

ECONOMIC POSITION OF THE EUROPEAN NATIONS OF
THE NORTH ATLANTIC PACT

30 March 1950

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Publication No. L50-119

INDUSTRIAL COLLEGE OF THE ARMED FORCES

Washington, D. C.

Mr. James J. Wadsworth was born in Genesee, New York, and graduated from Yale University in 1927. Following graduation he was for fourteen years general manager of a farm of 350 acres and also assisted his father, James W. Wadsworth representative in Congress of the 41st New York District and former U. S. Senator from New York, in the administration of approximately 15,000 acres of diversified farm operations in the Genesee area, New York. For ten years starting in 1931, he was a member of the Assembly of the New York Legislature. From 1941-45 he served as Assistant Industrial Relations Manager of the Curtiss-Wright Corporation in Buffalo. In 1945 and 1946 he was Director of the Public Service Division of the War Assets Corporation in Washington. He has served as a Director of the Governmental Affairs Department of the Air Transport Association of America. At present he is a Special Assistant to Mr. Paul G. Hoffman, Administrator for Economic Cooperation.

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COLONEL BERKELEY: Gentlemen, the problem of world security is intimately related to the economic recovery program of western Europe. The United States has evidenced its interest in this problem through a series of legislative acts that are unprecedented in the history of our country. Economic stability is a prerequisite for political stability and an inseparable element of military power.

Our speaker today graduated from Yale University in 1928. For 14 years thereafter he was associated with his distinguished father, the former Senator of New York and present Congressman from the 41st District, in the operation of some 15,000 acres of diversified farming in Northern New York. During the war he served as the Assistant Industrial Relations Manager for the Curtiss-Wright Corporation. Following that, he entered Government service as the director of one of the major divisions in the War Assets Administration. Subsequently, he was associated with the Air Transport Association of America. At present, he is the Special Assistant to Mr. Paul Hoffman. It is a privilege and a pleasure to welcome our speaker today to both the Industrial College of the Armed Forces and to the National War College. He will speak on the European Recovery Program as it affects and influences the North Atlantic Pact Nations. Mr. James J. Wadsworth.

MR. WADSWORTH: Thank you very much. Gentlemen of the College: After an introduction like that I can hardly wait to hear what I am going to say. I am sincerely honored at the chance to get down here to talk with you for a few moments on this subject to which we are so dedicated in our own Federal agency, E.C.A.

I have had several discussions with Colonel Berkeley about the line which my remarks might take because, having been associated, at least to some extent, with politics and politicians for a long time, I have been exposed to speeches of all kinds, and in great number, and at great length, and, although I hope I haven't inherited any tendency to lack terminal facilities, I do feel there is nothing quite as boring as listening to something you have heard over and over again. I think I would like to risk some repetition, however--not knowing exactly what you have heard about the European Recovery Program--to sketch very briefly for you the history of it, its beginning, its concept, and then we will get to the actual achievements of the program and the problems that we still face today.

You have all been told, and of course you remember, that in June of 1947, the Secretary of State, General Marshall, enunciated this concept.

which has, immediately thereafter and ever since, been known as the Marshall Plan.

I may say parenthetically that if you go over to Europe, as it has been my privilege to do several times since becoming identified with this agency, it is utterly futile to talk about the ECA program or the Economic Recovery program. If you talk about the Marshall Plan they all know what you are talking about. One man immediately said, "It gives us chocolates." I don't imagine General Marshall had any idea that the people who would be in the railroad stations and walking around in the streets of Paris and in the little shops would think that because of him they were finally going to get some chocolates.

He had a concept which he expressed very cogently and briefly in that he called for cooperative effort on the part of "all" of Europe and said that if they could make plans to get together, then the United States would be willing to do its share. I underlined as much as I could that word "all", "all of Europe," because the General said, "There is nothing in this concept which is to be considered as being against any nation, against any political system, against any ideology. Europe having just come through the most destructive war in history, we feel if Europe can get together--the vanquished and the victors--we are willing to help, and put the world back on its feet by that much."

Immediately after that, the leaders of several European Nations met at Paris to talk over this challenge that if they could get together the United States would be willing to help. To those meetings came Mr. Molotov, giving us, for at least three days, the hope that we could get the cooperative effort of all Europe.

