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FOREIGN ECONOMIC RELATIONS IN WARTIME

10 June 1949

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GENERAL HOLMAN: In a war effort our country will be committed to the utilization of its total national resources. These resources may be effectively utilized in two ways: to meet our own urgent wartime needs and for the assistance of our friends and allies. But economic assistance is not a one-way street. There will be deficiencies in our own wartime economy which must be supplied from resources generated abroad. So the formulation of any mutual economic assistance program between friendly nations is a matter to which it may be well for us to give close consideration in our study of economic mobilization.

We are privileged this morning to have with us the Honorable Christian A. Herter, Member of Congress from Massachusetts. Mr. Herter's distinguished career in the public service began in 1916, when he received an assignment as attache to the American embassy in Berlin. He has served in the State Department; in the Department of Commerce, under Mr. Hoover; in the Massachusetts Legislature; and as a Member of Congress since 1943. As head of a special congressional committee he has received national acclaim for his efforts to bring closer to the American public an understanding of the European economic problems. In May of this year he received the Captain Dollar award for "distinguished contribution to the advancement of American foreign trade."

It is a great privilege to welcome to this platform Mr. Herter, who will address the combined colleges on the subject of "Foreign Economic Relations in a Future Emergency." Mr. Herter.

MR. HERTER: I am very grateful to you, General, for that kind introduction.

First let me say that as I approach this assignment you have given me, I do so with very great humility. I don't pretend to be an expert at all in this field. I have some reservations particularly in regard to the wording of the assignment, the last two sentences of which I think I ought to read to you. "This lecture will include a discussion of the problems and difficulties encountered in adjusting the requirements of foreign nations and the ability of the Federal Government as presently constituted to cope with the problem during a period of national emergency. The speaker will also present the measures that he considers necessary to insure a fairly coordinated and integrated program during war."

Obviously, to discuss that subject at all requires a great many assumptions. At least for the sake of what I have to say I cannot go into the field in which you are experts, that of predicting the course of

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a future war. I haven't the vaguest idea how long it might last. I have some idea with regard to potential enemies. I haven't the faintest idea whether the type of warfare to which we have become accustomed in the last two wars would be involved; namely, that which can be brought to a conclusion only by the use of land forces operating over large land masses. If that assumption is a correct one, if it fair to assume that a war is likely to be of considerable duration, let us say, three, four, or five years, a war in which we have to mobilize all our domestic resources in order to carry it to a successful conclusion, then I think we can begin to take a look at our foreign economic problems based somewhat on the experience of the last wars and begin a projection, if you like, with respect to some of the factors that will come into those foreign relations.

The subject divides itself into five rough groups. The first has to do with strategic materials, the second with pre-emptive buying, the third with purchases to maintain friendly economies and friendly governments, the fourth with selling to these friendly governments and friendly countries, and the fifth with restrictions necessary to coordinate our war effort with that of our allies.

In the matter of strategic materials I am assuming that all of you are more or less familiar with the materials which are essential in our industrial production to make our war potential as effective as possible. But I would like to read a few figures from a part of the report that we made when The Select Committee on Foreign Aid came back from Europe. This committee was instructed by the Congress to study not alone the problems of foreign aid but also the resources that are available to the United States and the drain on our resources that might come as a result of foreign aid.

In conjunction with that study, we had some of our best mining men make an estimate with respect to those strategic materials that might be of the utmost importance in the functioning of a war economy and, in many cases also, a peacetime economy. In the report they made an estimate as to the continuing available resources of commercial grade and commercial price in the United States. Their figures indicate the number of years of supply of the following materials: one, chromite; two, manganese; three, asbestos; three, mercury; four, antimony; four, copper; four tungsten; seven, vanadium; nine, grade A bauxite; 12 lead; 16, cadmium; 18, petroleum; and 18, zinc.

Obviously those figures were based on the commercially known deposits that were available. There have been discoveries made since that time. Also, those figures can be shaded from the point of view of readjusting our industrial equipment to take care of lower-grade ores, because all of these figures can be expanded considerably if you use

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lower-grade ores. There are, however, other groups of materials that are not available to us at all, particularly industrial diamonds, flake graphite, quartz crystals, and similar products, for which we are naturally dependent upon overseas sources.

