

Marshall Testimony of November 10-11, 1947

INTERIM AID FOR EUROPE

HEARINGS

**BEFORE THE
COMMITTEE ON FOREIGN RELATIONS
UNITED STATES SENATE**

**EIGHTIETH CONGRESS
FIRST SESSION**

ON

INTERIM AID FOR EUROPE

NOVEMBER 10, 11, 12, 13, AND 14, 1947

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INTERIM AID FOR EUROPE

MONDAY, NOVEMBER 10, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE, SENATE FOREIGN RELATIONS, AND
HOUSE FOREIGN AFFAIRS,
Washington, D. C.

The committee met at 10: 30 a. in., pursuant to call, in room 318, Senate Office Building, Senator Arthur H. Vandenberg (chairman, Senate Foreign Relations Committee) presiding.

Present: Senate Foreign Relations Committee: Senators Vandenberg (chairman), Capper, White, Smith, Hickenlooper, Lodge, Connally, George, Thomas of Utah, Barkley, and Hatch. House Foreign Affairs Committee: Representatives Eaton (chairman), Chipfield, Vorys, Jonkman, Bolton, Merrow, Judd, Fulton, Jackson, Bloom, Kee, Richards, Pfeifer, Jarman, Douglas, and Mansfield.

Also present: House Select Committee on Foreign Aid: Representatives Herter, Jenkins, Andresen, Kunkel, Nixon, Cox, Richards, and Monroney.

The CHAIRMAN. The hearing will come to order.

This is a joint initial meeting of the Senate Foreign Relations Committee and the House Committee on Foreign Affairs to hear a presentation of the Government's plan for further foreign relief.

The Senate committee has the pleasure and privilege in this connection of acting as host to the House committee with its chairman, the distinguished gentleman from New Jersey, acting as cochairman.

We are also glad to welcome the members of the Herter committee from the House.

Because it would be impracticable for such a large group to indulge in effective cross-examination it was decided that for the purpose of this joint presentation the Secretary shall proceed without interruption. He and his staff, however, will return tomorrow morning for public cross-examination in this room.

All of the hearings this week will be public, despite insinuations to the contrary. There never was any other thought in the preliminary plans made by the distinguished gentleman from New Jersey and myself with regard to these hearings. Our constant purpose since this program was originally launched has been and will continue to be that Congress and the country shall have total

facts in connection with this entire enterprise.

I should like to put into the record at this point the President's letter to the chairman of both the House and Senate committees as a result of which this special hearing starts this morning. November 10. [p. 1/2]

THE WHITE HOUSE,
Washington, September 30, 1947.

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

MY DEAR MR. CHAIRMAN: The situation in western Europe has, in the last few months, become critical. This is especially true in the cases of France and Italy, where slow recovery of productivity, particularly of goods for export, combined with the increasing drain on their dollar resources, has produced acute distress.

The unusually bad harvests in western Europe, together with rising costs of imports, the unfortunate results of the temporary cessation of sterling convertibility, and the near exhaustion of gold and dollar reserves, have placed these two countries in a position where they are without adequate food and fuel supplies for the fall and winter, and without sufficient dollars with which to purchase these essentials. They cannot, by their own efforts, meet this major crisis which is already upon them.

Political groups that hope to profit by unrest and distress are now attempting to capitalize on the grave fears of the French and Italian people that they will not have enough food and fuel to survive this coming winter.

The prospect of a successful general economic recovery program for Europe is one of the major hopes for peace and economic security in the world. The Congress will soon be called upon to consider the part which the United States should play in aiding this program. But the program will have no chance of success if economic collapse occurs in Europe before the program can be put into operation. Prompt and effective aid to meet the urgent needs of the present is essential, lest the strains become too great and result in an expanding economic depression which would engulf western Europe and, eventually, spread over much of the rest of the world.

I have examined with great care the means now available to the executive branch of the government to provide the necessary assistance. They may meet the urgent needs of the next few weeks, but it is clear that they cannot provide the necessary assistance beyond December, if as long as that. Requirements beyond that time can be met only if further authority is granted by the Congress.

The problems arising out of these circumstances are of such importance that they should be considered by the Congress at the earliest practicable time. The early convening of your committee, together with other appropriate congressional committees, is a necessary first step in this consideration.

I am requesting, therefore, that you call your committee together at the earliest possible date to consider these problems. I appreciate the fact that some of the members of your committee are investigating, or are planning to investigate, conditions in Europe at first hand. Time is of critical importance in this matter, however, and I earnestly hope that arrangements can be made for convening your committee at an early date.

The appropriate departments and agencies of the executive branch of the Government are prepared to provide information and make recommendations to your committee when its meetings begin.

Very sincerely yours,

HARRY S. TRUMAN.

Now, Mr. Secretary, will you take the stand? We will be very glad to hear your presentation on the subject.

**STATEMENT OF GEORGE C. MARSHALL, SECRETARY OF STATE,
WASHINGTON, D. C.**

Secretary MARSHALL. Senator Vandenberg, Mr. Eaton, members of the committee, the Congress in the coming session will be called upon to make decisions which, although less spectacular and dramatic, will be no less important for the future of our country and the world than those of the war years. Your responsibilities as members of the committees directly concerned with our foreign relations are accordingly very great. **[p. 2/3]**

It appears unnecessary to elaborate for you on the somber picture of the world situation. You all, I am sure, are fully aware of its gravity and the immense responsibility which the course of events has placed upon our country.

The President will lay before the Congress the program of his administration for aid to Europe. My duty as Secretary of State is to present the reasons for this program, the reasons why I profoundly believe that the vital interest of the United States is directly involved.

In concentrating upon the problem of aid to Europe I do not ignore the fact that there are other areas of the world beset by economic problems of tremendous gravity. But the very magnitude of the world problem as a whole requires a careful direction of our assistance to the critical areas where it can be most immediately effective.

The need for our assistance in the European area is real and it is urgent. The report of the 16 nations represented on the Committee of European Economic Cooperation sets this forth, I think, in a convincing manner.

As a result of the war, the European community, which for centuries had been one of the most productive and, indeed, creative portions of the inhabited world, was left prostrate. This area, despite its diversity of national cultures and its series of internecine conflicts and wars, nonetheless

enjoys a common heritage and a common civilization.