But after three days he walked out, and he walked out for a very obvious reason, that Russia as a nation is not interested in economic recovery for Europe. Economic recovery will, as Colonel Berkeley said, lead to not only economic but political stability and to military security. No; communism doesn't thrive on ideologies of that sort. Communism thrives on chaos, on uncertainty, on a sense of insecurity, and, finally, in the last analysis just before communism takes over, on desperation. Because it is rarely the healthy, well-fed, well-clothed, or well-housed individual that embraces the "isms" such as communism, Fascism, Nazism, any of the types of totalitarianism that we have seen parade before us in the world over the past half century. So Mr. Molotov took all the "satellites" with him, and from that time on, there has been only western Europe in the Plan. The Iron Curtain clanged down with horrible finality. I believe it was Walter Lippmann who coined the phrase the "cold war" soon after that.

In the spring of 1948, after probably the most complete and extensive study that has ever been given to a legislative problem in the history of the United States, the Congress passed the act under which we now operate. There was a feeling in that act, and in the language of the

act, and in the hearts of the Congress that this would prove not to be merely a defense--if you will--a barrier of some sort, a road block or a dam to stem the onrush of communism. There was still some hope that with the example of cooperation in western Europe before them the countries of eastern Europe would see what so many people have been forced to see; that "united they stand and divided they fall."

But it hasn't worked out that way, and the original concept as first enunciated by General Marshall and the ideas we had when we first took on the job have been changed to that extent. We knew it would be our job to get the internal economy of the European nations up to prewar levels or a little better, and when we say "prewar levels" and take 1938 as the base, we must realize that the year 1938 was not a very happy one for Europe. That was the first problem that stood before us and a very challenging one it was. Yet as time went on and as the Communists with single purpose pursued their schedule in the cold war, we found ourselves fighting more a political battle, almost, than an economic one. We found ourselves the cutting edge--if I may call it that--of the United States foreign policy in so far as Europe was concerned, and little by little everything we have done has led toward that goal, toward winning the cold war in so far as we could.

The Communists, of course, have done everything short of actual military marching. Every day in every community, people in Europe attack the Marshall plan with fantastic inconsistency, but with so much repetition that, under the old propoganda dictum that the more you say it, the more people believe it, people still do believe. They believe in most fantastic inconsistencies such as this:

I happened to be in Paris last fall and two Communist papers came out on the same day. One of them said, "This whole Marshall Plan is an imperialistic scheme. America is going to take over Europe. Beware!" The other one said, "America is ready to drop Europe and leave us flat as soon as the Americans have gotten rid of their farm surpluses"--and perfectly straight-faced. They have the nerve to come out and say completely contradictory things and expect people to believe them, and the sad fact is that some people do believe them.

So we have that sort of thing to fight--propaganda, the strikes, the slow-downs, the violence. Everything possible to stop economic recovery in Europe has been done, but has failed. Because, with the increasing caloric intake in the daily diet, with the gradual dropping of restrictions, of rationing, and the comparative ease of getting things that had been gone for so long, a sense of strength communicated itself upward from the people to the governments. As an outstanding example, the French Government did not hesitate--shaky though it had been for months--to put down the Red-inspired coal strike with an extremely firm hand, and the people backed it up. That is one of the things we feel the Marshall Plan has done with a great measure of success, the restoration

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of confidence in the plain people, which inevitably, though slowly, works up to and puts stiffener in the backbones of their leaders.

I don't know that I should go into any statistical discussion with you as to the success, or lack of it in certain directions, of the Marshall Plan. Generally speaking, we have completed the first phase of our offensive. We have brought the internal economies of western Europe up to a prewar level or better. The people are comparatively well fed, comparatively well clothed, and comparatively well housed. There is a great deal yet to do. The diet is back to prewar and in many cases above, yet is very uninspiring. It has sufficient calories in it, sufficient energy so that a workman can go out and do a day's work. Meat isn't there in quantity and price yet. Dairy products are not up to where they should be.

But one of the things the Europeans pledged was that once they got their economies up to the prewar standard of living, then they would stop adding to their standard of living and would put the rest of their production into what we like to call "future," work-making, production-making, rehabilitation of plants, and, particularly, the acquiring of technical know-how, which is going to be absolutely necessary to the continuation of a healthy European economy.