In this same very brief study, there was some discussion as to the possibility of readjusting our economic processes and our industrial processes so that in the event of an emergency we could make use of substitutes where it was not possible to keep on hand or acquire an ample supply of some of these strategic materials. We found that in the free enterprise economy which we have in our country it is a very difficult and very clumsy thing to use substitutes during a period of emergency.

In Germany it was different. The Germans during the seven years preceding the outbreak of war had been working very diligently on the use of substitutes throughout their entire economy figuring that a blockade would be instituted at the beginning of any war and that many materials from the outside world would consequently be unavailable. They were able to do this because of their planned economy, because of the political system that had been instituted in 1933 and which operated from then on.

Such a system is not very adaptable to our own form of economy unless you gentlemen will take over the country immediately in case of an emergency and will have unlimited resources and power over our industrial plants at the outset. For instance, there would have to be huge preparations for the conversion of coal to oil, for the use of lower-grade materials of one kind or another in place of the higher grades to which our industrial equipment is adapted, and so on. As this does not appear practical, continuing supplies of critical materials become of very vital importance.

Nearly all of these materials are found at very considerable distances from our own shores. There again, to discuss their availability to us one becomes immediately involved in the problem of what shipping would be available in order to import these raw materials or concentrates or finished products from other countries. That is a matter of pure speculation. We naturally have the problem of continuing our merchant marine. You, in the study that you have been making, undoubtedly have figured very closely as to how much tonnage you are going to need to move human beings from one continent to another, again assuming that we play the role of having to send a very large expeditionary force overseas and having to supply it somewhere on the shores of Europe or Asia. Shipping has always been a very limiting factor in wartime and in some cases a controlling factor. There again all I can do is to assume for the moment that there will be ample shipping to go to any corner of the earth and bring these materials back to the United States. But that is only one phase of the over-all problem.

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The next phase is one that to my mind deals with the most important fact in connection with our entire foreign relations in a period of war; that is, money as such has very limited value. During the last war over and over again we paid foreign countries or foreign producers for strategic materials, essential war materials, in money which in turn could not be converted into consumer goods. So the dollars as such had a very limited value. In view of this limited value, the problem at once arose as to the extent to which we should be required to redeem those dollars in terms of goods produced out of our civilian economy in this country, so as to give the dollars real purchasing power. Most of these critical materials that I am speaking about are found in the Middle East or Southeast Asia or in South America or in British dominions or colonies. In nearly every case the haul is a very long one. In nearly every case the question of purchasing these materials is one of considerable difficulty when the problems of what to give in exchange is taken into consideration.

I should have mentioned at the beginning that I believe there is another assumption that has to be made in connection with the discussion of this problem; that the mechanisms of the United Nations function so that in effect we should not have any neutrals in the event of another war. That assumption is one on which I keep my fingers crossed, because I am not that much of an optimist. I think it is an assumption that all of us have been going on. My guess is that, regardless of the obligations that may have been undertaken in connection with the United Nations, neutrality may still be found in another war. The minute a nation begins to purchase from neutrals rather than allies, the problems become very complicated.

Let me cite a few examples, beginning perhaps with the most difficult problem we have today in dealing with both political governments and institutions. That is the question of oil. You no doubt have studied the problem of oil in great detail, but I do not know whether you have gone into the political implications that make the oil problem a very, very difficult one.

Today there are two areas, as you know, outside of the United States that are producing vast quantities of oil and which are capable of very much greater production. One is Venezuela and the other is the Middle East. The economy of Venezuela is completely dependent on oil. The taxes that are levied on the production and export of oil represent, in effect, the only taxes that there are in the entire nation. They run the entire economy and the entire government of that nation. Therefore Venezuela is obviously completely dependent in its internal structure on continuation of the export of oil. In the Middle East each economy is becoming more and more dependent on a series of royalties which the large oil companies are paying for extracting oil. These royalties are expected to increase. The latest concession that has been granted calls for double

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the royalties that are being paid by the Anglo-Arabian Company and some of the other developers of Middle East oil.

Obviously the shipment of that oil is again dependent on the tanker picture and the protection of tankers. We could undoubtedly take care of our own domestic needs, if rationed, from our own domestic production. But certainly the rest of the world would be dependent on the production from these other sources.

