the CEEC countries justified in making these assumptions, and if in any measure they were not, what would be the effect upon the consolidated deficit of the estimated \$19,600,000,000? Would American assistance under ERP have to be increased or decreased accordingly?

I will let you answer that one.

To what extent is it necessary at this time to project with precision the amount of the total European deficit for the next 4 years? Is it more practical to pin down the deficit of the first year only and allow the deficits of subsequent years to be calculated later? Is it valid to assume that we are concerned with a deficit problem of only 4 years' duration?

Secretary SNYDER. The closer you are to the problem the better the estimate you can get. The first year it would be good. But you have



to be thinking, too, throughout the whole program, and trying to arrive at an estimate of eventualities, that if this succeeds, that will be the result. You can make an estimate, the accuracy of which, of course, will be dependent upon how nearly you estimated the steps to be taken and the effect of their fulfillment. I think it is appropriate that thought should be given to the whole 4 years. But certainly the accuracy of each year will be much better than the 4-year estimate at this time.

Senator THOMAS of Utah. Are the CEEC and Harriman reports justified in the assumptions they have made relative to the financing which can be done by all sources taken into consideration? Exactly what amount of financing may be reasonably expected from other than United States Government sources?

I think you would rather answer that after reading this, Mr. Secretary. We would like a reasoned answer to these, if we can get it.

Some of the CEEC countries, such as Switzerland, may not have a present deficit; others may not have a deficit after 2 or 3 years. Query: Is it feasible to demand of the participating countries that if some of them eventually wipe out their deficits, they should be obliged to furnish their surpluses to other participating countries still burdened by deficits?

Secretary SNYDER. I would like to consult with other departments on that one.

Senator THOMAS of Utah. All right. You see the point there, do you not?

Secretary SNYDER. I see your point quickly.

Senator THOMAS of Utah. If you are going to make this a cooperative movement, how can we accomplish it?

The estimates of the Harriman report place the European deficit with the American Continent at a lower figure than the CEEC estimates, because he in general assumes lower European imports, lower European exports, and higher prices than CEEC does. Is the Harriman report justified in these assumptions?

I will ask you to answer that formally, Mr. Snyder, later.

What steps to date have the CEEC countries taken to reestablish internal financial and economic reforms with a view to fiscal solvency?

Secretary SNYDER. Several of them have taken very positive steps. I think you have followed with a great deal of interest what France has been doing, where they are tightening up on their internal operations very courageously. Other countries are doing the same thing. We have to take up each country and analyze exactly what steps have been taken, but there is definite evidence.

Senator THOMAS. Do you think there is a sincere desire on the part of all 16 governments to rectify their currency troubles?

Secretary SNYDER. I think there is a fair desire on their part. There is an expressed desire. When we get to the individual agreements with them we will have to just determine more accurately as to just how definite they are about wanting to do it. If we find a hesitancy, that will be the time it will develop, because when you begin to put down in black and white what is expected, if there is resistance you can see that there is merely an expressed desire rather than an actual intent. But from all expressions that we have had, and from the tone of the meetings in Paris, there is a real desire to reestablish the stability of Europe.



Senator THOMAS of Utah. They will never get recovery without it, will they?

Secretary SNYDER. No, sir. They have got to have that.

Senator THOMAS of Utah. What is the attitude, or what should the attitude of the United States be, toward the proposal for intra-European multilateral clearing arrangements made by the financial experts in the CEEC report?

Secretary SNYDER. We will prepare you a statement on that. We have given a great deal of consideration to that at our meeting of the International Fund and Bank in London, and we have talked about it a great deal. If you will give me all those questions I will be happy to prepare answers.

(The matter referred to is as follows:)

QUESTIONS RAISED BY THE SENATE COMMITTEE ON FOREIGN RELATIONS AT THE HEARING OF JANUARY 14, 1948, ON THE PROPOSED EUROPEAN RECOVERY PROGRAM AND ANSWERS SUBMITTED BY THE HONORABLE JOHN W. SNYDER, SECRETARY OF THE TREASURY

1. *Questions.*—"The Harriman report states that before the Second World War few of the European countries could afford to invest more than 10 or 15 percent of their national incomes in capital investment. Some European countries now plan to step up this rate to 20 percent or more. Query: (a) Is it possible to carry out such a rate of capital investment? (b) If not, what effect will there be on the production program? (c) What effect will there be on their planned imports and exports? (d) What effect will there be on their consolidated estimated deficit of \$17,000,000,000? Query: (e) What portion of the CEEC program of investments is actually worth while? Query: (f) What portion of the CEEC program of investments is it feasible for the United States to finance?"

QUESTIONS IN ABOVE ORDER OF OCCURRENCE AND ANSWERS

(a) "Is it possible to carry out such a rate of capital investment?"

Among the participating countries, France, the United Kingdom, and the Netherlands have programed the highest rates of new investment in relation to their net national income. The following table shows this relationship as a percent of national income (including net foreign aid) for these countries for the years 1938 and 1946-48. The 1948 figures are based on these countries' own programs, on which their presentations to CEEC were based.

*Estimated percent ratio of net investment to net national income (including net foreign aid) in 1938 and 1946-48*

	1938	1946	1947	1948
France.....	4.5	6.0	9.0	8.0-9.0
United Kingdom.....	6.8	8.5	10.0	<sup>1</sup> 10.0
Netherlands.....	12.0	11.4	12.2	18.1

<sup>1</sup> Percentage believed to be similar to that in 1947.

These figures indicate that France and the U. K. since the war have been able to invest a larger share of their national incomes than before the war. The Netherlands before the war invested a considerably higher proportion of its national income than did France and the U. K. In 1946 and 1947, it is estimated that the Netherlands invested about the same proportion of national income as before the war. The ratio of 18 percent in 1948 and later years may prove difficult to achieve, particularly in the face of a European steel shortage. Experience in 1946 and 1947 has, however, demonstrated the capacity of the Dutch economy to invest at a very high rate without dangerous inflation, despite the fact that Dutch national income is still well below the prewar level.

(b), (c), and (d) "If not, what effect will there be on the production program? What effect will there be on planned imports and exports? What effect will there be on the consolidated estimated deficit of \$17,000,000,000?"



The above would indicate that the over-all size of the investment programs of the CEEC countries which plan the most ambitious investments is not beyond their general economic capabilities. Shortages of certain critical imports such as steel, timber, and certain equipment items will, however, prevent total investment from reaching the levels programed by these and other participating countries. The steel and timber shortages will probably affect particularly housing and shipbuilding. The effect of small reductions in the total investment levels contemplated by the CEEC countries on their production programs is very difficult to measure. The judgment of the executive branch on this matter is reflected in the revisions made in the CEEC production programs and import requirements estimates shown in the commodity reports and country studies submitted to the committee. These revisions are, of course, also reflected in the \$17,000,000,000 figure appearing in the Outline of European Recovery Program submitted to the committee.

(e) "What portion of the CEEC program of investments is actually worth while?"

As the Harriman report stated: "Considering physical destruction, accumulated wartime depreciation and obsolescence, the loss of foreign assets, the change in the price of imports and the growth of population since 1939, an increase in production well above prewar levels is certainly required to make Europe self-sustaining at a reasonable standard of living." An examination of the investment programs submitted by the CEEC countries indicates that in their general outlines they are not only worth while but essential if these countries are to increase production sufficiently to restore adequate living standards and regain self-support by the end of the program. However, the review by the executive branch of the major CEEC investment programs, particularly in the steel industry, in shipbuilding, in petroleum equipment and in agricultural machinery indicated the desirability of reducing or modifying these programs, principally because of the shortage of certain critical imports. These changes are explained in detail in the commodity reports submitted to the committee. As indicated above, the housing programs of the CEEC countries will probably also be curtailed by the necessity of devoting scarce steel and timber to more urgent uses.

(f) "What portion of the CEEC program of investments is it feasible for the United States to finance?"

It is contemplated that United States aid to the participating countries under ERP will be directed to making possible their total economic recovery program, including investment, consumption, and exports at the levels estimated in the reports submitted by the executive branch. Our aid can thus best be viewed as making a marginal but indispensable contribution to each country's total economic program, rather than to its investment program alone.

2. *Question.*—"The CEEC program is based upon the assumptions that as production expands and capital development is undertaken in accordance with the CEEC program, (a) the credits of the western European nations with other countries outside the Western Hemisphere, notably in the Middle and Far East will expand and can be applied against deficits with the American continent, and (b) the prices of Europe's imports will decline after 1948. Query: Were the CEEC countries justified in making these assumptions, and if in any measure they were not, what would be the effect upon the consolidated deficit of the estimated \$19,600,000,000? Would American assistance under ERP have to be increased accordingly or decreased?"

*Answers.*—(a) The CEEC report does not assume (see vol. I, p. 112) that "the credits of the western European nations with other countries outside of the Western Hemisphere, notably in the Middle and Far East \* \* \* can be applied against the deficit with the American Continent." The report estimates that during the years 1948-51 the CEEC countries will incur a deficit of 22.4 billion dollars with the American Continent and will have a surplus of 2.8 billion dollars with other nonparticipating countries. (A deficit of \$240,000,000 in the first year is offset by surpluses in the following years.) The difference between the two figures is 19.6 billion dollars, but the report notes that—

"It will not be possible to offset this surplus [with other nonparticipating countries] against the dollar deficit with the American Continent unless there is a sufficient flow of dollars to other nonparticipating countries" (p. 55).

The report does not attempt to estimate the flow of dollars from the United States to the rest of the world and the receipts of dollars by western Europe from the rest of the world. In fact, it bases the estimate of the dollar deficit of the CEEC countries, "to be dealt with" after financing by the International Bank and other sources (p. 54), on the figure of their deficit with the Western Hemisphere, and not on the figure of their net deficit with the rest of the world.



The United States executive branch adopted the same point of departure—deficit of participating European countries with the Western Hemisphere—for estimating the required volume of dollar financing in the ERP program. The executive branch, however, has not been equally optimistic with regard to the ability of the western European countries to expand their exports to parts of the world outside of the Western Hemisphere.

The United States estimates are that during the period April 1948–June 1952 the ERP countries will incur a deficit with the Western Hemisphere ranging between 19.4 and 23.1 billion dollars, and that their position with the rest of the world will range between a surplus of 0.2 billion and a deficit of 0.9 billion dollars, depending on price developments. For the first 15 months, a deficit of 0.8 billion dollars is estimated. Thus, since the estimates do not assume any substantial surplus of western Europe with other nonparticipating countries in the United States estimates, the problems of offsetting it against the American deficit and of the effect of such offset on American assistance disappear.

Under the assumption adopted both by CEEC and the United States executive branch, it may be said that if the ERP countries were to develop in the latter years of the program a surplus with nonparticipating countries (other than the Western Hemisphere) and receive payment for such surplus in dollars or convertible currencies, the need for American assistance would be diminished accordingly. In any case, however, this is not expected to occur during the first year of the program, during which both the CEEC report and the United States estimates expect that western Europe will incur considerable deficits with nonparticipating countries, both within and outside the Western Hemisphere.

(b) The CEEC report, which was based on July 1, 1947, prices, believed it possible to count on a gradual improvement of Europe's terms of trade and calculated such improvement on the basis: (i) That for exports there will be no change in prices as compared with those ruling at July 1, 1947; (ii) that for imports, prices will be reduced as compared with July 1, 1947; by 7½ percent in 1949, by 10 percent in 1950, and by 12½ percent in 1951. These calculations were based on the fact that the prices of foodstuffs and raw materials (which Europe imports) have risen in excess of the prices of manufactured goods (which Europe exports), and on the expectation that a reversal of this movement might reasonably be expected.

The United States executive branch deemed it reasonable to expect whatever improvement in Europe's terms of trade there may occur, to take place through decreases in both import and export prices, with a more pronounced drop for import than for export prices. A further improvement of Europe's position would result from a reduction of freight rates during the next few years.

The United States executive branch, however, has not believed it possible to count firmly on any such improvements. For this reason, the final deficit is presented as a range between limits defined by favorable and unfavorable price assumptions. The unfavorable assumption consists in computing imports, exports, and freight throughout the period on the basis of present prices which are considerably higher than those prevailing on July 1, 1947.

The differential price adjustment providing for slightly lower prices of imports from Western Hemisphere countries other than the United States is based on the consideration that prices of Argentine grains are expected to decline.

On the basis of these considerations, the procedure adopted in the United States estimate of the balance of payments of the participating countries consists in making all calculations at July 1, 1947, prices, but providing separately for adjustments on the basis of "high" and "low" price assumptions. (See Outline of European Recovery Program, p. 93.)

To the extent that the actual movement of prices falls outside of this range, corresponding adjustments in the program would be necessary.

3. *Question.*—To what extent is it necessary at this time to project with precision the amount of the total European deficit for the next 4 years? Is it more practical to pin down the deficit of the first year only and allow the deficits of subsequent years to be calculated later? Is it valid to assume that we are concerned with a deficit problem of only 4 years' duration?

*Answer.*—It is impossible to "project with precision" the actual amount of the deficit of the participating countries over a 4-year period. Levels of production, import requirements, export availabilities, and prices cannot be estimated accurately so far ahead. Developments impossible to predict such as weather conditions will affect the deficit substantially.

It is not possible, however, to disregard the deficit of the participating countries after June 30, 1949. There must be reasonable assurance that the size



of the deficit will decline. This is essential in order to permit Europe to become self-supporting and to insure that extraordinary United States assistance will no longer be required after a reasonable period of time.

The executive branch has estimated balance of payments deficits of the participating countries with the Western Hemisphere as follows:

[Billions of dollars, prices as of July 1, 1947]

Apr. 1, 1948, to June 30, 1949-----	8.5
Fiscal year 1950-----	5.1 to 5.6
Fiscal year 1951-----	3.5 to 4.4
Fiscal year 1952-----	2.4 to 3.6

The consistent reduction in the western European deficit reflected in these figures depends primarily upon an expansion in European production and the resulting increase in exports. The lower range of estimates reflects in addition an assumption of change in the terms of trade favorable to Europe. If prices decline to more normal levels, the prices of foods and raw materials, which are the main component of Europe's imports, may be expected to decline more rapidly than the prices of manufactured goods, which are the main component of Europe's exports.