Anybody would be stupid and much too much of a Pollyanna to claim we have made a complete success of the Plan. We can "point with pride" but at the same time we still have to "view with alarm." We have a long way to go and only two years in which to get there. Next Monday is the second anniversary of the Marshall Plan, and in two years we believe we have accomplished a miracle. But if, in July of 1952, we can sit back and see the job completed then it will be a much greater miracle. It will need more miracles for perfectly understandable and very simple reasons. It will need miracles such as the voluntary discarding of century-old traditions of distrust and hatred; the voluntary discarding of nationalistic monetary systems; the voluntary discarding of trade barriers.

All the different things we are asking western Europe to do today, are as Mr. Hoffman said something that has never been accomplished in all European history. When people cannot speak freely together; when people cannot trade freely with each other; what wonder that there is distrust. So western Europe is trying to take that bull by the horns, and its leaders know exactly what is necessary. We speak of it very glibly as integration and we say to ourselves, "Why can't they integrate? All they have to do is to set up a common currency, knock down trade barriers, go to work, trade with each other; very simple."

I want to ask you gentlemen to remember your own American history. Think back to how long it took this country to become integrated economically after the end of the revolutionary war, from the beginning of the

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Thirteen States until the time that we could say we were really integrated economically. And lest you become a little bit smug and self-satisfied with the fact that we are integrated, don't ever forget Mr. Robert Young's famous ad that even as of today a hog can ride across the country without changing trains but human beings have to get off and change in Chicago. Also don't forget that many other interstate barriers exist. Ask any truck driver, as any person who tries to operate a fleet of transcontinental trucks about the different interstate barriers that exist. Yet we have one language, one currency, one way of doing business. We are asking these people in western Europe to do something that has been tried, and a great many of them hesitate even to put their big toe in the water. They just do not want to take the plunge. Why? Because they are not yet to the condition where they feel that their own security depends on the collective security of all.

All during this first half of the twentieth century, European countries have consistently and steadily worked toward self-sufficiency. Our special genius for government gobbledygook comes out with a very nice word that we call "compartmentalism." All that means is that each country within its own borders is trying to become so self-sufficient that it need not depend in any way on its neighbors to keep economically alive in the event of another war in Europe. The wars have brought that on; and the trouble between the wars. That is another thing that will have to be overcome, the fear that something else will happen, the fear that a country will once again find itself isolated trade-wise and inundated military-wise.

The only answer we can give to these people is, "We will do everything we can but it is bound to be your job in the long run, with our military aid, with our economic aid, and with what a good many people sneer at but which cannot be discounted, our moral aid." We are trying to see to it that Europe becomes a barrier in more senses than one to that ideology that we all recognize as being the most evil thing on the face of the earth today, a barrier not only militarily but also with the sense of security and power to resist the insidious guile of the Red propaganda.

It is a very important thing, gentlemen. I have seen it working. My first trip to Europe was in the early fall of 1948. My last one was November 1949. The difference was discovered not only in the governments, but in the people to whom I talked; the people who perhaps didn't immediately spot me as an American. The difference was just fantastic. And from that courage that we are trying to build every single day as against the breakdown that the Reds are trying to bring about, we hope to see develop in western Europe a morale that can resist mentally and morally, and a morale that will not hesitate to uphold their government physically if need be. It is a very big order.

I know that I am to be exposed in a few moments to a question period, and rather than try to dig deeply and with too much detail into any one of the various phases of the problems that still beset us, I am going to beg your indulgence now to stop. I hope that you will ply me with all the questions you possibly can. I do not promise I can answer them because, (a) I am not an economist, (b) I have not studied the subject enough to be able to answer them all, and (c) there is only one person in the world who can answer them all and I wish he could be here with you--that is Paul Hoffman. Thank you again for the privilege of coming here.

COLONEL BERKELEY: Mr. Wadsworth is now ready for your questions.

QUESTION: In the March 10 issue of the United States News and World Report there appeared an article entitled "United States Billions Buys Few Allies," which showed that, in a nation by nation checkup, Great Britain alone stands firmly on the side of the United States and that the other western nations, having received large amounts of economic and military aid, are now moving to the side lines and are talking neutrality. Would you please comment on this observation?