The war ended with the armies of the major allies meeting in the heart of this community. The policies of three of them have been directed to the restoration of that European community. It is now clear that only one power, the Soviet Union, does not for its own reasons share this aim.

We have become involved in two wars which have had their origins in the European Continent. The free peoples of Europe have fought two wars to prevent the forcible domination of their community by a single great power. Such domination would have inevitably menaced the stability and security of the world. To deny today our interest in their ability to defend their own heritage would be to disclaim the efforts and sacrifices of two generations of Americans. We wish to see this community restored as one of the pillars of world security, in a position to renew its contribution to the world advancement of mankind and to the development of a world order based on law and respect for the individual.

The record of the endeavors of the United States Government to bring about a restoration of the whole of that European community is clear for all who wish to see. We must face the fact, however, that, despite our efforts, not all of the European nations have been left free to take their place in the community of which they form a natural part.

Thus the geographic scope of our recovery program is limited to those nations which are free to act in accordance with their national traditions and their own estimates of their national interests. If there is any doubt as to this situation, a glance at the present map of the European continent will provide the answer.

The present line of division in Europe is roughly the line upon which the Anglo-American armies coming from the west met those of the Soviet Union coming from the east. To the west of that line [p.3/4] the nations of the continental European community have been grappling with the vast and difficult problem resulting from the war in conformity with their own national traditions without pressure or menace from the United States or Great Britain. Developments in the European countries to the east of that line bear the unmistakable imprint of an alien hand. All the nations of Europe, 16 in number, which were in a position to exercise free choice gave a prompt and energetic response to the simple suggestion made at Harvard on June 5 last and thereby an impressive demonstration of the continuing vitality of European civilization.

It would be well, therefore, to deal briefly with what the area encompassed by those 16 nations plus western Germany has meant to us and has meant to the world. This community before the war accounted for nearly one-half of the world's trade. They owned nearly two-thirds of the world's shipping. Their industrial production in terms of the basic commodities of coal, steel, and chemicals was before the war slightly greater than that of the United States. Their economy was highly integrated, each part depending upon the efficient working of the other.

I think that the figures cited will indicate the importance, even from a purely economic point of view, of the 16 nations who have joined together to develop a program for their mutual recovery. Their response to our suggestion of June 5 was a remarkable cooperative effort in a postwar world in which that element has hitherto been distressingly lacking.

Congress will wish to go into the objectives and the details of the European recovery

program at some length; but I feel that a brief summary of the tentative conclusions we have reached may serve the useful purpose of making clear the distinction between the long-range recovery program and the stop-gap recovery program, which we refer to as interim aid.

Long-term European recovery program: The Committee of European Economic Cooperation, meeting in Paris, produced a recovery program extending over 4 years. After the most careful checking, with the assistance of experts drawn from many governmental agencies, we have concluded that the Paris report correctly identifies the courses of action necessary to produce recovery and indicates an approximate order of magnitude of the cost for the full 4-year period.

I feel, however, that we can estimate with reasonable accuracy and assurance the sum required for the first stage of the recovery program, which will cover a 15-month period from April 1, 1948, to June 30, 1949.

Our tentative estimate of the cost, subject to final checks in the light of the Harriman report, is something under 1.5 billions for the last 3 months of the fiscal year 1948 and somewhat less than 6 billions for the fiscal year ending June 30, 1949. The findings contained in the Krug report, the Nourse report, and the Harriman report, together with the studies made by our interdepartmental committees, make it clear that a program in this order of magnitude can be safely undertaken by this country. I shall, therefore, recommend to the President of the United States support of the European recovery program and that an amount be appropriated for the 15-month period ending June 30, 1949. [p. 4/5]

It is of cardinal importance that an able and effective United States administration manage the funds which may be made available by the Congress. How best to achieve this and other essential elements of an organizational and administrative structure for the program of aid to European recovery is a matter which the Congress will wish to examine with great care. There are several important principles which I believe should determine the nature of this organization:

(a) The operation of this program will in many ways define and express the foreign policy of the United States in the eyes of the European countries and the world. Therefore, the operation must fully accord with the foreign policy of the President as expressed through the Secretary of State.

(b) The organization, if it is to afford successful and dynamic management to the complex recovery program, must be granted the widest practicable flexibility both in its operations and in the use of the funds placed at its disposal. The program of United States support will achieve its objective only if it is kept responsive to changing situations and varying supply conditions.

(c) Full use should be made of the existing governmental agencies in carrying out those parts of the program which fall within the scope of their present activities. The Departments of Commerce, Treasury, Agriculture, Interior, the National Military Establishment, and other agencies are well equipped to perform many of the necessary functions. The National Advisory Council and other competent interdepartmental agencies will have important parts to play.

(d) Strong central administrative direction is essential in a complex and varied program of this kind. There must be a high degree of integration in our operation, both in the United States and overseas. Unity of command, rather than diffusion of authority and responsibility is required.

The President will submit to the Congress his recommendations concerning the administration of the European recovery program.

There will be important functions for the United States to perform in Europe. Much of this work will be negotiation with governments of a nature constituting essentially in extension of the conduct of the entire relationship of the United States with the participating countries. Such matters are now handled through our Embassies and Legations and clearly should continue to be. There will be certain additional functions arising directly out of the operating program, such as screening of specific import requirements, arrangements for furnishing technical assistance, and other similar specialized activities which will require the appointment of qualified men who can devote their full attention to such matters. These men in their dealings with participating governments should work through our Ambassadors because it is essential to maintain a single channel of responsibility for United States negotiation with other governments.

For general coordination of the operations in Europe and for central representation in the continuing European organization which the participating countries have decided to establish, consideration should be given to the designation of a special United States representative for the European recovery program, with ambassadorial rank, appointed by the President with the advice and consent of the Senate. [p. 5/6]

As a general principle, aid should take the form of grants or loans, depending in each case upon the capacity of the particular country to repay and the effect which accumulation of additional external debt would have upon sustained recovery. The precise determination in each case should be made by the administrative agency with the advice of the Department of State and the National Advisory Council. In practice it is felt that, where need is clearly demonstrated and where repayment cannot reasonably be expected, imports of supplies which are quickly consumed, such as food, fertilizer, and fuel, of indispensable items of capital equipment for immediate replacement and repair, and of essential raw materials should be financed by means of grants.