At this moment the production that is in American hands in both Venezuela and the Middle East is being seriously curtailed, largely because of domestic political considerations in this country. The large companies that are the principal holders of concessions in those two areas could ship oil into this country and market it a great deal below the current market prices in the United States. If they do so--and they could do so very profitably--they would at once be attacked and attacked very bitterly by all the independent producers in the United States. The independent producers would talk about a monopoly being set up and would say that through the importation of Venezuelan oil we were destroying their business because they can operate only at a great deal higher level of prices than that which would still be possible for the large concerns. As a result, the larger concerns are holding off on their imports today. They are practically carrying the independents by maintaining a high-price structure for oil.

At the same time that policy is very definitely encouraging the depletion of our own reserves. It presents a very difficult and very knotty problem, because, as you know, we are continually drilling a tremendous number of wells and using very large amounts of steel for that purpose. Our production per well or per hole is infinitesimal compared with the Middle East operation. Last year, as I recall it, the 115 wells that were drilled in the Middle East produced proven reserves running about ten times as great as the new reserves that we opened with nearly 30,000 new wells.

I cite that only in connection with the following problems: If in wartime we should feel that we cannot import Venezuelan oil, for example, we will at once have the very important psychological problem as to what to do with Venezuela, which would be faced with the collapse of her internal economy. There would be tremendous unemployment and tremendous unrest in Venezuela. There would be a potential danger, which to my mind is the most to be feared potential in the event of the next war, of discovering that area, which we consider to be a friendly zone, being bored into from within and being tipped over to the Communist side.

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Tin is another example. Tin is a pretty important factor for the operation of any army. Those of you who have been opening tin cans in two wars realize how vital a factor it is. Our tin stockpiling operations have moved very slowly, to say the least. Tin is obtained from three areas--from Malaya, Indonesia, and in an inferior grade from Bolivia. But again those countries are a tremendous distance away and their economies are dependent to a very great extent on tin. Certainly Bolivia's is. The Malayan Peninsula is dependent on tin and rubber; and Indonesia is dependent upon tin, rubber, rice, sugar, and a very few other commodities.

We must keep the sea lanes open, as I see it. That becomes almost essential, not only from the point of view of carrying strategic materials here, but also from the point of view of supporting the economies of the countries concerned, which are put in serious jeopardy if we do not keep up the purchases of their products. I could go through a considerable list of those strategic materials, but would rather go on to the development of some of these other points.

Next we have the question of pre-emptive buying. Pre-emptive buying is something which I think has to be worked out in advance. During World War I the United States purchased colossal quantities of Swedish iron ore that it never made any use of whatsoever, and then had the devil's own time disposing of it when the war was over. The ore was purchased solely to keep it from getting into the hands of the enemy. During World War II both the Russians and ourselves did a certain amount of pre-emptive buying. The Germans tried to do it, but the Germans were essentially barred from doing pre-emptive buying because they were greatly handicapped by the fact I mentioned a few moments ago, that of being unable to translate any medium of exchange with which they could pay into goods, and people were unwilling to take currency which could not be translated into goods. So in that particular operation we had considerable advantage over the Germans.

Curiously enough, since the end of the war, we find a certain amount of pre-emptive buying has continued. The Russians have done some pre-emptive buying from the Scandinavian countries and Finland. They did that because they wanted to establish the dependence of those countries on Russia and not on the Western World.

Then we come to the question of buying certain commodities that we cannot consider absolutely critical, but which are very important for us to purchase in order to maintain the economies of countries that we need to keep friendly and where we do not want to run the danger of their being taken over internally by the Communists. I think that wool might be cited as one of those commodities. Naturally we have a tremendous need for wool. It could almost be put under the heading of critical

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materials. There were tremendous decreases of our flocks of sheep during the war period. The movement had already begun prior to the war because sheep growing was becoming less and less profitable on certain of our ranges. But it was very surprising to me to find that we produce in this country only about one-third of the wool we use. That means that two-thirds of this commodity has to come from elsewhere in the world. The most obvious sources are Australia, some countries of South America, and South Africa, again all very distant points. They are not only very distant points, but the commodity is very bulky.

To my mind Australia does not present to great a problem from the point of view of its internal economy, its own internal policy. But when you are dealing with the South American countries, it is really important that we should continue their economies at as high a level as we possibly can in spite of the fact that to accomplish this we may have to make some very real sacrifices. Wool is one item where we can make very real use of whatever amount we buy. It is to our mutual interest to have that trade continue.