MR. WADSWORTH: I did not see the article in question although the charge has been made very often that our public relations job so far as the European nations are concerned has not been so good as it should have been. I must take issue, however, with the broad statement that the United Kingdom alone would stand firm as our ally. The Swedes, of course, and Ireland, as well as other participating countries, have a tradition of neutrality which they have no immediate intention of abandoning. On the other hand, the Benelux countries, Denmark, Norway, Italy, Austria, Greece, and Turkey are giving us every indication that they will stick. I don't believe for a moment that they will retire to the side lines and hide under any cloak of neutrality. This, of course, is just my own personal judgment against that of the writer of that article. That is what our reports seem to indicate as we get them in from the various countries, and certainly that is the way the governments in these countries are talking. We can't always be sure that the governments reflect completely and accurately the feelings of the people. I don't think there is a government anywhere that would want to spring to arms at any time, but I feel that they will be ready to and they will live up to their obligations.

QUESTION: Sir, there are two conflicting problems which seem to be very difficult of resolution and which you touched on in your talk. First of all, you made it very clear that European countries had agreed that when their standard of living had returned to the level of 1938 they would divert the aid into the future, into production or military activities field, and at the same time the European countries are asked to cast off their controls, get rid of restrictions, particularly controls on inter-

national trade. What I do not see is how your channeling of aid into the future can be accomplished without very tight restrictions, both internally and in international trade.

MR. WADSWORTH: Very tight, did you say?

QUESTIONER: Yes.

MR. WADSWORTH: I would like to comment on that although it brings me into a field with which I am not completely familiar. We feel this--and Mr. Hoffman has pounded on it in a great many speeches and statements--they cannot hope to have a healthy economy unless they create a mass market for the mass production methods which we are urging them to adopt, and they can't get a mass market without abandoning to a certain extent the restrictions that make it a tight market or a compartmentalized market. If we are to be content, and European nations are to be content with stumbling along as we did between the two wars, then we don't feel that the concept of a unified Europe economically can ever be achieved. Perhaps I don't make myself completely clear on that. I feel very deeply about it, but perhaps I don't know the lingo of the economist in such a way that I can explain it very clearly. Unless you have the mass market, however, improvement in productivity will be of little value. It will be the same as it has been in the past, that the nations of Europe will be like a pair of neighbors who take in each other's washing. You can't make any money that way.

QUESTION: Mr. Wadsworth, could you tell roughly a little bit about the ECA program for Germany and what you expect to do with Germany and western Europe?

MR. WADSWORTH: The German situation is, extremely important and it is one which has to be approached with perhaps more delicacy than any other. Part of this is because Germany is the conquered nation; part of it is because of the seemingly ineradicable suspicion against German nationalism that exists not only in France but in a great many other western European countries. We do recognize, however, that to a large extent Germany must resume its former position of European machine shop; that without the German's technology, without their recognized talent of productivity, a completely healthy economy for Europe cannot exist.

Another cause of the difficulty is that Germany up until recently has had no government with which we could negotiate or with which we could work, having had occupation forces and now having a high-commissioner form of watch dog, if you would like to call it that. We still don't know the extent to which the West German Government at Bonn can live up to the commitments it may make to us. Naturally, the ever-present threat of Eastern Germany and the continual trouble stirred up within

Eastern Germany, not only by the Russians but by the Germans who have accepted the Russians as their sovereigns, is going to make it extremely difficult to walk that very, very thin line between making Germany too strong and allowing nationalism and aggression to creep in again and making them strong enough so that they will take their rightful place in the economic family of western Europe. It is going to be an extremely difficult operation. Of course, we have other occupied nations to deal with and there have been, and probably will continue to be, for some time, some differences of opinion as to just how this job should be done. I believe all agree, France as well, that Germany must be a great deal more healthy economically than it is today.

QUESTION: Mr. Wadsworth, the ECA program is apparently asking for greater economic unity in western Europe than exists, for example, between the United States and Canada. Without a doubt this has certain ramifications. To what degree does ECA expect political unity in western Europe?

