

Under favorable conditions and this is our best judgment, the whole of Germany should be reduced to a manageable figure by 1945. While some doubt may still be evident at this 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 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 completely armed forces and military government personnel from the occupation of Germany. This course seems to me unworkable today and absolutely contrary to our national objectives. Second, we can continue the present program of assisting the German people on the basis of prevention of disease and hunger, and let Germany's meager exports gradually build up the country's rehabilitation fund and other resources. This approach suggests a long, difficult struggle to raise the economic level and would require continuing very substantial annual relief appropriations. This course will be hard on the American taxpayer. Third, we can provide financial assistance to western Germany as a participant with the other European nations as proposed by this cooperative endeavor, in an attempt to raise her economic level toward self-sufficiency in the shortest possible time.

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 agitation 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 each system points the way to prosperity and peace.

The European cooperative recovery program now before you, I believe, is a blueprint of certainty 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 would 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. I am sure the recovery program was taken to recovery.

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EUROPEAN RECOVERY PROGRAM

THURSDAY, JANUARY 15, 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 Barkley.

Also present: Senators Millikin and Thye.

The CHAIRMAN. The committee will come to order.

I would like to state first, for the committee's information, what the plans are in respect to these hearings for the next few days. At the conclusion of the examination of Secretary Royall this morning we will recess until 2 o'clock today, when Secretary Forrestal will appear. He will be the only witness this afternoon.

Tomorrow morning Mr. McCloy, of the International Bank, will appear. He will be the final witness for the week. When the committee finishes with Mr. McCloy tomorrow morning it will recess until Monday at 10 o'clock.

On Monday at 10 o'clock Mr. Baruch will appear.

Tuesday at 10 o'clock Mr. John Foster Dulles.

I am hopeful that on one or the other of those days I shall also have a statement from former President Hoover, who cannot appear in person because he has gone to Florida for a rest. That indicates the prospectus for the next few days.

I might add that yesterday the State Department filed with the committees of both the House and the Senate detailed reports on the needs of these so-called beneficiary countries, in great detail, country by country. The complete exhibit is much too large to be included in the record, but we shall arrange for an accurate briefing of the exhibits and the briefing will be presented to the committee later.

Senator LODGE. Mr. Chairman.

The CHAIRMAN. Senator Lodge.

Senator LODGE. If all this adequate material which comes so late in the day suggests the need for further questioning, which it very well may, I presume that the officials of the State Department will be available to come back and give further testimony; will they not?

The CHAIRMAN. In the opinion of the chairman, the information is so basic that it will be indispensable that further testimony should be taken from State Department witnesses.

The committee will continue its consideration of the testimony of Secretary of the Army Royall.

Mr. Secretary, I want to nail down very specifically your conclusions in respect to this question of dismantling plants in Germany because, as you know, there was a considerable debate in the Senate on that subject when we passed the interim-aid bill. You will remember that there was offered in the Senate as an amendment to the interim-aid bill a proposal that all dismantling of plants in Germany should be suspended. It is my understanding of your testimony, and I am asking you to check those conclusions, that it would be both inadvisable and futile in respect to any useful results to suspend all dismantling of plants in Germany for the following reasons:

First, that the plants which remain to be dismantled are not essential to the maintenance of the German economy at the level contemplated for the next 5 years in Germany.

Second, that none of the dismantled plants except the tag-end remnants of three plants will be sent to Russia, and that all dismantling which is confined to those three plants, all dismantling intended for Russia, will have stopped the 1st of April.

Third, that such dismantling with this tag-end exception as continues to occur will therefore be for the benefit of the reparation claims which are recognized in behalf of other Allies, particularly the western European Allies and their colleagues.

Therefore, that the total suspension of dismantling would contribute neither to the German economy nor to the agreed program of reparations in respect to Allies other than Russia.

Is that a correct statement?

STATEMENT BY HON. KENNETH C. ROYALL, SECRETARY OF THE ARMY—Resumed

Secretary ROYALL. I think that is a very complete and excellent summary, and a correct summary. There is only one qualification.

Some of the plants which will be dismantled in the future would contain material that would be subject to allocation to Russia. But we do not contemplate at this time making any further deliveries to Russia from the United States zone, other than the three plants you have stated, and we do not contemplate making any in the future until we have thoroughly examined whether or not Russia has complied with her part of the Potsdam and other agreements, and therefore you are correct in saying that no further deliveries at this time are contemplated to be made to Russia.

The CHAIRMAN. I also want your direct and specific comment on the proposal which we confronted on the floor of the Senate, namely, that all the dismantling of plants should cease. Am I not correct in also saying that an order of that character would be inadvisable first because it is not essential to the German economy which we contemplate restoring, and because additional surplus dismantling is necessary in order to meet the legitimate and accepted reparations requirements of our western allies?

Secretary ROYALL. That is entirely correct, and that is under the IERA agreement.

The CHAIRMAN. I want to make one other point in your testimony inescapably clear. You said in your opening statement, yesterday, and I quote:

I firmly believe that enlightened cooperative economic endeavor as visualized in the European recovery program can go a long way toward reducing the neces-

sity for large-scale national armaments, and that without some such effort the Army and its budget should be immediately and measurably increased.

As I understand you, what you were saying is that if it were not for the prospect of organized economic stabilization as a source of security you envision an alternative situation which would require immediate and measurable appropriations for larger-scale national armaments than have been thus far requested?

Secretary ROYALL. That is correct, sir.

The CHAIRMAN. Put still more bluntly, is it fair to say that your judgment offers us the choice, in part, between appropriations for economic cooperation on the one hand, or greater appropriations for military purposes in the interests of our ultimate national security?

Secretary ROYALL. That is my judgment.

The CHAIRMAN. Senator Wiley?

Senator WILEY. I have no questions.

The CHAIRMAN. Senator Thomas?

Senator THOMAS of Utah. I have no questions.

The CHAIRMAN. Senator Lodge?

Senator LODGE. About 6 weeks ago I asked you for a statement on the extent to which the Army was short of its minimum strength and at that time the statement was made, and I quote:

The Army is at present between 60 percent and 70 percent short of the minimum strength of five divisions which the Army requires in combat ground troops, not counting occupation forces.

I will repeat that:

At the present time the Army is between 60 and 70 percent short of the minimum strength of five divisions which the Army requires in combat ground troops, not counting occupation forces.

Is that approximately the situation today?

Secretary ROYALL. It is, sir. It does not mean, of course, that our total manpower is 60 or 70 percent, but there are certain functions that must be performed, and therefore the weight of the deficiency falls very largely on the five divisions to which you refer, and those figures are approximately correct today.

Senator LODGE. If we should have immediately and measurably to increase the size of the Army, to quote from your statement, to which the chairman has just alluded, how would you go about getting the manpower to do it?

Secretary ROYALL. There are only two ways. One is by a better record of enlistments than we are able to obtain under present conditions, which might be done by some increased compensation or some other means. The second would be some method of selective service.

Senator LODGE. If you assume that the voluntary recruiting system has produced as many men for the Army as it can produce, then that leaves recourse to the draft.

Secretary ROYALL. Those are the only two alternatives. We are trying all the time, as you know, to improve enlistments. There is a very concerted effort. We recognize, however, that today we have the largest enlisted Army and Air Force that this country or any other country has ever had by voluntary methods. We also realize that we are faced with a period of full employment, where the financial incentive for enlistment in the Army is nonexistent, or practically nonexistent.

There are other factors. But we do not anticipate that we can even hold our present strength over the months immediately ahead, that we will lose more men than we can enlist in the months immediately ahead.

Senator LODGE. In that case we could take the chairman's bluntest statement and make it even blunter, and say that we confront the alternative either of supporting this effort for economic rehabilitation of Europe, or else going back to the draft.

Secretary ROYALL. That would be, I think, the logical conclusion, unless the Congress or ourselves, or we jointly, can devise some other method of increasing voluntary enlistments, as I say, by increased pay or some other incentive which we have not up to this time urged upon Congress.

Senator LODGE. But certainly the voluntary system, as it is set up at present, is not producing the manpower that we need, is it?

Secretary ROYALL. No; it is not. And I do not think it will, certainly over the next few months.

Senator LODGE. I think that is a very stark prospect.

The CHAIRMAN. Yes, Senator. If I can interrupt, I know the spirit in which the Secretary is making these statements. He is not undertaking to wave any red flag and he is not attempting to put us under any hypothetical pressures in respect to our present task. He is simply, as I understand him, and as I take his testimony, emphasizing the fact that the United States of America has a terrifically intimate self-interest in the pursuit of a stabilized western Europe, and while there are calculated risks in proceeding under the pending legislation there are even greater calculated risks involved in ignoring the pursuit of peaceful stabilization by some such program as here pends.

Secretary ROYALL. That is right, sir. I feel that having been asked to testify before your committee I would be lacking in frankness if I had not stated my own opinion on the question which we are now discussing.

I wish it were not necessary to reach that conclusion, but I feel that the committee was entitled to that opinion.

No one can be certain, of course, what elements will provide the maximum security to the United States. It is all a matter of judgment. But the Department of the Army is of the opinion, first, that in the absence of some orderly recovery of Europe the militarization, the military risks, as well as the ideological risks, will be greatly increased; and it is also firmly of the opinion that if we can attain peace and accomplish the elimination of the military might by ordinary peaceful means, including industrial recovery, that it is much better for the world and for the country.

The CHAIRMAN. I want to add that it is obvious that the Secretary has not engaged in a militaristic proposal in his testimony because his testimony is all in favor of following the course which will minimize the necessity of militarism.

Secretary ROYALL. That is my firm conviction as to the best course.

Senator WILEY. May I interrupt?

Senator LODGE. Yes; certainly.

Senator WILEY. I am very much interested in your comment, Mr. Secretary. Now let us see if we cannot get this down to a matter of dollars and cents.

You say that it probably means that we would have to have the draft, and that would add, in your mind, how many more men to the armed forces?

Secretary ROYALL. You mean to the Army part of them?

Senator WILEY. Yes. I mean assuming that we did not venture forth in this program or a similar program, and the conclusion then was that we would have to increase our armed forces.

Now, by how many men would we have to increase our armed forces, and, in connection with that, what other additional equipment would we have to have that we would not have to have under the first circumstances, and how much would that all cost?

Let us see if we can get an estimate, and put one against the other.

Secretary ROYALL. I think that question is one that perhaps I cannot answer with exactness. But I can give you some suggested figures which ought to be helpful for the purpose which you have in mind.

I say it cannot be answered with exactness because we estimated our requirements in the light of the possibility that some plan of recovery—this or some other plan of recovery—might become effective. We had to have some assumption. We could not assume two things; we had to assume one or the other. It does not mean that we prejudged it because we know it is a matter for Congress. But we had to have some assumption.

Certainly we would need to bring our military strength up to that which Congress last year authorized. We are now about 160,000 men short.

Certainly we would have to increase both the modernization of existing equipment all down the line, and in addition to that purchase new types of equipment which have been developed since the end of the war.

We asked, at the initial stages, for the Army and the Air Forces, an appropriation of about $2\frac{1}{4}$ billion dollars more than is now before Congress. I think that it is safe to say that that would be a minimum figure that we would try to insist on in the event the hope of economic recovery in Europe had to be abandoned.

I think that is about as far as I can go.

Senator BARKLEY. Do you mean you asked for $2\frac{1}{4}$ billion dollars more than the Budget finally allocated to you?

Secretary ROYALL. Yes, sir. And one of the considerations in the discussion with the Budget—I realize I am talking about matters between the Departments, but I think this is of such importance that I do not believe any security or secrecy is justified—one of the considerations in our discussions with the Budget on this matter was the fact that there is a dollar limit that America can spend for all purposes, and that the probability of some expenditure in large amounts for some plan of European recovery had to be taken into consideration. That was discussed specifically.

We are standing behind the figure which the Budget gave us, which is $2\frac{1}{4}$ billion dollars less than was originally presented to them.

Senator BARKLEY. Was that $2\frac{1}{4}$ billion dollars which you asked for and did not get in the budget, based upon a European recovery program, or based upon the absence of that?

Secretary ROYALL. I do not believe you can quite separate it into compartments. At least some part of that we probably felt we needed regardless of the European recovery program. I have not allocated it quite that way. Some other parts of it are not needed in our opin-

ion—in a smaller degree needed—if we have this program. And then as I said the financial necessity of having some limit on the national expenditures did require further weight to be given to the European recovery program, or the possibility of it.

The CHAIRMAN. I want to ask you just one thing more in this connection, Mr. Secretary. I want to be sure that your testimony is not left in any danger of misunderstanding. You are not saying to us that we have to take this bill or else; you are saying to us that there are two routes which we can follow in the pursuit of national security, one route is economic and the other is military, and that if we abandon the one we have no alternative except to recur to the other one.

Secretary ROYALL. If you abandon the one you must increase the other to make the Nation safe, in my opinion.

Senator LODGE. And the military route involves not only an expenditure of dollars, which of course the economic route does, but it also very likely involves the Government doing the most painful thing which the Government can do to its citizens, to wit, drafting the men, taking them away from their homes and putting them into the service.

Secretary ROYALL. That is right, sir. And there is another consideration: Expenditures for military purposes have a minimum or possible return to this country for its own benefit as compared with expenditures for the benefit of building up world economic conditions.

Senator THOMAS of Utah. I wonder, Mr. Secretary, if we could not make a comparison here to a military man's first duty under martial law. Under the theory of our country, the first duty is to restore the normal processes; is it not true?

Secretary ROYALL. It certainly is, sir. And certainly I feel very intensely that the more we can reduce the military expenditures by making them unnecessary, through normal processes of commerce and industry, the better off this Nation will be the sooner that can be done.

Senator THOMAS of Utah. And the better off the world will be.

Secretary ROYALL. That is right, sir.

Senator THOMAS of Utah. May we not go farther—if I understand the chairman's point, and I think I do—whenever we expand in a military way we invite the same sort of thing on the part of someone else, or some other country. There is nothing quite like military movement to arouse suspicions, is there? Whenever we advance a peaceful process we drop that, and competition goes in another way.

Secretary ROYALL. I agree entirely with that statement, sir.

Senator THOMAS of Utah. So that our stand here, while it is for self-interest, national self-interest—use the term as it has been used by the militarists, if you want—still the fact remains that American history bears us out in the fact that Americans have always interpreted their self-interest from a peaceful standpoint first, and a military standpoint second. Is that not true?

Secretary ROYALL. That is right, sir. The military protection of America is a matter of necessity and not of choice.

Senator THOMAS of Utah. So that we can, I think, Mr. Secretary, take completely the assumption that the chairman has made, that the effort that we are putting forth is an effort for peace, stability, and normal processes, and not an effort to extend ourselves, or to make it necessary for us to remain extended throughout the world.

Secretary ROYALL. That is clearly the purpose of this proposal.

The CHAIRMAN. I think that is a very important contribution, Senator.

Senator BARKLEY. In that connection, speaking of the increased expenditure in dollars, considering it only from the standpoint of dollars, to prepare to defend ourselves if this plan is not inaugurated, that is not a 4-year commitment, that is a perpetual commitment. Nobody can tell us how long it will be necessary for us to engage in it and it may be intensified in proportion to the strength of any other nations in position to endanger our security, or in proportion to the chaos that would result from a do-nothing policy in regard to trying to bring about an economic peaceful recovery of the world where contentment and happiness and prosperity might minimize the chances of war.

Secretary ROYALL. That is right, sir. The expenditure for military purposes would be not only recurring, but if there were a disintegration of world stability, as it is today, it would have to be increased for the safety of the country.

I might say, Senator Barkley, that, of course, I used budget figures in my illustration which related to only two of the three services, the Army and the Air Forces, because they were the only ones that I was familiar with.

We put in a joint request this year. It does not include any consideration of the Navy.

Senator BARKLEY. That would be on top of the economic loss that would be incurred growing out of world chaos and unsettlement and uncertainty and all that goes along with it, which would be great, would it not?

Secretary ROYALL. It certainly would. I think the people of this country not only devoutly want peace and demilitarization, but I do not know anything that is more necessary to restore a normal plan of life and scale of life in this country and throughout the world.

The CHAIRMAN. Again, Mr. Secretary, confronting one other set of alternatives, is it not your opinion that except as we can contrive the economic restabilization of western Europe—not necessarily in the terms of the pending bill, but in something comparable by way of objective—unless we achieve that result we are saddled with an indefinite occupation cost in Germany which in net result would very easily be calculated to far exceed the cost of seeking and assisting in economic recovery.

Secretary ROYALL. Because of the indefinite length of time that may well be true. And as I think I said yesterday, in the absence of a great change in world conditions we do not see the end of occupation yet.

Senator LODGE. Mr. Chairman?

The CHAIRMAN. Senator Lodge. Go ahead; you were interrupted.

Senator LODGE. That is all right. I enjoy these interruptions. They are always very fruitful.

I want to ask you another question now concerning the economic recovery of western Germany.

Am I correct in my belief that economic recovery for western Germany depends on the development of a German industrial export surplus sufficient to make up for their deficiency in the things they need?

Secretary ROYALL. That is entirely correct.

Senator LODGE. Broadly speaking, what type of exports do you expect that they will develop? Do you have a list of a few categories?

Secretary ROYALL. We have a list that might be helpful on that. We have two lists; one on production, which, of course, is a prerequisite to the export, and another on the estimated exports for the year 1948.

This is an estimate for 1948 which I said yesterday would probably be excessive in total amount, but the principal item is coal. The next item is steel and iron products. The next item is timber.

Senator LODGE. Is the steel fabricated steel or unfabricated?

Secretary ROYALL. This is fabricated that I was referring to.

I am wrong. Textiles come second; after coal. Textiles, and then steel.

The other principal items are specialized steel products, the end products; glass and ceramics; chemicals; optics. Those are the principal ones. Some power and gas and scrap.

Senator LODGE. Those industries as we know can all be converted to military use within a greater or lesser space of time, can they not?

Secretary ROYALL. That is correct, sir. Of course, we are faced with a choice in this entire economic development of Germany, a choice between two objectives which present questions of degree and require close matters of judgment.

We started the occupation of Germany with our prime objective being to demilitarize it and make it impossible for it to over fight again. If we took that to an extreme it could never, in my opinion, recover, because Germany cannot survive as an agricultural nation, or a nation of small shopkeepers. Its history and its facilities, natural resources, and its location, would not make that possible.

Therefore, there has been a trend away from that toward the necessary rehabilitation of Germany industrially and commercially.

You have got to draw the line somewhere between there. If you take everything that contributes to a war potential you will have no Germany. So you have to select. We tried to select. We prohibited the manufacture of airplanes which in itself is a pretty good deterrent to modern war. And there are some other classifications. But we cannot destroy all of these, all the steel manufacture, and all the coal production, and still ever have Germany come back.

Senator LODGE. It is true that if any attempt were to be made to convert the steel production to military uses, (a) you would know about it, and (b) it would take so much time that it could not possibly come on you by surprise.

Secretary ROYALL. That is right, sir. Certainly that is true during a period of occupation. That is one of the prime reasons why occupation is essential because we have to recognize the fact that Germany twice within a generation, three times within two generations, brought on an aggressive war, twice on the world and once on Europe. We must not, in our enthusiasm of recovery, forget that entirely.

Senator LODGE. Do you have the organization and the personnel to keep a real check on German industry all through these years so that you know exactly what is going on?

Secretary ROYALL. We certainly have it now.

Of course, I think we can reduce the personnel needed for that purpose after Germany gets on a little keel, until conditions in the world

have improved, and until we are more convinced than I am today that the war spirit is completely dead in Germany.

We have got to maintain some type of supervision and control against its rearmament.

Senator LODGE. That can go on even after the administration of Germany is turned over to the State Department.

Secretary ROYALL. Of course, it can. It can go on, and it is not inconsistent with Germany recovery.

The CHAIRMAN. May I interrupt?

Senator LODGE. Yes. I am finished.

The CHAIRMAN. We can say still more than that, can we not? Can we not say that there has never been any sort of a restabilized Germany projected by the United States on any other basis than one which keeps her permanently demilitarized and under sufficient supervision to make it constantly possible for the ex-Allied Governments to step in at any moment and prevent any such evolution? Is that not at the base of every plan we ever have proposed and at the base of every concept for the future?

Secretary ROYALL. That is correct.

The CHAIRMAN. In other words, we know that the failure after World War I to proceed faithfully in these directions is one of the fundamental causes of World War II, and we do not propose to have that happen again.

Secretary ROYALL. That is correct, sir. The only confusion that might possibly arise is the feeling that it is necessary to denude Germany of all essential industry, in order to prevent remilitarization. We do not think that is necessary. We think we can prevent remilitarization along the lines that you, Senator, have suggested, without going to that extreme.

The CHAIRMAN. It is not a fact that we have even gone so far as to offer our major allies a 40-year treaty under which we shall instantly come back to the defense of the Allied cause in the event there is any resurgence of any prospect of Axis aggression again?

Secretary ROYALL. I am so informed; yes, sir.

Senator BARKLEY. One of the difficulties in the situation has been to convince the neighboring nations in Europe—especially those that have been the victims of German aggression and who have the perfectly understandable fear of recurring danger—that German coal and German steel and other industries can be revived without reviving the war potential.

It seems to me essential not only to provide that German industry may be revived without reviving the war potential, but it is also very important to convince those that have been the victims of aggression in the past that that can be done.

I have not any doubt myself of it if the Allied world or those that are associated together devise some plan by which it can be done and at any point, where it even approaches danger, it can be suppressed.

But it is a difficult thing to convince a lot of people over there that that can be done, or will be done.

Secretary ROYALL. Yes, sir. That is the very difficulty I had in mind in talking and in answering Senator Vandenberg's question.

As you say, Senator Barkley, it is perfectly understandable that France, for example, having been attacked three times in two genera-

tions by the German Army, is rather difficult to convince on that particular subject. But I agree with you that we should spare little effort, and should use every possible feasible means to convince those countries of the proposition which Senator Vandenberg stated, that we do not intend to permit remilitarization of Germany.

The CHAIRMAN. Are there any further questions?

Senator LODGE. Yes. I would like to ask some more.