You can go to the other extreme and take bananas. Certainly no one can say that bananas are essential to us in the event of war. When we are under all sorts of restrictions, bananas are obviously not essential, although they are a very pleasant foodstuff. But bananas are a vital element in the economy of some four Central American countries--Panama, Guatemala, Honduras, and Costa Rica. Those small nations form a belt right across the Isthmus. If those nations, because of serious impairment of their economic life, should be taken over by the very alert agents who are working vigorously there, it would be an extremely serious thing for us. There again we have tried to do what we could in past wars. We had great difficulties with the banana trade during the last war due to the shortage of shipping. A great many bananas that came to this country came to the Gulf area in all kinds of schooners, old tubs, and a variety of other vessels. Every effort was made, however, to maintain that trade because of its importance to the economies of those particular countries.

Coffee from Brazil, coffee from Puerto Rico, and sugar from Cuba are other items that are of tremendous importance in the internal economies of those countries.

In the Far East we would have a very definite responsibility, it seems to me, in lifting the copra and the sugar from the Philippine Islands. The Philippines are sitting in a very tough spot today. Undoubtedly these islands will be one of the key areas in any military operations which we might have to conduct in the Pacific. If anyone today should say that the Philippines are not in danger of foreign economic attack, I would argue with him very strenuously, because there is a strong Communistic movement going on in the Philippines at the moment, one which undoubtedly

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would be accentuated to a marked degree in the event of our being unable to maintain the economy of the Islands through continuing our foreign trade with them.

Finally there is the problem to be faced of what we could give of our own substance to our allies. That, I think, is an extremely difficult question to discuss without again making a number of assumptions that are probably unjustified. A tremendous amount would depend on where we were putting our major effort and the contribution that the other nations themselves could make to that effort. A great deal would depend on whether or not, taking the continent of Europe as an example, we were engaged in a liberation operation or engaged in a holding operation somewhere along the Oder or Rhine or some other point in the continent of Europe. Again it would depend on whether or not our major efforts were being made near the Mediterranean, in the Middle East, or in some other sector of the globe. There is no question but what with our tremendous economic strength and tremendous capacity for production in an all-out war in which we can assume that we will have allies, we would again be drawn on in very large measure for a contribution of a part of our productive power.

How to estimate that I wouldn't know. During the last war--I am afraid that here I am falling into the error that I am told military men are liable to fall into, namely, that of thinking of future wars in terms of past wars; but I know of nothing else by which to guide our thinking except the experience of past wars--we lost very early in the game the productive capacity of the Low Countries and France. We had to make up not only that, but we had also to make up for a tremendous part of the British effort. On top of that we had to make a contribution to the Russians, a very vital contribution, perhaps the controlling contribution in the over-all effort so far as the continent of Europe is concerned.

In another war I think we would be called on again for a great contribution. But in this case I am hoping that through the work that you do, you will have reached an agreement with the General Staff and with those who control the economies of these other nations that have great productive power as to what each nation is going to concentrate on and what each nation is going to contribute. This might solve at least part of the problem, but it won't solve one of the problems that I want to emphasize most and one which we are least concerned with now, which is the production of civilian goods at a time when our entire economy or the greater part of our economy has to be converted to wartime goods.

I can recall, both in world War I but more particularly in World War II, a whole series of incidents that took place that were terrible headaches to operators of the war effort and terrible headaches to our policy makers. That was when nations in control of some of the critical materials, or some of the luxury items if you want to call coffee a luxury

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item--items of that kind--were insistent on receiving civilian supplies in return for goods that they shipped to us. They didn't want war goods in any way, shape, or form. They wanted to keep their people happy. The pressure that they put on us to export automobiles for one thing, but more particularly agricultural equipment--tractors and so on--was tremendous.

I was at the house of a friend when a telephone call came from Rio de Janeiro from the then Under Secretary of State, Sumner Welles, who was in a conference there with some of our Latin American friends. He was trying to negotiate the purchase of some very badly needed foodstuffs, it so happened, from Argentina. Argentina was being very stubborn. He called up asking if it wouldn't be possible for him to make a commitment then and there for the delivery of a certain amount of agricultural machinery to Argentina. He said he had to get clearance on it right away. He was afraid that if he didn't have that authority by eleven o'clock, the conference would break down and we would be in a very bad situation.