Some among the participating countries will in all probability have balance-of-payments deficits with the Western Hemisphere after 1952. Given restoration of European production and trade, however, it is believed that such deficits will be reduced to levels capable of being met through normal channels of financing through such institutions as the International Bank and through balance-of-payments surpluses with other areas of the world to the extent they can be converted into dollars.

It should be borne in mind that, by 1952, agricultural and industrial rehabilitation in Europe and some measure of reestablishment of Europe's shipping and other sources of income should have been achieved. A reduction will then be possible in the share of Europe's production devoted to capital investment and to the necessary replenishment of inventories of consumers goods. This will release productive resources both for export and for a general improvement in the European standard of living. The import requirements of Europe cannot be expected to decline substantially. In prewar years, the physical volume of imports moving into Europe was higher than the essential import requirements which have been estimated for any of the next 4 years.

The achievement of a position which can be sustained without special outside assistance is in the long run dependent on the restoration and expansion of channels of trade to permit the marketing of European products elsewhere in the world, and the earning by Europe, directly or indirectly, of additional dollars. In particular, world economic conditions must permit the importation of substantial quantities of European products into the United States and other countries of the Western Hemisphere. It is, therefore, a continuing expansion of world trade that holds the promise of a satisfactory long-run solution of the European balance-of-payment problem.

4. *Question.*—Are the CEEC and Harriman reports justified in the assumptions they have made relative to the financing which can be done by all sources taken into consideration? Exactly what amount of financing may be reasonably expected from other than United States Government sources?

*Answer.*—The CEEC report contains a figure of \$920,000,000 for the first year for possible financing from sources other than the United States Government. This, however, is not an estimate of the maximum financing which could be obtained from such sources as the International Bank and private investors but rather the amount of capital equipment in the first year of the program which, it was believed, would be most eligible for outside financing. The CEEC report made no attempt to evaluate the considerations which would determine the extent to which the International Bank or private investors might be prepared to finance such equipment purchases.

The Harriman report, on the basis of preliminary information, estimated the total amount of financing from sources other than the United States Government at something in excess of a billion dollars for the first year of the program. In the report, financing from the International Bank and private investors, from Canada and Latin American countries is estimated at 1.1 billion to 1.3 billion dollars. It is also suggested that if no assistance were forthcoming under the Marshall plan, private investment would be negligible for 1948, advances from the World Bank and Fund would total \$400,000,000 and



forced liquidation of foreign assets, including newly mined gold, would total 1.1 billion dollars.

On the basis of more recent information and on the assumption that a reasonable amount of assistance is forthcoming under the European recovery program, it would appear that some private investment would be made and that liquidation of foreign dollar assets including gold would be largely avoided.

The executive branch estimate of \$1,285,000,000 for financing from sources other than new United States Government funds is reasonably close to the total figure presented in the Harriman report, though the composition differs somewhat. The executive branch estimate contains a figure of \$700,000,000 as the contribution from Canada and the Latin-American countries on the assumption that these countries are cooperating fully in the program. The Harriman report does not contain a specific figure for financing to be expected from this source. The Harriman report contains a figure of \$400,000,000 for financing from the International Bank and Fund on the assumption that no Marshall plan assistance is forthcoming, but this is not strictly comparable with the executive branch estimate of \$500,000,000 believed to be a reasonable estimate of financing from the International Bank, private investors, and undisbursed balances of existing Export-Import Bank commitments. Moreover, the authorization request of the executive branch provides for possible private investments with Government transfer guaranties up to \$340,000,000 (5 percent of 6.8 billion dollars), covered by an equivalent amount set aside out of the 6.8 billion dollars.

Everything considered outside financing may be expected in amount somewhat in excess of a billion dollars but it is difficult to make any precise estimates as to the individual components of this figure.

5. *Question*.—"Some of the CEEC countries, such as Switzerland, may not have a present deficit; others may not have a deficit after 2 or 3 years. Query: Is it feasible to demand of the participating countries that if some of them eventually wipe out their deficits, they should be obliged to furnish their surpluses to other participating countries still burdened by deficits?"

*Answer*.—In calculating the total net deficit of the participating countries with the Western Hemisphere countries for any period, these countries have been treated as a unit. Thus, the projected surplus realized on balance by countries in the group in any period with the Western Hemisphere have been subtracted from the projected deficit incurred on balance by other countries in the group with the Western Hemisphere in any period. Implicit in this method is the assumption that the surpluses of the countries in the group with the Western Hemisphere will be made available to finance to that extent the gross deficit of the other CEEC countries with the Western Hemisphere.

6. *Question*.—"The estimates of the Harriman report place the European deficit with the American continent at a lower figure than the CEEC estimates, because he in general assumes lower European imports, lower European exports, and higher prices than CEEC does. Is the Harriman report justified in these assumptions?"

*Answer*.—The Harriman committee estimates as compared with the CEEC estimates show lower imports into western Europe from the Western Hemisphere, primarily because they are based on the assumption of lower availabilities for exports from the United States, Canada, and South America. In line with the lower imports into western Europe, the Harriman committee shows lower exports than CEEC.

More recent studies by the executive branch have shown that an upward revision of the Harriman committee estimates is possible in view of expected higher availabilities from the Western Hemisphere. Correspondingly, the executive branch assumes higher exports from Europe to the American Continent.

A comparison of imports and exports of the participating countries with the Western Hemisphere for the first year of the recovery program is shown below (see also "Outline of European Recovery Program," p. 100):

	CEEC, 1948	Harriman committee		Executive branch, fiscal 1948-49
		Low available, 1948	High available, 1948	
Imports.....	9,165	7,310	8,460	8,695
Exports.....	2,159	1,800	2,160	2,382



The Harriman report was written later than the CEEC report, and hence assumes higher import prices than the CEEC, in line with current price trends.

7. *Question.*—What steps to date have the CEEC countries taken to establish internal financial and economic reforms with a view to fiscal solvency?

*Answer.* In the general report to the Paris Conference the 16 participating countries stated that the "success of [their] program depends on internal economic, financial, and monetary stability being restored, or maintained" (CEEC report, vol. I, p. 26). Twelve participating countries issued separate declarations to the Conference on the internal financial and economic reforms undertaken or contemplated (CEEC report, vol. II, pp. 461-524).

Since the Paris Conference, efforts at attaining budgetary balance and at reducing inflationary pressures in general have been intensified as is shown by the following survey of the measures taken by the principal countries affected by these problems. This survey describes the extent to which the participating countries are at present attempting to help themselves. It is recognized, however, that one important condition for the attainment of complete and lasting internal stability is an adequate recovery of agricultural and industrial production. This recovery, in turn, depends on foreign assistance in financing imports of essential food stuffs, raw materials, and industrial equipment.

Further data on the fiscal and monetary situation of all participating countries can be found in the country studies which have been submitted to the committee.

#### AUSTRIA

In its declaration to CEEC, the Austrian Government expressed its firm resolution "to undertake as soon as possible a final monetary reform." In accordance with that declaration, the law for the protection of the currency was passed on November 19, 1947. This law, in force since December 10, 1947, provides for the exchange of all circulating currency at the rate of 1 new schilling for 3 old ones, the transfer to the Government of part of the bank deposits blocked as a result of the first currency reform of December 1945, and the conversion of the remaining bank deposits created before December 1945 into 2 percent Government bonds. The reduction in currency and the deposits transferred to the Government are used for reducing the Government debt to the national bank. It is estimated that this reform will reduce the bank note circulation from 6.2 billion schillings (\$620,000,000) to 2.7 billion schillings (\$270,000,000), bank deposits from 15.1 billion schillings (\$1,510,000,000) to 5.1 billion schillings (\$510,000,000), and the Government debt to the national bank from 12.3 billion schillings (\$230,000,000) to a small fraction of that amount.

The Government has submitted to Parliament the ordinary budget for the calendar year 1948, which provides for ordinary expenditures of 5.1 billion schillings (\$510,000,000) and ordinary revenues of 5.3 billion schillings (\$530,000,000), thus providing a small surplus; these figures include both public administration and state enterprises, the most important of which are the state railroads. Extraordinary expenditures for reconstruction and development are estimated at 0.8 billion schillings (\$80,000,000). Proceeds from the sale of goods sent to Austria under relief and reconstruction grants and credits are not included in ordinary revenues, but are used either for meeting that part of the extraordinary expenditures that is not covered by the surplus of the ordinary budget, or for further reducing the Government debt to the national bank.

#### BELGIUM

In December 1947 the Belgian Minister for the Budget submitted to the Cabinet Council a budget proposal for 1948, in which it was anticipated that approximately 10 percent of total governmental expenditures would remain uncovered by tax revenues. Although the Government does not expect to achieve a balanced budget in 1948, the amount of the estimated deficit represents considerable progress in that direction. Compared with actual deficits of about 35,000,000,000 francs in 1945 and 12,000,000,000 in 1946, and with an expected deficit of 8,000,000,000 in 1947 (the actual figure is not yet available), the deficit for 1948 is expected to be in the neighborhood of 7,000,000,000 francs. This figure is less than about 4 percent of the total money supply (bank deposits plus currency in circulation) as of mid-1947; it does not, therefore, represent a serious inflationary force.

Reduction of the deficit may be attributed partly to a change made in August 1947 in the system of governmental subsidies. Direct production and import



subsidies, which had served to hold down the cost of foodstuffs for all members of the population, were abolished, and in their place was substituted a system of allowances for persons in the lower income groups (so defined as to include more than half the population). At the time this measure was introduced, the Government estimated that its saving would amount to about 5.5 billion francs in 1 year.

The inflationary impact of the budget deficit depends partly on the manner in which it is financed. In order to induce the general public to contribute a substantial portion of the needed funds, the Government on December 1, 1947, began the sale of a first series of lottery bonds, totaling 3.5 billion francs. These bonds are denominated in units of 1,000 francs (approximately \$23), and will be redeemed within 15 years. Weekly drawings for redemption will be made and prizes will range from 1 to 5 million francs. During the first 10 years, while prize drawings are being made, the bonds will bear interest at the rate of 2 percent; during the remaining 5 years, after the prizes are discontinued, they will bear 5 percent interest. The effective cost of the borrowing, as the result of all these provisions, will be over 5 percent, which is somewhat higher than the present market rate. The willingness of the Government to pay more than the going rate, as well as the great effort made to render the scheme attractive, indicate its determination to finance as large a part of the deficit as possible without inflationary effect.

#### FRANCE

In its declaration to CEEC the French Government proclaimed its intention to carry out a comprehensive fiscal reform, to put an end to financing itself through advances from the Bank of France, and to keep investment expenditures strictly within the limits of (a) the proceeds of internal loans, and (b) the franc proceeds of foreign assistance.

A program, largely inspired by the French commitment to CEEC, was proposed by the Ramadier government before the November cabinet change. On the expenditure side, it called for—

(1) A program of administrative economies and reductions in Government employment, based largely on the work of the "Committee of the Guillotine";

(2) The elimination of subsidies whose inflationary effect through increased budgetary deficits, it was felt, had been gradually outweighing their value in retarding price and wage rises. This part of the program was carried out immediately; and

(3) The complete elimination of the practice of financing uncovered Treasury needs through advances from the Bank of France.

On the receipts side, the program called for a comprehensive fiscal reform whose main objective was to simplify the antiquated French tax system, to put all direct taxes on a pay-as-you-go basis, and to provide for effective and centralized control of the hitherto weak procedure of collection.

The program has had a logical complement in a policy aimed at restricting private bank credit through raising of the discount rate, quantitative limitation of the volume of credit, and measures intended to channel available credit away from speculative and other nonproductive uses and into priority sectors of the economy.

This program led to an immediate strengthening of the franc. But in November the Communist-inspired strike wave further increased the magnitude of both the economic and financial problems. After having successfully overcome the immediate threat to social and political stability, the Schuman government proposed the most drastic tax and economy measures any French Government has taken since liberation to achieve economic and financial stability. France's budget for 1948—already in effect since the French fiscal year corresponds to the calendar year—incorporates the principles foreshadowed in the French report to CEEC and elaborated in the October program. The over-all civil budget is to be cut 10 percent compared with 1947 in spite of price rises. There has been a beginning of tax reform and some increased indirect taxation. In addition, the budget provides for a special, and admittedly "brutal," levy on all 1947 profits and on most 1947 incomes of over 750,000 francs (\$6,300). This is to be paid at the taxpayer's option either as a tax or as subscription to a new 10-year loan issue. The proceeds from this special levy are to be earmarked for reconstruction expenditure.

Aside from the elimination of subsidies and various economy measures, expenditures have been reduced by downward revisions of reconstruction expenditures. Forty percent of total public investments programed under the Monnet plan were blocked in 1947.



In a recent report the so-called commission of the balance sheet, headed by Jean Monnet, has attempted to estimate the probable excess in 1948 of demands for consumption and investment purposes over available resources. Pointing out that such an excess of demands cannot possibly be met, the report states that the resulting necessary sacrifices are only "sacrifices of illusions."

In its recent actions the Schuman government has undertaken to impose these sacrifices consciously rather than to let them be worked out by the blind forces of inflation.

## GREECE

The Government has submitted to Parliament the budget for the 15 months ending June 30, 1948, which provides for total revenues of 2.75 trillion drachmae (around \$320,000,000 on the basis of the present effective rate of exchange) and total expenditures of 2.96 trillion drachmae (around \$340,000,000). These figures exclude contributions and expenditures under the United States aid program, but include estimated receipts from proposed new and increased taxes. The latter include a tax on profits made in connection with the change in the value of the drachma. The tax reform is based upon the principle that tax increases should wherever possible fall on those that are best able to bear the burden and that small planned price increases resulting from new taxes are preferable to a large and uncontrollable rise in prices caused by the inflationary consequences of a budget deficit.

## ITALY

In its declaration on financial policy to CEEC, the Italian Government recognized that reestablishment of complete confidence in the currency is an essential element of economic recovery. In accordance with this declaration, the Italian Government has recently taken a series of measures designed to curb inflation.