Of the 16 nations and western Germany that are to be helped under this program, Austria, western Germany, and Italy are former enemies; Portugal, Sweden, Switzerland, Eire, Denmark, and Turkey were neutrals; leaving Iceland, Greece, Luxemburg, the Netherlands, Norway, Belgium, and the United Kingdom, of course, as former Allies.

Without in any way revealing anything that is secret, are there any facts that can be furnished which show the present military strength of any of these countries that were Allies in the war against Germany?

Secretary ROYALL. I do not believe it would be advisable to furnish that information if it were available, and I personally do not know how accurate our estimates are on all of them. I think they are pretty accurate on some, but I think it would be inadvisable to go into that.

I will be glad to give that further consideration, Senator, and maybe my first impression to that effect might be changed, but that is my present impression.

Senator LODGE. I do not want to put you under any pressure at all. I was thinking that if there was any information that could be put into the record it would be of very real significance in connection with this program.

Secretary ROYALL. I can see that clearly. Would you permit me to give further thought to that, and also to consult with others who are interested, including Mr. Forrestal, and the State Department?

Senator LODGE. Thank you.

Senator BARKLEY. Recurring to our questions of yesterday about the dismantling program in Germany, did you file, or did you say you would file, a statement showing the number of plants which we originally contemplated would be dismantled under the original level of industry, as compared with the number under the new level of industry, so that we may get a clear picture of what that change automatically brought about?

Secretary ROYALL. I do not recall saying that we had or would file it, but we will be glad to.

Senator BARKLEY. I would like to have you do that, so that we may have that picture.

(The statement referred to is as follows:)

Total plants contemplated for reparations under the old level-of-industry plan:

United States zone	478
British zone	1,152
French zone	322
Total	1,952

Total plants contemplated for reparations under the new level-of-industry plan:

United States zone	186
British zone	496
French zone	176
Total	858

The CHAIRMAN. If there are no further questions, the committee will recess until 2 o'clock, when Secretary Forrestal will appear.

Thank you very much, Mr. Secretary.

(Thereupon, at 11 a. m., the committee adjourned, to reconvene at 2 p. m.)

AFTERNOON SESSION

(The committee reconvened at 2 p. m., upon the expiration of the recess.)

The CHAIRMAN. The committee will come to order.

We are privileged to have with us the Secretary of Defense.

Mr. Forrestal, we would be happy to have you proceed in your own way.

STATEMENT BY HON. JAMES V. FORRESTAL, SECRETARY OF DEFENSE

Secretary FORRESTAL. Mr. Chairman, the Secretary of State, in supporting before your committee the program of United States assistance known as the European recovery program, outlined three basic questions in connection with this legislative proposal.

"Why does Europe need help?"

"How much help is needed?"

"How much help should be given?"

His answers to those questions were clear, and in their broad aspects, supported the recommendations of the executive branch of the Government as placed before you by the President in his message to the Congress of December 19. What I have to say I consider to be an extension of views already presented, except with this difference: That I am speaking from the somewhat more limited point of view of our military security.

All of you are familiar with, and some of you have seen, the conditions in Europe that make necessary the proposals embodied in the European recovery program. The instinctive generosity and humane impulses of Americans would ordinarily move us to aid our neighbors in distress. I think that without any complacency we can say that we are a generous people, and in keeping with that tradition, we have already made vast contributions to the alleviation of distress on the European Continent. There is, however, another and fully as compelling a reason for us to do our utmost to bring about recovery in Europe.

As Secretary of Defense my concern is directed particularly toward the considerations of national security. And so in answering the question which General Marshall posed, "Why does Europe need help?" I shall address myself principally to the factors affecting the security of the United States.

Senator WILEY. You are talking to the point of what we might get out of it?

Secretary FORRESTAL. Yes, sir.

As in most other periods of history, there is a conflict of world politics taking place in Europe today. There is nothing more unusual about this political conflict, viewed in the long light of history, than there is about political differences in our own country, with this one

exception: That we are living in a world today in which there is imbalance—a world in which, broadly speaking, there are two great powers, the Union of Soviet Socialist Republics and the United States. There is a vacuum in middle and western Europe as a result of the destruction caused by, and visited upon, Hitler's Germany. In most political differences a balance of power is exercised by moderate influence in the form of men or nations who are able to contribute the good offices of compromise and amelioration.

Today, however, because of the vacuum in Europe, the nation-components of what would otherwise be the balance of power find their position impaired by economic instability, political unrest, and consequent military ineffectiveness.

In these circumstances we are seeking to redress the balance of Europe by helping the western nations to get on their feet. Our purpose in doing this is not to forge an iron ring around any nation or to set up an aggressive military threat to any other nation. Our purpose and object is totally and exclusively to prevent another war by the creation of political and economic and social equilibrium which is requisite to the maintenance of peace.

Without our aid it is by no means certain that the western European nations can save themselves from economic collapse and political disintegration. In spite of great difficulties and tremendous handicaps, certain of these nations have already made an extraordinary start toward recovery, and I have in mind Belgium, Holland, and Luxemburg.

Recently, France and Italy have also given indications of a renaissance of national vitality and national will. Two leaders have risen in the persons of Mr. Schuman, of France, and Mr. de Gasperi, of Italy, who have shown the capacity for the exercise of leadership without any corresponding effort to grab for totalitarian power. And in Great Britain there is substantial evidence that the great resilience and moral fiber which served that nation so well when she stood alone against Hitler are again asserting themselves.

Coal production in that country has failed by only a small margin of hitting the goal set for 1947 and while the problem of exchange and currency is still a continuing source of concern the British have recognized the fact that work and production are the foundations of an adequate standard of living; in other words, that political science as asserted by Bentham, Ricardo, and Adam Smith still has a validity that Marx assumed was gone forever.

The 16 nations which associated themselves in Paris last summer with the plan for European recovery comprise a great workshop with 270,000,000 of inhabitants. Should that workshop be integrated, with all its industrial and military potential, with its great business complex, into a coalition of totalitarian states, it is possible that we in time would find ourselves isolated in a hostile world. That situation would, in my opinion, be a threat to world peace, to our economic and political position, and, in fact, to the very existence of the United States.

You are familiar with Hitler's success in the middle and late 1920's in exploiting both the economic distress which existed in Germany just after the last war and the inequities which he declared were imposed on Germany by the Versailles Treaty. With every device

of political demagogery, he beguiled and seduced his people with promises of food, employment, and redress of grievances, and with these he laid the foundation for the political movement embraced in the National Socialist Party of Germany. It was these events which led to the tragedy and destruction of World War II. Today, conditions similar to those in which Hitler's evil doctrines fell upon politically susceptible ears might be re-created, not merely in Germany, but in other countries in Europe as well.

Our hope and our effort is to prevent such a recurrence by the acceleration of a healthy European recovery, where the processes of trade, of business, and a free exchange of goods, commodities, services, and individuals can again give men the foundations of hope.

After World War I, the United States, France, and Great Britain, together with other capitalistic countries of Europe, participated in the restoration of the economic stability of Germany. I am one of those who feel that this restoration of economic stability could have laid the foundations for an ultimate republican regime in Germany. It was aborted by the economic crisis of 1929, accompanied by the abrupt cutting off of external credits to Germany, precipitating that chain of events which led to the rise of Hitler.

As in all other countries in times of political and economic difficulty, the moderates and the liberals of Germany fell between the pincers of Bolshevism on the one hand and Hitler's Nazis on the other. It is my hope that throughout Europe what we are now proposing to do will restore hope and courage in this great central bloc of ordinarily decent and peace-loving people in every country.

The result can be, and I believe will be, that these nations, if they recover their true sovereignty and their true positions in the society of western Europe, will reassert those principles of individual freedom and determination to live in a free society, which form such a large part of our own inheritance.

Central in that pattern are, of course, Great Britain and France. From both of these nations we have derived great lessons in political wisdom, in spiritual and cultural values. I believe that none of us today can accurately picture the effect upon our minds and our hopes for the future if we had to witness the surrender of France to a totalitarian authority or the economic collapse of Britain.

And yet if I did not believe that there was a vigor and a vitality in both nations which are capable of surviving, I should not be supporting the program which your committee is considering. Despair is a disease which is easily communicated, but we must not forget that what I call the epidemic of hope is an even more powerful motivating force in man.

The example of an industrious and hard-working Belgium, Luxembourg, and Holland, which is reflected in the now well-known Benelux trade agreements, had repercussions throughout Europe and evoked admiration here. I firmly believe that there are similar reservoirs of energy, resourcefulness, and strength in Europe, which can be stirred to beneficial and constructive action by the catalyst of American aid.

Europe is essentially a trading, manufacturing, and commercial continent. The skill and knowledge of business are still in existence and will be vigorously reasserted if we can re-create the background against which trade can flourish; namely, stable currencies, the elimination of

commercial barriers, and the withdrawal of restraints upon free enterprise.

Peace and security are not to be viewed merely in terms of great military power or wealth in the hands of the United States. France had its Maginot line, Hitler had his blitzkrieg, and, further back in history, Philip II of Spain had great wealth and possessions, and ancient Rome had her legionnaires, but none of these gave real security. In each case there were conditions which insured the failure of an apparently impervious formula. In our own case the security of our Nation has to be viewed not merely in the light of our military strength but in the light of the restoration of balance throughout the world.

The essential requirements of our own people are, of course, the first charge against United States resources. However, the conclusions of three special committees—with the results of which you are, of course, familiar—that is, the committees of Harriman, Krug, and Dr. Nourse—are in agreement that our economy in general and our financial capacity in particular are able to support the proposed program.

The cost of that program for the reconstruction of Europe will be high. It will be idle to say—and I do not say—that it will not mean sacrifice, self-denial, and hard work for all of us, but it is a sound investment in the attainment of world order.

It contributes to insurance against war, and, combined with the maintenance of a substantial military power at home, will be far less expensive than standing isolated and alone in an unfriendly world.

It is always dangerous to try to draw exact analogies or parallels between periods of history, but it seems to me that the position in which we find ourselves today is not unlike that of Britain after the Napoleonic wars. Britain, after she had spent 20 years and much of her resources in defeating the attempt of Napoleon to conquer Europe, was anxious to withdraw from that continent. She found great difficulty in doing so, however, without exposing Europe and eventually herself to a recurrence of the very threat of which she had just disposed at such a high cost. So England had to stay in order to make an effective contribution to the maintenance of the balance of power in Europe.

In my opinion, however, England was neither plotting nor planning solely for her own particular advantage; her statesmen were merely wise enough to understand the terrible cost of world-wide conflict and the necessity for localizing those conflicts that did occur. And, as we all know, there were a substantial number of such local conflicts that did occur in the nineteenth century.

Britain, through the exercise of her influence, was able to keep relative peace and stability throughout Europe for a century. There were, to be sure, many wars, both in Europe and in other parts of the world—but those conflicts were always kept localized. They did not result, incidentally, in vast injury to, or destruction of, the economic machinery of Europe. I think it can be said, therefore, that British policy in the nineteenth century was successful.

Our own objective in the present recovery program for Europe is the prevention of war. Neither this program nor our national defense

expenditures are designed as a threat against any nation nor as an effort to restrain the legitimate purposes of any nation nor to dominate a group of nations. The policy of the United States, as I see it, is directed to the single end that free nations shall be allowed to select their own governments, and that no one country or political concept shall be permitted by force to conquer the world.

We need to maintain here substantial military power, but I would rate the need for the restoration of the European community as equally strong.

The CHAIRMAN. Mr. Secretary, in terms of the national security, for which you are primarily the responsible Government agent, I want to ask you about the final sentence in your statement which reads as follows: "We need to maintain substantial military power, but I would rate the need for the restoration of the European community as equally strong."

Without attempting to narrow the question to any specific bill, such as we have before us, I want to ask you whether it does not follow, from your final sentence, that we have a very definite and specific American defense self-interest in the economic restoration of western Europe and western Germany, and whether the corollary of your final sentence would not be this: That except as the restoration of the European community, in the pattern to which you refer, occurs, there follows as an inevitable corollary that we must maintain a substantially larger military power than we would under the other circumstances?

Secretary FORRESTAL. I think there is a definite relation between the two. If what I have chosen to call the imbalance of Europe continues, there will be a rising necessity on our part to provide the only alternative balance to that imbalance, namely, greater military power for ourselves.

The CHAIRMAN. I can draw no other conclusion from your statement than that it is your opinion—speaking in terms of national security—that America has an unavoidable self-interest in some economic restabilization of western Europe along the lines contemplated in the pending proposal, or something comparable. Is that correct?

Secretary FORRESTAL. It is, sir. The last time in history, I think, in which there was long and continued chaos in Europe was after the Thirty Years War, when a somewhat narrower but somewhat similar destruction of what I call the economic machinery of Europe occurred. I believe it was a long time before that machinery was restored.

The CHAIRMAN. Senator Thomas?

Senator THOMAS of Utah. Mr. Chairman, I am exceedingly happy at last to have a witness who has gone into history.

Secretary FORRESTAL. I do not want you to question me too closely though, Senator, if you do not mind.

Senator THOMAS of Utah. I will not question you. I think that the witnesses so far have avoided what is their greatest and finest talking point for this whole plan, and that is that we did fail, after World War I, in establishing the very curbs which make it possible to cut down military expenditures for defense purposes. Not necessarily for war purposes, but for defense purposes.

If we fail again we will, of course, go through the same channel of thinking and the same channel of action which will be so extremely expensive to us because the defense area is so much greater and the world is, from a defense standpoint, the whole field now.

If our people, the American people, are not led to see what we have been pointing out especially the last 2 days here, and especially this morning and this afternoon, Mr. Secretary, that while the risks of attempting to bring about peace are necessarily costly, the alternative is not only more costly, but may be actually disastrous.

Order, in contrast to disorder, is an extremely costly proposition either domestically or on a foreign scale. Whether we like it or not, we find ourselves responsible for order in those countries that were a year or two ago our enemies, whose governments were literally trying to destroy us.

During the process of destruction you cannot bring home to a people the fact that once we have destroyed them we have got to start building them up again, because no nation, no matter its ideals or what its theories, can save itself if it is completely surrounded by confusion. It naturally goes down.

Therefore, Mr. Chairman, instead of questioning, I find myself reacting to the statement made as if I had been asked as a question. I am glad that we have gotten to the place where we can make the type of appeal to people of our country based upon the last question which our chairman asked you, which in turn was based upon your concluding sentence.

The CHAIRMAN. Senator Wiley.

Senator WILEY. Mr. Secretary, I just want to ask you a few questions. I got from your very dynamic statement the suggestion that (1) from the standpoint of what we would get out of it we would be performing, first, what you might call our duty as a good Samaritan—that is always in the hearts of Americans, to help those who are down and out; (2) if we did not do this thing, as stressed this morning by Secretary Royall, it would mean undoubtedly and immediately an increased expenditure in our armament potential—I think he estimated that at about two and a half billion dollars; (3) if we go ahead and become even partially successful, there is the possibility of relieving immediately a considerable part of the load which follows from the humanitarian standpoint as well as the load that would follow because of our occupational obligations in the former enemy countries that we have occupied.

I think it was stated yesterday that the feeding of Germany, outside of the rehabilitation feature, was some five or six hundred million dollars included in the 6.8 billion dollars.

There is another thing I would like to bring out. You brought out that there were two great ideological conflicts on the world stage, and anyone who has eyes to see with and ears to hear with knows that that is a fact and reality. If that is so, and without depriving any of our allies of any of even their cash assets, or other things that are necessary to reinstitute their economy, have they not got certain things that they might well deal with us on? You said yesterday, I believe, that we were going to have a base in Africa.

Secretary FORRESTAL. I said yesterday, Senator, that what we had was not a base but a way station, a refueling station for the trunk-line aircraft of the Army Transport Command in the route to Athens.

Senator WILEY. I revert to this proposition again, because while America is the great humanitarian, she has become such because she is a realist and practical, and a hard worker. Have not some of these nations—if you call them way stations or other things, I will call them bases, in view of the larger war plans, in view of our inventiveness and ingenuity in creating war weapons—have not they got bases that we need for our own protection, and if they have, why is now not the time to talk?

Secretary FORRESTAL. I do not want to evade your question, but I must point out that that is somewhat outside the orbit of my own governmental responsibility. But also, I very frankly regard the restoration of what I call balance, the redressing of the imbalance, as paramount even to the acquisition of bases, because without a flourishing Europe we should have to, in my opinion, have bases of such a number over the world that, without any supporting friends, it would be a very difficult job for us to maintain them.

In other words, this whole problem is a composite of many facets, our own armed power, our own determination not to abdicate from our responsibility, the restoration of hope and confidence in Europe. And in the process of that restoration we have to deal with sensitivities of stricken people.

I hope that I share your sense of realism and I know that I share your desire for us to look at history with that kind of vision.

Senator WILEY. Certainly our experience during this war, with at least one of our allies, has taught us that it is well to have what the Good Book calls vision, without which the people perish. I call vision in this case simply horse sense. If you do not injure the other country, and if you contemplate that you are going to rebuild and reconstruct the country so that if another crisis comes they are going to be our allies, now is the time to see to a lot of things that we know now are important.

It seems to me that the question of bases on the great strategic lands of the world, such as you are very well acquainted with, is something that fits into this picture and would do no harm because we are contemplating from here on out that we are going to be friends and allies with those that we helped, even Germany.

Secretary FORRESTAL. I would not quarrel with your thesis. I am sure that the Secretary of State will have it in mind. I simply want to underline my own belief that in the order of priority I would place the fundamental recovery of national confidence and the belief in survival on the part of these nations that we are trying to help.

I think that there are many other collateral problems that can be dealt with, but it is a good deal like the restoration of a creditor. You have to advance him credit if you think he is worthy of survival, and also give him the belief that he can survive. To have your credit good, that sort of approach has to accompany the credit.

Senator WILEY. I agree with much of what you have said. But, Mr. Secretary, we are trustees of the people's funds. We are people

made up of many nationalities. The mail indicates clearly that there are many, many people who are not in favor of this procedure that we are talking about. If we are convinced that it is a necessary step in the interests of America we should present all our sales arguments.

I am just trying to inject into this one more thought that I think is of vital importance, not simply to get consent of those who are opposed to it but, further, I think it is imperative that we, living in a shrunken world as we are, take every opportunity to protect our own. There is no higher policy that I know of for any one public servant than to look after his own.

You have stated, and others have stated, that it is in our own interest that we make this expenditure. Very cogent arguments have been presented. But very little has been said until today—outside of the general thesis that it is important economically to reconstruct Europe—along the line of what we are getting here and now for America. And I think that there is a lot that we can get, and this is one of the things.

I think that there should be a break-down, definitely, on the sum that is finally determined upon, how much of that will have to be spent any way if you do not go through with this program. I think that is necessary so that the people will see that the over-all sum is not the sum that goes into this. It is simply an additional sum.

And with that additional sum you have the possibility of recapturing these great values.

I remember very well Secretary Marshall's position and he seemed to be very sensitive on the point, which I am not, and the point is this: We are going to give billions; we are going to assist; we are going to be good samaritans; we are going to be good allies; we are going to give our substance, and we are going to tighten our belts, and now, is not there something, a little, forthcoming from you? It seems to me that that is a logical American position.

We have never been in America the type that wants to take and give nothing. We have always given and taken nothing. But now the time has come when with \$258,000,000,000 indebtedness, with an overhead approximating \$38,000,000,000 a year, now it is time that we became also a little bit conscious of some of our own needs, particularly in this war-torn world with its inventions and ingenious things, great inventions that have come forth because of our active brains.

We are talking about Greenland; we are talking about helping Denmark, we are talking about helping Iceland, we are talking about the great airplane routes of the world across Africa, where we spent hundreds of millions of dollars in this war, and where we spent them and let them go.

That should teach us that if the opportunity comes again, we had better try to recapture some rights. And that is all I have to say, sir.

Secretary FORRESTAL. I could not dissent from your general thesis.

The CHAIRMAN. Senator Barkley?

Senator BARKLEY. Mr. Secretary, you mentioned, without specification, the possible result in cost in money to the United States, of our failure to adopt this or some comparable program. In other words, if chaos, disorder, take place in Europe, as I believe it will, if there

is not a rapid effort to bring about recovery—and I form that opinion from visiting this last autumn every country in Europe except Russia and Yugoslavia and Albania—if that chaos and disorder and disintegration economically should take place, it would inevitably be followed by political disintegration and disorder, because the two go together.

If that should take place, the result would be, as I understand you, that in our own defense we would be compelled to increase enormously our preparation, our equipment to defend ourselves against what might turn out to be a totalitarian world against us, and that the increase in the financial outlay for that sort of thing might be incalculable. I doubt if anybody can now mention it in terms of dollars, although two and a quarter or two and a half billion dollars was suggested as a sort of a peg to hang your hat on.

Is there any way by which we can estimate the possible cost of having to resort to the other alternative of defense, namely, military and naval preparation, and the building up of our strength so as to combat a world of that sort?

Secretary FORRESTAL. I think it would be quite foolish of me to try to give any precise estimate in response to your question, Senator Barkley. I mentioned this morning in the course of a hearing on this program in the House a guess of from 25 to 50 percent increase in our appropriations—that is, as a guess that that would be my recommendation to the President and to the Congress.

Obviously, to be accurate, to pluck any such percentage out of the air is not very good testimony. It is simply my impression of the general limits within which we would have to consider an increase in our armament program.

I would measure the problem, however, not so much in terms of dollars, because dollars are only the indices of demands upon resources, manpower, and production, but I would measure the cost beyond that of dollars because it would put an impact upon an already overtaxed productive machinery—an impact which would necessarily carry with it a sharp reduction of the amount of goods, labor, and services available for our general community, and that would be superimposed upon the already high demand of today and would contribute to inflation without, in my opinion, any corresponding gain.

In other words, one would not feel that we were rebuilding—we would simply be taking out insurance against a disaster. And as a country we would find that, I think, an impossible situation.

Senator BARKLEY. Whatever the amount might be by which we would have to increase our defenses, there would also be, in addition to that, an invisible loss or expenditure by the diversion of our energies from peacetime production to wartime preparation, or preparation for possible conflict.