MR. WADSWORTH: That is a subject that we have tried not to take the lead on. We have not believed that our mission was to attempt to impose upon or even suggest too strongly to the western European nations the political unity which we all hope will come out of this association by cooperative effort. I think your point is well taken as to the situation between Canada and the United States in some degree. But we have not said to Europe, "You must get together politically." Naturally, we have made no secret whatever of the fact that we hope that they will, and the actions of the western Europeans with their Council of European Nations seem to be a pretty healthy indication that it is around the corner. Around which corner nobody knows. I believe if we all had crystal balls in front of us we might come out with different answers, but it is something that ECA, that agency alone, has not preached, at least not aggressively or articulately.

QUESTION: In an area half way between those two could you comment upon ECA's present interest in the freedom of movement of personnel, and particularly working personnel, among the participating countries? At the time the committee for this job was first set up, there was a very large paper on personnel that contemplated extensive movement of personnel, but my impression has been that such movement has not been borne out in the first two years of operation. I am wondering if it is not a thing that can be done without infringement upon the political area of which you speak?

MR. WADSWORTH: I believe it can and I believe it will. You are right, we have not moved very far in the direction of free flow of working personnel. At the outset of the program the only country with a serious unemployment problem was and still is Italy. Unemployment, however, has been increasing in some of the other countries. On the Italian front,

we have been working very closely with the Italian Government on the moving of Italian workers to other parts of Europe and also on the emigration of Italian workers to other parts of the world in order to relieve that unemployment situation. So far as Italy itself is concerned, it is not only a question of having too many people out of work, but it is also a question of an attempt by the Italian Government and Italian industry to carry more people on their pay rolls than is economically sound, so as to escape a heavier relief load.

Now, other countries are not yet at least in nearly so bad straits from the standpoint of unemployment and the movement of workers as is Italy. The plans are definitely forming to allow for a more easy flow of workers to mining areas where the labor supply seems to be short and into farm areas on a seasonal basis, things of that sort. The countries themselves have not as yet O. K.'d all those plans.

QUESTION: Mr. Wadsworth, would you discuss the present drive on the United States to increase imports and what steps specifically we should take along that line?

MR. WADSWORTH: The drive to increase imports is what we might consider the back prong of the two-pronged attack that Mr. Hoffman visualized as absolutely necessary to close the dollar gap and to bring the European economy to the level at which we want to see it. The front prong is of course the economic integration I spoke of. What we are doing is encouraging people. Now we encourage in many different ways. We are trying, for instance, to get our own industrial and commercial plant or community to accept the fact that unless we can allow Europeans to earn dollars by sending us goods which we would buy and pay for, then they are never going to become customers of ours, for they are not going to be able to get the things they want unless the taxpayer is going to handle the entire bill from now on. We therefore feel that this question of imports is of very major importance.

There are several other things as you know that have been done and have been started. We are attempting to urge European suppliers to take aggressive steps to search out possible markets for the goods that they can make in enough quantity to export to us, and to study the markets over here to find out the kind of goods that will be accepted by the American buying public. Several of the nations have already instituted both traveling and fixed trade exhibits all over the country. A few months ago I was out in Kansas City attending the ceremonies opening the new permanent Belgian trade exhibit there. We find International House, for instance, in New Orleans has made a survey of the entire Mississippi Valley from the standpoint of possible imports of European goods, searching out markets, and at the same time, realizing that international trade is just as simple as breathing, that you have to inhale before you can exhale, they are trying to find things that

producers in the Mississippi Valley can send abroad. It is therefore a two-way stretch so far as we are concerned. We are trying to do it both ways and we naturally run into some objections.

It is a hard thing to expound this doctrine to an individual who is losing business or to a worker who has lost his job. They have found a whipping boy in ECA and say it is all ECA's fault. Nevertheless, we do find that a great many thinking business people in this country have embraced this idea very wholeheartedly. Major labor leaders have also agreed. You are no doubt familiar with the survey made by the National Retail Trade Association, comprising the major dry goods stores of the country. It was made at the request of Mr. Hoffman, and they came up with a quite substantial list of items which they felt could be imported and which would not be widely or very heavily competitive with what we ourselves put out.

This question of imports is one which I think could be discussed for almost an entire period, but unless we can make Europeans good customers, our own economy is bound to suffer; then the only way we can make them good customers is to let them get the dollars that they need with which to buy from us. There are only two ways they can do it. One is to sell their exports over here and the other is to have us dig down in our pockets and give it to them.