One of the most effective steps proved to be the quantitative restriction of bank credit. In September 1947 all banks were required to deposit with the Bank of Italy or invest in Government bonds 20 percent of their deposits in excess of 10 times bank capital and reserves or 15 percent of their total deposits, whichever is smaller. Banks were also required to deposit or invest in Government bonds 40 percent of any increase in deposits subsequent to September 30, 1947. Not more than 25 percent of total deposits are to be held as reserves in this way. The effect of these credit restrictions was reinforced by the capital levy which had been enacted by the Government in May. The result was a shortage of cash which forced business firms to liquidate merchandise stocks and hoarded foreign exchange. The price decline of recent months can be largely explained in these terms.

Government revenues have also improved. In recent months tax revenue has increased steadily at a greater rate than the rise in prices and production. In addition to the capital levy, rate increases of taxes on sugar, gasoline, and tobacco, and of general sales tax were decreed in November and are expected to yield 90 billion lire. Public expenditures have been reduced by cutting railway and postal subsidies. The provisional budget for the fiscal year 1947-48 estimates the budget deficit at 311 billion lire, against the deficit of 580 billion lire incurred in 1946-47. This deficit corresponds to extraordinary reconstruction expenditures, and can presumably be financed by internal loans and the lira proceeds of foreign loans, i. e., without recourse to the Bank of Italy.

To strengthen the legal barriers against inflationary public finance, the Government has decreed (1) that no increase in expenditure can be authorized until a corresponding increase in revenue has been found; and (2) that a special law is required to authorize the Bank of Italy to make advances to the Italian Treasury.

Despite the initial success of Budget Minister Einaudi's anti-inflationary policy, stabilization will pose a continuing problem in Italy because of the pressures on the Government to provide work for the unemployed, to improve agricultural conditions, and to help in the further industrialization of the country.

## NETHERLANDS

Revised estimates of the 1947 Netherlands budget indicates that less than 50 percent of total expenditures were covered by tax revenues; in the 1948 budget proposal this proportion has been raised to 60 percent. That the Government has been unable to make further progress toward balance in its accounts is partly owing to its expenditures in the Netherlands East Indies, and partly to reconstruction, housing, and other extraordinary expenditures.



The prospective deficit for 1948 (1,570 million guilders) is equal in amount to more than 20 percent of the total money supply (currency and bank deposits) as of mid-1947. This figure gives an exaggerated impression, however, of the probable inflationary impact of the deficit. The Government does not resort to central bank financing of the deficit and, moreover, is taking a number of positive measures to counteract inflationary pressures.

Government payment for certain war damage claims are being made into blocked accounts, which will not be released until a greater supply of goods is available. Secondly, collection of a capital gains tax and a capital levy will withdraw some portion of the presently available purchasing power (although a large part of these tax receipts, expected to total 3,000 million guilders in 1948, will be taken from accounts which have already been blocked for some time); the proceeds of such taxes will not be available for covering Government expenditures, but will be turned over to the Netherlands Bank for the purpose of writing down the overdraft left by the German occupying authorities. In addition, it is anticipated that actual tax revenues may exceed the budgeted figure by some 200 million guilders in payment of back taxes. Finally, to the extent that the Government is able to use the guilder proceeds of foreign credits, it can avoid inflationary financing methods.

In its statement to the CEEC, the Netherlands Government declared that it was "fully aware of the urgency to restore the balance" in its accounts. This should be feasible, once the bulk of the reconstruction and war damage expenditures has been completed, and in view of the recently improved prospects for the settlement of the disturbances in the Netherlands East Indies.

#### NORWAY

For the current fiscal year (ending June 30, 1948), it is anticipated that the Norwegian Government's tax revenues and other regular sources of income will fall short of total expenditures by about 14 percent. The expected deficit, amounting to 315,000,000 kroner, is equal, however, to only about 3 percent of the total money supply (currency plus deposits) as of October 1947.

In the Government's declaration to the CEEC, it was stated simply that "satisfactory progress in the interior financial system, including the national budgetary position \* \* \* is expected to continue." Not until the budget proposal for 1948-49 is presented (probably in January or February 1948) will it be known what further progress is to be made. Price subsidies, which are more than equal to the amount of the budget deficit, have helped to maintain effective price controls and to forestall wage increases. In view of the success in maintaining stable prices and wages, the Government is of the opinion that retention of subsidies is justified even at the cost of a small budget deficit.

#### SWEDEN

The Swedish Government's budget deficit for the current fiscal year (ending June 30, 1948) may amount to about 9 percent of total expenditures. Although complete details are not yet available concerning the 1948-49 budget proposal presented to the Parliament on January 12, 1948, it appears that there will again be a small deficit of about the same or somewhat lesser, magnitude. The Government proposes to curtail capital investments, including its own construction program, and to increase indirect taxation of luxury consumer goods.

#### UNITED KINGDOM

The current budget of the United Kingdom for fiscal 1948 is expected to show a moderate surplus. Large extra-budgetary governmental expenditures of a capital nature (e. g., payment of war-damage claims, grants to local authorities, refunds of wartime forced savings) will have been exceeded by the domestic currency proceeds of foreign borrowing and by proceeds from noninflationary borrowing at home. Under these circumstances, there is no question of "fiscal solvency" in the United Kingdom, but there remains a gap between the disposable income and liquid assets in the hands of the population and the value of goods and services available for home consumption. The following are a number of measures adopted by the British Government to narrow this gap:

1. A supplementary budget, adopted in November 1947, provided for a substantial increase in the sales tax levied on a very wide range of British goods; increased the tax on distributed business profits from 12½ percent to 25 percent;



and raised the tax on undistributed profits from 5 to 10 percent. Added annual revenue from these increases is expected to amount to the equivalent of \$800,000,000, or nearly 6 percent of estimated revenues in the current year.

2. The Government announced its intention to prevent subsidy payments from exceeding the current level of about \$1,570,000,000 per year. Subsidies on leather, cotton, and wool, are to be abandoned early in 1948.

3. The Government introduced on December 2, 1947, a program for reduction of the nation's gross capital expenditure (public and private) from an estimated rate of \$6,200,000,000 in mid-1947 to a total of \$5,680,000,000 in 1948; the annual rate at the end of 1948 is expected to fall to \$5,280,000,000.

Some easing of inflationary pressures appears to have occurred in recent months. A substantial return of currency to the banking system has permitted a reduction in the fiduciary currency issue from £1,450,000,000 to £1,400,000,000, the first such reduction in 9 years.

8. *Question.*—What is the attitude, or what should be the attitude of the United States toward the proposal for intra-European multilateral clearing arrangements made by the financial experts in the CEEC report?

*Answer.*—Since the adoption of the CEEC report a number of the participating countries have entered into an agreement for multilateral clearing of balances arising under various bilateral trade and clearing agreements. France, Italy, Belgium, Luxembourg, and the Netherlands have agreed to automatic transfers of balances among themselves, and have agreed to accept transfers involving such of the other participating countries as agree to the principles of the clearing arrangement, subject, however, to prior approval. Other countries have acceded to the agreement, but their consent is required in each specific case before any balances are transferred. The first clearing of balances has taken place, but we undersand that the amounts transferred have been relatively small. Full details are not yet available.

The National Advisory Council regards with favor this voluntary adoption of a multilateral clearing arrangement as a significant step toward self-help on the part of the participating countries. It does not believe, however, that participation in this scheme should be made a prerequisite for receiving aid under the European recovery program. The Council does not believe that dollars should be made available specifically for the purpose of settling net debit balances remaining after multilateral offsetting has taken place.

The ECA might, however, find it feasible and desirable to buy with dollars from some of the participating countries part of the equipment and commodities needed by some of the others. The use of ECA funds in this manner would not increase the cost to the United States, since the dollars made available to one of the participating countries would be available for meeting that country's deficit with the Western Hemisphere. The purpose of directing ECA funds in this manner is to assure that intra-European trade will make a maximum contribution to the recovery program.

9. *Question.*—What is the public debt of each of the participating European countries?

*Answer.*—The answer to this question is contained in the following table:

*National debt (internal and external) of the CEEC countries by recent dates*

[In millions of dollars]

Country	Date <sup>1</sup>	National debt <sup>2</sup>	Country	Date <sup>1</sup>	National debt <sup>2</sup>
Austria.....	Dec. 31, 1946	1,426	Netherlands.....	Jan. 1, 1947	6,102
Belgium.....	Sept. 1946	5,737	Norway.....	Mar. 31, 1946	1,395
Denmark.....	Mar. 31, 1947	<sup>3</sup> 1,938	Portugal (including	Dec. 31, 1945	401
Eire.....	do	367	Azores and Madeira).		
France.....	Aug. 31, 1946	17,163	Sweden.....	Dec. 31, 1946	3,167
Greece.....	Dec. 31, 1946	<sup>4</sup> 701	Switzerland.....	do	2,684
Iceland.....	do	7	Turkey.....	Sept. 1946	659
Italy.....	do	3,861	United Kingdom.....	Mar. 31, 1947	103,149
Luxemburg.....	do	53			

<sup>1</sup> Dates apply to national debt figures, also to exchange rates used in converting to dollar equivalent.

<sup>2</sup> Includes internal and external direct and guaranteed debts of the Central Government. The total external debt of the CEEC countries accounts for approximately 4.5 percent of their total national debt. Debts of overseas possessions as well as defaulted World War I debts are excluded.

<sup>3</sup> Includes 6,482 million kroner owed to Danish National Bank which represents debt that resulted from German occupation. Considered by Danish Ministry of Finance as a special category of debt.

<sup>4</sup> Rose to \$1,320 million by Dec. 31, 1947; per capita equivalent, \$176.



The CHAIRMAN. Senator Smith?

Senator SMITH. I just would like to ask one question to clarify my thinking in the situation.

I understand, Mr. Secretary, that so far as loans are to be made, they are to be made through the Export-Import Bank.

Secretary SNYDER. The actual disbursement of the loan and the administration of it will be handled by the Export-Import Bank as agent for the Economic Cooperation Administrator.

Senator SMITH. So they will probably try to screen those loans, with the view that they expect them to be repaid, that they are not just phony loans, they are good loans?

Secretary SNYDER. That is the reason for using both loans and grants-in-aid. There may be some rare cases in which for particular purposes it may be better to make a "thin loan." You can understand that. But the basic thought is that the loans will be expected to be repaid.

Senator SMITH. And they will be made through the Export-Import Bank?

Secretary SNYDER. They will be made by the Export-Import Bank as agent for the Administrator.

The CHAIRMAN. But that is purely an administrative device, and involves no autonomy on the part of the Export-Import Bank.

Secretary SNYDER. The only place that the Export-Import Bank would have a voice would be in the NAC, when the NAC is consulting with the Administrator about the loan. The Chairman of the Export-Import Bank is a member of the NAC and would have a voice in the discussion there, and could lay before the other members any opinion that he might have about the advisability of the loan.

Senator SMITH. It would be just advisory?

Secretary SNYDER. That is the extent that NAC is of counsel to the Administrator.

Senator SMITH. I understand that so far as grants-in-aid are concerned, in all those cases we get credits in these foreign currencies; is that correct?

Secretary SNYDER. No, we do not get any credits. There are local currency deposits, but they are to be used in the country involved.

Senator SMITH. That is what I mean. There are no grants-in-aid made without something to show for it. If it is a loan, it is a loan through the Export-Import Bank.

Secretary SNYDER. If it is not, a local currency deposit is established.

Senator SMITH. If it is a grant, there is the deposit in the local currency, and we will help determine what to do with that deposit. So the whole field is covered by one classification or another.

Secretary SNYDER. That is correct.

The CHAIRMAN. Senator Hickenlooper?

Senator HICKENLOOPER. Mr. Secretary, how much of the \$6,800,000,000 contemplated in the first 15 months is to be considered in the loan field, and how much in the grant or gift field?

Secretary SNYDER. That is a matter we were discussing a while ago, Senator. We were talking about a 20- to 40-percent area, that the loans might be somewhere between 20 and 40 percent of the total. That was a matter we discussed here at some length a while ago.



Senator HICKENLOOPER. And there is not any specific determination on that?

Secretary SNYDER. There is no way of doing it now, Senator.

Senator HICKENLOOPER. I don't know that I would agree with that statement. I think there should be a way of doing it. I think we ought to know with reasonable accuracy.

Secretary SNYDER. If there was a way of knowing it, I quite agree with you, but at this stage I do not see how you could arrive at a very definite figure.

Senator HICKENLOOPER. One other question: What is the public debt of each of these 16 countries? Do you have that list here?

Secretary SNYDER. We can furnish that to you.

Senator HICKENLOOPER. Would you do that, please, for the record?

Secretary SNYDER. We will be pleased to.

The CHAIRMAN. Thank you, sir.

Senator LODGE?

Senator LODGE. I have questioned the Secretary already this morning.

The CHAIRMAN. All right, Mr. Secretary. Much obliged. We may want you back later, after you have explored some of these problems that have been submitted to you.

Thank you.

Secretary SNYDER. I will be available at any time.

The CHAIRMAN. The committee will recess until 2 o'clock, when Mr. William McChesney Martin, Chairman of the Board of Directors of the Export-Import Bank, will be the witness.

(Whereupon, at 12:30 p. m., a recess was taken until 2 p. m. of the same day.)

#### AFTERNOON SESSION

(The committee reconvened at 2 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order.

We have the pleasure this afternoon of the presence of Mr. William McChesney Martin, Jr., chairman of the board of directors of the Export-Import Bank of Washington.

Mr. Martin, will you proceed with your own statement?

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

Mr. MARTIN. If it is all right, Mr. Chairman, I would like to read a brief statement.

The CHAIRMAN. Go right ahead.

Mr. MARTIN. I think it is 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 Export-Import 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. However, 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 this 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 International 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 difficult to perceive any compelling reason why the bank should not be utilized in the capacity of lending agency under the program. On the contrary, all considerations call for the utilization of the bank in such capacity.

It is an agency which combines financial, economic, and political elements essential to foreign lending and it is administered by a bipartisan board. Except for certain specialized credits, it has performed and it is today performing all foreign lending in which the Government has engaged.



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. 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 achieves this end of utilizing the Export-Import Bank within the framework of an over-all unified program. By the provisions of the proposed 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.

Further, and I now want to read from the proposed 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 proposed 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.