Secretary FORRESTAL. That is correct.

Senator BARKLEY. There is no way to estimate that in dollars?

Secretary FORRESTAL. I do not think so. But I think that the load, which would, as I say, be added upon the already tight supply, would be a definite contribution toward inflation and ultimately toward a reduction in our standard of living.

Senator BARKLEY. The President has, a few days ago, submitted a budget in which I believe \$11,000,000,000 plus is allocated to defense.

That is 11 times the total cost of the Government of the United States the year before World War I. That item alone is one that, by comparison, staggers the imagination, almost.

Would it be reasonable to expect that by the same token, about which we were talking a moment ago, through this program, or something comparable, Europe, and thereby the world, is stabilized, that economic, financial, and physical reconstruction does take place, that there might be a reasonable expectation that the amount necessary for defense purposes would be very materially reduced so that we would save in the outlay for national defense.

Secretary FORRESTAL. I can best answer your question by saying that in the planning that was done toward the end of the war and just after it, the assumptions of the military establishments were these: As a first assumption, that we should require a military force adequate to make secure the Western Hemisphere—and I mean that in the somewhat narrower defensive sense of security against invasion, against sea and air attack.

The second assumption was that the United Nations would become a viable and vigorous organism.

The third assumption was that our contribution, our armed strength, would be the sum of the forces required for—let us call it local defense of this hemisphere—plus that required for our contribution to the forces of the United Nations. That sum would be far less than what we are now proposing to spend.

Senator BARKLEY. The budget estimate for next year of \$11,000,000,000 plus contemplates more than the mere defense of the Western Hemisphere and more than the contribution to be made to the United Nations.

Secretary FORRESTAL. That is correct.

Senator BARKLEY. It takes into view all possibilities that might take place. So that if the world is stabilized and the chance for peace is increased by the happiness, contentment, employment, and prosperity of the people, to that extent we can reduce the expenditures in this country necessary for national defense.

Secretary FORRESTAL. That is my opinion.

Senator BARKLEY. That does not take into consideration the incalculable values of a world that is contented and peaceful and happy.

Secretary FORRESTAL. That is correct.

Senator BARKLEY. There are imponderables there that you cannot measure in terms of dollars.

Secretary FORRESTAL. That is correct, sir.

Senator BARKLEY. I was very glad to note what you had to say about Mr. Schuman in France, and Mr. de Gasperi in Italy. It was my good fortune in October to participate in quite a lengthy conference with Mr. de Gasperi in Italy; and during the Christmas holiday, with Mr. Schuman in Paris. I got a very favorable impression of their ability, their character, their courage, and their vision. That contact with them—I do not want to draw any invidious comparison between them and any other statesmen in either of the countries—strengthened my faith in their ability, if properly supported, to bring about strength in the government of those countries which will, in turn, strengthen

their economic, financial, and political status so as to contribute to the restoration of Europe.

Secretary FORRESTAL. I mentioned it, Senator, because it seemed to me that it was somewhat to the point, that even under the most difficult conditions which those two countries have had to face, if they were still capable of producing under the process of what we understand by republican government, that that kind of government can produce leadership that can make affirmative, executive administration in the countries concerned.

Senator BARKLEY. And the action which has been taken was one that required the display of considerable courage.

Secretary FORRESTAL. Schuman's action? I agree with you. It is the prerequisite. It is what would have to occur to make our aid effective. And I think the fact that those steps have been taken is one of the most encouraging signs that I have seen.

Senator BARKLEY. They have been taken in relationship to the possibility of this plan. In other words, they are seeking to lay the foundation for the successful operation of the plan, if it should go through.

That is all, Mr. Chairman.

The CHAIRMAN. Senator Smith?

Senator SMITH. Mr. Secretary, I am interested in the development of your thought on this. As I get this picture of the National Budget made up recently, the figures you arrived at for the Military Establishment, as Senator Barkley said, were \$11,000,000,000 plus. They were in the light of the fact also that in the same budget there was a provision made for \$6,800,000,000 for the European recovery program. In other words, those things were related in the sense that because of the European recovery program you have got to fix your Military Establishment where it was.

Now, I infer that had the ERP not been provided for, or something similar, or if the ERP were turned down, from what you previously said you probably would have to reconsider your \$11,000,000,000 figure, and probably add to those figures in order to give us the sense of security or stability that we would need to meet what you call being alone in a nonfriendly world.

Secretary FORRESTAL. That is entirely true. I cannot disassociate what our military program is here from the facts of the rest of the world. It seems to me that they march together. One is a function of the other. As Senator Barkley pointed out, if we had now the assurance of a stable world—what I called a viable and vigorous organism in the United Nations—we should be able to sharply reduce that expenditure for arms.

Senator SMITH. That is my next thought, that if we do make this investment in ERP, and if, as we hope and believe, it will be an effective program in bringing about a stabilized Europe and an economic recovery, then we can probably look forward to a continual reduction in the necessity of our military expenditures; so from a purely dollars-and-cents standpoint we may be actually saving ourselves in the long run a considerable sum of money by what appears to be a large expenditure for ERP, but which is an investment in enabling us to

have to spend less in the future, probably, for these very undesirable purposes. I mean the necessity of preparing for war.

Secretary FORRESTAL. That is my opinion.

Senator SMITH. You used the expression "balance" which I take it to mean a balance of power in the present unsettled world conditions.

Secretary FORRESTAL. I meant it a little beyond balance of solely military power. I talked of the sovereignty of nations and the influence which flows from a nation that has both its sovereignty and its economic and political stability. Even Holland, without any great military power, has always been a factor in the balance of Europe.

Belgium today, by the example of frugality and vigor of its people, the capacity of a small nation to restore itself, is an element of the balance of Europe, not only the balance of power but the balance of political stability.

Senator SMITH. I am glad to have you bring that out because I have argued many times on this question of balance of power, as though that might be the answer to world peace.

Of course, being one of the ardent supporters for the United Nations project, which would be an over-all cooperative world, we were not thinking there of the terms of balance of military power, but we were thinking there in terms of the balance of economic stability which you are talking about when you are speaking of restoring balance.

Secretary FORRESTAL. That is why I omitted the word "power" when I talked of balance, and sometimes used "balance of power."

Senator SMITH. I am glad you made that clear. I was afraid from what you said in your testimony that some of my friends who were urging this balance of power might say, "Ah, Secretary Forrestal, a great authority on our security was advocating balance of power," which I did not think was your purpose.

Secretary FORRESTAL. I believe in the balance of military power, but it is only one component of the other balance which I think is essential.

Senator SMITH. We undoubtedly need it at the moment, in the situation where we find ourselves in the world, where unfortunately we are facing a two-world set-up instead of the one-world set-up we were hoping for in the United Nations.

I agree with you that we would not want to find ourselves alone in an unfriendly world, with the other nations dumped in the basket of the balance of power, which would be extremely embarrassing. I think you made a clear statement there and I am very grateful to you.

Thank you, Mr. Chairman.

Senator CONNALLY. Mr. Secretary, I apologize. I was not here during all of your testimony. I hope I will not have to repeat anything.

Secretary FORRESTAL. You never have to apologize to me, Senator.

Senator CONNALLY. Thank you.

I thoroughly agree with you on the national defense. I am for the League of Nations; I am for peace. I do not want war.

I think it is imperative for this Nation, in a disturbed condition of world affairs, and the uncertainties and impossibility of learning the motives and impulses of certain nations toward the United States, to

keep armed. I mean by that the best Air Force in the world, the best Navy in the world, and an Army comparable to the necessities in view of these other preparations. Not for war, but for peace, and to protect and defend not only our own country but the democratic processes in the world, if it becomes necessary.

I think we are prepared, or ought to be prepared, to spend all that is necessary, not wastefully, not extravagantly, but for the necessary expenses for a Military and Naval Establishment big enough to take care of our national needs. And I congratulate you.

As I understand it, that is pretty much your attitude, is it not?

Secretary FORRESTAL. Completely.

Senator CONNALLY. We want to save all the money we can. But what good is your money going to do you if you get wiped out as a nation, or if our institutions and our cherished ways of life are destroyed?

Secretary FORRESTAL. There are not very many vestiges left of Carthage.

Senator CONNALLY. I think we have to remain armed to the teeth, even back to our wisdom teeth, if necessary, in order to take care of the national interests. I am prepared to make my contribution, as I was reminded yesterday by the Collector of Internal Revenue.

I do not want to take you over the ground you have already covered, so I will not press any other questions. But that to my mind is the outstanding matter with which your Department and you are concerned.

Secretary FORRESTAL. That is correct.

Senator CONNALLY. And that is the maintenance of an adequate national defense. I hope that that spirit will permeate the services. I think a soldier is something more than a uniform. I hope the men will realize, in serving in the Army and in the Navy, that they are not only serving for their own welfare but that they are serving for the welfare of the world and the protection of the United States and all of its institutions in this troubled world.

Secretary FORRESTAL. I think it is fair to say, Senator, that in that connection, I think there is no nation in history, other than ourselves, that has ever maintained the military power that we are endeavoring to maintain without any idea of conquest. I think that is a thing that our people should realize, that we desire nothing; we want nothing except order and peace in the world.

Senator CONNALLY. I assume you have in the Army and Navy certain lectures or schools to inculcate into these new recruits the objectives of their services and their duties. If you have not, you ought to.

Secretary FORRESTAL. We have such institutions and I quite agree with you that that kind of education is a fundamental.

Senator CONNALLY. I thank you. That is all.

The CHARMAN. Senator Hickenlooper?

Senator HICKENLOOPER. My personal feeling about the Secretary's statement is that he has made a tremendously fine statement about the objectives and desirability of the hoped-for ends that you have in mind in the proposed program.

I assume, Mr. Secretary, that you did not come prepared to discuss the mechanical implementation of this program.

Secretary FORRESTAL. I did not think about it much in those terms because I thought you wanted me to talk more specifically in the limited field of my own job.

Senator HICKENOOPE. What I mean is, I do not find myself in disagreement with the general objectives that we are trying to accomplish by this proposed program. I am greatly concerned with the implementation of it for its successful operation in the best possible way, and those are generally questions that I am concerned with.

You are discussing the military phase of the objectives of the program, and I do not know that any questions I have go directly to that point because I find myself in great sympathy with the military strength of this country and its needs.

I might make this observation, however, if you have any comment on it: That I cannot be too optimistic, even assuming the reasonable success of whatever program we adopt, that for a long period of time that will in any way relieve us from the very substantial burden of the military strength. In other words, I cannot envision these other countries, even with the success of this economic program to a reasonable degree, being able to sustain any military strength on their own part for a long period of time.

Therefore, that obligation upon us would be, in my view, continuing over a substantial period of time, even after stability might be attained economically to those countries.

I do not necessarily raise that as an objection. But it is like many other things in this plan. I would rather consider the cost as well as we can, know where we are going, and know what we are facing, rather than to consider it from too altruistic a standpoint, that if we do thus and so the millennium will arrive in a reasonably short time and we will be relieved.

Secretary FORRESTAL. You would rather be a gay pessimist than a blue optimist.

Senator HICKENLOOPER. I do not know just what I would rather be.

I also have this little suggestion to make here, not particularly by way of objection but by way of what might be a practical consideration in this matter. If we go into this program and if we spend billions of dollars in this period of time, the next few months or the next 2 or 3 years, for goods and materials that come out of the tight American economy, my view is that it is bound to increase the inflationary pressures on this economy here.

That is my personal view of it. If it increases the pressures on our economy by as much as 10 percent of the national income, that will be an additional cost of the American people of \$20,000,000,000 a year that they will have to put out of their pockets for foodstuffs, for clothing, for necessities of life.

I say "if" this program increases those pressures on our tight economy, and I use the 10-percent illustration. If it forces up the cost of things in this country by that much, that would be \$20,000,000,000.

If it forces them up 5 percent, that would be \$10,000,000,000 additional cost out of the public's pocket. Not directly into that enterprise, but on the tables and on the backs of the American people.

I merely mention that to suggest again that I think it is well to canvass the cost of this thing so that whatever we do, it is with our

eyes open, and with a reasonable analysis of just what we are getting into.

Secretary FORRESTAL. I think that is one of the by-products of these hearings, that it serves to inform the public of precisely what you are referring to; that this is not without cost, not without denial.

Senator HICKENLOOPER. I just want to congratulate you again on a vigorous, philosophical statement that I think is a fine over-all statement of the objectives and the hoped-for accomplishments of whatever action we take may accomplish for us.

Secretary FORRESTAL. Thank you.

The CHAIRMAN. Senator Capper?

Senator CAPPER. I have no questions.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Senator HICKENLOOPER. I would like to request the Secretary of Agriculture to furnish the following statistics as soon as he can:

1. The total supply of wheat on hand in the United States on July 1, 1947, plus the total crop of 1947.

2. The exports of wheat from the United States, month by month, from July 1, 1947 to February 1, 1948, together with the destination of such shipments and the amount to each destination.

3. The anticipated exports, together with the destinations and amounts of each, from the United States for the 5 months, including February 1, 1948, to July 1, 1948. (This should include the proposed exports under the ERP for those months.)

4. The total number of bushels of wheat needed for domestic consumption of all kinds during fiscal year July 1, 1947, to June 30, 1948.

5. The number of bushels of wheat surplus that will remain on hand domestically, July 1, 1948.

6. Wheat available for export from each of the following countries between now and July 1, 1948: Canada, Australia, Argentina, together with the destinations of such shipments, and together with all information regarding any present or prior commitments upon any surplus wheat presently in supply in those countries.

United States wheat supply and distribution, July 1947-June 1948

Supply:	Million bushels
Stocks, July 1	84
Estimated production	1,365
Total supply	1,449
<hr/>	
Distribution:	
Domestic food	510
Feed and waste	250
Industrial use	1
Seed	88
Exports	¹ 450
Stocks, June 30	150
Total distribution	1,449

¹ On the basis of this total and programmed exports for the 8-month period, July 1, 1947-Feb. 29, 1948, of 330,000,000 bushels, exports for the 4-month period, Mar. 1-June 30, 1948, would equal about 120,000,000 bushels.

United States wheat export program, July 1947-February 1948[Thousands of bushels ¹]

Claimant	July	August	September	October	November	December	January	February	Total, July 1947- Jan. 1948	Total, July 1947- Feb. 1948
Austria	2,314	2,725	2,427	1,531	747	1,755	1,344	1,456	12,843	14,299
Belgium	971	1,046	1,083	1,866	2,613	672	1,026	336	9,277	9,613
Bolivia		75	112	112	112	112			523	523
Brazil	485	597	560	373	411	747	747	560	3,920	4,480
China					224	1,531	411	347	2,166	2,513
Colombia		37	485	75	37	75			709	709
Cuba	896	560	448	299	597	933	597	598	4,330	4,928
Czechoslovakia	112								112	112
Denmark		336		336	37	187			896	896
Egypt			485		635	261			1,381	1,381
Finland	971	523	746						2,240	2,240
France and French North Africa	2,240	1,568	2,725	5,003	5,301	4,928	4,835	6,160	26,600	32,760
French areas:										
Other French Africa		187	37		149	75			448	448
West Indies, etc.	37	75	112	37	75	75			411	411
Germany (United States- United Kingdom)	16,427	17,733	9,632	10,341	5,563	6,010	10,472	6,160	76,178	82,338
Germany (French)	821	1,306	635	859	597	971	1,083	1,083	6,272	7,355
Greece	1,269	2,277	3,397	747	1,718	1,829	1,680	1,680	12,917	14,597
India	1,344	1,531	2,465	1,381	1,307	1,418	765	1,456	10,211	11,667
Ireland	1,045	672	1,405	224	336	187			3,509	3,509
Italy	37	1,792	4,966	5,525	6,272	3,286	5,674	6,608	27,552	34,160
Mexico	896	747	261	1,008	1,344	1,419	933	933	6,608	7,541
Netherlands	2,390	2,277	2,091	1,792	1,232	1,717	1,717	1,792	13,216	15,008
Netherlands East Indies	112	597	187	149	299	373	187	373	1,904	2,277
Norway	1,083	597	1,045	112	37		318	347	3,192	3,539
Peru	522	75	336	37		75			1,045	1,045
Philippine Islands	75	112	560	262	261	261	597	597	2,128	2,725
Poland	1,418	523	597	187					2,725	2,725
Portugal	560	896	373	448	149	933	542	683	3,901	4,584
Sweden	411	709			336	336		347	1,792	2,139
Switzerland	486	1,531	821	560	149	1,045	448	347	5,040	5,387
Trieste	336	411	299	336		336			1,718	1,718
Union of South Africa			410	523					933	933
United Kingdom		1,269	1,979	411	149				3,808	3,808
United Kingdom areas:										
United Kingdom Pacific ²	187	1,493	411	373	112		448		3,024	3,024
British West Africa ³	37		75		112				224	224
British West Indies, etc. ³	112	112	37	37	112				410	410
Red Sea area ³		149	112	37	75				373	373
United States Pacific	8,176	6,982	4,480	4,181	747	4,293	2,874	3,136	31,733	34,869
Venezuela	149	149	261	411	187	224			1,381	1,381
Other countries	411	597	597	747	1,008	1,269	1,587	1,606	6,216	7,822
Total	46,330	52,266	46,292	40,320	30,040	37,333	38,285	36,605	293,867	330,472

¹ Monthly exports to any claimant of less than 500 long tons (about 18,670 bushels) are included in "other countries."

² Areas for which programs are submitted by Food Ministry and procured.

³ Areas for which programs are submitted by Food Ministry but not procured.

WHEAT AVAILABLE FOR EXPORT FROM CANADA, AUSTRALIA, AND ARGENTINA

It is estimated that Canada will have a total of about 1,000,000,000 bushels of wheat available for export during the period January-June 1948. Australia probably will have about 60,000,000 bushels available for export during this period, and Argentina is estimated to have about 55,000,000 bushels. These estimates of supplies available for export have been arrived at after consideration of carry-over stocks, production, and known and probable export commitments from these countries as outlined in the following paragraphs.

Canada.—160,000,000 bushels during 1947-48 crop year to United Kingdom under 5-year wheat agreement. Of this amount, about 70,000,000 bushels were exported during July-December 1947, leaving 90,000,000 bushels for export to the United Kingdom January-June 1948. Remainder not committed and will move, mostly as flour, to miscellaneous countries in Latin America, Caribbean, and Africa.

Australia.—Known commitments from the new crop just harvested for shipment during the entire year 1948 include, in millions of bushels, 75 to the United Kingdom (including British areas of responsibility), 20 to India, 6.8 to France, 5 to New Zealand, and the possibility of 4.5 to Ireland. The remainder, so far as is known, is not committed but will probably move miscellaneous areas mostly in the Pacific and Middle East. It is not known how much of this amount will move to the countries named during the January-June 1948 period. For the United Kingdom and U. K. areas of procurement, however, it is expected that the 6-month export will total 30,000,000 bushels.

Argentina.—Of the 55,000,000 bushels estimated to move January-June 1948, about 26,000,000 bushels are against old contracts made against the 1946-47 crop, principally with Italy, Switzerland, United Kingdom, France, Brazil, and Spain. However, it is not known what the remaining balance is for each of these countries. The new 1947-48 crop is just now available and negotiations are now underway to dispose of this crop and new contracts are not yet known but probably will be written with about the same group of countries.

The CHAIRMAN. The witness tomorrow morning at 10 o'clock will be John J. McCloy, President of the International Bank, accompanied by Eugene R. Black, Executive Director.

(Attached table furnished by the Department of State in response to a request of the committee:)

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

[In millions of dollars]

Import	Total imports	Possible sources and distribution of financing		
		Own resources	Sources other than new United States funds	New United States funds
Bread grains.....	1,600.3	138.8	336.7	1,124.8
Coarse grains.....	552.3	68.6	66.6	417.1
Fats and oils.....	378.4	29.2	76.2	273.0
Oil cake.....	190.7	17.4	33.3	140.0
Sugar.....	295.8	35.1	33.4	227.3
Meat.....	393.1	14.5	33.3	345.3
Dairy products.....	275.2	-----	-----	275.2
Eggs.....	85.3	6.7	-----	78.6
Dried fruit.....	34.3	2.8	-----	31.5
Rice.....	47.8	3.1	-----	44.7
Coffee.....	156.6	34.1	38.3	84.2
Other foods.....	168.0	23.5	-----	144.5
Subtotal.....	4,177.8	373.8	617.8	3,186.2
Tobacco.....	293.4	28.6	-----	264.8
Cotton.....	780.0	49.0	42.1	698.9
Nitrogen.....	42.8	5.2	-----	37.6
Phosphates.....	3.1	.5	-----	2.6
Potash.....	-----	-----	-----	-----
Agricultural machinery.....	158.7	12.6	12.9	183.2
Coal.....	389.3	13.5	-----	375.8
Mining machinery.....	81.9	1.0	2.9	78.0
Petroleum products.....	651.9	333.5	-----	318.4
Timber.....	333.4	185.7	16.0	131.7
Iron and steel:				
Finished.....	226.7	85.9	21.7	119.1
Crude and semifinished.....	86.2	62.6	-----	23.6
Pig iron.....	1.6	.2	-----	1.4
Scrap iron.....	2.0	-----	-----	2.0
Iron ore.....	8.8	-----	-----	8.8
Trucks.....	116.8	17.0	21.8	78.0
Freight cars.....	60.0	-----	-----	60.0
Steel equipment.....	48.1	-----	9.1	39.0
Timber equipment.....	17.0	.4	-----	16.6
Electrical equipment.....	95.0	5.0	6.0	84.0
Other imports.....	4,228.2	3,210.8	408.0	609.4
Total commodity imports.....	11,812.7	4,385.3	1,158.3	6,239.1
Net freight.....	827.0	235.5	-----	591.5
Other dollar payments.....	319.4	319.4	-----	-----
Total.....	12,959.1	4,940.2	1,158.3	6,860.6

(Attached report furnished by the Department of State in response to a request of the committee:)

RELIEF-TYPE AND RECOVERY-TYPE COMMODITIES AND SERVICES IN THE ILLUSTRATIVE COMPOSITION OF IMPORTS WHICH MIGHT BE FINANCED BY NEW UNITED STATES TREASURY FUNDS AND IMPORTED BY THE PARTICIPATING COUNTRIES FROM THE WESTERN HEMISPHERE, APRIL 1, 1948, TO JUNE 30, 1949

The purpose of this paper is to indicate in broad categories the relief-type component and the recovery-type component of that part of the European recovery program which might be financed over the next 15 months with new United States Treasury funds in the amount of \$6,800,000,000.¹ For purposes of this paper, relief-type items which might be purchased in the Western Hemisphere with new United States Treasury funds and consumed in the participating countries are food, fuel, fertilizer, and cotton and wool fibers. Similarly, recovery-type items are incentive goods such as tobacco and coffee, farm supplies and equipment, industrial raw materials, coal-mining machinery, capital equipment, and parts and components for machinery and equipment.