Loans should be made to cover imports of capital equipment and raw materials which will directly produce the means of repayment and where such repayment can reasonably be expected. At the same time every encouragement should be given to early initiation of private financing so as to eliminate as far as possible the necessity for direct assistance from the United States Government. Use should also be made of the resources of the International Bank whenever in the opinion of the Bank the necessary and appropriate conditions for loans can be met.

It is obvious that the basic responsibility for European recovery rests on the European countries themselves. However, this Government must have assurance that the aid it provides is effectively utilized for the achievement of European recovery as rapidly as possible.

It is contemplated that, to this end, bilateral agreements will be negotiated between the United States and each of the countries participating in the recovery program, setting forth the reciprocal undertaking relating to American assistance. These agreements will vary in form and content as between countries, depending upon the nature of the aid to be furnished and the conditions deemed important in each case.

The commitments should include undertakings to adopt monetary, fiscal, and other measures to maintain stability in price and cost structures; to develop production to reach targets set by the participating countries and, in particular, to increase the production of coal and basic foods; and to cooperate in reducing barriers to trade and promoting increased, interchange of goods and services. Many other points and more detailed provisions to be covered in the agreements will be presented and discussed during the hearings.

Assistance to Europe will, to a considerable extent, take the form of commodities. The proposal to be submitted to the Congress contemplates the use of funds provided under the program for purchases outside the United States of commodities not readily available in sufficient quantities in this country. This policy will tend to protect our home economy against inflationary price movements which might result from concentrated buying in our markets. It seems clearly in our interest that the greatest possible amount of these supplies be obtained for Europe from other countries. Such countries should be encouraged to contribute directly as much as they can to the recovery program through grants-in-aid or by extending credits for exports to Europe.

Effects on world economy: I have so far confined my remarks to the European recovery program itself. But the economic effects of [p. 6/7] this program will extend far beyond the boundaries of the 16 countries involved. It is in one important sense a world recovery program. The delay in European recovery has created a serious problem for many countries which normally supply the European market with raw materials and other commodities. Where Europe's trade with the rest of the world would normally have been balanced by an equivalent exchange of goods and services, the low level of European production and the limited availability of exports has drastically reduced such payment possibilities.

Furthermore, the habitual triangular trade patterns have almost disappeared, whereby Europe met its deficit for goods obtained from the Western Hemisphere by means of balances obtained from other parts of the world. Similar patterns of triangular trade used to provide certain other countries in the Western Hemisphere with balances from Europe which were used to purchase goods in the American market. With the break-down of these trade patterns, supplying countries, to a substantial degree, have had to accept nonconvertible currency or extend credit in order to sell in the European market. Neither of these procedures has given them dollars with which to purchase in the American market. The net result has been that trade continued around the world in large part on the basis of American grants or credits which made dollars available to other countries to meet their import requirements. The diminishing supply of dollars is restricting trade everywhere.

The European recovery program will be quickly reflected in other countries, if the important element of flexibility in purchasing is provided. To the extent that supplies for Europe are procured from nonparticipating countries for dollars, the trade position of these countries with the United States will be improved. In this way we feel that the problems of the other Western Hemisphere countries can be met through a combination of the European recovery program purchases and normal Export-Import Bank transactions.

More important in a fundamental sense, with increases in production in Europe such as those contemplated in the Paris report, exports from Europe will increase, and the necessity for the various supplying countries to accumulate nonconvertible currencies or to extend credit will

diminish. Just as the progress of each individual country among the 16 will affect the progress of the others, so the recovery of Europe will inevitably be a significant link in a chain reaction creating or maintaining economic activity in other countries.

The situation in China continues to cause us deep concern. The civil war has spread and increased in intensity. The Chinese Communists by force of arms seek control of wide areas of China.

The United States Government and all other world powers recognize the National Government as the sole legal Government of China. Only the Government and the people of China can solve their fundamental problems and regain for China its rightful role as a major stabilizing influence in the Far East. Nevertheless we can be of help and, in the light of our long and uninterrupted record of friendship and international cooperation with China, we should extend to the government, and its people certain economic aid and assistance. A definite proposal is under preparation for early submission. [p. 7/8]

I do not have to tell you that this foreign economic program of the United States seeks no special advantage and pursues no sinister purpose. It is a program of construction, production, and recovery. It menaces no one. It is designed specifically to bring to an end in the shortest possible time the dependence of these countries upon aid from the United States. We wish to see them self-supporting.

This is certainly not the program of a country seeking to exercise domination or to influence unduly any foreign country. The nations and political groups which have now declared their opposition to the program apparently wish to block for their own reasons the revival of western Europe.

Interim-aid program: I have gone at some length into the major features of the long range plan for European reconstruction and the part that the United States can prudently and wisely contribute because I fully realize that the speedy and adequate consideration of the interim-aid program which will be the first item of business presented to you cannot be dealt with by the Congress without understanding its relationship to the program of long-range reconstruction of Europe.

I would, however, urge upon you the necessity of a speedy decision in regard to the interim-aid program. What is immediately needed is aid to maintain the status quo in food and in the material necessary to keep the wheels turning and people at work.

It will do little good to discuss the merits of a recovery program for Europe if in the meantime political and economic conditions have deteriorated to a point where such a program could not possibly succeed. The problem of overseas payment has become particularly acute in the case of Austria, France, and Italy. It is clear that the people of these countries in the absence of immediate assistance will, during the next few months, begin to suffer from a lack of food and other necessities of life and the whole economic and social life of the people will be seriously affected. Within a short time these countries will have exhausted all of the dollar resources which they can muster to maintain the flow of essential supplies.

Austria, whose economy is carrying the weight of a military occupation of four powers, has been able to survive in recent months largely through the assistance rendered to her under the United States foreign-relief program. These funds will be exhausted shortly after the beginning of the year. The dollar resources of France will permit her to procure essential food and fuel from abroad only until the end of December. Because of her rapidly dwindling reserves, she took steps at the end of August to reduce sharply the placement of contracts for most other imports. Italy's financial situation is even more serious than that of Austria or France. Last June the Italian Government took steps to eliminate the purchase of most of the raw materials and supplies which she required for the operation of her economy. The United States foreign-relief program has been able to provide food and coal until the present time. Funds are not in sight, however, beyond the 1st of December to maintain the flow of these necessary commodities.