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 at the same time acting 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 the control and direction of the over-all program should be vested in one entity, the Board of Directors of the Export-Import Bank believes that it could appropriately and effectively lend its experience and efforts, as well as those of the staff of the bank, in the manner provided for in the proposed bill.

The CHAIRMAN. Mr. Martin, I think it is quite clear as a result of your statement and also as a result of the testimony of the Secretary of the Treasury this morning, that your relationship as an Export-Import Bank—your relationship to this program, is exclusively that of an agent except as you, as a member of the National Advisory Council, have a prior voice in the instructions issued to the agent?

Mr. MARTIN. That is correct, sir.

The CHAIRMAN. None of your funds are involved whatever?

Mr. MARTIN. In this program, no, sir.

The CHAIRMAN. Is there no point at which your funds could appropriately be involved? I have in mind the point at which the Administrator might be negotiating with private enterprise for a guaranteed loan to finance reconstruction operation under the terms of the act abroad. Might not that transaction legitimately invite loans from the Export-Import Bank to the particular enterprise involved?

Mr. MARTIN. If it is to be a guarantee we would hope that the bank would handle the guarantee, but out of funds allocated to it by the Administrator, not out of our current operating funds.

The CHAIRMAN. I agree that that would be the objective. As a matter of fact, therefore, so far as the pending legislation is concerned, your institution gears into the program solely in the agency fashion we have indicated.

Mr. MARTIN. Except insofar as I am a member of the NAC, as you have already pointed out and on our assumption that we are to be an active rather than a passive agent.

The CHAIRMAN. The decision of the NAC, however, is final so far as the Export-Import Bank is concerned.

Mr. MARTIN. With respect to this type of loan, yes, sir.

The CHAIRMAN. Senator Wiley?

Senator WILEY. The questions suggested by the chairman here, of course, are based upon the assumption that the bill as passed would be as it is now. I want to get some additional information. You are authorized to loan up to \$3,500,000,000?



Mr. MARTIN. Yes, sir.

The CHAIRMAN. How much of that is already loaned in Europe, approximately?

Mr. MARTIN. It is in the neighborhood of \$1,980,000,000.

Senator WILEY. You have a break-down on that, I presume.

Mr. MARTIN. Yes, sir; I would be glad to put it in the record.

Senator WILEY. I think that should go in the record, Mr. Chairman.

The CHAIRMAN. Very good.

(The break-down referred to is as follows:)

*Export-Import Bank of Washington—Statement of loans and authorized credits outstanding in Europe*

Country	Net credits authorized	Balance not yet disbursed as of Dec. 31, 1947	Amount disbursed	Principal repaid on loans	Principal outstanding on loans as of Dec. 31, 1947
Austria.....	\$14,255,000	\$14,255,000			
Belgium.....	150,000,000	50,000,000	\$100,000,000	\$2,750,152	\$97,249,848
Denmark.....	20,000,000	5,000,000	15,000,000		15,000,000
France.....	1,200,000,000	38,000,000	1,162,000,000	23,097,500	1,138,902,500
Western Germany.....	19,000,000	14,430,904	4,569,096		4,569,096
Greece.....	25,000,000	15,200,000	9,800,000		9,800,000
Ireland.....					
Italy.....	131,563,812	102,025,507	29,538,305	11,570,785	17,967,520
Luxemburg.....					
Netherlands.....	205,393,143	108,597	205,284,546	12,460,519	192,824,027
Norway.....	50,000,000	40,000,000	10,000,000		10,000,000
Portugal.....					
Sweden.....					
Switzerland.....					
Turkey.....	36,060,000	33,736,818	2,323,182	233,592	2,089,590
United Kingdom.....					
Total, Marshall plan countries.....	1,851,271,955	312,756,826	1,538,515,129	50,112,548	1,488,402,581
Czechoslovakia.....	21,987,014	4,075	21,982,939	87,680	21,895,259
Finland.....	101,875,036	19,044,355	82,830,681	4,793,691	78,036,990
Poland.....	43,511,234	14,375,824	29,135,410	210,294	28,925,116
Unallotted Cotton Credit.....	24,402,969	24,402,969			
Total, all Europe and Turkey.....	2,043,048,208	370,584,049	1,672,464,159	55,204,213	1,617,259,946

Senator WILEY. How much money do you have left after your total loans?

Mr. MARTIN. We have about \$497,000,000 still uncommitted.

Senator WILEY. Have you any information as to the same information in relation to the International Bank?

Mr. MARTIN. I am not absolutely certain of this. I think the International Bank has about \$500,000,000 uncommitted at the present time.

Senator WILEY. How much are they authorized to loan?

Mr. MARTIN. They have lending capacity of about \$8,000,000,000.

Senator WILEY. How much have they loaned in Europe?

Mr. MARTIN. I would rather have those figures come from the International Bank for the record. I would say it is around \$400,000,000—\$350,000,000 to \$400,000,000.

The CHAIRMAN. We hope to have the International Bank here tomorrow, Senator.

Senator WILEY. That is close enough. We will get the exact figures.

I understood from you that you have only in your vaults about \$497,000,000 left?



Mr. MARTIN. That is right, sir.

Senator WILEY. Apparently some of these loans that were made to Europe since the war you found out, according to your statement, the International Bank was unable to refinance. Is that correct?

Mr. MARTIN. That is correct.

Senator WILEY. But when you made the loans you thought they would come into the picture?

Mr. MARTIN. Our assumption was that we were to be a stop-gap between the end of the war and the time when the International Bank would operate. When the period came the International Bank was not equipped to undertake the duty. They have to sell bonds to the public, and they did not have sufficient funds to meet a lot of these requests.

Senator WILEY. I think you have given me the information I was looking for. I have no other questions to put to you at this time.

The CHAIRMAN. Senator Thomas.

Senator THOMAS of Utah. Mr. Martin, I am interested in what we have been calling around here the channel of direction in the organization. You say you are on the Board of the National Advisory Council. How big is that Board?

Mr. MARTIN. Five members, Senator.

Senator THOMAS of Utah. What is the relation of that Board to the President?

Mr. MARTIN. It reports directly to the President.

Senator THOMAS of Utah. It is directly under the President of the United States?

Mr. MARTIN. That is right, sir.

Senator THOMAS of Utah. It does not function for any of the President's agents? It reports directly to him, does it?

Mr. MARTIN. That is correct. It is a coordinating body set up under the Bretton Woods Agreement Act.

Senator THOMAS of Utah. What is your relation to the President as President of the Board of the Export-Import Bank?

Mr. MARTIN. I report to the President and to the Congress.

Senator THOMAS of Utah. You report directly to the President, or through the Secretary of the Treasury?

Mr. MARTIN. I report directly to the President, sir.

Senator THOMAS of Utah. You then consider yourself part of the Executive family, do you?

Mr. MARTIN. I do, sir.

Senator THOMAS of Utah. But you also report to Congress?

Mr. MARTIN. Yes, sir.

Senator THOMAS of Utah. Do you do that through the President, or do you report directly?

Mr. MARTIN. Directly.

Senator THOMAS of Utah. Where would the Secretary of State, under this planned organization, come into the picture? Would he have to come in through action of the President?

Mr. MARTIN. The Secretary of State, sir, is a member of our Board and the Secretary of State is permitted to designate another officer of the State Department confirmed by the Senate to act for him on the Board of our bank. Either Mr. Clayton or Mr. Thorp have acted in that capacity ever since the bank has been administered by the present Board.



Senator THOMAS of Utah. How does that relationship work out? I am assuming, of course, that you can give us some experience that will help us in seeing how the more complicated relationships will work out.

Mr. MARTIN. It works out very well in this sense: That we assume that the Secretary of State is supreme in the matter of foreign policy. If an application comes to the bank through any of the agencies of the Government or directly to the bank, which involves the bank making a loan, we check with the Department of State with respect to whether the particular party involved is *persona grata*. If it is *persona non grata*, that ends it. We go no further.

The Secretary of State, therefore, is supreme at that point, although he is only one member of a five-man Board.

If, however, something originated in the State Department such as a proposal to finance a gold mine in the wilds of the north, the Board of the bank would examine it carefully; we would take it over to the NAC, which would also study it under the full glare of all member agencies, the Commerce and State Departments, the Federal Reserve, and the Treasury Department and our own division concentrating on it as to whether it would meet our requirement of reasonable assurance of repayment.

If we decide that it would not meet the requirements of reasonable assurance of repayment there is no alternative for us except to vote it down in the board of the Export-Import Bank despite the fact that the Secretary of State may be on record in favor of it.

Senator THOMAS of Utah. How often have you had to go to the President? Do you have to go often over the head of anybody to the President?

Mr. MARTIN. No, sir.

Senator THOMAS of Utah. You have not had to do it in common practice?

Mr. MARTIN. I have consulted with the President on some three occasions since I have been in office, but not going over the head of anybody; merely in the interests of a complete understanding of the problem involved.

Senator THOMAS of Utah. In other words, you have not gone over the head in the sense that everybody on your Board has known what you were going to do?

Mr. MARTIN. Everybody has known what I was going to do, yes, sir.

Senator THOMAS of Utah. So that there has always been friendly relationships.

You mentioned that your bank was set up as a sort of a stopgap bank to last until another institution is functioning. Are the relations for your institution such in this bill—if it should become law, as it is now projected—that that would extend the life of your organization?

Mr. MARTIN. I do not know as I quite follow that.

Senator THOMAS of Utah. You mentioned that when the Export-Import Bank was set up it was set up with an appropriation, and it was thought to be a sort of a stopgap appropriation until a bigger organization was properly functioning. Is that not what you said?

Mr. MARTIN. No. I want to correct that. Our general function is to do short- and medium-term credits that private capital is un-



willing to undertake for specific projects. We only came into this reconstruction field because of the war and to meet the need that existed when lend-lease ended prior to the time when the International Bank would come into existence to do longer term lending of a reconstruction and development nature.

Senator THOMAS of Utah. I am glad I asked you that question because you left the impression, I am sure, that your functions were to come to an end. I did not understand it that way. And I was wondering if somebody would not assume that this relief program would extend your functions longer than it was expected they would last. It is true that that will not be the case, is it not?

Mr. MARTIN. No, sir. We have been moving as rapidly as we can, and as energetically as we can, to revert to our normal function as opposed to our extraordinary function which resulted directly from the war conditions.

Senator THOMAS of Utah. You feel that there are no conflicts of authority under the present plan that might upset the tenure of all the administrators' ways—I use the word “administrators” there with a little “a”—the ways of various administrative groups?

Mr. MARTIN. Yes, sir. I believe that this plan will work.

Senator THOMAS of Utah. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Smith?

Senator SMITH. I just want to get clear, Mr. Martin, the procedure to be employed when an application is made. If I understand this statement of yours, especially page 5, on the top, let us say country X makes an application for aid to the Administrator. At that stage of the game he consults with the National Advisory Council and the decision is made whether assistance is to be extended on grant, cash, or credit. As a member of the National Advisory Council you have a share in the fundamental determination at that point. Is that right?

Mr. MARTIN. I have. I also would like to say that we hope we can work out relations between the Administrator and myself so that I can perhaps get a little extracurricular liaison with respect to this because there are going to be a great many of them coming up, as you can see. I think that our experience is a very important one in that line.

Of course, I will get it when it comes to the NAC.

Senator SMITH. The first determination then, is what classification the aid falls under: grant, cash payment, or credit. According to this bill which you have here, in case it is decided that the assistance should be extended under the provisions of the act on credit terms, then the Administrator allocates funds for the purpose to the bank, and the bank notwithstanding the existing provisions of the Export-Import Bank Act—in which I suppose there are certain protective provisions about loans and so on—notwithstanding that, the bank has to go on and administer the credit as directed on the terms specified by the Administrator, and without regard to the law under which the Export-Import Bank is operating. Is that correct?

Mr. MARTIN. That is correct, sir.

Senator SMITH. In other words, at that point it is just an agency to do as directed by the Administrator, and the only control that you have as the chairman of the board of the bank is as a member of one of five on the Advisory Council to make that determination?



Mr. MARTIN. That is correct, sir.

Senator SMITH. Even if the bank board then should decide that "We are very sorry that this is not a good case for credit extension," they still have to do it despite that, if it comes this way through the Administrator, as a directive to the bank?

Mr. MARTIN. That is correct.

Senator SMITH. In that respect it is a different exercise of function from that which the bank has ordinarily with its ordinary transactions?

Mr. MARTIN. That is why we propose to carry them on our books as separate transactions.

Senator SMITH. I notice further on you carry them as separate transactions.

Mr. MARTIN. That is right.

Senator SMITH. And, of course, the total of this type of credit transaction might greatly exceed anything you have ever done before in light of the magnitude of the ERP. Is that true?

Mr. MARTIN. No question about it.

Senator SMITH. I wanted to get that clear for my own thinking as to how this thing functioned.

That is all I have in mind, Mr. Chairman.

The CHAIRMAN. Senator Hickenlooper?

Senator HICKENLOOPER. Mr. Martin, the Export-Import Bank was set up as a short-range loaning agency to expedite commerce and the flow of goods and the establishment of credits for that purpose; was it not?

Mr. MARTIN. You mean short-range in point of time that it was to exist?

Senator HICKENLOOPER. Yes. You can make some long-range loans if you want. But it is really a commercial stimulus, is it not, and therefore generally a short-range proposition?

Mr. MARTIN. Its function has been to make commercial loans just a little longer than the private banks were willing to make. That is correct, sir.

Senator HICKENLOOPER. That is what I understand. It fills a vacuum that private banks are unable to fill.

Mr. MARTIN. That is correct.

Senator HICKENLOOPER. I think you stated very clearly here, and also in answer to Senator Vandenberg, that under the strict terms of this act you are nothing but a mechanical agency for bookkeeping in connection with the European relief loans when directed by the Director?

Mr. MARTIN. Except to the extent that I participate as a member of the NAC in the determination.

Senator HICKENLOOPER. That is true. But you wear two hats there. If the Director or whoever advises him on that program determines that a certain loan and under certain conditions may be desirable in this program he can direct you to make it and he can direct the terms and conditions of that loan.

Mr. MARTIN. No doubt of that, sir.