On an over-all basis, the estimated expenditure pattern for new United States Treasury funds of \$6,800,000,000 over the 15-month period, April 1, 1948, to June 30, 1949, would procure about \$4,500,000,000 of relief-type goods, as defined above, and \$2,300,000,000 of recovery-type goods. Roughly two-thirds of this illustrative program involving an outlay of \$6,800,000,000 in the 15-month period beginning April 1, 1948, would consist of relief-type items and about one-third would include recovery-type items. The data supporting these estimates are summarized in tables 1-4.

Qualifications of course should be attached to this break-down between relief-type and recovery-type commodities and services. The two categories of goods and services are not mutually exclusive. The relief-type goods include elements which, if they could be segregated, would more properly be classified as recovery-type goods. For example, that part of available fuel supplies which is in excess of the amount needed to prevent serious retrogression in essential transport and industry might be regarded as a recovery-type item. Similarly, part of the items included in the category of recovery-type goods which includes both agricultural and coal-mining machinery could, in certain circumstances, be classified as relief-type goods.

Furthermore, the proportion between relief-type and recovery-type goods in this break-down relates directly to the illustrative program of expenditures of new United States Treasury funds referred to above. In the light of available information and foreseeable circumstances that program of expenditures appears to be reasonable. In actual practice the administrator would adjust the program as new developments occurred. These adjustments in the pattern of expenditures might alter somewhat the relation between relief-type and recovery-type goods financed with new United States Treasury funds.

The attached tables are based on the assumption that appropriations in the amount estimated to be required by the executive branch will be available. If a program is authorized which is midway between a relief program and the proposed recovery program, the necessary adjustment would have to be made primarily in the category of recovery-type commodities and services. The large magnitude of the requirements for relief-type goods have already been scaled down to fit within limited world availabilities. The aggregate value of relief-type commodities would therefore be approximately the same in an adequately financed relief program as in the recovery program submitted to the Congress. In the event that a program intermediate between relief and recovery were to be authorized by the Congress the proportion of relief-type goods to recovery-type goods would increase from 66 percent to a substantially higher percentage.

¹ An illustration of the probable volume and composition of imports by the participating countries from the Western Hemisphere, April 1, 1948, through June 30, 1949, together with possible sources of financing those imports has been submitted in a separate memorandum. That paper also indicated a possible pattern of expenditures by commodities and by countries of the \$6,800,000,000 of new Treasury funds which the executive branch requests the Congress to authorize for purposes of carrying forward the European recovery program in the 15 months starting on April 1, 1948. See the memorandum entitled "Illustrative Composition of Imports of Commodities and Services From Western Hemisphere, April 1, 1948, Through June 30, 1949, and Possible Sources and Distribution of Financing."

TABLE 1.—*Illustrative distribution between relief-type and recovery-type commodities and services financed with new U. S. Treasury funds and imported by the participating countries from the Western Hemisphere, Apr. 1, 1948, to June 30, 1949*

[In million of dollars, at July 1, 1947, prices]

	Relief-type commodi- ties and services	Recovery- type com- modities and serv- ices	Total
Totals brought forward from table 2.....	4,899	1,961	6,860
Plus adjustment for price increases ¹	342	140	482
	5,241	2,101	7,342
Less:			
Savings on shipping ²	71	29	100
Department of Army, GARIOA.....	822	-----	822
Subtotal.....	893	29	922
	4,348	2,072	6,420
Plus:			
Authority to obligate funds for procurement of items, chiefly capital equipment, to be delivered in subsequent years.....	-----	200	200
Uncovered deficit of Bizone Germany with nonparticipating countries outside the Western Hemisphere ³	134	66	200
Subtotal.....	134	266	400
Authorization requested for ECA.....	4,482	2,338	⁴ 6,820
Above in rounded amount.....	-----	-----	6,800
Relief-type goods and services as percent of total authorization requested.....	66	-----	-----
Recovery-type goods and services as percent of total authorization requested.....	-----	34	-----

¹ This entry represents the "adjustment for higher prices" of \$555,000,000 shown in committee print of Outline of European Recovery Program, (second table) less that portion (\$83,000,000) of the aggregate price increases attributable to commodities which will be financed by sources other than new U. S. Treasury funds.

² Based upon suggested transfer of shipping as indicated in committee print of Outline of European Recovery, p. 92.

³ Based upon estimated purchases in nonparticipating countries outside the Western Hemisphere of the following: Wool, \$71,000,000; coarse grains, \$28,500,000; cotton \$16,600,000; jute, \$14,000,000; hemp, \$6,500,000; lead, \$10,000,000; other raw materials, \$26,600,000; and dollar freight of \$26,800,000.

⁴ Committee print, Outline of European Recovery Program, p. 109.

TABLE 2.—*Recapitulation of illustrative distribution between relief-type and recovery-type commodities and services financed with new U. S. Treasury funds and imported by the participating countries from the Western Hemisphere, Apr. 1, 1948, to June 30, 1949*¹

[In millions of dollars, at July 1, 1947, prices]

	Total relief- type commodi- ties and services	Total recovery- type commodi- ties and services	Total
Austria.....	118.6	63.4	182.0
Belgium-Luxembourg and dependencies.....	255.2	67.9	323.1
Denmark.....	77.8	86.3	164.1
France and dependencies.....	968.9	465.3	1,434.2
Greece.....	137.3	48.6	185.9
Iceland.....	7.8	4.9	12.7
Ireland.....	102.6	49.2	151.8
Italy.....	719.4	149.4	868.8
Netherlands and dependencies.....	311.3	393.7	705.0
Norway.....	-----	34.1	34.1
Portugal and dependencies.....	-----	-----	-----
Sweden.....	-----	32.9	32.9
Switzerland.....	-----	-----	-----
United Kingdom and dependencies.....	1,490.9	269.3	1,760.2
Western Germany:			
Bizone.....	630.7	283.8	914.5
French zone.....	71.6	8.8	80.4
Saar.....	7.0	3.9	10.9
Total.....	4,899.1	1,961.5	6,860.6

¹ For footnote references, see tables 3 and 4.

TABLE 3.—*Illustrative composition of relief-type commodities and services which might be financed with new U. S. Treasury funds and imported by the participating countries from the Western Hemisphere, Apr. 1, 1948, to June 30, 1949*¹

[In millions of dollars, at July 1, 1947, prices]

	Food ²	Fuel ³	Ferti- lizer ⁴	Fibers ⁵	Net freight on relief-type commod- ities ⁶	Total relief- type com- modities and services
Austria.....	79.3	-----	-----	17.9	21.4	118.6
Belgium-Luxemburg and de- pendencies.....	204.9	31.4	.8	18.1	-----	255.2
Denmark.....	45.0	24.3	1.6	6.9	-----	77.8
France and dependencies.....	271.9	352.7	11.8	182.3	150.2	968.9
Greece.....	116.0	8.5	2.4	6.5	3.9	137.3
Iceland.....	5.0	2.6	.2	-----	-----	7.8
Ireland.....	76.0	24.2	.4	2.0	-----	102.6
Italy.....	308.4	149.2	1.2	164.5	96.1	719.4
Netherlands and dependencies.....	213.6	58.0	6.8	32.9	-----	311.3
Norway.....	-----	-----	-----	-----	-----	-----
Portugal and dependencies.....	-----	-----	-----	-----	-----	-----
Sweden.....	-----	-----	-----	-----	-----	-----
Switzerland.....	-----	-----	-----	-----	-----	-----
United Kingdom and depend- encies.....	1,152.5	89.1	22.7	226.6	-----	1,490.9
Western Germany:						
Bizone.....	436.2	22.5	13.1	66.5	92.4	630.7
French zone.....	46.2	8.7	-----	16.7	-----	71.6
Saar.....	7.0	-----	-----	-----	-----	7.0
Total.....	2,962.0	771.2	61.0	740.9	364.0	4,899.1

¹ Source: Memorandum entitled "Illustrative Composition of Imports of Commodities and Services from Western Hemisphere, April 1, 1948, through June 30, 1949, and Possible Sources and Distribution of Financing."² Includes cereals, fats and oils, sugar, meat, dairy products, eggs, dried fruit, rice, and other foods.³ Includes coal and petroleum.⁴ Includes nitrogen fertilizer, phosphates and potash.⁵ Includes raw wool and cotton fibers.⁶ Net freight was distributed on a pro rata basis by value between relief-type and recovery-type commodities.TABLE 4.—*Illustrative composition of recovery-type commodities and services which might be financed with new U. S. Treasury funds and imported by the participating countries from the Western Hemisphere, Apr. 1, 1948, to June 30, 1949*¹

[In millions of dollars, at July 1, 1947, prices]

	Incentive goods ²	Raw ma- terials ³	Capital equip- ment ⁴	Other imports ⁵	Net freight on recovery- type com- modities ⁶	Total recov- ery-type commodities and services
Austria.....	6.9	7.4	11.0	19.5	18.6	63.4
Belgium-Luxembourg and de- pendencies.....	32.0	35.9	-----	-----	-----	67.9
Denmark.....	22.7	51.4	12.2	-----	-----	86.3
France and dependencies.....	25.7	67.9	108.6	150.3	112.8	465.3
Greece.....	2.7	12.1	17.2	-----	16.6	48.6
Iceland.....	.8	1.3	1.8	1.0	-----	4.9
Ireland.....	8.9	10.1	4.9	25.3	-----	49.2
Italy.....	14.0	33.7	16.5	47.3	37.9	149.4
Netherlands and Dependencies.....	41.1	100.9	45.2	206.5	-----	393.7
Norway.....	-----	20.3	13.8	-----	-----	34.1
Portugal and dependencies.....	-----	-----	-----	-----	-----	-----
Sweden.....	-----	-----	32.9	-----	-----	32.9
Switzerland.....	-----	-----	-----	-----	-----	-----
United Kingdom and dependen- cies.....	173.6	32.9	62.8	-----	-----	269.3
Western Germany:						
Bizone.....	18.3	-----	111.1	112.8	41.6	283.8
French Zone.....	2.3	.7	1.1	4.7	-----	8.8
Saar.....	-----	-----	3.9	-----	-----	3.9
Total.....	349.0	374.6	443.0	567.4	227.5	1,961.5

¹ Source: See table 3.² Includes tobacco and coffee.³ Includes timber, iron, and steel, and oil cake and meal.⁴ Includes agricultural machinery, coal mining equipment, trucks, freight cars, steel-plant equipment, timber equipment, and electrical equipment.⁵ Includes industrial raw materials and parts and components for industrial-plant equipment.⁶ Net freight was distributed on a pro rata basis by value between recovery-type and relief-type commodities.

FEBRUARY 4, 1948.

The Honorable ARTHUR H. VANDENBERG,
Chairman, Committee on Foreign Relations,
United States Senate.

DEAR SENATOR VANDENBERG: You will recall that during December you indicated the intention of going fully into the German reparation-and-dismantling program in connection with the consideration of the European recovery program by the Senate Foreign Relations Committee. Since that time, the Departments of State and of the Army have submitted to the Congress and to your committee a considerable amount of information on this subject. During the course of my testimony before your committee on January 8, I made a number of statements in which I pointed out certain of the reasons in favor of continuing the dismantling program, and indicated that further information and data would be furnished in the near future. Various Army witnesses, including Secretary Royall and Under Secretary Draper, have testified at length before your committee in support of the dismantling and reparation program, and especially with reference to the more technical aspects of the program, including its effects upon the German economy.

On January 24 Mr. Lovett forwarded to you a copy of the memorandum prepared by the Departments of State and of the Army in reply to the questions contained in House Resolution 365. This resolution called for answers to 11 questions concerning the dismantling program, and the replies (together with the 6 attachments) went into considerable detail. I understand that the Speaker of the House of Representatives read Mr Lovett's covering letter of January 24 before the House. It was pointed out in this letter that through both diplomatic channels and through the Office of Military Government (U. S.), the British and French Governments have been asked to supply detailed information with regard to the status of the dismantling program in their respective areas of occupation. Although representatives of these governments have given us assurances that they will make every effort to furnish the requested information, we are still awaiting receipt of detailed replies.

I believe that there are certain very compelling reasons in favor of the reparation program which may not be fully understood by the Congress, notwithstanding the quite extensive information which has been made available to the Congress through your committee and otherwise. For this reason I am submitting to you herewith a further memorandum in which an effort is made to summarize the principal points which are involved. I believe that the information and arguments contained in this memorandum will be of use to your committee, and it occurs to me that you and other Members of the Senate may deem it appropriate to employ this material in any further discussions of the program which may take place. With this thought in mind I am forwarding to you under separate cover additional copies of the memorandum.

I should also like to bring to your attention the fact that the British and French Governments are understood to be opposed to modification of the present dismantling program. We know that they feel themselves justly entitled to and are most anxious to receive delivery of their share of the plants which have been selected for dismantling and of the reciprocal deliveries of commodities which the Soviets are obligated to make to the West. If all dismantling should be halted in our zone, this would be interpreted as the abandonment of the reparation program as far as the United States is concerned. The probable result of such action would be that the United States would find itself in sole opposition to the demands of the other 17 members of the IARA group of nations, and would probably be faced with renewed demands for extensive reparation out of current production. The principles for which we have contended so vigorously would thus be placed in jeopardy. Instead of being able to dispose of the reparations problem in short time and at relatively little cost we will be thrown back into a situation similar to that which followed in the wake of World War I, with general disagreement and long-drawn-out wrangling among the victorious Allies, and particularly those nations in western Europe among which unity of purpose and feeling is essential for European recovery.

For the foregoing reasons, as well as the unfortunate political consequences within Germany which our officials there have declared would result from a temporary halt of dismantling should it later be decided to resume dismantling, General Clay has not been instructed to discontinue dismantling. No further allocations by the Allied Control Authority have been made, however, since the current congressional inquiry was begun. At the same time an investigation

is being made to ascertain whether or not certain of the plants scheduled for dismantling would be better able to contribute to the world supply of critical items if retained in Germany, particularly those plants to which attention was called in the report of the Herter committee.

As you are aware, because of Soviet breaches of the Potsdam agreement we are seeking adequate arrangements with the British regarding further reparation deliveries to the east. These discussions are continuing, and in the meanwhile all deliveries from the United States zone to the Union of Soviet Socialist Republics (and Poland) have been stopped except for the remnants of three plants which were largely dismantled and delivered before the last meeting of the Council of Foreign Ministers.

After consulting your office, I am taking the liberty of furnishing copies of this letter and memorandum to the chairman of the Appropriations Committee of the Senate and the Foreign Affairs and Appropriations Committees of the House of Representatives in view of the interest which these committees have taken in the reparation and dismantling program.

Faithfully yours,

G. C. MARSHALL.

THE GERMAN REPARATION PROGRAM

In recent weeks, while the major proposals of the European recovery program have been under continuous congressional and public discussion, there has been widespread criticism directed to the question of the compatibility with that program of the present German reparation settlement. It has been argued that the dismantling and transfer of German plants blocks the industrial recovery of Germany, and is the major factor preventing the great industries of the Ruhr from contributing to European reconstruction. The conclusion is drawn that the dismantling program increases the burden on the United States, and the costs which must be borne by the American taxpayer. It is asserted that the transferred plants are of small value to the recipient countries, and that, in any case, the major beneficiaries are countries which are unfriendly to the United States.

A more limited opposition is addressed to the question of certain plants on the dismantling lists which appear to be technically capable of producing items, such as sheet and strip steel, and large-diameter pipe, which are in short supply throughout the world because of lack of producing capacity. It is argued that it would be to the advantage of all nations concerned to keep such plants in Germany, and to assign them top priorities in supplies of coal, manpower, and other scarce factors of production, rather than to undergo the loss of production time involved in their dismantling and transfer.

In response to these criticisms a fundamental reexamination of all the considerations involved, both economic and political has been undertaken by the Department of State. The conclusion has been reached that the German reparation program should be continued in its present form, and that such continuance will aid, not hamper, the economic recovery of Europe. Such continuance will, furthermore, leave to the German people adequate resources to enable them to develop a decent standard of life, and to contribute through industrial exports to European recovery. The major considerations which led the Department to adopt this conclusion are summarized in the following paragraphs. The question of whether certain of the plants on the dismantling list would be better able to contribute to the world supply of critically short items if retained in Germany is now being investigated.

POLITICAL CONSIDERATIONS

The need for a final settlement of the German reparation question

The obligation of the aggressor to pay the maximum reparation compatible with economic and political realities is incontestable. The failure after the First World War to arrive at a realistic solution of this problem cost American taxpayers and private investors hundreds of millions of dollars, seriously disrupted European and world trade throughout the interwar period, and gave rise to constant frictions in international political relations.

From this unhappy experience it could be concluded that any reparation settlement, to be satisfactory, should be realistically based on capacity to pay, should be carried to final completion within a relatively short period, and yet should be accepted as equitable by all concerned. It was such a settlement that the

United States Government consistently sought from the time when planning for the postsurrender treatment of Germany was begun. Without such a settlement, it was certain that the time when Germany could enter into normal economic and political relations with the rest of the European community would be seriously delayed, and it was probable that American taxpayers and investors would once again find that they had paid the German reparation bill.

The character of existing reparation agreements

The Potsdam agreement embodies the basic features of a reparation settlement satisfactory to the United States. It very specifically lays down the principle that the German reparation bill must be kept within the bounds of Germany's capacity to pay, and recognizes the necessity for a definite settlement to be carried through within a few years. It takes into account the fears of European countries of a resurgence of German aggression, and yet lays the ground for the establishment of a unified, peaceful, and economically viable Germany capable of self-support.

Providing all parties thereto undertook its implementation in a sincere spirit of cooperation, the Potsdam agreement provided the basis for a definitive settlement of the reparation shares of the Soviet Union and Poland on the one hand, and of all other countries entitled to reparation from Germany on the other. The Paris agreement on reparation, which was negotiated in Paris during the last 2 months of 1945, represented the practical acceptance by these other countries of the Potsdam reparation settlement. These 18 countries in effect accepted the principle of Germany's capacity to pay, and agreed among themselves as to their relative shares in a total volume of German reparation assets which at that time was unknown. Such a reparation settlement is unprecedented in history; and in view of the greatly reduced volume of capital equipment being made available under the revised levels of industry, its continued acceptance is even more remarkable.

The degree to which the United States Government is committed under present reparation agreements

There can be no doubt that the signatories of the Paris reparation agreement regard the United States as being fully committed thereby to carry out the reparation provisions of Potsdam. There are no legal grounds in international law to justify the conclusion that the Paris agreement is no longer internationally binding.

It is, of course, true that in cases where circumstances have substantially changed since the date of signature of an international agreement, and where the majority of the signatories to the agreement concur in the view that the agreement requires modification in the light of such changed circumstances renegotiation has frequently been undertaken. As pointed out elsewhere, however, the majority of the signatories to the Paris agreement on reparation feel strongly that the implementation of the agreement should be continued; and that indeed, the action taken to date has been too dilatory and limited.

As is well known, the Soviet Union has refused to follow in practice the principles of German self-support and capacity to pay, and of economic unity, laid down in the Potsdam agreement. Unless it is willing to live up to all the terms of this agreement, it cannot properly claim that only those clauses wholly favorable to it should be carried out. As has been announced, the Department of State is now seeking adequate arrangements with the British regarding further reparation deliveries to the east. So far as the United States zone in Germany is concerned, only the remnants of three plants, dismantling and shipping of which had already progressed very far prior to the last Council of Foreign Ministers, are now in process of delivery to the U. S. S. R.

It remains true, however, that the Potsdam agreement embodies the basic features of a reparation settlement satisfactory to the United States, and one which is probably as advantageous to Germany as is compatible with Germany's obligations. This being so, it would obviously be unwise to abandon the Potsdam reparation settlement merely by reason of Soviet malfeasance.

The present attitude of European countries

The attitude of the members of the Inter-Allied Reparation Agency toward the dismantling program has been most recently indicated by a resolution of the assembly, transmitted in November 1947, to the Council of Foreign Ministers. The resolution protested the delays in dismantling and shipment of German

plants and requested the Council to seek measures to speed up the program. A similar resolution had been presented to the Council in October 1946.

The eagerness with which the members of the Agency have sought to secure such German plants and equipment as have been made available to them is ample evidence of the importance which they attach to these plants for purposes of their own economic reconstruction. Apart, however, from the contribution of the reparation program to their own economic reconstruction, these countries regard the program as a symbol of an attitude toward Germany's past actions and toward their own future, the abandonment of which would cause the greatest concern. To argue that the United States has already, through contributions to European relief, "more than paid for these plants," would seem to them to represent a callous disregard for the moral issues at stake, and for the superior rights of the victims over the aggressor. This attitude also tends wrongly to identify German and American interests.

From a purely practical standpoint, it is the attitudes of Britain and France, in whose occupation zones in Germany are located the great majority of the plants remaining to be dismantled, that are of most importance. The British have very strongly expressed the view that they regard themselves as bound by the Paris reparation agreement to carry out the dismantling program. The French, although they have not been directly approached at this time, are known to hold similar views. In addition, the French have already protested against the present bizonal level of industry on the grounds that in certain fields of industry it permits the retention of so great a German capacity as to threaten their own security. The Department of State considers that it would be inconsistent with national policy to attempt to coerce the British and French into taking action which they would regard as a breach of their international commitments and as an injury to their own material interests and to those of the entire European community.