In order to meet this emergency, I recommend that you give immediate and urgent consideration to a bill authorizing the appropriation of sufficient funds to provide the supplies necessary to permit the [p. 8/9] people of these countries to continue to eat, to work, and to survive the winter. This is not a recovery program. It is designed to help provide the essentials of existence to the people of these three countries.

To accomplish this purpose it is recommended that the Congress authorize an appropriation of \$597,000,000. Of this amount Austria needs \$42,000,000, France needs \$328,000,000 and Italy needs \$227,000,000. These funds should be sufficient to meet the situation until March 31, 1948, before which time we hope that some decision may have been taken by the Congress regarding a broad recovery program.

In the absence of a recovery program the problem of maintaining existing levels in Europe rapidly becomes more complex after March 31. Additional countries will by that time practically have exhausted their dollar resources, and the cumulative effect of the uncertainties as to the future and the continued low levels of production and consumption will have serious consequences throughout Europe.

The program of interim aid would be concentrated largely on such items as food, fuel, fertilizer, fibers, seeds, and medical supplies. With such resources as they can make available, the countries should be able themselves to procure other imports needed to prevent economic deterioration. The program should be sufficiently flexible to take account of such changes in requirements and availabilities as may occur.

Interim aid should be given to these countries under agreement to make efficient use of the commodities which we would supply. The bilateral agreements would also require that the local currency equivalent of the value of the commodities which we supply would be used only for such purposes as we and the recipient country might agree. They should also include a provision that the receiving government make known to its people the purpose and source of our supplies, and that it would make available full information concerning their distribution and use.

The operation of a program of the type which is proposed can be handled expeditiously by existing agencies of the Government. The procedures and machinery which are being used in the current relief program have been set up in accordance with the relief bill enacted last summer.

The urgency of the situation is so great that I recommend that no new agency be set up to handle this interim program. The time required to organize such an agency, to hire personnel and establish new procedures, would defeat its very purpose. Whatever agency might be created to administer the long term European recovery program could, of course, take over the operation of interim aid as soon as it comes into existence.

There is one further element. It is my understanding that the Department of the Army will be presenting certain additional requirements for funds for occupied areas above the present appropriations available for this purpose during the current fiscal year. I am told that these will be on the general order of \$500,000,000, of which slightly more than \$300,000,000 will be for additional requirements in western Germany.

I have endeavored to present in broad outline the long-range European recovery program and, in somewhat more detail, the interim-aid program. The proposals will be presented in full to your respective committees. [p. 9/10]

Conclusion: In considering them I know you are aware of the momentous importance to the world of your decisions. While we are dealing at the moment with the drab though vital facts of economic life, they carry with them fateful consequences.

The automatic success of the program cannot be guaranteed. The imponderables are many. The risks are real. They are, however, risks which have been carefully calculated, and I believe the chances of success are good. There is convincing evidence that the peoples of western Europe want to preserve their free society and the heritage we share with them. To make that choice conclusive they need our assistance. It is in the American tradition to help. In helping them we will be helping ourselves—because in the larger sense our national interests coincide with those of a free and prosperous Europe.

We must not fail to meet this inspiring challenge. We must not permit the free community of Europe to be extinguished. Should this occur it would be a tragedy for the world. It would impose incalculable burdens upon this country and force serious readjustments in our traditional way of life. One of our important freedoms—freedom of choice in both domestic and foreign affairs would be drastically curtailed.

Whether we like it or not, we find ourselves, our Nation, in a world position of vast responsibility. We can act for our own good by acting for the world's good.

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

It is my understanding now, under the tentative arrangements made by Chairman Eaton and myself, that you and the Under Secretary and your staff will return tomorrow morning at 10 o'clock and we will devote the day to a public cross-examination in respect to these problems, in this room.

On Wednesday you will similarly appear, according to the tentative program, before the House Committee for a similar public cross-examination.

I simply want to ask you this one question with regard to procedural information. When will you be prepared to submit to us the specific legislative proposal respecting stop-gap legislation?

Secretary MARSHALL. It is ready.

The CHAIRMAN. I think if it might be submitted today in connection with this present hearing it would facilitate matters.

Mr. LOVETT. Your clerks have that, Mr. Chairman.

The CHAIRMAN. Very well. The proposal will be printed at this point in the record.

(The matter requested is as follows:)

THE INTERIM EUROPEAN AID PROGRAM

DRAFT, EUROPEAN INTERIM AID BILL

A BILL To promote the general welfare, national interest, and foreign policy of the United States by providing supplies to certain European countries on an emergency basis

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as "The European Interim Aid Act: of 1917."

SEC. 2. It is the purpose of this Act to provide immediate assistance in the form of food, fuel, and other commodities urgently needed by the peoples of Austria, France, and Italy, hereinafter referred to as the recipient countries, to alleviate . . .

[p. 10/11-rest of bill not copied here]

[p. 41]

INTERIM AID FOR EUROPE

TUESDAY, NOVEMBER 11, 1947

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

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

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

Also present: Senator Watkins.

The CHAIRMAN. The hearing will come to order.

I want to make a brief statement as a result of the meeting of the committee yesterday afternoon when it took up the question of procedure. The committee is anxious, so far as possible, to confine the present hearings to the short-term relief plan which is substantially a matter of food, fuel, and fertilizer for the winter emergency in Italy, France, and Austria. The committee realizes, however, that Congress cannot legislate on the short-range subject in a vacuum and that there is a degree of inevitable relationship between the short-range and the long-range plan.

The general nature and extent of method of the long-range plan unavoidably must enter the testimony and the cross-examination in the present hearings for background purposes in respect to short-range decisions. Therefore, no hard and fast rule can be followed in separating the two subjects. We shall simply have to follow a rule of reason as we proceed.

There will be subsequent and separate and more comprehensive public hearings on the long-range plan when specific proposals are available.

At its meeting yesterday the committee unanimously agreed upon these objectives: Namely, that primary emphasis in the present hearings shall be put upon the short-range plan, but that the long-range plan shall also be open for general background discussion and examination.