Senator HICKENLOOPER. Assuming that there were no European relief program there would be, without doubt, occasions when many if not all of these countries might make application in the regular course



of their affairs to your Export-Import Bank for loans or credits; would there not?

Mr. MARTIN. There would.

Senator HICKENLOOPER. And when they made those applications they would have to come in on a certain—we might call it a banker's basis, that is a banking loan basis—and there would have to be certain prerequisites and certain conditions before you would consider that loan to be sound. Is that not the case?

Mr. MARTIN. That is the case.

Senator HICKENLOOPER. It would seem to me, then, that if the European relief program goes into effect there would be no stimulus whatsoever for any of those countries to attempt to come to your bank for a loan under the terms and conditions that they would have to come now; rather it would seem to me that they will say, "We will go to the Administrator on a relief basis and see if we cannot get him to order the bank to make this loan, and therefore we will not have to make a showing of probability to repay and the soundness of the loan that we might otherwise have to make."

It would seem to me that this would be a very convenient device for them to avoid, either making a showing or assuming the obligations that they would have to assume if they came to your bank in the normal course of business.

Mr. MARTIN. I have no doubt that you are correct in that, Senator. I think that during the early stages at least of this program recourse to the Export-Import Bank would be very limited and only as a last resort.

Senator HICKENLOOPER. That is right. They would go to the Administrator first.

Mr. MARTIN. Yes. I would like to point out that there are very few areas, as I testified last spring, where I think we can make loans that will meet the test, the current test of the Export-Import Bank.

Senator WILEY. You use the word "current" there. You meant that there was a larger latitude heretofore?

Mr. MARTIN. No, sir. I used the word "current" incorrectly then. I meant the test of the Export-Import Bank.

Senator HICKENLOOPER. I notice your statement on page 4, the second paragraph, next to the last sentence you say: "Nor is it feasible to determine in advance which products or commodities should be furnished on grant and which on credit."

I have been disturbed by the complete consistency with which that philosophy has been followed by everybody who has testified here. I have also been concerned by the admission of the lack of ability to put into categories what kind of contributions we make to European recovery would be in the nature of goods or services that should be reimbursed to this country.

We have had some rather inexact figures here that somewhere between 20 and 40 percent of this may be reimbursable items, but frankly I am surprised that with the alleged care with which the needs have been analyzed and proposed by the European countries, and with which the needs program has been analyzed and proposed by our own people, that they have not been able to come to some kind of a practical definition of the areas in which goods and services should be reimbursed in one way or another, and which should be grants and loans.



I am not necessarily arguing with you on that statement. You are not the only one that has made it. It has been made consistently here. But I think it is a deficiency of this program and as these hearings go on the feeling accumulates within me, anyway, that this matter may not have been given the meticulous study and classification that at least some of us would like to think that it has been given by our people.

The task may be insoluble; I do not know.

Mr. MARTIN. May I just give you my point of view on it, Senator?

Senator HICKENLOOPER. Yes. I would be glad to have it.

Mr. MARTIN. I think all of us who have worked in this field of lending realize that capacity to repay is the test when it comes to lending. One thing that I have been very glad about in the Export-Import Bank—and in fact I do not believe we could operate any other way—is that we are given a specified amount of what I call capital. That is our \$3,500,000,000 lending authority. We are not told that any particular part of it is assigned to any particular country when we come to Congress. The assumption is that we have a standard of reasonable assurance of repayment and we are not going to put out any of that money unless we believe that it meets that standard.

Now, I look on this program, and I realize this difficulty that confronts you gentlemen in considering it because it has confronted us in our activities continually, that what we are working on here is a matter of capital for an institution.

Now, when you extend that institution beyond the limits of strict lending and go into a much broader field, it becomes extremely difficult to know how to pin it down.

The reason I believe we should have a unified over-all program administered in one entity is because I believe that upon the actions of the Administrator will depend in large measure whether you can have repayment in some of these items.

Let me just, if I may, illustrate: When I went abroad this summer to look over the loans Export-Import Bank had made, I investigated very carefully in terms of what I thought had been achieved by those loans, and what I thought was lacking in the current situation. And I came to the conclusion that the period we were moving into, as all of you gentlemen have come to the conclusion, is one of financial and monetary reconstruction, far more than it is physical reconstruction in many instances.

The Administrator of this program will have to be a courageous, intelligent man, with a grasp of the financial aspects as well as of the political aspects of the problem, who is going to understand a great deal more than a blueprint, who is going to sit down with these governments and consult on a comprehensively balanced budget, and what will be achieved by that in reviving confidence of their own nationals in their currency et al.

He is going to need latitude in that. He is going to have to act extremely courageously and extremely fast. If he knows that a certain amount of money can be given for relief, and a certain amount of money can be given for grant-in-aid, and certain items of equipment will be needed, he cannot tell how that will work all at a given time because he may know that lack of food or lack of fuel is a basic factor in the monetary instability. If people cannot work or they do not have the fuel to operate machines, then no amount of monetary stabilization will achieve anything. But if they get those requisites the whole situation can change very fast.



I have seen situations turn around so fast that you did not believe that it was possible for them to turn around in as rapid a way.

If that happens, he can make certain assumptions. If it does not happen, if he says, "I will give a certain amount of food in a given area," and the food does not get there, the ship sinks on the way, then his whole plan is upset.

That sort of latitude will have to be in the Administrator or the administrative agency or whoever handles this particular program. If it is not, it is going to be extremely difficult to operate.

If we in the Export-Import Bank were compelled to determine precisely certain things by reason of fixed requirements of our act, we would have a great deal of difficulty.

To the degree that the Administrator has the discretion to prescribe the conditions of the loans which will be made under the machinery that you and Senator Smith have described so clearly and to modify the terms of loans made—to the degree that he has such discretion may depend a lot of the success of the program; and I believe that the bill as now drawn does give the Administrator the necessary authority and discretion to provide any terms and to modify terms, such as changes in period of repayment and interest rate.

If he is too rigidly tied in and cannot make certain decisions as a matter of discretion, I think it would be unfortunate. The more rigid you make the terms the lower the percentage of loans. The more flexible the terms the more loans that might be made under the program.

I apologize if I talked too long.

Senator HICKENLOOPER. I realize, or at least I think I appreciate fully, Mr. Martin, that a certain amount and perhaps a substantial amount of discretion has got to be lodged in the administration of this program. It has to be a resilient program—one that can move with necessity. But perhaps I can express it a little bit better by saying that I want to know in my own mind when we get to the point of making up our minds on this thing whether this is going to be just completely a donation program to Europe in whatever amount it is, or whether it is going to be a well-defined pattern of extension of credits and contributions, and with the present lack of definiteness as to what the program is going to be, it now appears to me that it is a complete hundred percent donation in whatever amount is voted, because I cannot put any reliance at all that any of this money in any appreciable degree will be set up by way of loans that are to be repaid because of the nebulous programing that seems to be here.

Therefore I am bound to assume, at least at this point—and not from your testimony alone; I do not mean that at all, but the cumulative testimony—that in fact it is a complete donation program from top to bottom.

You are a banker, I am sure, and as a banker there are certain things such as faith loans. There are, at least, in some banking activities out our way. There are many loans made on faith by the banker. The fellow he loans to does not have a dollar to repay. He may have a will to work; he may have character; he may have prospects.

The banker takes a chance on him and says, "I believe you will work this out. If you do, and get on your feet, I expect you to contribute



that money back into the bank that you have taken to reestablish yourself."

So when we talk about the ability to pay of these countries, certainly if these countries generally have no prospect of any ability to repay in the future, their economic future and economic stability is pretty, pretty shaky and its prospects are pretty black. The whole object of this program, as I see it, is to get these European nations back on a basis of economic stability where they can go forward and where they can make both ends meet.

I am hopeful that before this is through we can get some kind of an understandable and practical pattern.

Charity can go about so far. Donations can go about so far. But there does come a time after a while when the American economy itself has got to have some pretty rigid and careful protection and attention, and a part of that is the debits and credits on our balance sheet.

I am in hope somebody can develop a little better yardstick than has been developed on that.

Mr. MARTIN. I would like to have on the record that I do not think this program is all a donation program. It is a matter of judgment.

Senator HICKENLOOPER. It does not say that it is. I am saying that that is primarily what it is going to be, in my opinion.

Mr. MARTIN. I understand. But I want it on the record that I think that, properly administered—and I think it is a colossal administrative undertaking—but properly administered I believe that it can achieve very real results. And I believe that the faith loans that you are talking about, Senator, should be carried in the Export-Import Bank portfolio under a separate section from those made under the Export-Import Bank Act of 1945.

Senator HICKENLOOPER. I know it is a colossal program. I am not trying to say that it is as simple as loaning a man \$500, repayable at \$50 a month. It seems to me that with a practical approach to this problem you could have classified what we give to Europe on the basis of distress emergency needs—consumable goods that are used up in the emergency and in the distress, just used up to meet that situation—as against goods that produce other goods or other things of economic value. I do not see that any attempt to classify the program into that kind of a field has been made. It may not be practical; I do not know.

Mr. MARTIN. I just want to say that I honestly do not think it is practical.

Senator WILEY. What was the answer?

Mr. MARTIN. I said that I honestly do not think it is practical to make the classification precisely as Senator Hickenlooper would like.

Senator HICKENLOOPER. Then the other end of this thing would be that this program, whatever amount is determined on, must be a program that is left—that is, generally speaking—that is left to the uncontrolled and unregulated discretion of administration.

In other words, the administration of this thing will have unhampered leeway in practically all phases of this. That would seem to me to be the other alternative.

Mr. MARTIN. My answer to that would be that it should have as much latitude as you gentlemen can honestly see your way to giving it.

Senator HICKENLOOPER. There are strict controls on one side and the other alternative is to give the administration of it just broad dis-



cretion in all phases of it. I do not know that that is the case. I do not know that that is the way it will turn out. But it seems to me that those are the alternatives, because you will either pretty definitely catalog this thing, pretty definitely classify the means of extending credits or extending grants here, or you will just take off all the restraints and say to the administration, "You go over there and do just as you please in any category and it is your discretion and your control that will operate."

In that event Congress is just voting a good many billions of dollars and a complete blank check and complete freedom and trust in an administration.

Mr. MARTIN. I would just like to comment that if my assumption is correct and it is financial and monetary reconstruction—not entirely, but in large part—that is the bottleneck at the moment in the very real achievements toward recovery that have already been made in Europe, then I think as much discretion as you can give the Administrator will be most effective. Because in dealing with that type of problem it is different than when we started out in the Export-Import Bank, and the problem that we confronted was getting the wheels of industry moving and clearing away the debris of war.

I think we have exaggerated—from my trip through Europe—the dark clouds of the future in respect to the achievements that have already been made over there. I think that a lot of progress has been made up to a certain point. Now I think we have reached the point where it is vital to concentrate on the political will of governments to tax their people and balance their budgets and revive the confidence of their own people and get their own production going from a little different angle than when we first started to clear away the debris of war.

Senator HICKENLOOPER. I think the rectification of their financial situations is fundamentally essential in this thing. There is no question about that. That is the No. 1 problem.

Mr. MARTIN. To the extent that that is No. 1, I just plead for as much latitude as is possible from the standpoint of the man that has to make these decisions, because if it is in that field, my experience—I have had a little experience in the field and I know that what is needed there is not necessarily a given sum always; it is courage and timing and a little bit of luck. That is always required in that sort of operation. That is the type of problem that we are faced with today.

Senator HICKENLOOPER. That is all, Mr. Chairman.

The CHAIRMAN. Senator Lodge?

Senator LODGE. Have you an educated guess as to how much will be grants?

Mr. MARTIN. No, sir; I have not.

Senator LODGE. Were your facilities utilized by these various agencies that made computations?

Mr. MARTIN. Yes, sir. The members of the working staff of the National Advisory Council included representatives of the Export-Import Bank. If you refer to the 20 to 40 percent figure which came up, that was never specifically decided by the National Advisory Council as such, but the Export-Import Bank people participated in it and thought it was not unreasonable if you had to make an arbitrary edu-



cated guess. The actual percentage of loans made will depend on whether loans are made on a strict or lenient basis.

Senator LODGE. Do you have to?

Mr. MARTIN. Senator, I honestly do not think you have to.

Senator LODGE. You do not think you have to make an educated arbitrary guess?

Mr. MARTIN. No, sir; not at this stage.

Senator LODGE. You think we could get it much closer than that; do you?

Mr. MARTIN. Much closer? No, sir. I am saying that I do not think it is a very valuable guess. It is, I think, perfectly obvious that the amount of loans that can be made as of today, good loans, is very limited. What it might be 30 or 60 days from now is a different story.

Senator LODGE. You think the figures we got are about as good as we can get?

Mr. MARTIN. My people that have worked on it—I have not worked on it personally—think that it is a pretty good guess.

Senator LODGE. Are you satisfied with this figure of 6.8 billion dollars? Do you think it is too high? Do you think it is too low? Or do you think it is just about right?

Mr. MARTIN. I have not gone into the details of all of the figures. But I return to my earlier position—and I am not trying to evade that question; I am merely saying that I think the Administrator should have as much capital as you gentlemen can let him have, to undertake this job. And I would hope that he would use as little as he may have to in doing it.

Now, I think that the people that have worked on these figures, and the amount of effort that has gone into it with which I am familiar in a general way, although have never really worked on the figures as such—I think they are competent people and I think that they have come out with a figure which is not unreasonable as of today, as capital to give to this organization.

I would not say that with less than that it would not work; I would not say that it might not need more. Insofar as we have to have some capital for an organization of this type, I am perfectly willing to say that I think this is a reasonable figure to start out with.

Senator LODGE. Do you think that more of a banking character could be given to this proposed Marshall plan than it has been given?

Mr. MARTIN. I do not think that as of today there are very many sound loans that can be made under the program.

Senator LODGE. Do you think the bill is all right as it stands? Do you think we have the language in here that we need to do the thing right?

Mr. MARTIN. Insofar as an over-all unified program is concerned, I think that this is probably the most effective way of doing it. I do not say it is the only way of doing it, but I say it is the most effective way.

I have worked extremely hard to try to see how you mesh this thing together, and at best it is going to be a problem for the Administrator that will tax his best efforts. But I believe that this single Administrator of an over-all unified entity is a thoroughly desirable and effective way to do it.