Again, that clearance was really tough to get, because we were putting a tremendous burden at that time on the farmers of this country to produce to the maximum and we were giving them very few tools with which to produce and were taking away from them a very large percentage of their manpower. Maybe some of you can remember the howls of anguish that came from the farmers of this country when they heard that agricultural machinery was being exported to Argentina that they could have used on their farms to replace wartime equipment or to develop larger acreages. The political repercussions were tremendous.

That type of decision does have to be made. It is extremely hard to know at just what level it should be made, because the diplomats, whose job it is to keep other nations in as happy a frame of mind as possible, are naturally anxious to get the maximum that they can out of our total production in order to accomplish their aim. On the other hand, the ones who are producing for war in the country and those who require essentially the same type of equipment or civilian goods bring tremendous pressures to keep anything from going overseas. There was very little realization of the importance of some of that material going overseas. It is very difficult to strike a balance that can really be effective in meeting both requirements.

That in my opinion is a most difficult task and a most complicated one to lay out in advance, because in dealing with the shifting political machinery in fifty or sixty countries that are outside the Russian orbit you have a shifting problem. There are nations which are pretty solid from the point of view of not wanting to play in the Communist game at all. At the moment I would say that nearly all the Middle East countries, with the possible exception of Israel, are fairly immune to Communist doctrine. On the other hand, they live under conditions of poverty, under conditions of disease, and there is a very fertile field for Communist indoctrination.

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We should not deceive ourselves into thinking that Communist indoctrination is not moving very fast in the Middle East. The reports we have recently received are none too encouraging. In the Latin American countries to the south of us we naturally have very strong church influence that is working against the Communist doctrine. On the other hand, those of you who know Central and South America know it is a very small jump from some of those existing dictatorships to Communist dictatorships. It is hard for us at the moment to believe that the city council of Rio de Janeiro was Communist a few years ago, that there is a very large percentage of Communists there now, and that the legislative bodies in nearly all those countries have a pretty large Communist representation. Everywhere Communist activities seize on economic dislocation. The longer this economic dislocation lasts, the greater becomes the danger of revolution from within.

For that reason, gentlemen, it seems to me that it is tremendously important as a part of the over-all phase of any economic mobilization within this country to give some consideration to the minimum requirements which have to be met in order to keep the economy of other nations, which are likely to be tipped over to the Communist side, on our side of the fence. I think it is naive to assume that merely because we have paper democracies, paper allies, now, they will always remain on our side in the event of another war.

Finally, let me just stress again that in the event of war, money cannot keep people happy, because money cannot buy consumer goods at such a time. During times of controlled economy there is no guarantee that money can buy the things these countries want. We must buy these things through the exchange of civilian goods. That means that only through the exchange of goods can we keep on our side many nations who today are in real danger of being influenced adversely and five years hence may be in greater danger of taking the enemy's side.

COLONEL NEIS: Gentlemen, I am sure those of you who have been engaged recently in relating the various elements, controls, and functions, particularly those of you who have been interested in the foreign economic relations aspect of this over-all plan, will have a lot of questions that you will want to ask Congressman Herter at this time. We will throw the meeting open to questions.

I will start off by asking this: In the event of another emergency do you think that this over-all function of administering foreign economic relations should be in the Department of State or some other established agency of the Government, or do you think it should be in an emergency agency established to develop the function?

CONGRESSMAN HERTER: I think it would have to be in an emergency agency. It might well be a coordinating group, such as the National Security Resources Board, which we have at the present time, representing

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the different departments of the Government. But it is obvious that you are going to have conflicting interests here. You have certain officials of the Government today who, theoretically at least, are looking out for key segments of the over-all picture. The Secretary of Commerce is responsible primarily for the domestic commercial interests of the country, although at times he touches on the foreign field very definitely. The Secretary of State naturally has to concern himself primarily with the foreign field and has to be told very definitely what the limitations are within which he can operate.

Someone has to balance internal civilian needs, the minimum needs, with the war requirements. That again is a function of coordinating the operations. It has to be done pretty close to the cabinet level, although, as I said, during the last war there were a great many subordinate committees that were dealing with specific commodities or with specific industrial processes.