We have a documentation in connection with both of these pending projects which is utterly unique and without precedent. I have several volumes of material in front of me at the moment. In addition there are numerous others. I want to say that the staff of the Senate committee is preparing in one document; a digest of all these reports and a summary and it will be available within the next 24 hours.

This morning we are asking Secretary Marshall to resume his place on the witness stand. I suggest that Under Secretary Lovett, might [p. 41/42] join him at the table. I want to inquire into the details of the general statement made yesterday by the Secretary. I shall defer to the other members of the committee until they have concluded questions that may be in their minds, except that I would like to establish a few basic facts.

The first thing I want to be sure to get, Mr. Secretary, is as close as possible to a total balance sheet as to what additional appropriations for foreign expenditures will be asked of Congress this fiscal year. I want to see the total load which you contemplate asking Congress for, in addition to existing commitments between now and June 30, 1948.

As I understand it, the first additional item is \$597,000,000 for your short-range plan. Then you spoke, in your testimony, about \$500,000,000 which the Army would need in addition to the existing appropriations, in connection with German occupation. Is that a reasonably firm figure, that estimate?

STATEMENT OF HON. GEORGE C. MARSHALL, SECRETARY OF STATE
(Resumed), ACCOMPANIED BY HON. ROBERT A. LOVETT, UNDER SECRETARY OF STATE; HON. LEWIS W. DOUGLAS, AMBASSADOR TO GREAT BRITAIN; HON. WILLARD L. THORP, ASSISTANT SECRETARY OF STATE FOR ECONOMIC AFFAIRS; C. TYLER WOOD, DEPUTY TO THE ASSISTANT SECRETARY FOR ECONOMIC AFFAIRS; CHARLES E. BOHLEN, COUNSELOR OF THE DEPARTMENT OF STATE; HUBERT F. HAVLIK, CHIEF, DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT; DALLAS DORT, SPECIAL ASSISTANT TO THE ASSISTANT SECRETARY; LINCOLN GORDON, CONSULTANT, DEPARTMENT OF STATE; WALTER S. SURREY, LEGAL ADVISER'S OFFICE; AND IVAN B. WHITE, SECOND SECRETARY, AMERICAN EMBASSY, PARIS, FRANCE

Secretary MARSHALL. It was \$500,000,000 altogether, as I understood the Army estimates, \$300,000,000 of which was for the German occupation. The other \$200,000,000 were involved in other occupied areas.

Secretary LOVETT. The Under Secretary of the Army is in the room this morning, Mr. Chairman, in case there is more detailed information needed on that point, sir.

The CHAIRMAN. At the moment, I just wanted to get the over-all estimate.

That \$200,000,000 additional, do I understand, includes Korea?

Secretary LOVETT. We understand it includes the other occupied areas.

Secretary MARSHALL. Which would include Korea.

The CHAIRMAN. So it does include Korea?

Secretary LOVETT. Yes. That includes deficiencies, Mr. Chairman, Army deficiencies, until July 1, 1948.

The CHAIRMAN. Do you anticipate the necessity for any additional appropriations for the present fiscal year, in respect to Turkey?

Secretary LOVETT. There might be some requests, Mr. Chairman, in the second half of the fiscal year ending June 30, 1948. [p. 42/43]

The CHAIRMAN. Could you make any sort of an estimate of it, so that we could reach an over-all figure here? I am trying to get a total balance sheet.

Secretary MARSHALL. My understanding has been that for the remainder of the fiscal year 1948, for Greece and Turkey, there would be no additional requirements.

I think one of the officers who has been diligently searching out that question to make a firmer answer to that can give you a better answer than I can.

The CHAIRMAN'. Speaking generally, you expect no additional request in that respect?

Secretary LOVETT. No additional request for expenditures. No, sir. We misunderstood you.

The CHAIRMAN. Am I- correct now in thinking that Korea is included in the figures you have already given?

Secretary LOVETT. Korea is included in the figures given you to July 1, 1948.

The CHAIRMAN. Also in this present fiscal year, as I understand your long-range program, you would have 3 months of your long-range program in this fiscal year.

Secretary LOVETT. That is right.

Secretary MARSHALL. The last quarter of the fiscal year ending June 30, 1948.

The CHAIRMAN. That would be about a billion and a half dollars.

Secretary LOVETT. Something less than a billion and a half, sir.

The CHAIRMAN. You spoke in your statement, Mr. Secretary, about the fact that you will shortly have certain recommendations to make in regard to China. Could you take a long shot at a figure in respect to what might be involved at that point, in this fiscal year?

Secretary MARSHALL. It is pretty difficult for me to give you any firm estimate at the present time, but it will be somewhere, I imagine, in the neighborhood of \$300,000,000.

The CHAIRMAN. \$300,000,000?

Secretary MARSHALL. That goes over into the next fiscal year. Just what portion within this, and what portion within that, we are struggling with right now.

The CHAIRMAN. I would like to put down a figure.

Secretary LOVETT. It might be about \$60,000,000 for the remainder of fiscal year 1948. You can carry as a very rough estimate for the remainder in order to arrive at the total, the figure of \$20,000,000 a month.

The CHAIRMAN. You mean \$60,000,000 plus \$20,000,000 a month?

Secretary LOVETT. No, sir; \$60,000,000 for the remainder of fiscal year 1948 and then any continuation in fiscal year 1949 would be at the rate of about \$20,000,000 a month.

The CHAIRMAN, Would there be anything involved by way of direct appropriation in connection with South America in this?

Secretary MARSHALL. The view at the present time is that the Import-Export Bank would be able to handle the requirements for any, Latin American financing and there would be no necessity for direct appropriations.

The CHAIRMAN. The estimates that you have given me total slightly more than 21/2 Billions in round figures. We might say, then, that that [p. 43/44] approximates, as far as you can anticipate, the total balance sheet requirements that Congress might be asked for, in addition to existing commitments, between now and the end of this fiscal year.

Secretary MARSHALL. As far as we can see at the present time, the figures we gave you are correct.

Secretary LOVETT. That figure, Mr. Chairman, I believe is \$2,657,000,000, approximately.