Senator LODGE. Thank you. That concludes my questioning.



The CHAIRMAN. Thank you, Mr. Martin.

Mr. MARTIN. Thank you, sir.

The CHAIRMAN. Secretary of the Army Royall. Mr. Secretary, I apologize for keeping you waiting. I underestimated the cross-examination of the last witness.

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

Secretary ROYALL. I did have an engagement at 4 o'clock, but I called it off because I did not want to hurry through this, unless the committee wants to hurry through it.

The CHAIRMAN. I appreciate that very much indeed. I would be glad to have you proceed in your own way.

Secretary ROYALL. I have a prepared statement which I will not follow too closely.

The major responsibility of the Army is, of course, the defense of the Nation. When there is economic difficulty, a shortage of food and general unrest in the world and an economic and political situation which is unstable, that responsibility becomes acute and the cost of the Nation increases. When the essential elements for economic stability and for peaceful development exist among nations, the Army's immediate responsibility becomes correspondingly lessened. I firmly believe that enlightened cooperative economic endeavor as visualized in the European recovery program can go a long way toward reducing the necessity for a larger national armament in the future, and probably reduce our present armament, and that without such effort the Army budget and the Army itself should be increased.

The CHAIRMAN. Before you leave that statement, Mr. Secretary, do you want to delete those words which appear in your printed statement, or do you really mean that the budget would have to be "immediately and measurably increased"?

Secretary ROYALL. Without some effort of that kind; yes, sir. Unless we were going to make the effort.

I am not trying to follow this statement too literally. I prefer to have called to my attention any essential language of that kind, of course.

Germany, occupied by four major powers, two of which are "participating nations" in the proposed European recovery program, presents a special problem in this cooperative endeavor. The importance of Germany—which, of course, is at present the responsibility of the Department of the Army—was clearly emphasized by Secretary Marshall in an address delivered in Chicago on November 18, in which he said:

The problem of restoring the European community inevitably raises in acute form the problem of Germany. The restoration of Europe involves the restoration of Germany. Without a revival of German production there can be no revival of Europe's economy. But we must be very careful to see that a revived Germany could not again threaten the European community.

For more than 21½ years the Army has been responsible for the occupation and government of one zone of Germany and for the prevention of disease and unrest in that zone. During this period the economic rehabilitation of Germany has become increasingly important both because it will contribute to the political stability of



Germany itself and also because it offers the only reasonable opportunity of relieving the United States of the financial burden of food and other necessities, for which we are now paying.

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

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

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

The report of the Committee of European Economic Cooperation prepared as a result of the Paris conference of 16 European nations last summer, states that the German—

economy has been, in the past and by the nature of things will remain, closely tied up with the economic system of other European countries \* \* \* Other western European countries cannot be prosperous as long as the economy of the western zone is paralyzed, and a substantial increase of output there will be required if Europe is to become independent of outside support.

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

For more than 50 years Germany as a whole has had a substantial food deficit. This condition is now accentuated in the United States and United Kingdom zones of occupation by the fact that the part of Germany allotted to Russia and placed under Polish administration comprised 25 percent of prewar Germany's food-producing areas. Other factors are the loss of large numbers of the producing age groups and an increased population in our zone consisting in part of immigration into the zone, of about 6,000,000 people, many of whom are children and old people, and not producers.

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

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



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

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

Senator WILEY. What was the nature of that industrial production?

Secretary ROYALL. It is fairly varied. The biggest single item is coal, which has, incidentally, almost tripled during the period of occupation.

Senator THOMAS of Utah. Mr. Secretary, are those statistics comparable? Surely in 1936 and 1937 very much of the industrial activity in the bizonal part of Germany were given over to the production of war equipment.

Secretary ROYALL. That is right, sir.

Senator THOMAS of Utah. You are not going to assume, are you, that Germany is going to start right away on a big war program?

Secretary ROYALL. I certainly hope not.

Senator THOMAS of Utah. Therefore, can we get statistics that mean something to us rather than just a percentage of activity? It seems to me that we are going to see that the restoration of German industry, nonmilitary industry, is very much higher than your statistics provide.

Secretary ROYALL. Yes, sir. Of course, this comparison is not strictly true, but my information is—which I may have to check up on—in 1936, at that early time, which is our base date, the percentage of total production devoted to war was not very large. I think that is right. It was considerable in amount, but not in percentage.

Of course, it increased greatly after that.

Senator THOMAS of Utah. It increased greatly after that, but you had Hitler in his third and a half year.

Secretary ROYALL. That is right.

Senator THOMAS of Utah. And as early as 1934 Germany was thinking of bullets and not butter.

Secretary ROYALL. That is correct, sir.

Senator THOMAS of Utah. All through that part of Germany—I happen to have been myself 3 years in succession there—the military activity was great, great in every way.

Secretary ROYALL. I think I can get you that figure before I complete my statement. But I think you will find that the percentage was rather small, over all. I will get it.

I think we may be able to get you the exact percentage of that which is war production.

Senator WILEY. You said the major portion of the industrial recovery was in coal.

Secretary ROYALL. I say that is the single biggest principal item.

Senator WILEY. The other items were what?



Secretary ROYALL. We have an increase in lumber, which is large; steel; some considerable increase in the cotton textiles; and some of the light industries.

Senator WILEY. In measuring that, in case of aid, you have a potential estimate of what they can produce in the future.

Secretary ROYALL. Yes, sir.

Senator WILEY. Is that going to be in the record?

Secretary ROYALL. That is in the record of what their exportable production is; it is in this report made to Congress. I think it is \$739,000,000 for the first period. I am afraid that is a little optimistic, based on our experience up to this time.

I do not think that the exportable surplus would hardly reach that. I hope it will.

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

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

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

In the matter of housing, the war damage, especially in the larger western cities and towns, is well known to most if not all the members of this committee. You have seen it.

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

Finally, industrial production has suffered seriously from the lack of a completely satisfactory currency, which means a lack of normal economic incentives. The reichsmark has, it is true, retained most of its value for the purchase of rationed items—and that is because of the enforcement of that law—especially food, and for such other items as rents, services, and transportation.

On the other hand, the value of the reichsmark for the purchase of nonrationed products has been greatly impaired, and there is general uncertainty with respect to its future value. Under the circumstances, the normal incentives to labor to increase its take-home pay and to management to produce for profit are far too weak to provide a basis for sustained effort on the part of either management or labor.



It is a good illustration that you have to have incentive in addition to other conditions in order to have recovery.

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

Senator CONNALLY. Do you include all these plants that have been dismantled and moved away?

Secretary ROYALL. Not in this figure. We will come to that, Senator, in a few minutes.

Senator CONNALLY. You say, "with a potentially operable industrial plant greater than in 1936."

Secretary ROYALL. I said that they would have had, if they had not been bombed.

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

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

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

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

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

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

These in brief are the difficulties and complexities with which the German economy has been and is faced. Both the military governor of Germany, General Clay, and the Department of the Army—and



formerly the War Department—have exerted every effort to meet and remedy this situation.

I want to say that I have and most of you know that I have a great admiration for General Clay and the work that he and his staff have done under most adverse circumstances. Let me give you a few of the steps that have been taken.

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

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

The American and British military governors are currently discussing with bizonal German leaders proposals to double the size of the economic council to make it more representative and to establish a second economic body with two direct representatives and to establish a second economic body with two direct representatives from each of the eight *laender* or state governments.

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

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

For the reasons previously stated, imports of foodstuffs are greater in volume and in value than before the war, because you need more food, you have more people, and they raise less.

Coal exports are about one-third of prewar in terms of volume, but the average of all other exports is estimated as 5 percent of their prewar levels.

The exportation of finished industrial goods, which before the war formed the backbone of German foreign trade has just been resumed to a slight degree.

I return to the question you asked about the war production in 1936. It was somewhat under 10 percent, I think around 9 percent



of the total which would mean that my figure of 44 would be 44 percent of 91, which reduced to a 100 basis would run it up to about 48 percent of the 1936 figures, of the nonwar production, 1948-49.

Under the new bizonal agreement, it is estimated that the 1948 United States relief expenditures in Germany will be in the vicinity of \$700,000,000, which is an increase of about \$300,000,000, due to the lack of British participation.

Senator HICKENLOOPER. Does that refer, Mr. Secretary, to the item of \$200,000,000 referred to here a few days ago as the uncovered deficit of the German occupation zone?

Secretary ROYALL. No, sir. This is not a comparable figure.

Senator HICKENLOOPER. I know it is not the same figure, of course.

Secretary ROYALL. That figure, as I understand it, if I know what you are referring to, sir, was the estimate for the future of the amount that the German economy would have to have to buy from sources other than American sources over and above the exports. I think that figure is what you refer to. I think it would be difficult to compare the figures.

This is the relief figure that I am talking about—food, fuel, fertilizer, and so on—when I mention the \$700,000,000.

Senator CONNALLY. As to this agreement by which we took over the major part of these expenditures in the bizonal area, from Great Britain, those expenditures were made with approval of the high authorities here at home?

Secretary ROYALL. Yes, sir. We negotiated with them for a month or more in Washington. I attended one of the sessions I believe, and General Draper, my Under Secretary, conducted for the departments of the Army most of the negotiations. The State Department also had representatives, as well as the Treasury. We got the best trade we thought we could. The result of it is that for the year 1948 England, instead of contributing half of the relief costs, will contribute about \$70,000,000 to \$80,000,000, and we will contribute about \$700,000,000.

Senator CONNALLY. 10 percent.

Secretary ROYALL. We will have voting power in the financial and economic problems that will be proportionate, more or less, with our contribution; which really means we would have the voice in those fields.

The agreement which you refer to does not relate to the expenditures by either government for the maintenance of occupation forces and control staffs. Those remain the responsibility of the respective governments. They are still paying their part of that.

In an effort to demilitarize Germany and also to provide reparations for the Allies, a program for dismantling certain German plants began shortly after occupation.

Senator WILEY. May I interrupt, before you get into that, Mr. Secretary?

What does the military occupation cost us, a year, in Germany?

Secretary ROYALL. Well, sir, if you include everything of every nature, it would run up to six or seven hundred million dollars. We estimate our total occupation for all zones costs \$2,000,000,000, including Japan and Korea, and so on; and the German part would be somewhat less than half.



Now, that figure may be misleading because even if we did not have occupation, but kept the same size army, which we think would be essential, about a billion of that would have to be spent anyway. So the extra expense of the military occupation will run around three to four hundred million dollars in Germany.

Senator WILEY. Let us get the estimate for next year. You figure that the relief expenditures will run \$700,000,000, and then you figure that our military occupation over there will probably be another half a billion.

Secretary ROYALL. Well, I would say the extra cost would be between four and five million.

Senator WILEY. Then, when you speak of relief expenditures, you are talking simply in terms of food and clothing, and you are not talking about any rehabilitation expense.

Secretary ROYALL. No, sir. We are coming to that. We have not covered that yet, sir.

When we give these occupation costs, there are so many ways you can figure them, that it is sometimes misleading, and I think the best I can give you is between four and five hundred million for Germany. Some people say between five and six hundred million, but I think the extra costs would run four or five hundred million.

Senator CONNALLY. That is based on the assumption that these troops would have to be paid wherever they were; their food, their clothing, and all the staff organization.

Secretary ROYALL. That is right.

Senator WILEY. What is the total force that we now have in Germany?

Secretary ROYALL. I believe it is 87,000.

Senator WILEY. What is the total on the European Continent?

Secretary ROYALL. The only thing we have in addition to that is 5,000 in Trieste and about 11,000 in Austria. I believe those figures are correct. I will have somebody check those.

Senator WILEY. What do you figure it costs per individual?

Secretary ROYALL. Well, sir, I do not know. That is another case where it depends upon what you include.

Senator WILEY. When you take the total number and divide it into half a billion, you get the number.

Secretary ROYALL. If you are going to include housing, camp costs, and everything else, it is hard to do, because we bought a lot of those during the war, and there is the annual depreciation, and so forth, to figure in. It is pretty hard to get a base to do that. We can tell you what the appropriation is for a particular year, because there is merely a matter of arithmetic, but to say what everything costs, past expenditures and present, is pretty hard.

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

Incidentally, that was done at a time when everybody was thinking about Germany being a cruel and a vicious enemy, and our allies, all of them, being good friends.

Senator CONNALLY. You imply that they were wrong in both instances?



Secretary ROYALL. Well, no; I think in the first instance they were pretty nearly correct. In the second, some exceptions would have to be made.

Senator CONNALLY. Under this Potsdam agreement, Russia, of course, got all of the dismantled plants in her own zones. Was it 10 or 15 percent of the plants that were dismantled in our zone?

Secretary ROYALL. They got for Russia and Poland combined 25 percent.

Senator CONNALLY. Was that 15 and 10?

Secretary ROYALL. I do not know what the division was for Poland. They were to get 25 percent, and Russia makes its own trade with Poland.

Senator CONNALLY. But was it 25 or 15?

Secretary ROYALL. Twenty-five.

The CHAIRMAN. For both?

Secretary ROYALL. For both. But Russia takes care of Poland, and I do not know exactly what their arrangement is.

Senator WILEY. What do our other allies get?

Secretary ROYALL. Seventy-five percent.

Senator WILEY. Seventy-five percent?

Secretary ROYALL. Of those in the western zone. That is what you are asking?

Senator WILEY. Yes.

Senator CONNALLY. They get what is left.

Senator BARKLEY. They do not get all of what is left. They get all that is left that is dismantled.

Senator CONNALLY. Who determines which ones will be dismantled? Our authorities there in Germany?

Secretary ROYALL. The bizonal authorities; yes.

Senator CONNALLY. All right.

Secretary ROYALL. In March 1946, a level of industry was established. This level was based upon treating Germany as a single economic unit. That, of course, has not developed, Russia having failed to agree to carrying out those terms of the Potsdam agreement.

In August 1947, a new and higher level of industry was fixed, which resulted in greater productive capacity in the critical industries, such as metals, machinery, and chemicals. There was a corresponding decrease in the plants available for reparations.