Therefore, I think something in the nature of a War Production Board might again have to be set up. It depends a lot on how well prepared we are in advance. We have a great gift of improvising when an emergency comes. Sometimes it gets us into all kinds of trouble. I take more hope from the very type of thing that you are doing now-- trying to spell out as many unknown factors as can be spelled out in advance, so that the machinery will be available to operate very quickly.

QUESTION: Do you think that the present organization of ECA could be effectively used as the basis of this emergency wartime organization?

CONGRESSMAN HERTLER: I wouldn't know. I would have some doubts about it. The ECA organization is a comparatively small organization. Not that a small organization can't function effectively, but it has only about 850 people in Europe, I think, and approximately the same number, 800, in Washington. It is dealing with a lot of problems where in effect it is doing a screening job for other countries. It touches only sixteen countries. I think the toughest problem we have to deal with at present is China. That problem just arose recently, but other problems are continuously arising. We have to think also about Indonesia, Southeastern Asia, India, and the Middle East. These are very large areas not covered by the ECA organization. I think you would have to get other personnel to cover those areas. Also I think that the ECA is in no way trained from the point of view of our own domestic military requirements and would require entirely new indoctrination to be effective.

QUESTION: Mr. Congressman, you mentioned that during World War I we were able to deny the Germans certain critical materials which were needed. Do you feel that today during peacetime we could deny to the

Soviet Union certain strategic materials that they need by carrying out this program of pre-emptive buying in Indonesia, for instance, in things like rubber, tin, copper, and so forth? Do you feel that there is a possibility of putting it into effect today?

CONGRESSMAN HERTER: I think you have brought up a very vital problem. The success of ECA in the last fifteen months in increasing the productivity of Europe has very obviously brought up the whole question of marketing. We are all hoping the productivity of Japan and Germany can be brought to a point where through their overseas sales they will no longer continue to be a very heavy burden on the American taxpayer. There are really only three areas in the world where they can find markets for their goods. In Great Britain particularly, and certainly in the Low Countries, Italy, Germany, and Japan, there is one identical fundamental problem that we have to keep our eyes on, and that is that they cannot possibly feed themselves, so that, in order to keep their people alive, they have no alternative but to sell their goods in some market which in turn will give them foodstuffs for the products of their labor. That means that they have to do everything they can to get these markets in order to keep themselves alive, and already the competition is beginning to be tough.

One of the places where they can sell their goods is the United States, where any increase in the sale of foreign goods during this declining phase of our economy will obviously cause tremendous political howls of one kind or another. Another alternative is to go into the Latin American field, into South Africa, and into the Australian field. But these are fields where we in the last few years have been trying not only to regain through the sale of civilian goods some of the dollars that couldn't be spent during the war period, but are also filling markets that were vacated by the Japanese and Germans. Everybody is trying to get into these markets and take them away from the United States. That produces repercussions because of the very sharply declining foreign trade of the United States.

The only other place where they can sell their goods is Russia and the satellite countries. Today I think you have not only the ECA people but most of those who are dealing with the problem saying that Russia is the place to sell these things. There in my opinion you have a very debatable point. There is no doubt a great market in Russia and the satellite countries for these consumer goods in exchange for grain, timber, coal, and various other things.

Today we are at a disadvantage compared to Russia from the point of view of critical materials. We have been getting manganese and chrome from Russia. They are beginning to cut down on us to keep us from having those materials at the present time, so that they can use our shortage of them as a trading point for getting the kind of industrial machinery and

other things that they need. Thus Russia has increased its advantage very rapidly. You will find a serious development of that in Asia. The British and some of the other countries are convinced that, whether they want to or not, they will have to do business with Communist China; and that the sooner they begin and the larger volume of it they get, the better off they will be.

So you have to balance the question of increasing the war potential of Communist areas with the question of what should be done to maintain the productivity of the ECA countries and to help build up the other nations. There is one alternative. That is the question of whether to develop underdeveloped areas and create new markets. This is a fairly slow and continuing process, one which cannot meet the emergency that we are going to be faced with in two years from now.