The CHAIRMAN. Before the day is over, I know the committee will want to go into the details of the method by which these estimates were made in respect to the short-range requirements of Austria, Italy, and France. Those questions probably should be addressed to the Under Secretary.

Secretary MARSHALL. I believe that would be best. He is more intimately familiar with the figures.

The CHAIRMAN. I think perhaps we might confine ourselves at the moment to such questions as the committee might wish to address to the Secretary so that he could be excused, and he could leave with us the Under Secretary and his staff for this detailed information. I suggest, therefore, that we run down the committee list with such general questions as the committee may wish to address to the Secretary.

Senator Connally?

Senator CONNALLY. In view of the Secretary's very complete statement on yesterday, and the fact that Mr. Lovett will be here for some of the details, I do not know that I would care to ask the Secretary any questions now.

The CHAIRMAN. Senator White?

Senator WHITE. No questions.

The CHAIRMAN. Senator George?

Senator GEORGE. No, sir. I have no questions.

The CHAIRMAN. Senator Smith?

Senator SMITH. I would like to ask the Secretary just this question on the matter of China: Does he consider that the emergency is more critical in the case of Austria, France, and Italy, as considered in the interim program, than the China situation? In other words, can we postpone the China situation to consider the long-range Marshall plan, or are they separate questions?

Secretary MARSHALL. It does not answer quite that way, Senator. The great difference is that in western Europe, from the viewpoint of the control of inflation and matters of that character in the administrations of the countries concerned, we have a basis on which to act for rehabilitation.

At the present time we do not possess this basis in the case of China. And what has to be done, as we will go into detail with you later, in China, is to make a first approach toward currency stabilization.

It is an extraordinarily difficult thing in that particular case, to find out just what might be done that would be productive of a result justifying the doing. We are quite considerably removed from the possibility of early rehabilitation in China as compared with western Europe.

The situation out there is tremendously intricate. Inflation has reached an extraordinary degree and military costs absorbed between 75 and 80 percent of the budget. [p. 44/45]

The approaches there cannot be in a large way. They have to be in a continuing way. What we have to propose, I think, does not suffer in the situation from not being handled in the ensuing 2 weeks or 3 weeks of this particular hearing. But the main thing is: We have to have a concrete proposal for you and we have been trying to draw one since last May.

We think we have found a possible acceptable approach that would meet with the approval of the Congress and the American public generally.

Senator SMITH. You think we are justified in going ahead with the interim program covering just the three countries concerned-Austria, France, and Italy-without at the moment considering China?

Secretary MARSHALL. I think that is the best way to handle it.

Senator SMITH. I have been abroad for this extended tour investigating the way we are presenting our case to the world, to Europe. Personally, I am convinced that we need a much stronger voice, especially if we are going to put through a so-called Marshall program, to tell the world what it is all about, what our purposes are, and, what our' objectives are, and all that. I take it that you agree that we should strengthen the Voice of America program.

Secretary MARSHALL. That is my view.

Senator SMITH. And do it promptly.

Secretary MARSHALL. Yes, sir.

Senator SMITH. We have the whole problem of. legislation there. I wonder if you would go so far as to recommend an appropriation in connection with this whole program of rehabilitation that will cover an extension of that program, even before we can get final legislation on the whole set-up?

Secretary MARSHALL. Whether that would be as a part of the general program for rehabilitation or not seems to be more of a political and legislative problem than I can attempt to answer. Just when it should be taken up is another legislative problem.

What I can say is that it is very important, and that the longer we do not do it the weaker we continue in our statement to the world of our intentions and our purposes.

Senator SMITH. I agree that I do not think we should bring it up now to confuse the issues on the interim program. But I would like for the record to make it clear that II we are going into any

of these programs .we must have a louder voice to explain how we are doing it, why we are doing and what we are driving at.

Secretary MARSHALL. I do not think there can be any question about that.

Senator SMITH. I have some other questions. Mr. Chairman, but I think Mr. Lovett can answer them as well as the Secretary. I have in mind particularly the administration of this interim program. Would 'you rather have Mr. Lovett answer that?

Secretary MARSHALL. He has gone into the details. I can only give you general observations.

Mr. SMITH. Then I will postpone further questions.

The CHAIRMAN. Senator Thomas?

Senator THOMAS of Utah. I have no questions. [p. 45/46]

The CHAIRMAN. Senator Lodge?

Senator LODGE. I have six or seven questions that ought to be answered for the record, but if the Secretary is under pressure I will be glad to ask them of Secretary Lovett.

The CHAIRMAN. Senator Barkley?

Senator BARKLEY. I have no questions.

The CHAIRMAN. Senator Hickenlooper?

Senator HICKENLOOPER. Yes. I would like to ask the Secretary if he would care to amplify at this time his views on the method of administration, the broad method of administration of this emergency relief of Europe; that is, there was mention made in the Secretary's statement yesterday, which would be in close supervision of the State Department. Does that contemplate completed administration by State Department officials, or would it contemplate the administration with authority by a specially appointed administrator, I might say, that would work with the State Department?

Secretary MARSHALL. What we have in mind, and my own view of the matter, is that there is now in existence an organization within the State Department, as laid down by the Congress in relation to this aid that has been given during the summer and fall. That is a going concern. It only requires very small amplification here and there to make it capable of functioning for this particular interim project.

The importance to us in the interim-aid matter, once it is authorized, is speed of execution. Mr. Lovett tells me that I am talking about the interim .aid and you are talking about the long-term.

Senator HICKENLOOPER. Can you draw the difference between the interim and long-term program?

Secretary MARSHALL. To my mind there is a very decided difference. We have a machine capable of handling the interim aid that is in existence and needs very little adding to in order to make it sufficient for that purpose. Our point of view is not that of having it in the State

Department. Our point of view is directed toward using available agencies that can act with rapidity very much as we are doing at the present time.

Senator HICKENLOOPER. Now with regard to the long-term-aid program, what is your view over-all on the method, the general broad. method of administering that long-term program?

Secretary MARSHALL. Senator, I stated the general principles which I thought should govern in relation to that. That is as far as I can go at the present time because naturally I have to be in complete accord with the administration's program that will be presented by the President.

Senator HICKENLOOPER. One other question, Mr. Chairman.