One of the first things that came before me when I came in as Secretary, was the change of the levels. After considerable negotiation, and so forth, we finally got them increased to where they can produce about what Germany could produce in 1936 when and if the plants were repaired.

Senator WILEY. How about the 25 percent that Poland and Russia got?

Secretary ROYALL. You see, the 25 percent and the 75 percent apply to those plants which are to be dismantled and removed. That is not 25 percent of the whole industry.

Senator WILEY. I understand.

Secretary ROYALL. Of course, the base upon which that was figured was decreased.

Senator WILEY. Not the percentage?

Secretary ROYALL. The percentage was the same, but the base to which it is applied was decreased.



The CHAIRMAN. Was that with Russia's consent, or not?

Secretary ROYALL. No. Russia did not consent to that. And as you may recall, Senator, France also protested, and some of the other countries at least demurred and maybe protested.

The CHAIRMAN. That was an operation on the basis of British and American authority?

Secretary ROYALL. That is right, sir. We did that ourselves, and there was quite a good deal of protest about it from other countries.

The CHAIRMAN. In other words, at that point we began to operate the bizonal area to fit our own judgments, regardless of the Potsdam agreement; and I assume on the theory that it had already been vitiated by somebody else.

Secretary ROYALL. Well, sir, we did not put it on that ground, quite.

The CHAIRMAN. It would have been a good ground.

Secretary ROYALL. We did it on the ground that we were contributing enormous amounts of money to Germany, and the only chance of ever reducing that burden was to build up the German economy. We felt that that was morally a first claim upon German industry. Therefore, as you may recall, I went to Germany 2 days after I was made Secretary, and that is when we initiated the final approval of it, and it was approved in the middle of August.

Senator BARKLEY. Are you speaking now about the 1936 level of production?

Secretary ROYALL. That is what it is aimed at, yes, sir. When the plants are repaired and operable.

Senator BARKLEY. I thought Russia agreed finally to production on the basis of 1936.

Secretary ROYALL. They never have agreed to the change we made in 1947, and we think that that was the first time we could safely say that it would bring us to the 1936 level.

Senator WILEY. Did we take any reparations?

Secretary ROYALL. Well, just a negligible amount.

Senator WILEY. Then, to what countries did the 75 percent go?

Secretary ROYALL. To France, some British colonies, and of course England got a little. England makes no protest about this. Objections were raised by France, the Netherlands, Belgium; and, of course the Russians protested.

Senator WILEY. Are there still some plants being taken out?

Secretary ROYALL. Yes, sir. I will tell you about that in a minute.

Prior to the establishment of the new levels, shipment had been made of a few plants which were obviously excess to any normal German peacetime requirements, plus some general purpose equipment from war plants.

I would like to make this clear:

In the case of war plants, only the general purpose equipment had been made available. No entire war plants were ever allocated to any nation, and the special purpose war machinery was destroyed.

Senator LODGE. But the general purpose equipment did have military value?

Secretary ROYALL. Of course, that is true, sir; as we know so well in this country in our war mobilization, there is a great deal of our normal manufacturing equipment that does contribute to the war potential.



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

Senator WILEY. That is still going out of our zone?

Secretary ROYALL. Some of that is still going out. It is in small amount.

The CHAIRMAN. That is one of the points on which many Members of the Senate have expressed a highly exercised interest.

I wonder if we could be a little more specific in the identification of what type of equipment is still going to Russia, and how much?

Secretary ROYALL. Well, I think it is the remnants of machinery from not more than three plants. One is shipbuilding, and two are general-purpose tools, or machinery from war plants, but not the specialized tools.

The CHAIRMAN. So the only thing still going to Russia is the tag end of shipments from three plants.

Secretary ROYALL. That is right, sir.

The CHAIRMAN. And it is a relatively inconsequential figure.

Secretary ROYALL. That is correct.

The CHAIRMAN. And perhaps, since it is the tag end of a given unit, it might have little or no value except as it went with the balance of the plant.

Secretary ROYALL. That is right, sir. And we had made a specific allocation to that before this level of industry was changed.

Senator CONNALLY. Did you say that even as to those plants it was only the war-making part—

Secretary ROYALL. Not the war-making part. It is the non-war-making part of it that we send to Russia. We destroy the special-purpose tools.

The CHAIRMAN. When will that be finished and over, so that you can say that shipments to the east have stopped?

Secretary ROYALL. By the first of April.

Senator WILEY. In view of the new arrangement between Britain and ourselves, in which we stop taking out a number of plants, can you tell me concretely how many more plants that meant were remaining in Germany, approximately?

Secretary ROYALL. General Draper estimates it is somewhere between four and five thousand plants.

Senator WILEY. That is by virtue of this new arrangement?

Secretary ROYALL. That is not the difference. That is the total amount. I know it almost doubled the number of plants we kept. In other words, under the arrangement before August of 1947, 2,000 would have gone out, or about that; and now, all together, there are about 700.

Senator BARKLEY. In other words, the total number of plants scheduled to go out was approximately 2,000?

Secretary ROYALL. Yes, sir.



Senator BARKLEY. I was told in Germany that it was about 1850, and that when they raised the level of production, it reduced automatically that number to 650 or 680.

Secretary ROYALL. That is right, sir.

Senator BARKLEY. So that it increased automatically there by the number of them left in Germany.

Secretary ROYALL. There will be between 4,000 and 5,000 left.

Senator BARKLEY. All together?

Secretary ROYALL. All together.

Senator BARKLEY. Let me ask you another question. You say you destroyed that part of the plant that was of war potential. We heard something about a soap factory that was dismantled, and there was no war potential in respect to a soap factory, because all they made was soap, and they needed soap.

The CHAIRMAN. There was, of course, a war potential there.

Senator BARKLEY. The soap factory makes glycerine, which has a very important war potential.

In the decision on what part of a soap factory is to be moved out, and what part is to be kept, is it easy to determine as to the part that makes glycerine and the part that makes soap? Do you know about that?

Secretary ROYALL. Yes, sir; I think I know about the plants, because we have received a lot of telegrams and letters about it.

The situation about the soap plant is this: Really, that was not put on the ground of war potential. It was put on the ground that Germany has more soap plants than it needs.

Now, what happens in these cases is that when we earmark a plant for removal, people who own that plant frequently are pretty smart and they start operations in that plant, and say, "Why do you not take this other soap plant? This one is running."

Well, they just started running it, but that is the argument they use. If you moved over to the other one, they would start.

So we have to make a choice at some time, and this choice was made by the authorities as the one that could be removed with the least injury to German industry. I said "too many soap plants." I mean too many soap plants in light of the raw materials that they have available, and can reasonably expect to get.

There is a limiting factor of raw materials, and demand, both, that was taken into account in determining which plants would remain.

Senator BARKLEY. Did the protests within Germany take on some decree of crescendo when we began to raise Cain about it over here? I am wondering whether when we began to protest about the removal of certain plants, it rather encouraged them over there to protest.

Secretary ROYALL. I do not think so, sir. The Germans who did not want to destroy their plants may have slowed down a little in their operations.

It should be made clear, that because of shortage of fuel, transportation, raw materials, and because of inefficient labor, the plants that are now being declared excess, or have been declared excess, could probably not be placed in operation in Germany within the next 4 or 5 years, even if they were left there, and even with the recovery program. And if they were left there and were unused, this equipment would deteriorate, and would be stolen or sabotaged.



Senator THOMAS of Utah. What does that mean, Mr. Secretary?

Secretary ROYALL. It means that we are really not, by the removal of the plants which we marked for removal, adversely affecting industrial recovery in Germany over the next 5-year period.

Senator THOMAS of Utah. That means, then, that some of those plants were accelerated plants, or plants that accelerated German industry for defense purposes, does it not?

Secretary ROYALL. It means that, in part, and it also means that with the limiting factors on German economic life, and the limited amount of raw materials, Germany could not use those plants under present conditions, and under those that could be reasonably anticipated over the next 5 years.

Senator BARKLEY. As to your figure of four or five thousand plants that are left, does that cover the American zone alone, or the American, British, and French zones?

Secretary ROYALL. Bizonal, the two zones. That is not every little shop. It is the plants of consequence.

Senator BARKLEY. It, for instance, does not include anything in the Russian zone?

Secretary ROYALL. No, nor the French. If these plants that are now declared excess, and could not be placed in operation, probably, in Germany within the next 4 or 5 years were left in place, and unused, of course some of it would deteriorate and some would be sabotaged and stolen. At the same time, much of it is needed, and desired by the western nations who participate in the interallied reparations program, and it has been promised to them. They want it, and they were promised it, and they are asking for it.

Senator BARKLEY. On that very point, how much deterioration is there in the value of a plant that is torn down and moved into another country and set up again?

Secretary ROYALL. I imagine it varies a great deal, Senator, but of course, in my own opinion, it must be considerable.

Senator BARKLEY. The expense of reestablishing the plant, rebuilding it, and all that, is borne by the recipient nation?

Secretary ROYALL. The expense of rebuilding it would be. But the tearing down and removal is done by German labor.

Senator BARKLEY. Yes, but I mean the cost of putting the building up, putting the plant up and getting it ready to operate in the country to which it goes. That is borne by the country which receives it, after it gets there?

Secretary ROYALL. That is right, and they think they can use it when Germany cannot, and that it will help their recovery. If that is true, it will reduce the demand on the United States.

Senator BARKLEY. The cost would be less than that of buying entirely new equipment and putting it up.

Secretary ROYALL. Yes.

The CHAIRMAN. Before you leave that point, Mr. Secretary, how much plant removal has been going on into the western nations? Any?

Secretary ROYALL. Yes, sir. We had a first list, a preliminary list. In addition to 40 plants in our zone and 40 in the British zone which have been fully dismantled and fully delivered either to the U. S. S. R. or western nations, there are 61 plants in our zone, and 30 plants in the United Kingdom zone, that have been totally dismantled but not fully delivered; and there are 169, of which 46 are in our zone, and



123 are in the United Kingdom zone, which are now in process of being dismantled; and there are 39 in our zone and 303 in the British zone, making a total of 342, on which dismantling has not yet been begun, but which have been earmarked.

The CHAIRMAN. Those have gone to and are intended for what countries?

Secretary ROYALL. Well, I know the countries, but I do not know whether I have them in the proportions. The final allocation has not been made, but they presently are going to France, Belgium, Luxembourg, Netherlands, England, and some English colonies, Egypt, India—there are altogether 16 or 18 countries, but most of them are minor countries.

The CHAIRMAN. But this dismantling program sooner or later has to continue to a degree, in order to keep faith with our friends in these other countries.

Secretary ROYALL. That is right, sir.

As to the plants which have been marked for dismantling, that is a definite list now, and there is no element of uncertainty, unless it is changed. We feel that those plants can be dismantled and removed without any adverse effect on the present German economy, or the German economy over a 4- or 5-year period.

Senator BARKLEY. Is that partly because the number of such plants was largely increased during the years in which they were preparing for war, so as to increase their production, both for war purposes and for domestic purposes, as both were stepped up; and that this dismantling process means getting back to about a normal production, or normal need for plants when war is not in contemplation?

Secretary ROYALL. That is one of the factors. Another factor, Senator, is that Germany, its transportation, its raw materials, and its other conditions, has a limiting consideration as to its ability to manufacture.

The plants that remain are calculated to be sufficient to produce the 1936 level of production in Germany.

Senator BARKLEY. That included not only the needs of the German people, but some exports?

Secretary ROYALL. That is right, sir; considerable exports.

Senator SMITH. Mr. Chairman, do you wish to finish this subject now, or shall I wait until the Secretary covers his whole report? I have some questions on plant.

The CHAIRMAN. I think it would be a good idea to let the Secretary finish his statement this afternoon, so that we can go down the list in the morning.

All right, Mr. Secretary.

Secretary ROYALL. The western countries can use this, where Germany cannot, and its use by them can help economic recovery and reduce the demands on the United States for dollar aid.

Now, this is really one of the fundamental questions:

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



Now, at this time, faced with the possible failure of currency negotiations on quadripartite basis, the problem of alternative action is being studied. Numerous technical and policy problems, new ones, are bound to face any program for currency reform—particularly for a bizonal or trizonal area.

The basic economic fact is simple. The gap between the supply of money and the supply of goods must be closed if incentives to work and to produce are to be restored. And we have that very definitely in mind.

Senator SMITH. Mr. Secretary, as we have not come to any agreement for an over-all government of Germany, why can we not move right ahead on that in the bizonal area?

Secretary ROYALL. We are moving right ahead on that now.

Senator SMITH. I think it is terribly important.

Secretary ROYALL. I agree with you a hundred percent. Of course, we still have the question of the French zone to discuss. With a country like that, where they have always used the same currency, and there is a certain amount of flow back and forth, it is much preferable to have a single currency if it can be controlled on a sound basis. And we have not entirely abandoned the quadripartite discussions, but we are working on this alternative at the same time.

I have tried to make clear the present situation, and the existing outlooks to economic rehabilitation in Germany.

The present low levels of production constitute a drag not only upon Germany recovery, but also upon the recovery of the rest of Europe.

I am convinced that no plan for economic aid to Europe can be a success unless it fully comprehends such assistance to Germany as will permit that country not only to help herself, but also to be of assistance to the other participants in the program.

The relationship of bizonal Germany to the European recovery program rests upon a reasonable restoration of the prewar German trade pattern, with recognition of and opportunity for a greater freedom of intercountry exchange of goods and services by reduction of trade barriers and exchange between the local currencies of the various countries.

German economic improvement—and the raw materials and incentive goods which are needed for it—have heretofore come almost entirely from the German exports. Food has been sent to Germany, but there has been no contribution in money from this country to build up German industry—no pump-priming with our dollars.

So the progress has been slow, much slower than in other European nations. To attain full economic recovery, Germany needs more outside help than any country in western Europe. I do not mean to say that Germany ought to be treated as well as other nations, but I say in order to have a recovery which is an integral part of European recovery, they are worse off, and need more help than any other European nation.

In anticipation of a possible European recovery program, the bizonal military government officials first prepared a 4-year economic recovery program based upon an immediate rise in total imports, and a change in their composition.

The program was an attempt to get away from present relief and “disease and unrest” formulas, on which Army appropriations have been based, and to present a reasonable economic rehabilitation effort.