QUESTION: About two months ago there was an item in "Fortune" regarding the things France could ship to the United States and primarily they were of the luxury type. What I am getting at is this: Along the line that the retail market or department store survey was made primarily, there was absolutely nothing in that but luxury items, such as cigarette lighters and wines--that sort of thing. Where is there any stability in international trade when the bulk of those items that come out of France are going to be those just mentioned?

MR. WADSWORTH: Traditionally, France has been a manufacturer and exporter of luxuries. We are not sure its industrial plant could possibly compete with our own mass production methods in things which we might consider as being a more healthy type of international trade. The French simply don't make them. Why they don't is something I can't tell you, but I have never heard of their manufacturing for export things that are not, or close to, the luxury line. I can see exactly your point, but that is France.

QUESTION: Along that same line, I am reminded of a story featured in the press not too long ago on the specific subject of tractors. ECA supplied tractors to France. The gist of it was something like this: It was early recognized by everyone concerned that for recovery one of the first steps in France was an agricultural recovery. Consequently, a great deal of effort was put into the tractor industry in France.

At the same time, ECA was supplying tractors already built with the same end in view. Now tractors in France are a glut on the market. The tractor industry has recovered substantially, but the ECA-supplied tractors which we send over there are given to the French Government, and the French Government sells them to the farmers. The French-manufactured product, to the point where tractor manufacturers in France are claiming that the government itself--not only ECA, but the French Government--is stymying their own industry.

First, I would like to ask, is that a wildly exaggerated story or is there some essence of truth in it? Secondly, if there is some truth in that type of thing, is that an isolated case or do you come across many problems of that nature?

MR. WADSWORTH: I think I can answer your point by saying, in the first place, there is an essence of truth in it although it is somewhat exaggerated. I think it can probably be narrowed down to a question of too pessimistic an estimate on the part of the French as to the recovery of their tractor industry. They did want a great deal of agricultural machinery, and the first year or two they got it from us. They didn't expect their own business to be able to come back as fast as it did, and we didn't expect it to come back as fast as it did. To that extent, the article is right, but I wouldn't use such a word as "glut." Another thing, too, on that, and I think we should remember it, is that a great many of the farms in France are not of sufficient size to support a tractor and the local tractor market has always been fairly meager in France. It might be that we have figured to increase the prewar demand and it will be difficult.

As to its being an isolated case, I would say yes. I have heard it cited more than any other single type of case. In an operation of this size I believe it is almost inevitable that a few things like that will happen, where, as I say, there are overoptimistic or overpessimistic estimates of what local industry can do. But the French Government, after due thought, study, surveys, and all the rest of it, decides that its people need X number of tractors, and that they really need them, it is natural to take its word. For one thing we haven't the personnel overseas to make an exhaustive survey of a situation like that, to go around to the farms, to go around to the tractor dealers to find out whether the French claim, as presented to us in the form of an application, is completely accurate or whether it is overoptimistic or overpessimistic. Again when they ask for something which they say they need, we take their word because they are only getting a certain slice of the pie. They are only getting just so many dollars, and, you can take it from me, they are usually very careful to see to it that those dollars don't go for something they don't really need. If they do go for such things, those dollars are lost to them and they can't use them for the things they need much more.

QUESTION: Would you comment on the amount, if any, of ECA dollars and products which nations behind the Iron Curtain obtain in trade with the western European countries?

MR. WADSWORTH: That has been a charge and a rumor that has been going on ever since the first ECA goods started arriving on Europe's shores. We have, as you know, a list of items in this country for which we ourselves will not issue export licenses to the Iron Curtain countries. I think this whole business has now been so declassified that it can be discussed with considerable candor. We got together with the participating Marshall Plan countries, showed them our list, and asked them to approximate it as closely as they could and to agree that they would not allow export licenses of this sort of material or that sort of item which in our opinion had war potential to Iron Curtain countries. It took them quite a while to scan the list. They made some additions of their own--certain things that they might produce in certain quantities that we do not--and they came up with a list very closely approximating ours. We have not been able to find, so far, a substantiated case where Marshall Plan goods--and that means the goods we ship with our label to Europe--have found their way behind the Iron Curtain. We have had many reports that this was so, and our investigators, together with the investigators of the country to which the goods were originally consigned, looked into them just as carefully as could possibly be done, and they haven't found any proof.