ECONOMIC CONSIDERATIONS

The character of the bizonal level of industry

When it became clear that the U. S. S. R. had no immediate intention, except on its own terms, of putting into effect the economic arrangements envisioned under the Potsdam agreement as necessary for the creation of a viable German economy, the American and British Governments took the decision to merge their zones economically. An open invitation to other zones to join the merger was maintained. The two Governments continued to feel, however, that the general lines of the reparation settlement embodied in the Potsdam agreement were correct ones, and instructions were given to the two zone commanders to prepare a revised level of industry for the bizonal area as a basis for the carrying out of that settlement. These instructions were given in March 1947, after the Council of Foreign Ministers met at Moscow.

By that time some 18 months' experience had given a clear insight into the problems of German economic recovery. The general dollar crisis in western Europe had not yet become apparent in its full intensity, although serious difficulties had already appeared. In working on the revised level of industry the American and British authorities in Germany had fully in mind the necessity of providing the basis for a German economy with the resources and flexibility essential not only for its own recovery, but also for the fullest contribution within its power to general European recovery.

Negotiations proceeded over several months, and it was not until August 23, 1947, that the revised level of industry was finally announced. The general effect of the revised level of industry is to permit the retention in the bizonal area of sufficient industrial capacity to produce approximately the same volume of output as was produced in 1936.

1936 was a year of considerable prosperity in Germany and one in which the German standard of living was one of the highest in the world. Not only was the standard of living high in that year, but in addition the Nazi government found it possible to devote large resources to the construction of the autobahns, of massive public buildings and Nazi brown houses, and to armaments production.

In 1936 the bizonal area exported, in terms of current prices roughly 1.75 billion dollars worth of industrial products. The revised level of industry provides the basis for a volume of exports some 15 percent larger than this.

It should be emphasized in addition, that the revised level in no way constitutes a permanent strait-jacket on the German economy. Within the resources left to them, the Germans are free to develop their economy and standard of

living to the fullest extent made possible by their enterprise and hard work. Such permanent restriction as may be necessary for reasons of security will be contained in the final peace arrangements. In the meantime, the occupation of Germany will continue.

It is well to recall that, on the basis of the resources available to them in 1936, the Germans established a formidable war machine. Had these resources been devoted to peaceful purposes, the German standard of living could have been greatly raised above its already high level.

It is, of course, true that the population in the bizonal area will be considerably higher than in 1936, and that the volume of industrial output per capita will therefore be lower. Taking into account, however, the fact that resources will no longer be devoted to war purposes, it is considered that full opportunity remains for the development of a decent standard of life.

The level of industry presently contemplated in the French zone is believed to be rather lower, on a relative basis, than that for the bizonal area. Industrial capacity in that area is, however, a relatively small fraction of the total in the three western zones. Even if present French plans are carried out in their entirety, therefore, it is not believed that they will materially reduce the capacity of western Germany as a whole.

The selection of individual plants for removal

The selection of individual plants for removal was carried out with a view to retaining in Germany the most economically located plants and those best able to contribute to the export program, while at the same time minimizing the local and temporary effects of dismantling. The concentration of production in the plants remaining is expected to improve efficiency in management and in the use of labor, fuel, and raw materials. It should be noted that these lists were drawn up during the period between the end of August 1947 and the middle of October, and that the general character of European and world needs, and especially of the needs for specific critical commodities, were well known at this time.

At the time of publication of the list of plants to be dismantled, on October 16, the responsible German authorities were invited to submit suggested amendments. No amendments were submitted in the case of the American list. Some 30 or 40 amendments were suggested for the list of plants in the British zone. Many of these amendments were accepted and others are still under consideration.

The relation of German production to the European recovery program

The present level of industrial production in the bizonal area is roughly one-third of the capacity scheduled for retention under the revised level of industry. Even this level has been achieved only after more than 2 years of grinding effort to break the complex log-jam of shortages which is blocking German production—food, coal, raw materials, housing, manpower, transport, etc. In no single branch of industry does production now equal or even approach retained capacity. In no branch of industry will the removal of capacity now scheduled for dismantling materially affect the output of that industry over the next 4 or 5 years.

In the light of the above facts it is clear that the real problem of bringing about Germany recovery, and therefore of enabling Germany to contribute to European recovery, is to increase German production. Even were present German production doubled, it would still be one-third lower than is technically possible on the basis of the revised level of industry.

Many suggestions have been put forward in the press and in pamphlets as to possible means of increasing German industrial output to the point where all existing capacity, including that scheduled for dismantling, could be fully utilized. It has been urged, for example, that more coal should be shipped from the United States in order to permit the retention in Germany of a greater proportion of German coal production, thereby affording the basis for a greater German industrial output. This suggestion ignores the fact that coal is now being stock piled at German mines because of inability to transport it to manufacturing plants. It ignores the fact that skilled manpower for making immediate use of greatly increased quantities of coal is simply not available. Other panaceas offered can be shown, upon detailed analysis, to fail equally to take into account the hard facts of economic life in Germany today.

Industrial recovery in Germany is necessarily a slow process, which can only proceed in a reasonably balanced fashion, with advances in one particular branch of industry providing the essential basis for equivalent advances in other branches. To superimpose overriding priorities for production of particular

items would be to invite collapse in other segments of production. To attempt to inject supplies of fuel and raw materials into the economy at a rate faster than can be effectively utilized under existing circumstances would engender waste and misuse. In view of world shortages today, such action would be untenable.

In conclusion, it is important to note that in their discussions of the possible German contribution to European recovery, the bizonal authorities did not find themselves in any way limited by the restrictions imposed under the revised level of industry. Their estimates of possible German production, and of possible German exports to countries participating in the European recovery program represented the maximum deemed feasible under existing and expected conditions in Germany, taking into account the needs both of Germany and of Europe.

Even under present programing, it is estimated that within 4 or 5 years Germany may have a substantial export surplus in its trade relations with other countries participating in the European recovery program. By 1952 total exports from the bizonal area to these countries are estimated to be in the neighborhood of \$2,000,000,000 with a surplus of exports over imports of around a quarter of a billion dollars. To divert food, coal, and raw materials from other countries to Germany with the result of increasing this surplus would be difficult to defend either on political or on economic grounds. Such diversion would be certain to lend ammunition to the Communist propaganda that the United States favors the rebuilding of a powerful Germany over the reconstruction of Germany's victims.

The economic feasibility of transferring German plants

Ample evidence of the economic feasibility of dismantling and transferring industrial equipment is to be found both in earlier American experience and in the experience of the Inter-Allied Reparation Agency. The War Assets Administration, for example, has been realizing about 50 percent of war-inflated acquisition costs on sales of second-hand general-purpose machinery. Eighty percent of the equipment sold by them has been dismantled and transferred to new sites. Demand for many types of equipment offered by them is far in excess of supply. European countries have been paying good prices for this machinery despite the fact that it must be transported across the Atlantic and converted to the metric system before it can be utilized.

The OFLC has promptly disposed of virtually all of the German equipment secured by the United States through the Inter-Allied Reparations Agency. Most recently, for example, a chemicals plant was sold to an American firm for \$103,000, although its 1938 replacement cost in Germany was estimated at only about \$135,000. The Permanente Metals Corp. has purchased a German aluminum foil-rolling mill for \$203,000, and is now engaged in dismantling and packing it. Customs duties must be paid also and both these plants must be moved across the Atlantic, reerected in this country, and adapted to the American system of measurement. Nevertheless, in the opinion of experienced American businessmen these are sound commercial transactions.

Equipment from the Hensoldt optical plant has been reerected in the Netherlands to replace equipment looted by the Germans. Machinery from the Kuegel-fischer ball-bearing plant will help to replace both British and French plants extensively damaged during the war. It is clear that both the governments concerned and the business firms which purchase the equipment from their governments, regard the dismantling program as both practicable and profitable.

In many cases Germany represents the only possible source for securing industrial equipment within a reasonable period. Furthermore, the German equipment can be procured under the reparation program without expenditure of scarce dollars, and is in most cases more readily adaptable to European plants than is American machinery. Since the plants cannot presently be used in Germany, their present economic value there is so low as to be negligible in relation to their value to recipient countries. It is too seldom remembered that at the end of the war Germany had virtually as many machine tools as the United States.

Reciprocal deliveries

Under the Potsdam agreement, the Soviet Union was required to make to the Western Powers so-called "reciprocal deliveries" of foodstuffs, potash, coal, and other commodities in return for three-fifths of the capital equipment delivered to them from the western zones of Germany, i. e., in return for 15 of the 25 percent of total removals from the western zones to which they were entitled. Such reciprocal deliveries were to be spread over a period of 5 years, whereas the capital removal program was to be completed within 2 years.

Under present plans total capital removals from the western zones would probably amount in 1938 values to approximately 1,000,000,000 reichsmarks, of which the Soviet share would be 250,000,000 reichsmarks. In return for this removed plant 150,000,000 reichsmarks worth of reciprocal deliveries would be required from the U. S. S. R. Since roughly 100,000,000 reichsmarks worth of capital equipment has already been delivered to the Soviet Union, while reciprocal deliveries are only now about to begin, the theoretical debts on both sides are now roughly equal.

In other words, the U. S. S. R. owes to the Western Powers 150,000,000 reichsmarks worth of coal, food, and other commodities, and an equivalent value in deliveries of capital equipment is theoretically owed to the Soviet Union. The extremely urgent demands for commodities in western Europe and the disproportionately great increase in world prices of commodities over capital equipment since 1938, tend to make this possible exchange advantageous to the member nations of the Inter-Allied Reparation Agency.

CONCLUSIONS

Analysis of Germany's economic situation shows beyond question that the revised level of industry, and the dismantling program based on it, have no present effect on Germany's ability to produce and to export; nor has the revised level been found an obstacle to planning the maximum feasible contribution by Germany to the general European recovery program. It provides for the retention in the bizonal area of sufficient industrial capacity to provide the basis for development of a reasonable standard of living and of a volume of industrial exports greater than prevailed in 1936.

The dismantling and removal of German plants, therefore, represents a transfer of capacity which would otherwise remain idle in Germany to countries which, because of more adequate supplies of manpower, housing, transport, and other scarce factors of production, and because they enjoy more stable monetary and administrative organizations, can make good use of them. Transferred German plants are already contributing to the economic recovery of other European countries, and may be expected to reduce the cost of the American contribution to European aid. To a considerable extent recipient nations have no other available source of supply for meeting their requirement for much-needed industrial expansion.

The reparation settlement embodied in the Potsdam and Paris reparation agreements, of which the dismantling program represents the concrete implementation, is one which accords with the best interests both of the United States and, recognizing its obligations, of Germany. It is a settlement to which genuinely friendly European countries, including both Great Britain and France, regard the United States as being fully committed, and one which represents to them the symbol of an attitude toward Germany's past actions and toward their own future, the abandonment of which would cause them the greatest concern.

DEPARTMENT OF STATE,
Washington, January 24, 1948.

HON. ARTHUR H. VANDENBERG,
*Chairman, Committee on Foreign Relations,
United States Senate, Washington, D. C.*

DEAR SENATOR VANDENBERG: House Resolution 365 of the Eightieth Congress, adopted by the House of Representatives on December 18, 1947, requested the Department of State and the Department of Defense to supply the answers to 11 questions regarding the dismantling and removal of industrial plants from Germany as reparations. The attached document gives the answers which the Department of State is submitting to the Speaker of the House, for itself and the Department of Defense, in response to House Resolution 365. A copy of these answers is herewith supplied to you as chairman of the Senate Committee on Foreign Relations, in view of the interest which has been expressed by that committee in the reparations problem.

Sincerely yours,

ROBERT A. LOVETT, *Under Secretary.*

DEPARTMENT OF STATE,
Washington, D. C., January 24, 1948.

INFORMATION REQUESTED BY HOUSE RESOLUTION 365, DECEMBER 18, 1947

Question 1: How many of the 682 plants in Germany recently announced as surplus and available for reparations have actually been dismantled and removed from Germany? How many from the British zone? How many from the Russian zone? How many from the French zone?

Answer: The list of 682 plants and parts of plants, announced on October 16, 1947, as representing capacity surplus to the needs of the German economy, applied only to the bizonal area of Germany. Of these, 186 are in the United States zone and 496 in the British zone. The French on October 10, 1947, announced a provisional list of 176 surplus plants in their zone. No equivalent list is available for the Soviet zone. Copies of the bizonal and French lists are attached. (Attachments 1 and 2.)

Forty plants have been completely dismantled and removed from the American Zone, and the same number from the British zone. In addition other plants have been dismantled and partially removed. This information is given in answer to question 3 below. No information is presently available for either the French or Soviet zones.

Question 2: What was the character and capacity of the removed plants in each zone? Which ones could have contributed to the economic reconstruction of Germany and Europe within the scope of the so-called Marshall plan?

Answer: Character and capacity of the removed plants: Of the 40 plants removed from the American zone, 32 were war plants, i. e., plants designed exclusively for the manufacture of war materials. Only general-purpose equipment from them, readily convertible to civilian production, was shipped out as reparation. Equipment usable only for the manufacture of war materials was destroyed.

No information on the capacity output of war materials of these war plants is available, nor is it believed that such information would be relevant to the purpose of House Resolution 365. Since the plants were not designed for civilian use, and since important elements of them were destroyed prior to shipment of the general purpose equipment as reparation, no information is available concerning their capacity for production of civilian goods.

Of the eight nonwar plants already removed from the American zone, three produced machinery; two were power plants; and there were one each in the fields of optical goods, Diesel-engine production, and shipbuilding. All of these eight nonwar plants were on the so-called advance list of plants to be removed as reparation. This list was drawn up in 1945, prior to the preparation of the original level-of-industry plan of March 1946, in order to permit an immediate start on the reparation program established by the Potsdam agreement of August, 2, 1945. Capacities of the nonwar plants removed from the United States zone are shown in table A attached.

No detailed information on the types and capacities of plants already removed from zones other than the American has as yet been received. It is believed, however, that removals from the British zone, as from the American, have consisted chiefly of war plants. Since it is known that only a very small tonnage of material has been shipped from the French zone, it is believed that but few plants have been completely removed.

Possible contribution of removed plants to German and European reconstruction: While full information is not available, it is known that a large proportion of the plants and equipment already removed from Germany are now in operation in the recipient countries, and are contributing to their reconstruction. Of particular importance has been the receipt from Germany of critical types of machines, not procurable elsewhere within less than 2 or 3 years, which have served to break industrial bottlenecks, and have thus resulted in increases in output throughout an entire segment of industry.

French De la Haye automobiles shown in 1947, for example, were equipped with crankshafts produced with German reparation equipment, procurement of which through commercial channels would have required at least 2 years. German equipment has permitted a significant increase in output of heavy steel castings for shipbuilding in the United Kingdom, and has helped to break bottlenecks throughout the entire British steel industry.

The Netherlands Government has estimated that one group of 320 machines from Germany will result in increased industrial production during 1948 worth

about \$400,000; and that optical machinery from the German Hensoldt plant, used to replace equipment looted by the Germans, will afford the basis for an increase in production of about \$100,000 during 1948. A number of similar examples could be cited.

Even where the equipment secured through reparation could have been purchased through commercial channels within a reasonable period, such purchase would have required hard currency. In the case of France, for example, the value of industrial equipment obtained as reparation up to November 1, 1947, represented the following percentages of the official import plan from the date of liberation until that date: Electrical equipment, 9 percent; mechanical equipment, 43 percent; chemical equipment, 500 percent. The United Kingdom has reported that reparation items will constitute some 20 percent of a total program of chemical-plant construction designed to manufacture products presently purchased from the Western Hemisphere at an annual cost of \$2,500,000. Savings in foreign exchange attributable to the reparation program have already been great, and continuance of the program could be expected to result in large additional savings.

In general, the plants and equipment removed from Germany could not have been fully utilized in Germany if retained because of shortages of fuel, manpower, and raw materials. They were removed from industries enormously expanded to meet the needs of the German war machine, existing capacity in which is greater than required under any reasonable peacetime economy. Their retention, therefore, would have resulted in no increase in German production or exports, and the capacity which they represent would merely have lain idle and deteriorated.

A few of the plants removed, which before the war were world-famous exporters in their special fields, such as the Hahn-Tessky machine-tool plant, might have made a special contribution to the present German export program. This contribution, however, would have to be weighed against the contribution which these plants are now making to the reconstruction of the economies of Germany's victims.

Question 3: What is the character and capacity of those remaining to be dismantled or removed by zones?

Answer: Plants remaining to be dismantled or removed fall into the following categories:

(a) Plants already 100-percent dismantled, actual shipment of which to recipient countries is now in process or about to begin.

(b) Plants on which dismantling is now in process; and

(c) Plants on which dismantling has not yet begun.

The following summary data are available for the American and British zones:

	United States zone	United King- dom zone	Total
Number plants in category A.....	61	30	91
Number plants in category B.....	46	123	169
Number plants in category C.....	39	303	342
Subtotal.....	146	456	602
Number plants removed.....	40	40	80
Total.....	186	496	682

Thus, in the bizonal area, there are 342 plants out of the total list of 682 on which dismantling has not been started, of which only 39 are in the United States zone. Of the remaining 340 plants, 80 have been completely removed, an additional 91 have been completely dismantled, and dismantling is in process on 169.

Similar information for the French zone has been requested but not yet received. The general character of each individual plant listed for reparation from the three western zones is indicated on the attached lists. In the case of the British and French zones, the list does not distinguish plants already removed from those to be removed; this information has been requested and will be submitted later. The general character of all plants listed for repara-

tion, regardless of whether or not removed, from the three western zones may be summarized as follows:

Number of plants listed for reparation

	United States zone	United Kingdom zone	French zone	Total
War plants.....	104	198	33	335
Ferrous metals.....	5	87	2	94
Nonferrous metals.....	5	6	10	21
Chemicals.....	18	24	26	68
Mechanical engineering.....	49	175	104	332
Electrical engineering.....		4		
Shipbuilding.....	1	2		3
Power plants.....	4			4
Cement plants.....			1	1
Total.....	186	496	176	868

The capacity of the plants listed for reparation from the bizonal area, other than war plants, is summarized by types of industry in a table included in the attached list of "Plants and Part Plants Listed for Reparations from the United States and United Kingdom Zones." No capacity data have been received from the French zone.

Detailed capacity data for individual plants are presently available only for the United States zones. Figures for the capacity of each plant, except war plants, yet to be removed from the United States zone are shown in table B attached.

Question 4: How many of those remaining to be dismantled or removed could be converted to peacetime production? For example, from making nitrogen explosives to make nitrogen fertilizers?

Answer: All of the plants and equipment remaining to be removed are either capable of peacetime production in their present condition, or can be converted thereto. Such use or conversion is, of course, a basic objective of the reparation program, which envisages the transfer of German plants and equipment useful for civilian production from Germany to the countries whose industries Germany looted, damaged, and destroyed. Equipment useful only for military production is destroyed in Germany.

As has been pointed out above, a number of transfers have already taken place, and former German plants and equipment are now producing civilian products in the recipient countries.

On the particular question of nitrogen explosive plants, all plants in the bizonal area capable of making synthetic nitrogen for fertilizers are being utilized for that purpose, and no such plant is on the bizonal reparation list.

Question 5: How many of these plants remaining to be dismantled and removed are capable of making a substantial contribution to the export trade envisioned as necessary if Germany, or the bizonal area of Germany, is to balance her imports of food by export of goods in the year 1952?

Answer: As was noted in the Revised Plan for Level of Industry in the US/UK Zones of Germany, published on August 29, 1947, a copy of which is attached (attachment 5), "the overriding requirements" in developing the plan were "to provide the level of industry necessary to make the area self-supporting." Full allowance was made for the necessity of retaining in Germany sufficient industrial capacity to permit development of export trade sufficient to balance essential imports, not only of food but of raw materials and other commodities. General Clay has said, in a statement the full text of which is attached, that "it is doubtful if the industrial capacity left in Germany (under the revised plan) can be put fully to use in less than 5 years, and it would be indeed many years before the full capacity, including that made available for reparations, could be put to use. It is my sincere conviction that we have left to western Germany all the industrial capacity it can use" (attachment 6).

The revised plan, therefore, leaves in the bizonal area sufficient industrial capacity to pay for needed imports. In view, however, of shortages of fuel, raw materials, manpower, and other factors of production, it will require the utmost efforts of the Germans to achieve by 1952 full utilization of even this capacity.

The list of plants remaining to be dismantled or removed was drawn up in accordance with the revised plan, and their capacity as a whole is, therefore, surplus to that required by Germany to pay for needed imports. Many individual plants on the reparation list, other than war plants, are, of course, similar or identical in character to plants to be retained in Germany under the revised plan for the purpose of meeting German needs, whether through production for domestic use or through production for export. Thus a number of individual plants listed for reparation could, if retained in Germany and if given necessary supplies of coal, raw materials, etc., contribute to German domestic or export needs.

While this holds true for individual plants, however, it cannot be applied to all plants listed for reparation as a group. To retain and put into production any substantial number of the plants now listed for reparation would simply mean that other plants scheduled to be retained in Germany would fall idle, or be run far below capacity, because of shortages of the essential factors of production.

Question 6: On what basis was the determination made that a particular plant was surplus? That is, was the surplus character of the plant determined in relation to Germany domestic products or in relation to available raw materials, or in relation to manpower? Or in relation to exports readily salable abroad?

Answer: As stated in answer to question 5, the Revised Plan for Level of Industry in the US/UK Zones of Germany was drawn up to provide for the retention in Germany of sufficient industrial capacity, including that required for exports, to permit self-support and the development of a reasonable standard of living. The difference between the retained capacity provided for under the revised level and the total capacity actually existing in Germany represents the amount of capacity surplus to German needs.

After the revised level of industry and total capacity actually existing had been determined, the next step was to select, industry by industry, individual plants up to the total amount of surplus capacity. It is apparent that, in this process of selection, no individual plant could be considered as any more "surplus" than any other individual plant. It was necessary to base the plant selection on more detailed criteria, confining the selection, of course, to industries having a substantial surplus capacity.