I can cite one story that merely shows the political disposition. The other day three manufacturers of textile machinery came to Washington. All three were from New England. They were fit to be tied because for many years they have been furnishing South America with textile machinery; when suddenly there arrived in Rio a mission of Japanese headed by a number of Jap machinery manufacturers who were offering Japanese textile machinery at 40 percent below the price that we could deliver it from here. Those Japanese textile machinery manufacturers had copied the American machinery bit by bit, paying nothing for patents, paying nothing for copyrights, and in some cases actually copying the imprint of the name of the manufacturer on the machinery.

The American manufacturers took the matter up with our government officials and were told that the authorities in Japan had issued a directive to get Japan on as near a self-sufficient basis as possible as soon as possible through selling Japanese goods to world markets. Japan's normal markets in Asia are gone. It has to sell somewhere. It has to sell its products. Japan has to import food. That is our responsibility, obviously. As between these conflicting interests there is not much coordination.

I think you are going to see the same thing happen with German goods very soon. You are certainly going to find it happen, and are now finding it happening, with British and French goods, Belgian goods, and Dutch goods. It is going to be a very acute problem that we might just as well look in the eye. Someone is going to have to make that major decision, whether to let these countries exchange commodities with Russia and the satellite countries or let them market their goods in South America.

COLONEL NEIS: What answer was given to the manufacturers in that situation?

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CONGRESSMAN HERTER: They got no comfort at all except that the Army promised that it would try to get the copyrights and patents protected in Japan in the future.

QUESTION: Assuming that in a war emergency we have at least two emergency organizations, one charged with handling foreign economic relations and the other charged with developing our national procurement policy, which of these two bodies in your opinion would have primary interest in offshore requirements?

CONGRESSMAN HERTER: I would guess that it would be the organization charged with handling foreign economic relations that would probably have to carry out the mechanics of offshore requirements. But obviously, the procurement requirements would have to be figured by an organization which is responsible primarily for domestic requirements. In other words, that organization would have to come up with the list of requirements and then turn it over to another organization to see what it could do with the list. The second organization in which obviously there would be people responsible primarily for the foreign field, would have to make decisions such as what they could get, how they could get it, and what types of sacrifices would have to be made in order to get it.

The last is the most difficult thing. You just cannot get this chrome or whatever it may be from Turkey or anywhere else unless you can assure the Turks or the other people that they in turn will be given this, that, or the other thing--whatever it may be. Then somebody will have to balance up those factors and decide whether it is to be done. And we would have to have continuous interlocking in the two organizations, continuous exchange of information, assuming, of course, that you have two organizations, with another centralized group at the head of the whole thing.

QUESTION: Congressman, suppose we run into a situation similar to the one you described in regard to Argentina that we had during the last war, where we found it impossible to supply that country with the goods it required. Assuming that certain countries would not enter into an agreement with us, what would be the advisability of using a blockade to prevent them from joining hands with the enemy, thereby denying the enemy access to their goods?

CONGRESSMAN HERTER: That is always an extremity that one can go to, but it doesn't solve the primary problem. The problem in the case of Argentina was that we were supplying the British with a considerable part of their materials and all of their meat, all except that which was domestically produced. We had to get the meat from Argentina. The minute you say to the Argentineans, "You are going to get no more civilian goods," they say, "All right; you are going to get no more meat." Then you can put on a blockade to keep them from trading with others. They

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don't care particularly about the blockade, but they do care about the loss of their trade. In the meanwhile where are you going to get the meat to supply the British? That is the difficulty. You will have the British on your neck morning, noon, and night, saying: "For the love of Pete, do something. Give these people something to keep them happy. We need this meat. Give them what they want out of your ration cards if necessary."

You are immediately faced with these very unpleasant alternatives, and they are real alternatives during a war period. The British will say: "O.K. Don't do any business with Argentina. Don't give it anything. But give us some of your supply of meat. You divvy with us and give us a part. We would be delighted to have you do that to Argentina if we can have some meat. We have turned our entire economy to war purposes. You are still operating some of your civilian economy. Give a little of it to Argentina and then give us our meat."

QUESTION: I would like to ask a question going back to the subject of oil that you talked about. Of course, oil is just one of these items that we are using up in the United States. What is the chance of bringing in these materials from other countries and conserving our own supplies?

CONGRESSMAN HERTER: That is one of the biggest political problems that we have. It always comes up in connection with stockpiling operations. After any war a large part of our stockpiling should be done through purchases from overseas. We shouldn't constantly be depleting our own resources any more than necessary. Our commercial requirements for all these critical materials are very great. We don't want to deplete them any more than we can help.