Now as to dollars, dollars as a matter of fact practically never leave this country. When something is bought with dollars, it doesn't leave the Western Hemisphere or the dollar area. Actually, the mechanics of it are that ECA, through a letter of commitment or a letter of credit, authorizes payment right here in this country to the American supplier. One of the hardest things to explain to the general public of the United States from the standpoint of public relations is that we don't load a lot of dollars on a boat and send them over to Europe. They still think, a great many of them--and I am glad that the gentleman who asked the tractor question brought that out--that it is a free gift to the people who use it, whereas those people buy with their own currency.

I would like to spend a minute more on this Iron Curtain business because Senator Malone and others have introduced a resolution in the Senate to the effect that we should deny aid to any western European country trading with any eastern European country. That, of course, gets into a very complicated position in east-west trade. But I only wish to point out the absurdity of such a proposal. If the resolution should pass, then we ourselves would find that we had very red faces because we trade quite openly and freely with Russia and her satellites, and all the western European countries have bilateral trade treaties with all the Iron Curtain countries. We encourage that because we know those western European countries cannot stand alone economically.

QUESTION: Mr. Wadsworth, this may be another question that the Congressional liaison officer won't want to answer. It has to do with tariffs. As you rightly pointed out, the only thing we can do, unless we are going to let Europe go by the board, is to make contributions to Europe or else rehabilitate it so that the essential commodities can be bought. Now the rich man who has a relative who is down and out receives undying gratitude if he helps the man get into a business on his own rather than making him dependent on his bounty, but there is a strong sentiment among the people obviously, and strong in Congress, too, seeking to raise tariffs even higher. Do you detect any sentiment in Congress to maintain the status quo or to increase tariffs or to lower tariffs so Europe can really get on its feet again?

MR. WADSWORTH: Generally speaking, I do not. There are always, in any legislative body, a group of what you might call protectionists. They believe that in order to preserve the markets, or the integrity of certain industries, we must erect very high tariff walls so that the so-called cheap-labor goods cannot flow over here from Europe or from somewhere else in the world and destroy our markets. Actually that question gets into another economic phase which I may not be completely competent to discuss, but here I go on oversimplifying.

Cheap labor cannot produce as well as high-priced labor. Cheap labor may be paid only 40 cents an hour as opposed to the \$1.60 per hour of our machine-shop operators, but they take about more than 4 times as many hours to make the same thing. The highly industrialized concerns of this country have, in our opinion, nothing whatever to fear from the status quo in tariffs, or even from an additional lowering in a great many cases, because competition has always been the reason for our dynamic economy. And, as Mr. Hoffman is very fond of saying for his own automotive industry, which is highly industrialized, he has always advocated complete elimination of all tariffs on automotive equipment or automobiles.

I was talking the other day--just to bring down to a personality--to a gentleman whom I consider to be one of the most conservative--if you want to use that word; it isn't a very happy word any more--law-makers we have had for many years. He has been a protectionist for many years. He told me that he had come around to the idea that this business of high tariff protection was absolutely silly and, as a matter of fact, it would bounce back on United States industry. Now just that one isolated case doesn't mean that the Congress doesn't still have protectionist ideas in certain ways, but I do not believe that in the easily foreseeable future, at least, there will be enough of that opinion in Congress to make any difference whatever so far as lifting tariffs. Under the Reciprocal Trade Agreements Act renewed by the Congress last year, the Executive has the right to adjust downward as well as upward and everybody seemed to think that was a fine idea, and the bill passed with a good majority in both Houses.

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QUESTION: Mr. Wadsworth, I get a bit confused about those objectives of the Marshall Plan until I accept them, as most people do, as a good thing. But when I hear people talking about what they are trying to do, I get more confused.