These criteria of selection were as follows:

(a) Ownership: Other things being equal, plants were selected in the following order: (i) those owned by the German Government or by Nazi organizations; (ii) those owned by German or Axis nationals; and (iii) those in which nationals of Allied or neutral countries had an ownership interest.

(b) Effect of removal on local conditions: An attempt was made to select plants in such a way as to minimize the disruptive effect of their removal on the local community and labor supply. In general, for example, a plant which constituted the only source of employment in a given town was not selected for removal. Efforts were made to insure the existence of alternative sources of potential employment for labor formerly employed in a plant selected for removal.

(c) Proximity to raw materials: Every effort was made to retain in Germany those plants most economically located from the standpoint of transport and supplies of raw materials; and to select for removal those which were uneconomically located.

(d) Importance of specific products in export trades: Where individual plants produced products more readily salable as exports in world markets than the products manufactured by other plants in the same industry, this was generally considered grounds for the retention of such plants in Germany.

(e) Size of plant: In general, a large plant rather than several small ones of equivalent capacity was selected for removal. This was done in accordance with the policy of breaking down large concentrations of German industry, and in addition served to minimize economic dislocations.

Within each industry the actual selection of individual plants for removal as reparations was carried out, on the basis of the above criteria, by technical committees thoroughly conversant with the problems of the industries with which they were working. Full opportunity was given to the German economic authorities to examine the list and to suggest amendments and substitutes, and a number of their suggestions were in fact accepted.

Question 7: How much material and goods and how much cost in dollars will be required to be sent from the United States to make up for the production of the plants heretofore removed and proposed for dismantling and removal?

Answer: Representatives of United States military government in Germany have stated unequivocally that no material and goods will be required to be sent from the United States to make up for the production of the plants heretofore removed and proposed for dismantling and removal, and that therefore there will be no dollar cost on this account. This follows from the fact that the revised level of industry provides for the retention in Germany of ample industrial capacity for the achievement of self-support at a reasonable standard of living.

Question 8: Have plants been removed from any of the zones in Germany beyond the limits prescribed or contemplated in the Yalta and Potsdam agreements? If so, by whom, from what zone, and to whom have they been allocated?

Answer: The Yalta agreement did not purport to fix the limits for reparation removals from Germany. The Potsdam agreement laid down the general principle that sufficient industrial capacity should be left in Germany to enable Germany to be self-sufficient. As has been pointed out above, the bizonal level of industry plan follows this principle. No plants have been, or are planned to be, removed from the bizonal area other than those on the list drawn up in accordance with the plan.

Detailed information on industrial capacity in the French zone is not presently available.

No official information concerning plants already removed or scheduled for removal from the Soviet zone is available. It is considered probable, however, that industrial capacity in excess of that contemplated under the Potsdam agreement has been removed, and it is known that equipment from industries not contemplated for removal under Potsdam have been taken out by the Soviet authorities.

Question 9: Has agricultural produce been removed from any zone for delivery into countries outside of Germany which would be important in feeding the civilian populations inside Germany and thereby contribute to the lessening of the financial demands upon the United States? If so, by whom and in what amounts?

Answer: No agricultural produce of any kind has been removed from the bizonal area of Germany to other countries. No official information is available concerning the French zone, but any shipments of foodstuffs that may have occurred are believed to have been negligible in quantity.

It is known that considerable quantities of foodstuffs have been, and are now being, removed from the Soviet zone. No comprehensive data concerning such shipments are, however, available.

Question 10: To what extent have harbor facilities and transportation equipment been removed from Germany and is any replacement of these facilities or equipment contemplated in the proposals for supplying by the United States as a part of economic recovery for Europe?

Answer: Railway transport equipment: Locomotives and freight cars must of necessity continually cross international boundaries in the ordinary course of operations, and, at any given time, substantial quantities of German rolling stock would be outside Germany and corresponding quantities of rolling stock of foreign ownership would be inside Germany. This situation prevailed at the end of the war.

Several countries which, as the German Army was driven from their territories, found themselves in possession of large numbers of German locomotives and railway wagons have retained them; and have insisted that under the terms of existing international agreements they were entitled to do so. American and British military authorities in Germany have been attempting to negotiate the return of these cars to Germany, in exchange for the foreign rolling stock now held in the bizonal area. These negotiations have so far been only partially successful. No German railway rolling stock has been removed from the bizonal area since the end of the war, except such as has crossed the German borders in the course of normal operations.

The situation is further complicated by the severe shortage of railway repair facilities in the bizonal area, a shortage largely due to concentrated Allied bombing. Despite utmost efforts, it has been impossible to prevent deterioration in the German transport situation because of the inability to maintain and repair available rolling stock properly.

It is possible that imports of new rolling stock into the bizonal area will be necessary. The necessity for such imports, however, derives to a considerable degree from the shortage of repair facilities.

Oceangoing shipping: In accordance with the Potsdam decision made on grounds of military security, Germany has been prohibited from building or maintaining an oceangoing fleet. The entire German merchant fleet has, therefore, been distributed among Allied nations as reparation by the Tripartite Merchant Marine Commission and the Inter-Allied Reparation Agency. The great majority of ships distributed are now in operation under Allied flags. The remainder are being repaired.

No replacement of these ships is contemplated in the proposals for European recovery.

Coastal shipping: A proportion of the German coastal fleet, determined at the time to be in excess of German minimum needs, has been distributed among Allied nations as reparation. A reexamination of requirements has led to the conclusion that it may be necessary to replace some of this tonnage. No firm figures, however, are yet available.

Inland water transport: Inland water transport equipment is similar in character to rolling stock, in that it frequently crosses international boundaries in the course of normal operations. A number of foreign-owned barges which have been removed from the Danubian Basin have been delivered from Germany not as reparations but under restitution procedures. Negotiations have been in progress for some time for the purpose of arranging exchange of certain other German inland waterway craft now held by liberated countries for foreign craft now held in Germany. No replacements of German craft are contemplated under the proposals for aid to European recovery.

Harbor facilities: No major fixed harbor facilities have been removed from the western zones of Germany nor are any removals planned. Approximately 60 per cent of such facilities have, however, been destroyed in accordance with decisions of military security. No replacement is contemplated as part of aid to European recovery. No information is available concerning the Soviet zone.

Question 11: Has the Government of the United States taken appropriate steps to delay temporarily the further dismantling of plants in western Germany so as to permit further study by the appropriate committees of Congress in order to determine whether such transfers are prejudicial to any general recovery program for western Europe?

Answer: the United States Government has taken no steps to halt the general dismantling program pending congressional study of its economic effects, but is now engaged in discussions with the British regarding the question of further reparation deliveries to the east. It will be recalled that General Clay stopped deliveries of additional reparations plants and equipment in May 1946 because no agreement could be reached to implement the Potsdam agreement for the economic unification of Germany. Since that time only the various reparations plants originally allocated and equipment from war plants which would not have been retained in Germany in any case have been delivered as reparations. Only the tag ends of one industrial plant and equipment from two war plants are in process of delivery to Russia. It is the United States position that no further deliveries to Russia should be made from the United States zone until and unless agreement can be reached on other economic issues. As has been stated discussions at the governmental level are in progress with the British in an endeavor to develop a common policy.

The decision to continue the dismantling program was reached only after very thorough reexamination of the entire situation, with respect not only to the position in Germany but also to the international relations of the United States generally.

Since the publication on October 16, 1947, of the revised list of plants to be removed from the bizonal area, the German people have been told repeatedly that the list is a final one; that it represents a definitive settlement of the reparation problem, and that from here on they can plan their economic reconstruction on the basis of certain knowledge of the resources which will be left to them. General Clay is strongly of the opinion that even a temporary suspension of the dismantling program at this time would have very serious political repercussions, and would make any future resumption of the program extremely difficult.

With respect to our international relations generally, the dismantling program represents the fulfillment of commitments undertaken by the three western

occupying powers when they signed the Paris agreement on reparation of January 24, 1946. It will be recalled that, on the initiative of General Clay, the program was suspended in May 1946, in order to permit reexamination of the needs of western Germany in the light of the Soviet refusal to agree to economy unity, and that the October 1947 list of plants was drawn upon in accordance with a revised level of industry prepared for the specific purpose of allowing for the lack of such unity. The signatories of the Paris reparation agreement have, therefore, already been subjected to a very lengthy delay in the fulfillment of their original expectations, and have now been told that the new plant list represents a definitive settlement which will be carried out promptly. These countries need the equipment now. To postpone further the dismantling program would cause them the most serious concern, and would give propaganda material to the critics of the United States.

EUROPEAN RECOVERY PROGRAM

EUROPEAN ECONOMIC COOPERATION AND SELF-HELP

CEEC commitments

The Committee of European Economic Cooperation at its meeting in Paris last summer considered various measures to promote economic recovery by means of (1) increased cooperation among the European nations; and (2) self-help and mutual help in the fields of production and internal financial and monetary reforms. The following statements summarize the commitments made, the progress thus far in putting these commitments into effect and further steps which are contemplated or which might be undertaken.

Progress along these lines must be the result of initiative by the participating countries themselves. They are well aware of the need for increased cooperation and self-help. As the following record shows, they have already made considerable progress and laid the foundation for further developments which should produce significant results. The European recovery program, if adopted, will assist and encourage this common European effort tremendously.

A. Inter-European payments arrangement

The Financial Committee of the CEEC Conference recommended the adoption of a proposal made by the delegations of Belgium, the Netherlands, and Luxembourg for setting off debits against credits in inter-European payments by means of the transferability of European currencies between each other. The Committee agreed: "The transferability of European currencies would permit a country which has a credit in its relations with another country to use it to settle a debit resulting from current payments to a third country. A set-off of this nature would reduce to a minimum payments in gold and convertible currencies [and] would make it possible to abandon the existing procedure for bilateral balance of trade * * *." It would permit dealing "only with the disequilibrium of the trade of a given country in relation to other [participating] countries of Europe taken together."¹ The Committee recommended that a meeting of experts should be held in London to work out the technical details of this proposal.

In accordance with this recommendation, a Payments Agreement Committee met in London from September 22 to 27, 1947, and also in Paris from October 15 to 25, 1947. As a result of these meetings, a multilateral compensation agreement was signed on November 18, 1947, by Belgium-Luxembourg, France, Italy, and the Netherlands. It provided for monthly compensations or clearing offsets among the contracting countries.

The nature of these offsets can be illustrated by a simplified hypothetical example. Suppose that under a bilateral payments agreement, country A owes country B \$20,000,000 as a result of trade between the two countries. This exhausts the credit margin which country B has agreed to extend. Country A can

¹ CEEC report, I, p. 133.

no longer import from country B in excess of its direct exports to country B except by paying in gold or dollars. The same situation exists between country B and country C. Country C, however, owes country A \$10,000,000. The position before clearing takes place is, then, as follows:

Country A owes country B-----	\$20, 000, 000
Country B owes country C-----	20, 000, 000
Country C owes country A-----	10, 000, 000

The clearing makes it possible for each creditor to reduce its claim on its debtor by \$10,000,000. This gives the following result:

Country A owes country B-----	\$10, 000, 000
Country B owes country C-----	10, 000, 000

Country C is in balance with country A.

The credit margins of A and B have been restored to the extent of \$10,000,000 each thus permitting new trade to the extent of \$20,000,000 which otherwise could not take place.

The operation of the multilateral clearing arrangement was entrusted to the Bank for International Settlements, aided in its work by a committee composed of delegates of the contracting countries. The first meeting of this committee was held at Basle at the BIS offices from November 20 to 25, 1947, and a second meeting was held at Brussels from December 18 to 22. These meetings established two types of offsets: Those involving increases in balances or the creation of new balances, and these involving only decreases in balances. Directives were given the BIS for making proposals among offset possibilities.

The November agreement was left open to the adherence of other CEEC countries on either a fully participating or an occasional basis. Full membership carries the obligation to accept automatic offsets or those involving only decreases in balances under existing bilateral payments agreements. Occasional membership permits the participant to accept or reject in whole or in part any offsets proposed. A third category of participation would provide merely for the regular transmittal to the BIS of monthly statements of payments agreement balances in order that the BIS may have a complete view of the European payments situation. Denmark, Norway, Sweden, the United Kingdom, and Austria have thus far undertaken to participate as occasional members. Consideration is also being given to the participation of bizonal Germany.

On January 19, 1948, the first inter-European clearing under the new system was announced, calculated as of December 31, 1947. While the extent of this first offset was limited, it demonstrated the technical feasibility of the mechanism. The effectiveness of the system will be increased as additional countries participate in the operations.

B. Customs unions

Custom union study group.—The Study Committee of Customs Unions, established in August 1947 at the CEEC Conference, considered the question of customs unions as a means of achieving the speedier reduction and eventual elimination of tariffs between a group of countries. On September 12, 1947, 13 of the CEEC countries declared their intention to create a study group "for the purpose of examining the problems involved and the steps to be taken, in the formation of a customs union or customs unions between any or all of those [13] governments and any other governments invited to participate in the work of the study group."²

This study group met in Brussels on November 10, 1947, upon the invitation of the Benelux countries (Belgium, Netherlands, and Luxembourg). Fourteen of the 16 governments which participated in the Paris conference sent delegates. Norway and Sweden, as well as certain countries of the British Commonwealth, were represented by observers.³

² CEEC report, I, p. 35.

³ Representatives of the following countries attended as delegates: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Portugal, Switzerland, United Kingdom, and Turkey. Norway, Sweden, Canada, Australia, New Zealand, South Africa, and India sent observers.

The group examined the possibility of establishing a common customs union among all the countries represented and appointed a tariff committee which composed a questionnaire to be sent to the member states. The answers to this questionnaire, which were to be completed December 15, should permit the tariff committee to define the basis upon which a model of a common tariff may be prepared and offered for adoption by all interested countries.

The report of the tariff committee, which will take into account the principles laid down in the draft charter of the International Trade Organization,⁴ will be submitted to the group at its next meeting in Brussels January 26, 1948. This report will contain recommendations concerning, in particular, the establishment of a common nomenclature, the choice to be made between specific and ad valorem duties, and the evaluation of merchandise subject to ad valorem duty. It is anticipated that at this meeting arrangements can be made to complete the preparation of a specimen common tariff.

Regional customs unions

In addition to the project for a general European customs union including a large number of countries, there are several projects of more limited scope under consideration.

The four Scandinavian countries (Denmark, Iceland, Norway, and Sweden) following a conference of their respective foreign ministers in Copenhagen August 27-28, 1947, announced at Paris that they "were taking steps to examine immediately the possibility of an extension of the economic cooperation between their countries, including the question of the elimination, wholly or partly, of the customs frontiers between the four countries." Committees within the respective Governments were appointed, but there has not yet been a further meeting of a joint study group.

The French and Italian Governments during the Paris Conference decided to appoint an examining group to study the conditions under which a Franco-Italian customs union might be established. On December 22 the Franco-Italian Mixed Commission for the Study of a customs union between France and Italy announced the signing of a report, the complete text of which will be made public after examination and approval by the two governments. This report recommends not only a customs union but a full economic union between the two countries, to which other governments of Europe would be invited to adhere. The report is understood to make recommendations for integration in the fields of agriculture, industry, foreign trade, finance, transport, manpower, and customs matters, and for the establishment of mixed committees to devise a joint approach on monetary matters. The report estimates that the economic union might be completed at the end of 4 or 5 years.

The Benelux customs union, which was initiated prior to the meetings of the Committee of European Economic Cooperation in Paris, entered into effect January 1, 1948, as the result of the exchange on October 29, 1947, of instruments of ratification of the Benelux customs convention. In addition to the customs union, agreement has also been reached to press for enactment of legislation for the unification of excise, transmission, and luxury taxes, and to continue further study of the problems connected with an over-all economic union. A summary examination of the experience gained in the establishment of the Benelux union served as the point of departure for the Brussels study group.

On September 19 the Greek and Turkish Governments represented at the CEEC Conference in Paris agreed to devote attention to the study of a regional customs union between the two countries. Interministerial committees both in Greece and in Turkey are currently studying problems related to a Greek-Turkish customs union. After the two committees have completed their independent studies, each will prepare a specimen customs union as a basis for joint discussions.

C. Financial and monetary stability.

In the general report to the Paris Conference the 16 CEEC countries stated that the "success of [their] program depends on internal economic, financial, and monetary stability being restored or maintained" and that where stabilization programs are required, they will be carried out with determination.⁵ Twelve

⁴ In particular article 42 according to which inter alia the common tariff of the several countries participating in a customs union ought not on the whole to be higher or more stringent than the average level of the duties applicable in the constituent territories prior to the formation of such a union.

⁵ CEEC report, I, pp. 26, 27.

participating countries issued separate declarations to the conference on the internal financial and economic reforms undertaken or contemplated.⁶

Since the Paris Conference, the CEEC countries have intensified their efforts to attain budgetary balance, reduce inflationary pressures in general, and restore confidence in their currency. The extent to which the participating countries are at present attempting to help themselves is perhaps most strikingly illustrated by the examples of Italy and France.

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 the declaration, the Italian Government has recently adopted several important anti-inflation measures. Quantitative restriction of bank credit by the Bank of Italy in September 1947 has limited its expansion for such inflationary purposes as the holding of speculative inventories and bidding up of scarce material prices. This credit control has been primarily responsible for the price decline of recent months. Tax revenue has increased steadily at a greater rate than the rise in prices and production. Public expenditures have been reduced by cutting railway and postal subsidies.

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. These measures should assist the Government in fulfilling its intention to balance the budget in 1947–48 except for reconstruction expenditures which are to be financed by internal loans and the lire proceeds of foreign loans.

Italy's recent monetary reform has contributed to the establishment of a realistic exchange rate. On November 27, 1947, the former system of a fixed Government buying rate (350 lire to the dollar) was changed to a monthly variable buying rate based on the average free-market rate during the preceding 30 days. Under the new system the exporter sells 50 percent of his exchange proceeds in the free market and the remaining 50 percent to the Italian Government at the Government buying rate for the particular month in which the transaction occurs. The holder of the 50 percent free exchange is obligated to utilize it within 2 months for the importation of listed commodities. Since this new system tends to establish a more realistic exchange rate, it should prove a stimulus to Italian exports, thereby helping to reduce the deficit in the balance of payments.

France.—In its declaration to CEEC the French Government proclaimed its intention to carry out a comprehensive fiscal reform for the purpose of putting an end to financing itself through advances from the Bank of France, and to keep investment expenditures strictly within the limits of the resources derived from internal or foreign loans.

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 administrative economies, the elimination of subsidies which had aggravated budgetary deficits, and 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 and control more effectively the antiquated French tax system.

This program has been accompanied by restriction of private bank credit through raising the discount rate, quantitative limitation of the volume of credit, and measures to channel available credit away from speculative and other non-productive uses and into priority sectors of the economy.

These combined measures 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, 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 the calendar year 1948 incorporates the principles proclaimed 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. A beginning has been made on tax reform and an increase of taxation. Expenditures have been further reduced by downward revisions of reconstruction expenditures foreseen

⁶ CEEC report, II, pp. 461, 524.

under the Monnet plan. These measures are expected to result in a balancing of the ordinary French budget for 1948 at about 900 billion francs and of the extraordinary budget at 300 to 350 billion francs. This compares with a budget deficit in 1947 of 274 billion francs.

In its recent actions the Schuman government has undertaken to impose necessary sacrifices consciously rather than to let them be worked out by the blind forces of inflation.

An adjustment in the foreign exchange value of the French franc was announced January 25 by the French Government. The new rate, the French believe, will encourage the export of French commodities, the cost of which had become excessively high to foreign purchasers under the old rate of 119 francs to the dollar. The expected increase in French exports and tourist trade should, therefore, help France to acquire needed United States dollars and other foreign currencies. For example, American tourists contemplating a visit to France will now receive over 300 francs to the dollar instead of the former 119 francs. The adjustment of French exchange rates so as to accord more accurately with present French costs and prices is expected to promote in general a balance in the French international economic position.

France also hopes that the more attractive rate will encourage French capital now in foreign countries to return to France. This repatriation of capital would supply France with additional dollars.

D. Manpower

In their final report, the 16 CEEC countries undertook "to remove progressively the obstacles to the free movement of persons within Europe."⁷ The Manpower Committee, established at the Paris Conference, was entrusted with "assessing the availabilities and requirements of labor among the participating countries and of determining ways in which the coordinated transfers of workers between these countries can be facilitated."⁸ After securing information from the participating countries, the American, British, and French zone commanders in Germany, and the International Refugee Organization, the Committee completed a report which (1) showed manpower resources and requirements of these countries as of June 1, 1947, (2) reviewed action taken by governments to meet manpower deficiencies or surpluses, (3) recommended that countries whose manpower deficiencies cannot be met from their own resources should examine the possibility of concluding agreements for the recruitment of manpower, including displaced persons, in other countries.

A conference on manpower, sponsored by the Italian Government, is to convene in Rome on January 26, 1948. The International Labor Office, the International Refugee Organization, and the Food and Agriculture Organization have been invited to send observers, as well as the United States. The conference will develop measures to utilize more effectively surplus manpower in such countries as Italy, to facilitate the movement of labor across international boundaries, and to improve occupational qualifications and training.

E. The production effort

At the CEEC Conference the participating countries set certain production goals which in their estimation represented the scale of agricultural and industrial output which must be achieved to supply the needs of the European population in 1951. The 16 countries undertook to use all their efforts to develop their national production in order to achieve these goals.

However, before the national productive effort can be made effective, the essential raw materials must be forthcoming. The attainment of these production targets depends in varying degrees upon the increased supply of essential imports from the Western Hemisphere. Within the limits imposed by shortages of necessary commodities and disorganization of production due to strikes, there has been significant progress in three of the most important fields figuring in the production program set at Paris.

The United Kingdom has increased coal production from a weekly rate of about 3.5 million tons last summer to a rate of 4.4 million tons in December. Coal exports to the continent have been resumed. Coal production in the Ruhr reached a daily rate of 275,000 tons in December as compared with 216,000 tons last May.

⁷ CEEC report, I, p. 13.

⁸ CEEC report, II, p. 437.