Only recently, as you know, the prices of lead and copper have been going down quite materially. There have been very large lead developments in Africa and also in the Yukon. Companies such as General Lead send representatives to Washington who say: "Why are you spending ECA funds and other funds to develop lead in foreign countries? We can get lead in our own country now. Please take our lead. We are entitled to keep our full production going. Take our lead before you go overseas."

There at once you run into a head-on collision between the domestic producers and the conservationists. The domestic producers would rather have us keep a lot of marginal mines going in this country than to bring the material from Peru, the Belgian Congo, and some other places. There you have a continuous conflict. I don't think you can ever solve the problem until the American people become very conscious of our dwindling supplies and the very real danger that lies in these dwindling supplies, particularly in the metals field. It is true in the iron ore

field. Or take manganese as an example. We have large quantities of terribly low-grade manganese in Minnesota. The domestic people say, "Instead of importing manganese from Russia and Brazil, let us develop this low-grade stuff." But it is very uneconomical to handle.

So you have this conflict between the opposing political forces going on all the time. You never can adopt a really effective policy until the people of this country give the politicians sufficient backing to say: "No. We are going to hold some of our production in reserve for the national good, even though we may hurt individual companies in doing so." In oil we have probably the most dramatic example of any of the commodities where we need to do that. Iron ore is another and there are a number of other scarce materials.

COLONEL NEIS: What is being done to acquaint the American public with this particular problem that you mentioned?

CONGRESSMAN HERTER: I know of no organized effort. Of course, we are taking some steps to acquaint them with our dwindling resources. Some people say these steps are being overdone. The excuse is also given that we will surely be able to find plenty of these things within our own borders if we only spend more money in geological exploration and so on. Back in the days of Gifford Pinchot and Theodore Roosevelt, I think we had a good many conservationists in the country, but today we seem to have very few. We hear something about conservation of our timber resources, about reforestation, but very little about the conservation of our minerals.

QUESTION: During the last war most of the economic warfare battles took place in neutral countries--Sweden, Switzerland, Spain, and Portugal. You said we did that rather badly, took things for which we had no use. We can assume that we will have that type of activity in a future war, because of the difficulty of some of these nations remaining neutral. I believe in your talk you referred to that and said you expected some of them to be neutral. I wonder if you would develop that point a little more.

CONGRESSMAN HERTER: Whether or not there will be any neutrals in another war is purely a matter of economics. Theoretically it should not be. Theoretically they all would have to take sides one way or the other. On the other hand, as a factual matter it is very tough for us to tell people in the countries bordering on the satellites or bordering on Russia that they have to declare war on Russia, when we know that that will mean protecting them; and when they know we cannot protect them or help them in any way at all.

It all comes down to the bare fact that countries like Burma, China, Indonesia, the Philippines, countries of that kind, will say: "You want us to declare war. O. K. What are you going to do to protect us? Are you going to send your Navy to protect us? Do you guarantee to keep our shipping going? Do you guarantee to take all our products if we go to war? Obviously we have to have some guarantee on some of those things. We can't just stick our necks out and get them chopped off." So I am a little skeptical as to whether in this phase of the war there wouldn't be some neutrals.

COLONEL NEIS: Do you feel that from the standpoint of legislation or the war powers of the President we are adequately implemented to aggressively pursue these activities, or do you think that additional legislation is indicated?

CONGRESSMAN HERTER: I don't know whether additional legislation is indicated. The President inevitably in the event of the outbreak of war or the imminence of war would be given almost unlimited powers, as he always has been. I say "unlimited powers." They have to be nearly unlimited for the effective operation of a national effort such as we would be called on to make. But you just can't wait until the outbreak and give those powers to him then. That would be a luxury you can't afford at this time. So while I see some danger in a completely regimented economy under a single control, I think it must be provided for in advance and so set up that it can immediately be put into operation when an emergency arises.

GENERAL HOIMAN: Congressman Herter, you have certainly given us a very interesting and comprehensive discussion this morning on foreign economic relations. For the Industrial College and the National War College I would like to say that we are deeply grateful to you. Some of the things which you have told us this morning we will remember for a great many days. Thank you.

(22 July 1949--250)S.