For instance one of your investigators went to France, and heard a talk about the automobile manufacturers building only 50 cars a month. They did not have mass production; they had less to work with; yet they were doing a fair job and were turning out a good car, but they were sitting around in the afternoons drinking wine. He couldn't convince this Frenchman that by mass production he could normally produce 500 cars a month; the people could get more money--they couldn't work only five hours a day to produce more; they would have to give up drinking wine in the afternoon; they would have to put out salesmen to see who could buy a car. The Frenchman said, "What would I want to do that for? I am making 50 cars a month. Everybody is happy. We have to drink our wine in the afternoon. Of course we have car orders. What can we do with so much? We have our own standards." What is wrong with the Frenchman's argument and this standard of living which you are trying to raise? He didn't have a good argument for the principles. I am anxious to hear your side.

Now the other thought that came up was this: We want these people to manufacture enough articles so they can sell more to us. We do not have enough competition in our own market. I am reminded of a boxer. He is strong in health; he locks one arm behind him and says, "Now come on and fight." In other words, the reason we fight in many respects is that we must have a market for our own competitive industry, so we are seeking foreign competition. Then we tell those boys, "Come on and make more items." It doesn't make sense to them. Well, again, it doesn't make sense to me. So I am wondering: Are you trying to raise their standard of living? Are you trying to make the Frenchman happy with his way of life? Are you trying to get him on our side to fight communism? Just what is our motive? Is it altruistic? Are we trying to help him live a more moral life or are we trying to make him a sort of machine that will be able to fight in case we get into a war with Russia? Is that what we are trying to do? If so, let us make it more what we are trying to do and not mix our motives.

MR. WADSWORTH: You can't help mixing motives because in my opinion they are indivisible. Say altruism, yes, there is some of it, but at the same time we are self-seeking. Now we are not talking about urging Europe to compete with us very heavily in this country so far as imports are concerned, because we visualize that with our expanding and dynamic economy there is going to be more purchasing power; that we would, rather, add to our consumption the imports from Europe rather than spurn our own production and take the European production instead. That is on the strictly economic side.

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Now what are we trying to do? Again my favorite game of oversimplification. The main objectives of ECA---if you take the objectives, you come down to a simple word "peace." Peace means so many different things. But here peace means really, in the ultimate, peace for us in the United States, but in order to do the best we can to insure peace, we want to make Europe strong. Now we will make Europe strong in three ways---economically, politically, and militarily. We cannot make Europeans strong politically and militarily unless they become strong economically---so all three are linked together.

It is perfectly true that there are French industrialists, as there are industrialists in other European nations, who do not understand and have never understood the doctrine of competition. The cartel, the various monopolistic practices that have been going on traditionally for centuries make them say, just as your friend's Frenchman said, "Why should I bother? I am making a living." But perhaps he must look a little further than his own living. Perhaps if he can make 500 cars a month, he can make them a great deal more cheaply and more people will be able to buy his car; then he will make more employment, and that in turn will produce more buying power, which in turn will result in all sorts of things being made by plants, not just the automobile, so you go around and around and around.

There is no straight line in what we are trying to do except that the ultimate objective is the simple little word "peace." We may be wrong in some of the things that we believe or in some of the things we try to do. Certainly we are looked upon with great astonishment by a great many Europeans who have been in the habit of sitting around, and perhaps once a year, fixing the prices for their products.

On the other hand, if there were internal competition, then the entire economy of France must be better, the standard of living would be better, and the higher the standard of living, the happier the person, we think. We are not indolent people, of course, and it is hard for our people to understand why the afternoon aperitif in France, or the English tea, or the various other traditions and customs that have been going on there for years. We don't know why they keep them up. They will probably continue to keep them up, at least to some extent, no matter what we do or what we say. Yet planting the germ of internal competition will ultimately lead to a brand of international competition which will lead to a freer flow of goods, and every time we think about expanding the economy, we think of happier people.

Perhaps I haven't convinced you. I am only convinced in my own mind. I wish you could hear Mr. Hoffman expound on this subject. We just believe that this is the way. It is the way, although it is rather strange and new to a great many Europeans. We believe that the teams that they are sending over here in our technical assistance program,

what we call productivity teams, are learning and finding out ways of making life easier and more secure, and that is really what every human being wants, be he Frenchman, American, or Turk.

COLONEL BERKELEY: Any further comment I might add, Mr. Wadsworth, would be in the nature of anticlimax. I do express the appreciation of the Industrial College and the National War College for your generous help in this problem. Thank you very much.

(25 May 1950--350)S