It was proposed on the theory that our taxpayers are entitled to relief from the German economic burden as rapidly as possible.

This program, if it had been accepted in total, would have necessitated large appropriations in the early years, and would have required a priority for special-type imports of items which are in critical world supply.

These demands would doubtless have subjected this country to criticism that we were attempting to rehabilitate Germany ahead of the recovery of our world-war allies.

Then we sought to fit our program into the 16-nation European recovery program; and our original estimate was reduced. The world availability of supply did not permit the allocation to Germany of the total of the estimated requirements. In many cases, too, the sources of the imports had to be changed, because Germany is expected under the new program to receive considerably more of her requirements from other European countries than the bizonal authorities had considered possible under their previous plans.

After figures and requirements for the bizonal area had been screened, and a reasonably accurate total obtained, it was decided that the Army would request appropriations for that portion of the total German requirements which represent the Army's responsibility under the "disease and unrest" formula, the so-called GARIOA funds—government and relief in occupied areas.

This leaves only the German rehabilitation requirements in the European recovery program budget. That part of the program is \$320,000,000, or something like that.

Senator SMITH. That is in addition, then, to the 6.8 billion?

Secretary ROYALL. No; that is part of it. But our food appropriation we are asking for ourselves, together with Japan and Korea's food; just as we have done in the past.

The CHAIRMAN. How much is that?

Secretary ROYALL. The total for Germany is \$700,000,000 and it runs up to between a little over \$1,100,000,000, and \$1,200,000,000.

Senator LODGE. In the \$6,800,000,000, how much did we contribute to Germany?

Secretary ROYALL. \$320,000,000; that is, for rehabilitation requirements.

This plan recognizes those Army responsibilities which existed prior to the development of the European recovery program. You see, that is all we got. We did not get anything but relief funds. We did not ask for rehabilitation. And at the same time, it provides the necessary flexibility for the operation of the purely rehabilitation phases of the new program. This will permit the recovery activities for bizonal Germany to be handled in relation to those of the other European countries.

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



Senator WILEY. If I understand that correctly, the Army will have \$700,000,000 plus its \$400,000,000, or \$500,000,000, and the ERP would have the three hundred-million-some-odd dollars.

Secretary ROYALL. Yes. But either those funds, or the commodities would come to the military government of Germany for expenditure, just like that for France would go to their government, but under supervision of the recovery administration.

Senator WILEY. The only amount that is involved in the \$6,800,000,000 is the \$320,000,000?

Secretary ROYALL. I believe the figure is \$322,000,000.

The CHAIRMAN. Who decides on the recuperation program in Germany under ERP? Is it the Administrator or the Army?

Secretary ROYALL. We would decide it under their supervision, just like France would decide it under their supervision. But the Administrator decides how much is to be allocated.

We would administer it though, the military government would administer it.

The CHAIRMAN. In other instances, the Administrator has a bilateral agreement with the beneficiary country respecting its obligations, et cetera. Is there any comparable arrangement in respect to the German share?

Secretary ROYALL. It would be certainly much less formalized. That is the reason I said the supervision here would be less—less formal, I might have added—because it is a government. We would have some sort of understanding, but there would be no arms-length agreement, or possibly no agreement at all. But it would be an agreement on policy.

Senator BARKLEY. I keep seeing in the papers that the State Department is going to take over from the War Department the administration of Germany. The last statement I saw the other day was that it was to take place on July 1. What is there to that? What are the facts?

Secretary ROYALL. I am glad to tell you all I know about it. Judge Patterson, and then later myself have been insisting, and requesting—requesting and insisting, I should say—that the nonmilitary part of occupation should be handled by the State Department; that it was not a proper function of the military. The matter has been under consideration for some time. Last fall we had hoped it would be effective then, but the State Department decided that it would not be feasible to take it over, and that they would give it further study.

There were several dates discussed at that time, one of which was June 30 of 1948. I have not talked with General Marshall since I have been away on a trip, but I think he stated before this committee that he expected to take it over June 30. I had an engagement to discuss that with him this afternoon, but I will not be able to do it.

Senator BARKLEY. Would it be any easier to determine what is a military and what is a nonmilitary function in that region than it will be to determine whether anything that is done affects our foreign policy, and therefore would have to be handled through the Secretary of State; or other twin problems that come up?

Secretary ROYALL. I think it will be easier if the State Department takes it up. The military government of Germany is entirely separate for all practical purposes from the Army functions in Germany. The headquarters of the Army functions, as you know, are at Frankfurt,



under General Huebner; and while General Clay is commanding general as well as military governor, the line is pretty clearly drawn.

Now, the reason for our request for the State Department to take it over is that we had policy-making organizations, both of which were legitimately policy-making organizations, as long as we had the administrative responsibility. In my opinion, a program like the military government of Germany has got to be run by one responsible organization. Therefore, we think that it ought to be centralized in the person that has the prime policy decisions to make, and that has been our decision.

Senator BARKLEY. More and more the people of Germany are being given local self-government. That is true in the towns, the districts, he states. They are gradually taking over their local self-government by the election of mayors, and such organizations as they have. That is not necessarily a military operation.

Secretary ROYALL. Not at all, sir.

Senator BARKLEY. Therefore, I suppose if the State Department takes over the nonmilitary, they would have charge of the civil functions of these different localities—states, districts, whatever they are, and the Army would therefore be relieved of that.

Secretary ROYALL. That is right, sir.

Senator BARKLEY. Would the Army have anything to do with the policing of the communities?

Secretary ROYALL. I suppose we would still have the constabulary functions and the security problems.

Senator CONNALLY. That would increase our personnel over there pretty substantially; would it not?

Secretary ROYALL. Here is what would happen as far as the Army is concerned. We would lose a lot of civilian personnel. We would relieve a small number of officers and send them to other duties. But there would not be a very large percentage of reduction of officers, because most of our officers over there are engaged in military duties.

Senator CONNALLY. The State Department, though, would operate with a lot of new personnel; would it not?

Secretary ROYALL. They have indicated to us that when they do take over, they want to retain a good part of ours.

In the beginning, they would take all of our civilian personnel over, and we would probably lend them the officers until they could replace them with civilians.

Senator SMITH. You would turn over the whole AMG to them?

Secretary ROYALL. That is what we have been trying to do, and it now looks as though that is what will be done.

The CHAIRMAN. Under the pending bill, is there any discrimination or difference between the provisions for the administration of ERP in the 16 countries, and in western Germany?

Secretary ROYALL. None, except that in western Germany the administering agency will be a United States controlled agency from the economic standpoint, and a United States-United Kingdom political agency, unless that zone is politically united, which is now under consideration.

The CHAIRMAN. But there is a distinction between the two types of ERP operation; because in western Germany you cannot proceed, I assume, under the requirements for bilateral agreements, and so forth.



Secretary ROYALL. I do not think you would have to do that; no, sir.

The CHAIRMAN. So there is a difference.

Secretary ROYALL. There is a difference in the mechanics, and I think in the relative control. Because there is less need for supervision by the recovery administration over an organization which our Nation already controls.

Senator WILEY. There is no German government, in other words, to negotiate with.

Secretary ROYALL. No, sir. There is not true, full German government. We are trying, as Senator Barkley and Senator Connally have said, to give more and more authority to the German government.

Senator BARKLEY. As long as the United States occupies the dual position of grantor and grantee, if those terms may be applicable, within the German region, it would be like a man's right hand making a contract with his left hand to do a certain thing.

Secretary ROYALL. That is right, sir. And if the State Department has supervision over both of them, it will be still simpler.

Senator SMITH. Mr. Secretary, you probably anticipate that for probably 4 or 5 years we will have to have an organization in Germany to help to work out this puzzle there, perhaps slowly giving the people some self-government.

Secretary ROYALL. We cannot fix any definite end to it even at that period, because we do not know what conditions will be at that time; at least that long, though, yes, sir.

Senator SMITH. The reason I mention that: I am making it coincident with the life of the ERP.

Secretary ROYALL. Yes, sir.

Senator SMITH. And if that is true, and we are putting the resources of western Germany into the ERP picture, and are going to mobilize the coal of the Ruhr, and the industries of the Ruhr and that whole picture, the next question I would like to ask you is: Would it not be better to reconsider this whole matter of the moving of plants and to let them remain right where they are, rather than to move them over into France, and so on, just on the reparation idea?

Secretary ROYALL. My judgment would rather be the other way: based primarily on the ground that our information is that Germany cannot use them during that period anyway.

Senator SMITH. How can the other countries use them any better if there is a shortage of coal?

Secretary ROYALL. The other countries might get some benefit from them. Germany, on our information, would within that period get no benefit from them. The other countries, speaking now of the western countries, have been promised them, and they want them, and they say they will contribute to their recovery and they will tend to reduce the amount of money they would need in assistance.

Senator SMITH. My premise was that the whole area is going to be handled in a sense together, by the pooling of resources of the whole area.

I am just wondering whether it is more economical to use a plant where it is than to pay the expense and to take the time to move it somewhere else just because of the difference of the sovereignty.

Secretary ROYALL. If they could be used in Germany, I would agree with you entirely, but the mere fact that the recovery administration



is going to supervise this whole program, in a sense, does not mean that borders will be destroyed, and that there will be a free exchange of labor, for example. I do not think you can quite dissolve the border. And I would doubt seriously whether the joint supervision would go to such an extent that a plant in Germany is freely interchangeable with a plant somewhere else. I may be wrong about that and certainly it is a phase of it that I think the recovery administration should carefully study.

Senator SMITH. That is the reason I raise the question: Whether in light of the ERP we should not give reconsideration to the whole dismantling program, the removal of these plants, and whether they can be used most effectively right where they are in Germany for the benefit of everybody.

Secretary ROYALL. Certainly it should be considered. I do not believe it would lead to a different result, but I think it might well be considered.

Senator SMITH. I think the countries that would be benefited by this so-called reparations principle might even see an advantage to them from handling the plants where they are, rather than go to the expense of removal, and the time of removal, and the dollars it will take. We have to think of that. We will have to pay for the removal if it is to be done.

Secretary ROYALL. Well, we are paying for it in Reichsmarks.

Senator SMITH. That of course is true, as far as the German labor is concerned, but you have other complications there.

Secretary ROYALL. Yes; there are some.

Senator SMITH. All we want to do is to get production as quickly as possible. That is the reason for my suggestion.

Secretary ROYALL. Yes, sir. I think it could well be studied.

The administration of the European recovery program in Germany should be relatively simple. United States military government authorities, in consultation with those of Britain and with German economic agencies, will prepare and submit the bizonal requirements to Department of the Army until that Department is relieved of occupational responsibility.

When the United States military government receives its allocation of recovery funds, it will then carry out instructions it receives through the Department of the Army in connection with the importation of raw materials, their manufacture and distribution, and other related matters.

The military government authorities will, like any other European country, designate a representative of bizonal Germany on the continuing European recovery organization. In the United States, the Department of the Army will represent bizonal Germany in its contact with the Recovery Administrator.

It will receive the German recovery requirements, assist in screening them, and then present them to, and defend them before, the Administrator.

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



where it can be of service as a procurement and shipping agency for supplies.

The CHAIRMAN. Before you leave that page Mr. Secretary, go back to the second sentence in the second paragraph:

When the United States military government receives its allocation of recovery funds it will then carry out instructions it receives through the Department of the Army in connection with the importation of raw materials, their manufacture, and distribution, and other related matters.

Secretary ROYALL. Yes, sir.

The CHAIRMAN. Does that mean that the ERP Administrator does not have the same final over-all responsibility?

Secretary ROYALL. No, sir; it does not. And if that impression was left, as I well see it might be, it should be corrected. I thought to correct it in the next paragraph where I said that the Army will represent bizonal Germany in contact with the Administrator, and present and defend the requirements before the Administrator.

The CHAIRMAN. The Administrator has the same function and power here, then, as anywhere else?

Secretary ROYALL. Yes, sir. I sought to give that inference, but I agree that it might be stated more explicitly.

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

The current level of industrial production is too low, and the obstacles of inadequate power, transportation, and raw materials, and low labor productivity are too great to be immediately overcome.

The Army believes, however, that bizonal Germany is ready to respond if given assistance.

The successful execution of the entire program, of course, depends on many assumptions.

One assumption is that there will be a substantial increase in labor productivity by 1952, as a result of the improved standard of living and improved morale of the German worker.

Another assumption is that requisite financial and administrative reforms will be vigorously pursued, and that policies providing an incentive to exports will be adopted and implemented.

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

The recovery of German foreign trade is, of course, closely linked to the success of the European recovery program as a whole. Germany must be able to turn to the other European countries as a market for her growing production, and as a source of her imports.

An increase in the production and purchasing power of these countries is, therefore, vital to Germany, just as German recovery is vital to the rest of Europe.



Under favorable conditions, and this is our best judgment, the trade deficit of Germany should be reduced to a manageable figure by 1952.

While some deficit may still be evident at that time, Germany's economic prospects may well have improved to such an extent that private capital will again be attracted to Germany and will assist measurably in balancing Germany's international accounts.

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

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

Second, we can continue the present program of sustaining the German people on the basis of prevention of "disease and unrest," and let Germany's meager exports gradually build up the country's rehabilitation.

This approach presages a long, difficult struggle to raise the economic levels, and would require continuing very substantial annual relief appropriations. This course will be hard on the American taxpayers.

Third, we can provide financial assistance to western Germany as a participant with the 16 other European nations, as proposed by this cooperative endeavor, in an attempt to raise her economic level toward self-support in the shortest possible time.

This is the alternative that I most earnestly recommend.

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

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

The European cooperative recovery program now before you, I believe, is a blueprint, or certainly may be the blueprint, for an enduring structure.

I therefore strongly recommend approval of the program proposed by the President, and so sincerely present it for your consideration by Secretary Marshall and the other gentlemen who have testified previously.

The CHAIRMAN. Mr. Secretary, I am sure the cross-examination by the committee could not be concluded by 5 o'clock.

I think perhaps it would be more convenient for all concerned, if you can return tomorrow morning at 10 o'clock.

The committee will now recess.

(Whereupon, at 4:35 p. m., an adjournment was taken, to reconvene at 10 a. m., Thursday, January 15, 1948.)