In your statement of yesterday, you made reference to policies which in its broadest term I am very thoroughly in agreement with, that is, the matter of publicity to these people as to. who is responsible for their aid and where it is coming from. As I see it, there are two means of giving that publicity. One is publicity generated by our own American Information Service. The other is a publicity that can be very forcefully given by the governments themselves with the weight of their governments behind it.

Do you care to amplify that view at this time as to the proper method?

[p. 46/47]

Secretary MARSHALL. The only amplification I would add to that is that the marking of the package will have quite a bit to do with .the matter, where it is a package rather than commodities in bulk such as wheat. I would also add that I agree with what you have just stated.

I am concerned, of course, as to our method of approach to the matter, that we do not create a feeling of resentment that we do more harm than good. I think we can do everything that you have indicated with reasonable consideration of the dignity of the nations involved. I think it is important to remember in regard to this that these nations, these 16 countries that we are talking about, will handle themselves quite differently than some of our experiences with UNRRA in other countries would indicate.

Senator HICKENLOOPER. I think that is true, but this summer it seemed apparent to me, in many of these countries, that there was almost a complete failure on the part of the radio stations that are controlled by the governments, for instance, to give the United States any credit for what we had already done. And inasmuch as many of the media of publicity in those countries are either controlled or strongly influenced by the government, it seemed to me that those governments themselves could lend a great deal of weight to the actual aid we are giving and that we would not have to rely upon our own devices to try to get it across to these people .

Secretary MARSHALL. I agree with you, Senator. My own thought in the matter, though, is a little along this line: We are undertaking to do, presumably, a tremendous thing from the American people to these countries involved. I do not want to poison the gift by the method in which it is advanced. At the same time I agree thoroughly with everything you have said.

Senator HICKENLOOPER. I might observe at this point that it was very apparent this summer that many of the gifts we have already made have been poisoned by other mediums outside

of our own country.

Secretary MARSHALL. I think that is correct, sir. But I think part of the answer is in Senator Smith's suggestion with which I thoroughly agree.

The CHAIRMAN. Senator Hatch?

Senator HATCH. No questions.

The CHAIRMAN. Mr. Secretary, before you leave I want to ask you for your comment on one general concept of this thing. The Krug report, and the Harriman report, and the report of the President's Council of Economic Advisers all seem to underscore the thought that there has got to be a restoration of German stability before we can hopefully contemplate European recuperation. Will you comment on your own behalf in respect to that suggestion ?

Secretary MARSHALL. Mr. Chairman, I would first be a little doubtful about the implication of the word "before" in your statement. There is no question in my mind whatever that the German economy is the heart of Europe, and if we do not coordinate that in connection with the rest of Europe, certainly western Europe, we would be in difficulties for an interminable procession of years until there had been a readjustment of the economic processes that have been developed through several hundred years. [p. 47/48]

So, to put it more directly, I think it is of vital importance that the economy of Germany be restored, having in mind of course, the necessary protection against rebuilding its war potential, specifically, to the point where it can be self-supporting, relieve us from the burden of appropriations for its support, and can contribute to the European economy what is absolutely essential to that economy under present conditions.

The CHAIRMAN. That is an unavoidable factor, and an indispensable priority, is it not, in respect to the European final stability?

Secretary MARSHALL. Again the question of "before" and "priority" is a little puzzling to me at the moment. We have to do a great many of these things simultaneously. But we must see that the German economy is sufficiently restored to make them self-supporting and to provide what is essential to the general restoration of European economy.

The CHAIRMAN. On the other hand there is some persistent comment that the long-range plan you are recommending will build an economic wall between eastern Europe and western Europe, but is it not a fact that the report of the Paris conference of 16 nations really contemplate a restoration of eastern and western interchange of economy from 1951 on?

Secretary MARSHALL. That is correct. That is the hope. Of course, the present situation does not require much added description. But the hope is for general rehabilitation of Germany, and the Ruhr particularly lies at the heart of this whole affair.

Of course, in all of this question we are confronted by fears of people who have suffered greatly. So we are up against the proposition of the necessary economic rehabilitations that we feel must be carried out against the fear which may be exaggerated by propaganda, probably will be exaggerated by propaganda, that we are rebuilding Germany so that it can again attempt the

destruction of European civilization.

I think, though, that we are making the right approaches at the present time. We can make an increased effort along the lines Senator Smith spoke about, and with our own knowledge of what has occurred and of the psychological reactions of the people during the last 6 months, we can manage the thing without their becoming confused as to what the purpose of the United States is.

There is a very definite feeling on the part of partially advised, or propagandized people, that we are about to rebuild Germany against the interests of France, or against the interests of Italy, and at their expense. The situation lends itself very easily to that perversion of the facts and, of course, we have to fight that all the way through.

But the economy of Germany must be rebuilt to the point of where they can support themselves, and make a vital contribution, our essential contribution, to the general economy of Europe.

The CHAIRMAN. One or two questions have been addressed to you regarding China.

Senator BARKLEY. Mr. Chairman, may I ask General Marshall a question in regard to the statement he just made?

The CHAIRMAN. Yes, indeed, Senator Barkley.

Senator BARKLEY. The use of the word "priority" in connection with anything that is begun in Germany has been unfortunate, in my judgment, and has created unfortunate implications and the very fear to which the Secretary has referred. [p. 48/49]

Is it not generally agreed that the economy of Germany must be restored, that it cannot be left as an economic vacuum in the heart of Europe, that the production of coal and to some extent its steel, in Germany, is essential to the rehabilitation of the industries of other parts of Europe?

That can be done, however, without restoring the war potential of Germany is to testify to the very natural fear that exists in countries that have been overrun and devastated twice within a generation, and in one or two cases three times within three-quarters of a century.

Is it your view that that thing can be done without creating any justifiable fear on the part of these countries that have suffered from Germany?

Secretary MARSHALL. I think it can, sir. Of course, I might add, Senator, we tried to obviate that fear by the proposed Four-Power Pact, which was twisted and turned until it was entirely something else. The one great purpose of that proposed treaty was to make the people of western Europe feel secure in the sense that we would do our best to guarantee them against what had happened through the successive years in the past. I agree with you.

Senator BARKLEY. There never was any statement issued from any authoritative source in this country, or by anybody representing this country, that justified the implication that we were going to restore Germany first, regardless of what happened to the other countries. It is a simultaneous procedure to restore all of them.