Early last fall, the French Government revised sharply upward the bread-grain acreage goal for 1948, originally fixed at 84 percent, to 95 percent of the prewar average. It is therefore estimated that France will produce 400,000 tons more than the original CEEC estimate for the consumption year 1948-49. In addition, the French Government now plans to raise bread-grain production in French North Africa to 4 million tons annually as compared with the CEEC estimate of 3.5 million.

All the principal European steel-producing countries except the United Kingdom (Germany, France, Belgium-Luxemburg, and Italy) substantially increased their 1947 crude-steel production over 1946. In the case of Belgium-Luxemburg, 1947 production surpassed 1938. While 1947 production in the United Kingdom was slightly below 1946, output in the last quarter of the year was at an annual rate in excess of 1946, achieving in October an all-time high annual rate of 14.3 million tons.

F. Participation by CEEC countries in the Economic Commission for Europe

The CEEC report established the principle that "wherever suitable international machinery exists, it is the desire of the participating countries that these tasks should be effectively followed up within the framework of the United Nations,"⁹ and referred particularly to the forthcoming meetings of the committee and subcommittees of the Economic Commission for Europe. Five of the 16 countries, not as yet being members of the United Nations, are not members of the Economic Commission for Europe, but they have been invited to those meetings of committees of the Commission in which they have indicated an interest.

Commodity committees.—Technical committees have been established by ECE to deal with a wide range of commodity problems. The coal committee has taken over the work of the former European coal organization in recommending allocations of coal. A fertilizer subcommittee has met to make recommendations for increasing production of nitrogenous fertilizers, and a timber subcommittee has been established to make recommendations for increasing production of timber, particularly softwoods. A steel committee has been created, with subcommittees on ball bearings, conveyor belting, and ceramic insulators, all of which are in such short supply in Europe that they are hampering production of important types of manufacturing equipment. In addition the steel committee, in cooperation with the coal committee, plans to give consideration to the possibilities of increasing steel production by a more effective utilization of existing coking capacity and better distribution of metallurgical coke, as suggested in the CEEC report.

Inland transport committee.—Some of the most significant achievements of ECE thus far have been in the field of European inland transport. The inland transport committee has taken over the work formerly performed by the European central inland transport organization. As a result of the work of the rail transport working party, 12 countries and the bizonal area of Germany have agreed to reestablish as of March 1, 1948, the prewar system for exchanging freight cars. This arrangement had the advantage of providing a regular procedure for the return of individual cars to countries of ownership, thus facilitating the flow of traffic across international borders. Its adoption will eliminate the chaotic situation which has prevailed since the war under which no country would return cars without a compensatory movement from another country.¹⁰ As a result of the work of a road transport working party, eight countries, together with the western zones of Germany, agreed to grant on a reciprocal basis freedom of operation for 6 months to highway trucks engaged in transit movements through their territories. In addition, the three German zones, Denmark, the Netherlands, Sweden, and Switzerland agreed also to grant freedom of movement for all other international transport of goods by highways, thus allowing the direct delivery of goods from the factory or farm in one country to the consumer in another.

The road transport working party has also made progress on the longer run problems of highway development. It has formulated plans for a network of improved interconnecting international highways designed to increase the efficiency of through-truck traffic by eliminating the poor roads which heretofore clustered around international boundaries.

⁹ CEEC report, I, p. 38.

¹⁰ The prewar system was administered by the R. I. V. (Regolamento-Internationale Veicoli or International Wagon Union).

Electric power committee.—The electricity working party of the CEEC conference in Paris proposed an international program for additional electricity generating-plant projects in Italy, France, Germany, Austria, and Switzerland, in order to supplement national programs for plant extensions.¹¹ Implementation of this program would require that the United States supply certain equipment which will not be available in Europe, so no further steps have been taken to commence actual construction of the plants. The electric-power committee of ECE has, however, continued the work begun at Paris. This has involved a continuing survey of European large-scale power resources, examination of a possible international high-tension network, and of the desirability of further standardization of electrical equipment.

[The following correspondence is for release at 12 o'clock noon, Monday, February 2, 1948]

TREASURY DEPARTMENT,
Washington, D. C., February 2, 1948.

HON. ARTHUR H. VANDENBERG,
Chairman, Senate Foreign Relations Committee,
United States Senate, Washington, D. C.

MY DEAR SENATOR: You will recall that, when I appeared before the Senate Foreign Relations Committee to discuss the financial aspects of the European recovery program, I indicated that I would soon be ready to report the results of the National Advisory Council's consideration of the extent to which this Government should assist countries likely to receive financial assistance under the European recovery program in locating the assets of their nationals concealed in the United States.

On that occasion I discussed the extent to which the dollar-and-gold holdings of the participating countries could be integrated with the European recovery program. In that connection I stated:

"Some people have argued that the participating countries should pay for part of the program by using up their gold-and-dollar assets in the United States, and by liquidating the American investments of their own citizens. I need not labor the point that the European countries must have some gold-and-dollar reserves to finance their international trade if they are to return to normal operations after 1952. It should be kept in mind that the European recovery program is not intended to cover the entire import requirements of these countries. It would be folly on our part to force the European countries to use up their gold-and-dollar balances to a point where they would not have adequate funds to operate through ordinary commercial and financial channels. By insisting that the participating countries exhaust their gold-and-dollar balances, we would merely add further instability to their monetary systems. As a matter of fact, all of the participating countries except Switzerland, Turkey, and Portugal have already reduced their dollar balances to or below the amount which would normally be regarded as safe.

"When we turn to the possibility of liquidating European investments in the United States, we must also look at the problem in terms of its long-run consequences. These investments annually earn a dollar income, which will be used to cover part of the cost of the program, and which will be used in the future to meet part of the cost of imports after the program ends. Without these investments, the balance-of-payments situation of the participating countries will be worse in the future. I doubt very much that it would be wise policy for the United States to force European countries as a general rule to liquidate the property owned in the United States by their nationals as a condition for receiving aid from this Government.

* * * * *

"Some of the governments, however, will decide to liquidate some or all of their holdings so as to pay for imports. In practice this may be an alternative to borrowing from United States * * *."

I emphasize again that, in the judgment of the National Advisory Council, it would not be wise to force countries likely to receive financial aid from the United States (referred to hereafter as "recipient countries") to liquidate the private holdings of their nationals as a condition to receiving such aid. But

¹¹ CEEC report, II, p. 175-178.

the problem of assisting these countries in locating the private assets of their nationals is separate and distinct. It is this problem which the National Advisory Council and the Executive Departments concerned have been studying for some time.

The problem stems from the fact that nationals of some recipient countries have for many years followed the practice of concealing their assets in the United States. Some hold property directly in their own names; others hold indirectly through intermediaries in third countries, notably Switzerland. These assets are concealed in this country despite the fact that the foreign exchange laws of the recipient countries typically require that foreign exchange assets be declared; some also require the turning over of liquid dollar holdings in exchange for local currency; practically all require that licenses be obtained for the expenditure of foreign exchange assets.

It is important to distinguish between two categories of assets: blocked assets and free assets. By blocked assets we mean those which are frozen in the United States under the Foreign Funds Control of the Treasury Department. It will be recalled that as a wartime measure the President, pursuant to section 5 (b) of the Trading With the Enemy Act, blocked, under control of the Treasury, the private and public holdings in the United States of all of the European countries except the United Kingdom, Eire, and Turkey. Beginning in October 1945, machinery has been put in effect which provides for the unblocking of assets of persons in most of the formerly enemy-occupied and neutral countries if the government of the country where the beneficial owner of funds resides certifies to the private American custodian holding the assets that there is no enemy interest in such assets. The primary purpose of this procedure is to find concealed enemy property. The procedure is now applicable to all the recipient countries whose assets were blocked. However, not all the nationals of these countries have availed themselves of this procedure, which has the incidental effect of disclosing to their respective governments the ownership of assets in the United States. As a result the Treasury through Foreign Funds Control is still controlling a fairly substantial amount of blocked assets.

Free assets include all the dollar assets owned by nationals of Britain, Turkey, and Eire, for these assets, to repeat, were never blocked. In addition, free assets have accrued in the United States on behalf of residents of the other recipient countries since December 1945 when controls were lifted from all current transactions between the United States and nationals of these countries.

It is obviously impossible to ascertain accurately the amount of private dollar assets owned by resident citizens of recipient countries which are unknown to their governments despite the reporting requirements of such governments. Moreover, we have no controls which require complete and continuous reporting of foreign-owned assets. However, we have made certain estimates based on an analysis of the best facts and figures available to this Government.

As far as the free assets are concerned, we have concluded, as a result of investigations and consultation with the various governments, that they are for the most part known to the governments of the recipient countries. We have estimated that as of June 30, 1947, private persons, including noncitizens, residing in the recipient countries, had free assets in the United States approximating 4.3 billion dollars. Of this amount 2.3 billion dollars represents holdings of nationals of the United Kingdom, which has adequate information respecting these assets. In addition, from Foreign Funds Control operations we know that about 1.3 billion dollars represents assets of residents of recipient countries which have been certified for unblocking and hence are known to those governments. The balance includes proceeds from the liquidation of securities which has taken place in the United States with the knowledge of the appropriate governments; accruals from current transactions which are subject to control by the governments of the recipient countries; and assets of noncitizens resident in these countries. Some free assets may have accumulated here unknown to the respective governments, but we consider that the amounts are probably insignificant.

We come now to the question of the blocked assets held directly in the names of citizens of recipient countries and indirectly for their benefit through Swiss intermediaries. These assets are for the most part unknown to the respective governments; otherwise the appropriate unblocking certifications would have by now been obtained and the identity of the respective owners disclosed. Precise figures on the amount of these blocked assets are not available. Under the existing certification procedure, as has already been indicated, the certifica-

tion is made directly by the foreign government to the private American custodian holding the assets and no report is made to the Treasury other than general summaries which have been obtained from the countries concerned. To have maintained current records on changes in blocked accounts would have subjected American financial institutions and the Government to unjustifiable costs and difficulties.

According to our best estimates resident citizens of recipient countries hold in the United States approximately \$700,000,000 of blocked assets which are in a form readily available for meeting the balance-of-payment problems of the recipient countries. Of this amount, about \$400,000,000 are held here directly in the names of the resident citizens; the balance of about \$300,000,000 is held indirectly through Switzerland. In addition, resident citizens of recipient countries hold blocked investments in controlled enterprises, in estates and trusts, etc., which cannot readily be liquidated, although most of them are valuable sources of current dollar income. We estimate that they hold directly in this nonliquid form of investment about \$400,000,000 and an additional small but unascertainable amount indirectly through Switzerland.

It appears that so far as the recipient countries are concerned the resident citizens of France have in the United States the largest amount of concealed private blocked assets in a form which could be used in meeting balance-of-payment problems or to supplement official reserves. We estimate that the amount of the directly held assets in this form of investment would run between \$100,000,000 to \$150,000,000. The French Ministry of Finance has estimated that these assets amount to about \$150,000,000. In addition, French resident citizens hold indirectly through Switzerland liquid assets of probably between \$200,000,000 and \$250,000,000.

The policy we should adopt with respect to assisting the recipient countries in obtaining control of the private dollar assets which are hidden in this country by their citizens has been a subject of much discussion in recent months. Representatives of financial institutions have urged that it is fundamental to our free private enterprise system and, in particular, to our capital market, to respect private property whether or not it is held by foreign nationals. Some felt that the United States Government should not adopt the policy of cooperating with foreign countries in the enforcement of their exchange controls laws. Finally, it was argued that to adopt measures having the effect of forcing the disclosure to foreign governments of private property held by their citizens in the United States would put this Government in the position of supporting partial confiscation of private property. This last point relates to those cases where foreign countries require the surrender of dollar assets, against reimbursement in local currency at unrealistic rates of exchange.

The National Advisory Council gave serious consideration to these views. The Council doubted that under ordinary conditions this Government should assist foreign governments in enforcing their foreign exchange laws. However, these are not ordinary times. Some European countries are in dire need of dollars to permit their survival as free nations. American taxpayers are being called upon to make substantial contributions to European recovery. Moreover, most of the foreign governments have repeatedly asked our assistance in obtaining control of the holdings of their citizens, who have concealed them contrary to the laws and national interest of their countries. It is these circumstances, I am sure, which have inspired marked public interest in the problem and have produced various legislative proposals for action, such as the Kunkel bill (H. R. 4576) and the Norblad Resolution (H. J. Res. 268).

The Council studied in detail many alternative proposals for dealing with this problem in an effort to arrive at a solution which would assist recipient countries to obtain the use of concealed private assets in the United States without doing violence to the traditional status of private property. None of these alternatives promised at the same time actually to protect the private interests of foreign nationals, to assist the recipient countries to mobilize the concealed dollar assets of their resident citizens, and to prevent the escape of concealed enemy assets.

The Council concluded that no action should be taken regarding free assets because the amounts which are unknown to the governments of recipient countries are probably insignificant, and in any event serious practical difficulties would be involved. Effectively to search out and take control of these free assets would require exchange controls and other measures which would do maximum violence to our position as a world financial center and to our policy of keeping the dollar substantially free of restrictions.

The Council also concluded, however, that this Government should assist the recipient countries to obtain control of the blocked assets in the United States of their resident citizens. Accordingly, it was agreed that the program described below, which has been developed by the Justice and Treasury Departments, should be put into operation promptly. In the opinion of the Council this program is the most effective way to accomplish the above objective and to prevent the escape of enemy assets.

The program provides that public notice will shortly be given that at the end of 3 months assets remaining blocked, including assets not certified by the appropriate foreign government as free of enemy taint, will be transferred to the jurisdiction of the Office of Alien Property in the Department of Justice. To permit this Government and the foreign governments concerned to concentrate on the areas where important results are likely to be obtained, accounts containing small amounts of property, say up to \$5,000, will be unblocked in the near future without requiring certification or other formalities except where a known German, Japanese, Hungarian, Rumanian, or Bulgarian interest exists. The Office of Alien Property will take a new census of the assets which remain blocked as of the dead-line date. In order effectively to help the recipient countries obtain control of the blocked assets of their resident citizens, the Office of Alien Property will then promptly carry out the following policies:

(a) To deal with the directly held assets by making available to governments of recipient countries the information from the new census of blocked assets of their citizens, including juridical persons, residing in their territories which remain uncertified as of the public dead-line date referred to above. Each country receiving such information will be required to investigate the beneficial ownership of property held in the names of its citizens for the purpose of discovering any enemy interest. Pending a reasonable period for such investigations, such property will not be vested but will remain blocked under the jurisdiction of the Office of Alien Property. If these investigations show that the assets are owned by residents of the country receiving the information the assets will be released.

(b) To deal with indirectly held assets by a vesting program with respect to accounts which remain uncertified after the dead-line date. Processing of uncertified assets in Swiss and Liechtenstein accounts for vesting under applicable law as enemy property will be started immediately after the receipt of the census information by the Office of Alien Property. The vesting program will also be applied to uncertified assets held indirectly through recipient countries where the program described in (a) above does not result in disclosure to the beneficial owner's government (e. g., French assets held through the Netherlands). In the absence of definite evidence of nonenemy ownership, full weight will be given to the presumption of enemy ownership arising from the failure to obtain certification. Evidence of nonenemy ownership or interest offered either before or after vesting will be checked in accordance with the usual investigative procedures of the Office of Alien Property. These procedures involve disclosure to the governments of the countries of which persons claiming legal or beneficial interests are residents. Of course, any vested assets which are proved to be nonenemy may be returned under existing law applicable to the return of vested property.

The Attorney General has informed the Council that there is adequate authority under the Trading With the Enemy Act, as amended, to carry out all aspects of the above program.

The vesting aspect of this program appears under the circumstances to be the most effective means of rendering help to countries with regard to indirectly held assets. There is no satisfactory alternative to a procedure which will compel foreign nationals either to disclose their concealed dollar assets to their respective governments or to forfeit them to the United States. To date the certification procedure, which applies to Swiss and Liechtenstein accounts, as well as to accounts of recipient country nationals, has not been utilized by many citizens of recipient countries to obtain the unblocking of accounts in the United States. This is so with regard to assets held through Switzerland for resident citizens of recipient countries because the owners of these assets know that Switzerland cannot, under the existing procedure, certify their assets without securing a cross-certification from the government of the country where they reside, thus disclosing their identity to their government. Actually, however, there is no effective way to ascertain whether property held in Swiss accounts is Swiss-

owned, enemy-owned, or owned by resident citizens of recipient countries, except to rely on the Swiss and other interested governments.

It must be recognized that resident citizens of recipient countries who hold their assets through third countries and who have not revealed such assets to their own government may choose not to declare their assets to their own governments for certification, notwithstanding the announced program to vest these assets and even notwithstanding any amnesty which countries may offer. These persons would, in effect, choose to forfeit their indirectly held assets to the United States rather than to disclose them to their governments. If this proves to be the case, consideration could be given at a later date to the allocation by appropriate congressional action of the vested assets among the recipient countries.

In conclusion, I want to call your attention to the fact that this program also provides for the orderly termination of Treasury's blocking operations. This follows from the fact that, in addition to specifying the treatment to be accorded the uncertified assets in recipient country accounts and Swiss and Lichtenstein accounts, the program calls for the transfer to the jurisdiction of the Office of Alien Property of all other assets remaining blocked as of the public dead line date. Thus German and Japanese assets will be transferred and vested. Hungarian, Rumanian, and Bulgarian assets will be transferred and will remain blocked until a settlement of war claims with these countries is made. Finnish, Polish, and Czechoslovakian blocked assets, which do not exceed \$5,000,000, will be transferred and remain blocked for the time being. Yugoslavian, Estonian, Latvian, and Lithuanian blocked assets will also be transferred to the Office of Alien Property and remain blocked until various current problems have been resolved. Spanish and Portuguese assets are still blocked pending the completion of the current negotiations with Spain and Portugal covering looted gold and German assets. If these negotiations are successfully completed before the public deadline date, arrangements can promptly be made for the unblocking of these assets; on the other hand, if the negotiations are not completed by that date, these assets would likewise be covered in the transfer to the Office of Alien Property and would remain blocked pending the conclusion of the negotiations.

It is the intention of the Treasury and Justice Departments to proceed promptly to carry out the above program.

Sincerely yours,

JOHN W. SNYDER,

Chairman, National Advisory Council on International Monetary and Financial Problems.

TREASURY DEPARTMENT,
Washington, D. C., February 5, 1948.

HON. ARTHUR H. VANDENBERG,
United States Senate, Washington, D. C.

MY DEAR SENATOR: Mr. Francis Wilcox of your staff has inquired of the State and Treasury Departments about the extent of French gold hoarding and possible means for utilizing these hoardings in the European recovery program.

You will recall that I stated to the Senate Foreign Relations Committee that the actual extent of the French gold hoarding within the country and abroad is unknown. The following additional facts will indicate why the Treasury believes that some of the statements which have appeared exaggerate the extent of this hoarding:

Private gold holdings in France, as in most other European countries, have been illegal for some years and consequently it is impossible to obtain accurate data on its extent. Estimates indicating that French gold hoarding amounted to as much as 3,000 tons of gold or \$3,000,000,000 have not been accompanied by supporting data which would make it possible to give a satisfactory judgment on their accuracy. At best they probably represent guesses and in some cases the interest or the attitude of the writer may have influenced his judgment of the facts.

The statistics on gold production and gold reserves clearly do not support a view that there has been a great increase in gold hoarding since the outbreak of the war. On June 30, 1947, the gold reserves of central banks and governments and the International Monetary Fund amounted to 34.2 billion dollars. On Jan-

uary 1, 1938, official gold reserves amounted to 25.3 billion dollars and gold production in the intervening period to 9.6 billion dollars. The Bureau of the Mint estimates that the industrial consumption of gold throughout the world since 1938 has amounted to about \$1,000,000,000. These statistics might indicate therefore that since the outbreak of the European war about \$300,000,000 has moved from private hoards into monetary reserves rather than the contrary. Consequently, the belief that a large amount of gold is hoarded by Frenchmen would appear to rest on the assumption that private gold holdings in France at the outbreak of the war amounted to several billion dollars. There have been estimates indicating that the total amount of private gold holdings in western Europe at the outbreak of the war was considerably less than \$1,000,000,000.

While the actual amount of private gold holdings is unknown, until contrary convincing evidence is produced it may be inferred that the actual figure is much smaller than has been indicated in some of the popular discussions.

The evidence given in the preceding paragraphs is not necessarily conclusive. The data for monetary reserves and gold production exclude the Soviet Union, which we know has produced some gold and has sold some of it in foreign markets. We do not know the amounts. Secondly, statistics on gold production are not always reliable, particularly for the smaller gold-producing countries where some of the gold has moved through illegal channels and probably has not been reported to the authorities. There have also been large hoardings of gold from time immemorial in India and also in the Middle East. Gold came out of hoarding to some extent in the Middle East in the period preceding the outbreak of the war, but the amounts of this dishoarding is unknown. In recent years there has been a movement of gold from Europe and from some Latin-American countries to the Middle East, rather than the contrary. There is also some reason to believe that some of the gold sold in Switzerland has gone to the Middle East.

I should like to repeat here my statement before the committee that the only effective means of bringing gold out of hoarding and into the hands of the monetary authorities would be the stabilization of European currencies, which would give private gold hoarders assurance that if they exchanged their gold for currency or securities they would not lose by the operation.

Sincerely yours,

JOHN W. SNYDER,
Secretary of the Treasury.

EUROPEAN RECOVERY PROGRAM COMMITTEE—STATEMENT ON STRATEGIC MATERIALS

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

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

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

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

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

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

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

The suggestion that grants might be repaid by delivery of strategic materials by any country which at any time in the future might have a dollar surplus contemplates the making of "contingent loans." It involves for many years a constant scrutiny of the ability of any country to repay. Such loans would decrease the incentive of the European countries to set their financial houses in order and achieve balance in their external accounts. Such loans would add to the uncertainty of private and other lending institutions and thereby tend to postpone the achievement of the objectives of the program. What is more important, this procedure might not encourage to the fullest extent the exploration for and development of increased production of strategic material.