Secretary MARSHALL. That is the reason I made reference to the use of the word "before"

in the other question, because there is such a great fear along the line you have indicated and also there has been so much propaganda to indicate to the people in France and the people in Italy, and I presume those other western states, that we were going ahead to put Germany on a more livable basis than they were themselves, and that we were going ahead to the rehabilitation of Germany to the extent of becoming a dangerous factor. All of this is a perversion of the facts and is an item of propaganda.

Senator LODGE. Mr. Chairman ?

The CHAIRMAN. Just a moment.

May I just comment that if the use of my word "priority" has been involved in this discussion, I want to make clear what I meant. I quite agree with the analysis that has been made. What I am talking about is that the German problem cannot be set aside from the general recovery program and must be considered in connection with it and that in the long range there can never be a hopeful plan for Europe which does not include a restabilized Germany on a nonmilitary basis.

Secretary MARSHALL. That is exactly my view, Senator.

Senator BARKLEY. I might say that it was not the Senator's use of the word "priority" that prompted my question, but of that word in other connections by other people at other times and other places than this that gave rise to the very fear.

The CHAIRMAN. Senator Lodge?

Senator LODGE. In that connection, when I was in France last summer I was told by a great many French officials with whom I spoke that unless some sort of control organization was set up, the Germans would produce enough for themselves and then they would stop, particularly in the case of coal. That, I think, is at the bottom of a lot [p. 49/50] of the French fears: that we will be rebuilding Germany faster than we are rebuilding France; which is of course, as you say, a very pernicious thing to have said.

I wonder if there is any comment you care to make on that?

Secretary MARSHALL. That involves the details of procedure which are the source of continued and animated discussion in the negotiations, particularly as relate to the Ruhr.

You were there confronted by an ordinary business analysis and at the same time with psychological reaction which disregards many of the facts. When you get into the question of what we have endeavored to do for the German people in the way of calories, there is very little understanding of what the actual situation has been, and the feeling has grown up that they have been put on a much higher level, let me say, than the people of France.

Of course, that is not true at all. That is a result of both propaganda and the natural reaction of people that are thinking about their own affairs without a general view of the entire situation, and without a complete knowledge of the facts. It is always going to be a problem to see that there is a fair understanding among the people.

The CHAIRMAN. Are you through, Senator Lodge?

Senator LODGE. I just wanted to see if I understood correctly that you believe that it is

possible to get Germany self-supporting without rebuilding the military risk and without doing it at the expense of the natural recovery of countries like France who have been our allies.

Secretary MARSHALL. I think it can be done. The trouble in the doing of it is the psychological reaction. That is the real trouble.

Senator LODGE. Thank you.

The CHAIRMAN. Senator Smith.

Senator SMITH. Mr. Secretary, in the light of this discussion of the rehabilitation of Germany, which I agree fully must be part of this whole program for the western part of Europe, I raise the question that has been put to me many times. If we believe in that and going ahead with it, why are we dismantling German plants? Are we under obligation to go ahead with the dismantling of German plants that might be useful in production?

Secretary MARSHALL. As you know, you get into a very complicated situation with relation to Potsdam and other agreements and the whole reparation settlement. You are also involved there in the technical results of determining a level of industry as we did with the British in western Germany.

And I might add that if there is a unification of German economy we will have to redefine the level of industry so that that will have its relation to these properties-the plants over and above those necessary to maintain the level of industry determined upon, which is determined in the light of what is required to restore Germany to a self-supporting basis, and to permit the utilization of the Ruhr for that, and for the general contribution to European economy.

After that is determined, then these plants remain. Then you have your Potsdam agreement which involves the release of the surplus plants to the various powers under the various percentages that were agreed upon at that time.

[p. 50/51]

I recognize a great difference of view as to the practicability of the scheme in the loss involved in taking a plant, we will say, worth \$50,000,000, and only being able to take out of it, say, \$5,000,000, and then, after you have it transferred, being involved in, say, thirty-million-odd dollars to have it set up again. That introduces very serious factors, except in isolated cases.

But you there have the question of whether those plants, over and above the set level of industry thought necessary for Germany for peaceful purposes, for themselves and for Europe, whether those plants should remain, and if there is any way of protecting them-their use-against an undue resurgence of German economic power so that their use will also not contribute to an economic grip on Germany from the outside.

It is so complicated, sir, that it would be pretty hard to go into the ramifications here.

Senator SMITH. I realize that. It seems to me, if we are going to consider at all what that level of industry should be, that we should not start moving out those plants until we have that figure set.

Secretary MARSHALL. The level of industry that we reached an agreement on, regarding the British and ourselves, in our bizonal status, has permitted a determination of what plants were over and above the requirement. Those plants, therefore, are, you might say, out in the open for transfer or for dismantling.

If in the London Conference, to go beyond this present discussion here, we find some basis for getting together, then it may be that a new level of industry will have to be determined. But that will be before there could be any change, much, in the plant situation. The great problem there, as you have undoubtedly been told, in Germany, is for the owners or administrators, whichever it may be, of the plants to know whether or not that plant was going to be firmly there, so that they could go ahead and do everything possible to put it into efficient operation, or whether it was still undetermined whether or not it was to be dismantled and moved. That has been the great job.

General Clay has had his difficulties there with the morale of the production forces because they were uncertain as to whether they were dealing with an instrumentality there in the form of a plant which was going to remain, or which might be moved out.

The CHAIRMAN. Turning that general question around, Mr. Secretary, I just want to ask you this: Obviously, it is supremely desirable there should be an agreement on the program at the London meeting of the Council of Foreign Ministers, but is it not true that we cannot indefinitely continue the existing lack of German recuperation if we hope to succeed in defeating confusion and chaos in Europe?

Secretary MARSHALL. I think that is correct, sir.

The CHAIRMAN. Are there any other questions for the Secretary ? Thank you very much, Mr. Secretary. We will take Mr. Lovett over the hurdles for the rest of the day.

Secretary MARSHALL. I appreciate very much your consideration, gentlemen.

The CHAIRMAN. Mr. Lovett, I think the committee would like to know in a general way how you arrive at the short-range figures which you have recommended to us.