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

EUROPEAN RECOVERY PROGRAM

RELATIONSHIP OF ESTIMATED OBLIGATIONS, SHIPMENTS, AND EXPENDITURES

(April 1, 1948-June 30, 1949)

The following table explains the relationship of anticipated obligations, shipments, and expenditures to the appropriation of \$6,800,000,000 requested for the first 15 months of the European recovery program.

In order to carry out the program, shipments totaling \$6,600,000,000 must be made in the 15 months from April 1948 through June 1949. It is estimated that \$600,000,000 of these shipments will be in the pipe line at the beginning of the period and will have been financed from various sources other than ERP funds. The ERP appropriation will be used to finance the balance of \$6,000,000,000 of needed shipments in the 15 months' period. The difference between this sum and the requested appropriation, or \$800,000,000 is the gross amount necessary to cover obligations which must be made prior to June 30, 1949, for shipments which will not be made until after this date. This pipe line of \$800,000,000, amounting to less than 2 months' average shipments, is regarded as the minimum essential to avoid an interruption in the flow of supplies. If the amount which has been requested is reduced below \$6,800,000,000, it will be necessary, therefore, either to allow the pipe line to become empty or to reduce shipments financed by United States funds under the program below the required level of \$6,000,000,000 during the first 15 months. Either course would jeopardize the success of the program.

Because of the necessary lag between the time of shipment and the time of payment, it is estimated that, of the \$6,000,000,000 to be shipped under the program during the first 15 months, final payments for approximately \$4,500,000,000 will have been completed before July 1, 1949. The remainder of the \$6,000,000,000 (i. e., \$1,500,000,000) shipped during the period will not be paid for until early in the fiscal year 1950. These \$1,500,000,000 together with the obligations entered into in fiscal 1949 for shipments after June 30, 1949 (\$800,000,000) equal the difference between the requested appropriation of \$6,800,000,000 and estimated actual expenditures of \$4,500,000,000 during the 15 months' period.

Relationship of estimated obligations, shipments, and expenditures Apr. 1, 1948, and June 30, 1949

[In millions of dollars]

Method of procurement	Estimated over-all obligations required ¹	Estimated shipments required between Apr. 1, 1948, and June 30, 1949—which are to be financed from ERP funds			Estimated gross obligations in fiscal year 1949 for shipments after June 30, 1949 ⁵	Total obligations required June 30, 1949, which will not be paid until fiscal year 1950 ⁶ (column 4 plus column 5)
		Total ²	Portion covered by expenditures during 15 months' period (obligated for, shipped, and payments made during period) ³ (column 2 minus column 4)	Portion covered by expenditures in fiscal year 1950 (obligated for and shipped during period but payments not made until after June 30, 1949) ⁴		
	(1)	(2)	(3)	(4)	(5)	(6)
1. Procurement through normal private trade channels in United States. Purchases from United States suppliers by importers or governmental agencies of participating countries, for which payment will be made direct to United States supplier or on reimbursement basis. Amount includes purchases financed by Export-Import Bank loans and private investments covered by guarantees.....	2,900	2,495	1,975	7520	8405	925
2. Procurement both in United States and "offshore" by U. S. Government agencies.....	1,600	1,455	1,155	9300	145	445
3. "Offshore" procurement through normal trade channels.....	2,300	2,050	1,370	10680	11250	930
4. Total.....	6,800	6,000	4,500	1,500	800	2,300

¹ This column shows the total amount which must be committed from Apr. 1, 1948, through June 30, 1949, to permit actual shipments during that period (column 2) plus an uninterrupted pipe line into the next year and early placement of orders for "long-load" items. The division between methods of procurement is a very rough approximation and is used for illustrative purposes only.

² Shipments included in the program estimates during the 15-month period are about \$6,600,000,000, of which about \$600,000,000 will be in the pipe line at the start of the period and will have been financed from sources other than ERP funds. About \$100,000,000 of this will consist of shipments under the Foreign Aid Act for which funds will have been obligated prior to Apr. 1, 1948, and the rest will consist of shipments financed from existing loans and credits and from resources of the participating countries committed before Apr. 1, 1948. This leaves shipments of \$6,000,000,000 to be financed under the program. (See also last paragraph of note to column 5).

³ Total expenditures during the 15-month period are that portion of total shipments (column 2) for which complete documentation can be obtained and payments completed before the end of the period.

⁴ Column 4 is an estimate of the shipments made before June 30, 1949, which cannot be paid for until after that date because of the time necessary for submission and review of the necessary supporting documents. These estimates are based on the average time lags shown in parenthesis below each figure, which are derived from a comparison of actual experience under Lend-Lease, UNRRA, Government and Relief in Occupied Areas (GARIOA) and the current foreign-relief program with the commodities and procurement methods contemplated under ERP. The actual time lag for Lend-Lease and UNRRA was greater than

shown in these estimates. For the current foreign-relief program, which is limited to a few bulk commodities, the time lag is slightly less. The figures given are averages for all commodities in each category, and for any one commodity the figure may vary considerably from the average. In making the computations it has been assumed that the rate of shipment during the last half of fiscal 1949 will be at approximately 1.5 billion dollars each quarter since the obligations entered into early in the program will result in a higher level of shipments during the last part of the fiscal year than in the early period. The shipments will be financed during the time lag (until reimbursement by the United States) by short-term credits extended by the suppliers, by commercial banks, and to some extent by the use of the reserves of the participating countries.

⁵ Column 5 shows the amounts (totaling \$800,000,000) which must be committed in fiscal 1949 so that the flow of goods will not be interrupted by the end of the fiscal year. The figures for this year-end pipe line are based on the average time lag between placement of an order and shipment, as shown parenthetically. These time-lag estimates, like those in column 4 are based on experience with Lend-Lease, UNRRA, GARIOA, and the current foreign-relief program modified to fit ERP conditions, and the same comments apply.

Line 1 of column 5 also includes certain key recovery items which take a long time to procure and for which orders should therefore be placed as early as possible. These "long-load" items include machinery, freight cars, and similar articles essential to the attainment of European production goals in the later years of ERP.

This table indicates that the requested amount of \$6,800,000,000 is necessary in order to make shipments financed by ERP funds of \$6,000,000,000 during the 15-month period and to have \$800,000,000 worth of goods in the pipe line on June 30, 1949. Inasmuch as the balance-of-payments deficit computations on page 42 of the committee print of Outline of the European Recovery Program include total shipments during the 15 months' period, only the net amount of \$200,000,000 was included in the tabulation on page 43 of the committee print (item 8) on account of requirements for forward obligating authority, in order to avoid duplication. This \$200,000,000 represents the net difference between the value of goods (\$600,000,000) assumed to be in the pipe line at the start of the 15 months' period and financed from sources outside of the program prior to Apr. 1, and the value of goods (\$800,000,000) estimated to be in the pipe line at the end of the 15 months' period and financed out of ERP funds.

⁶ These figures, the sum of columns 4 and 5, show the total of 1949 commitments which cannot be paid until 1950, either because of delays in documenting completed shipments (column 4) or because the shipments themselves will not be made until fiscal year 1950 (column 5).

⁷ 2 to 3 months' lag.

⁸ 2 to 6 weeks' pipe line except for "long load" items.

⁹ 2 to 4 months' lag.

¹⁰ 3 to 5 months' lag.

¹¹ 6 to 8 weeks' pipe line.

IMPORTANT PHYSICAL RESOURCES OF WESTERN GERMANY AND THE COUNTRIES PARTICIPATING IN THE EUROPEAN RECOVERY PROGRAM

The data for these tables have been limited to those which were readily obtainable. A large variety of sources have been used. Consequently, care should be exercised in making comparisons between the different countries. In particular, the figures for reserves of various minerals are probably based upon different assumptions for the various countries. The same thing is true of the national-income statistics and to a lesser degree of all the other data excepting the population and area. Another source of discrepancy arises from the fact that the data were not always obtainable for the same years. Generally the date to which the data refers is indicated in the table. Bearing in mind the limitations, these tables may be used as an indication of the general order of magnitudes involved.

TABLE I.—Important physical resources of the participating countries and western Germany

	Population												Area							
	Total population		Prewar annual population increase		Total working population		Percent of working population						Total area		Percent of total area					
	Year	Thousands of people	Year	Thousands of people	Year	Thousands of people	In manufacturing industry		In agriculture, forestry, and fishing		In commerce and government		Year	Thousands of square miles	Pasture and other uncultivated agricultural land		Area under cultivation		Area in forest	
							Year	Per-cent	Year	Per-cent	Year	Per-cent			Year	Per-cent	Year	Per-cent	Year	Per-cent
Austria.....	1947	7,000	1939	8	1930	3,170	1930	27.2	1930	32.4	1930	11.5	1946	32.0	1937	30.4	1937	19.6	1946	37.2
Belgium (Luxemburg).....	1947	8,400	1939	9	1930	3,722	1930	42.2	1930	17.1	1930	19.1	1946	12.9	1946	18.7	1939	35.6	1946	17.8
Denmark.....	1947	4,300	1939	32	1940	1,977	1940	32.1	1940	28.5	1940	16	1946	17.0	1946	11.2	1939	60.6	1946	7.1
France.....	1947	40,900	1939	-30	1947	14,040	1947	33.3	1947	47	(1)	(1)	1946	212.7	1946	15.3	1939	41.5	1946	19.4
Greece.....	1947	7,500	1939	93	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	1946	50.2	1946	29.5	1946	16.3	1946	18.5
Iceland.....	1947	130	1939	2	1930	50	1930	12	1930	54	1930	12	1946	39.8	1946	(1)	1939	(2)	1946	(2)
Eire.....	1947	3,000	1939	10	1936	1,339	1936	14.7	1936	48.4	1936	11.1	1946	26.6	1934-38	51.5	1939	18.4	1946	1.5
Italy.....	1947	45,600	1939	434	1936	18,412	1936	29.2	1936	48	1936	12.5	1946	119.7	1943	18.7	1939	49.4	1946	18.7
Netherlands.....	1947	9,600	1939	107	1930	3,186	1930	36.6	1930	20.4	1930	17.3	1946	12.7	1946	40.9	1939	31.5	1946	6.3
Norway.....	1947	3,100	1939	16	1930	1,168	1930	25.3	1930	35.3	1030	13.7	1946	149.0	1934-38	0.7	1939	2.2	1946	19.7
Portugal.....	1947	8,300	1939	160	1940	5,210	1940	10.3	1940	28	1940	4.7	1946	35.5	1946	25.1	1943	18.3	1946	25.1
Sweden.....	1947	6,800	1939	31	1940	2,756	1940	37	1940	24	1940	15.7	1946	173.3	1946	2.5	1939	8.4	1946	51.2
Switzerland.....	1947	4,500	1939	11	1930	1,943	1930	44.7	1930	21.3	1930	15.8	1946	15.8	1934-38	41.1	1939	12.7	1946	24.1
Turkey.....	1947	18,900	1939	520	1935	7,939	1935	8.0	1935	81.6	1935	7.7	1946	296.1	1946	6.4	1939	12.5	1946	(1)
United Kingdom.....	1947	49,200	1939	143	1946	19,571	1946	34.4	1946	5.3	1946	24.0	1946	94.6	1946	49.7	1946	30.0	1946	4.9
Prewar Germany.....	1933	66,029	1939	278	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	1946	79.5	1946	59.5	(1)	(1)	(1)	(1)
Bizone.....	1947	42,600	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	1946	79.5	1946	59.5	(1)	(1)	(1)	(1)
French zone and Saar.....	1947	6,500	(1)	(1)	1947	2,575	(1)	(1)	(1)	(1)	(1)	(1)	1946	16.7	1946	49.7	(1)	(1)	(1)	(1)

¹ Not available.² Negligible.

TABLE 2.—*Important physical resources of the participating countries and western Germany*

[All statistics are for the year 1947]

	Agricultural resources					Industrial resources			
	Chief agricultural products ¹	Cattle (thou- sands of head)	Hogs (thou- sands of head)	Sheep (thou- sands of head)	Horses (thou- sands of head)	Chief industrial products ²	Steel ingot ca- pacity (thousands of metric tons)	Textile capacity (thousands of metric tons)	Energy consumption in million metric tons of hard coal equi- valents
Austria.....	Grains, potatoes, dairy products, meat.	2,200	1,490	400	274	Iron and steel, wood and wood products, non-ferrous metals, textiles, paper and products, petroleum products.	1,000	49	7.1
Belgium (Luxem- bourg).....	Meat, eggs, potatoes, sugar beets, grain, flax, grapes.	1,770	854.2	153.4	278	Iron and steel, nonferrous metals, cut diamonds, machinery, glass, leather, chemicals.	¹ 7,000	146	32.8
Denmark.....	Dairy products, meat, eggs, grain, sugar beets, potatoes.	3,176	1,779	178	651	Processed food, machinery, ships, textiles and clothing, chemicals.	60	15	7.4
Eire.....	Dairy products, wool, meat, eggs, grains, potatoes, sugar beets.	4,146	479	2,423	452	Processed foods, textiles and clothing, printing and publishing.	(³)	(⁴)	4.9
France.....	Grains, dairy products, potatoes, grapes.	15,200	4,852	7,000	2,350	Textiles and clothing, iron and steel, automobiles, chemicals, ships, machinery, processed food.	¹ 9,000	693	86.9
Greece.....	Grains, tobacco, olives, grapes.....	650	430	9,900	716	Wine, olive oil, textiles.....	25	25	1.4
Iceland.....	Mutton, wool.....	38	-----	530	60	Fish products.....	0	(³)	(⁴)
Italy.....	Grains, citrus fruit, olives, hemp, tobacco.	7,245	3,100	9,735	1,300	Motor vehicles, locomotives and rolling stock, electrical equipment, ships, textiles, chemicals, food processing.	3,200	420	283
Netherlands.....	Dairy products, meat, eggs, grains, potatoes, sugar beets, fresh vegetables, flax.	2,410	1,040	558	305	Processed foods, ships, tin, textiles, cut diamonds.	250	136	17.3
Norway.....	Dairy products, meat, potatoes, grains.	1,221	247	1,053	225	Pulp, paper, fertilizers, nonferrous metals, ships, fish products.	70	16	11.5
Portugal.....	Cork, grapes, citrus fruits, olives, grains.	832	1,177	5,086	81	Canned fish, wine, naval stores, textiles, olive oil.	0	30	3.2
Sweden.....	Grains, sugar beets, dairy products, meats.	2,871	1,408	403	584	Pulp, paper, machinery, electrical equipment, iron and steel, shipbuilding, textiles, chemicals.	1,500	38	20.8
Switzerland.....	Dairy products, potatoes, grains.....	1,451	710	371	147	Machinery, watches, chemicals, textiles, straw goods, optical and precision instruments.	90	25	8.8
Turkey.....	Grains, tobacco, fruits and vegetables, skins and hides, tanning extracts, wool.	10,800	4	40,200	2,600	Textiles.....	120	(⁴)	(⁴)

United Kingdom----	Dairy products, fruit, vegetables, potatoes, meat.	9,269	1,955	20,358	570	Iron and steel, textiles, machinery, automobiles, locomotives and rolling stock, ships, electrical equipment, chemicals, processed foods.	14,300	928	211.3
Prewar Germany: Bizone-----	Grain, potatoes, sugar beets, dairy products, meat.	9,522	5,711	2,040	1,418	Iron and steel, chemicals, machinery, textiles, rubber goods, electrical equipment, locomotives and rolling stock.	⁵ 18,600	923	558.5
French zone and Saar.	Tobacco, grapes-----	1,736	815	225	148	Chemicals, wood products, optical and precision instruments, iron and steel, shoes, paper.	⁵ 2,800	-----	558.5
--									

¹ For Great Britain and Belgium, agricultural production is of much less importance than for most other countries. The U. K. is self-sufficient only in milk, vegetables, and potatoes.

² Industrial production in Greece, Turkey, Portugal, and Eire is of some importance only to the countries themselves. The production is not at all comparable to that of industrialized countries.

³ Negligible.

⁴ Not available.

⁵ French and Belgian steel capacity excludes obsolete capacity. Obsolete capacity is still included in the German capacity figures.

TABLE 3.—Important physical resources of the participating countries and western Germany

	Fuel and energy resources							Transportation facilities						National income		
	Anthracite and bituminous coal reserves (millions of metric tons)		Hydroelectric capacity (thousands of kilowatts)			Petroleum reserves proven		Miles of rail-road		Miles of high-way		Miles of inland water-ways	Merchant marine		National income	
	Proven	Estimated	Year	Total ¹	Developed	Year	Thousands of barrels	Year	Miles	Year	Thousands of miles		Year	Thousands of dead-weight tons	Year	Millions of 1946 dollars ²
Austria	13	31	1947	1,660	1,460	1947	71,090	37	3,640	46	21,400	530				
Belgium (Luxemburg)	(³)	11,000	1947	(³)	20		0	37	3,010	38	6,575	994	47	570	46	4,350
Denmark	0	0	1947	(³)	13		0	45	3,020	39	32,235	(³)	47	1,390	45	2,195
France	5,800	16,600	1947	5,400	2,390	1947	9,000	37	26,410	38	392,000	8,200	47	2,960	46	16,060
Greece	0	0		(³)	(³)		0	38	1,799	40	7,700	50	47	2,480		(³)
Iceland	0	0		(³)	(³)		0		0		(³)	0	47	(⁴)		(³)
Eire	0	0	1947	(³)	115		0	44	3,723	44	48,990	304	47	50	44	1,020
Italy	3	144	1947	5,800	5,000	1947	1,000	37	14,230	39	126,750	1,300	47	3,240		(³)
Netherlands	585	4,400		(³)	0		0	37	2,110	38	7,200	4,752	47	3,070	46	3,020
Norway	(³)	8,750	1947	12,000	2,550		0	44	2,660	39	26,160	0	47	6,120	46	1,540
Portugal	(³)	(³)	1947	(³)	130		0	40	2,228	39	8,900	0	47	350		(³)
Sweden	106	114	1945	5,000	2,535		0	45	10,290	43	55,290	772	47	2,470	46	⁵ 4,980
Switzerland	(³)	(³)	1947	2,500	2,440		0	37	3,300	44	10,000	12	47	(⁴)	42	2,326
Turkey	(³)	(³)	1947	(³)	11		0	40	4,266	42	11,000	0	47	190		(³)
United Kingdom	138,180	200,000		850	(³)	1947	12,000	37	20,080	46	180,500	2,500	47	14,991	46	32,160
Prewar Germany	87,474	289,000		2,000				37	33,910	37	144,000	7,700				
Bizone	(³)	(³)	1947	(³)	1,100	1947	82,000		(³)			(³)	47	0		(³)
French zone and Saar	(³)	(³)	1947	(³)	462		0		(³)			(³)	47	0		(³)

¹ This capacity is based on power developed at low water, and hence may be taken as a minimum figure.

² None of the per capita income figures are strictly comparable because they are calculated differently for each country.

³ Not available.

⁴ Negligible.

⁵ The Swedish national income is somewhat too high relative to that of the other countries because of the way in which it was calculated.

TABLE 4.—*Important physical resources of the participating countries and western Germany*

RAW MATERIAL RESOURCES

	Timber production on a sustained yield basis		Estimated iron ore reserves ¹		Estimated bauxite reserves ¹		Estimated copper ore reserves ¹		Estimated zinc ore reserves ¹		Estimated lead ore reserves ¹ (thousands of metric tons of lead)	Estimated potash reserves ¹		Fish landings	
	Year	Millions of cubic meters	Year	Millions of metric tons	Year	Thousands of metric tons	Year	Thousands of metric tons of copper	Year	Thousands of metric tons of zinc		Year	Millions of metric tons of potash	Year	Thousands of metric tons
Austria.....	1947	8.3	1947	200	1947	0	1947	0	1947	0	-----	1947	0	1937	0
Belgium (Luxemburg).....	1947	1.3	1947	150	1947	0	1947	0	1947	0	-----	1947	0	1937	35
Denmark.....	1947	2.4	1947	0	1947	0	1947	0	1947	0	-----	1947	0	1937	86
France.....	1947	25.3	1947	4,500	1947	60,000	1947	(²)	1947	210	323	1947	340	1937	313
Greece.....	1947	3.3	1947	100	1947	60,000	1947	(²)	1947	(²)	-----	1947	0	1937	9
Iceland.....	-----	(²)	-----	0	-----	0	1947	0	1947	0	-----	1947	0	1937	333
Eire.....	1947	0.2	1947	(²)	1947	(²)	1947	0	1947	0	-----	1947	0	1937	9
Italy.....	1947	12.0	1947	60	1947	12,500	1947	0	1947	160	640	1947	0	-----	(³)
Netherlands.....	1947	0.5	-----	0	1947	0	1947	0	1947	0	-----	1947	0	1937	186
Norway.....	1947	10.4	1947	300	1947	0	1947	773	1947	1,000	-----	1947	0	1937	1,035
Portugal.....	1947	9.0	1947	50	1947	0	1947	(²)	1947	0	-----	1947	0	1936	203
Sweden.....	1947	46.0	1947	1,250	1947	(²)	1947	132	1947	100	-----	1947	0	1937	119
Switzerland.....	1947	3.5	-----	-----	1947	0	1947	0	1947	0	-----	1947	0	-----	0
Turkey.....	-----	(³)	1947	15	1947	0	1947	100	1947	(²)	-----	1947	0	-----	(³)
United Kingdom.....	1947	0.3	1947	3,100	1947	0	1947	(²)	1947	(⁴)	-----	1947	0	1937	1,104
Prewar Germany.....	-----	-----	1947	800	1947	(²)	1947	990	1947	7,386	2,500	1947	2,500	1938	718
Bizone.....	-----	(³)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
French Zone and Saar.....	-----	(³)	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

¹ Estimated reserves are inevitably only a rough measure of relative resources, since (1) resources are rarely known with precision, and (2) estimates are usually of ores, the extraction of which is considered commercially feasible and this is likely to vary as price of the metal fluctuates.

² Negligible.

³ Not available.

⁴ Small.

The committee is in recess until 10 o'clock tomorrow morning.
(Thereupon, at 3:10 p. m., the committee adjourned, to reconvene
Friday, January 16, 1948, at 10 a. m.)

APPENDIX

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