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DEPARTMENT OF

EXTERNAL AFFAIRS
CANADA

CANADA, THE UNITED STATES, AND THE MARSHALL PLAN

An address by Norman M. Littell, Member, District of Columbia Bar, Washington, D.C. before the Canadian Bar Association, Ontario Section, January 24, 1948, at London, Ontario, also submitted as prepared statement, together with oral testimony, before the Foreign Relations Committee of the United States Senate on January 29, 1948, and before the Foreign Affairs Committee of the House of Representatives on February 3, 1948.

1. CANADA - POSTWAR

While one of the most momentous debates in American history - indeed in the history of parliamentary government - is moving slowly ahead and with increasing heat in the Congress of the United States, and the course of human events awaits the outcome, let us pause a moment to extend a vote of thanks to Canada for her decisive leadership in the cause of democracy since the end of the war.

Almost without debate, and certainly without delay, Canada, having the second strongest economy in the world, adopted its own "Marshall plan" and acted to its fullest capacity in the gigantic task of helping Europe. By the end of 1946, Canada had loaned $1,250,000,000 to the United Kingdom, another $607,300,000 to France, the Netherlands, Belgium and Norway, and $154,000,000 to UNRRA - a total of $2,011,300,000. On the basis of comparative population, this would be equivalent to about $25,543,000,000 of grants and loans by the United States, or $33,000,000,000 on the basis of comparative national production in 1946. (1)

Actually the United States in the same period granted and loaned about $11,502,000,000, or proportionately less than one half of Canada's contribution. (2)

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(1) See excellent review of Canada's position in FORTUNE magazine for January 1948, page 83. See also outline of European Recovery Programme, 80th Congress, 1st Session, submitted by Department of State to Senate Foreign Relations Committee, December 19, 1947, p. 104.

(2) See "European Recovery Programme" by Committee on European Economic Recovery, Chapter 1, in which the United States grants and loans are reported on p. 9.

With great surpluses of wheat, proteins and metals, Canada could have purchased from her farmers at controlled prices and resold in the world market at enormous profits. Instead, she sold wheat to the United Kingdom at a humane price of $1.55 per bushel, which later was raised to a still modest price of $2 per bushel. This may have been long-range enlightened self-interest to guard against a postwar depression, but it was also enlightened statesmanship and humanity emanating from a stronghold of Anglo-Saxon morality and common decency.

But we all miscalculated the speed of European recovery; Canada's traditional customers were laid low. They could not pay fast enough. Although entering the year 1947 with an ample gold and dollar reserve of $1,200,000,000 - which would have been a reserve of startling size before the war - Canada watched her funds melt rapidly away. On November 17, 1947, with only $500,000,000 left in United States dollar exchange, controls were clamped on. The export of further capital was almost wholly forbidden and the flow of goods from the United States stopped. Travel money was restricted to $150 per person per year, and we said goodbye to our Canadian friends.

Please bear in mind, as we seem to part company on either side of the Canadian fiscal barrier, that we have long had a unique relationship with each other, described popularly as the "North American Triangle." With the dollars owing to England and other countries from United States purchasers of foreign goods, the United Kingdom and other countries bought your wheat and other products. The dollar credits owing to the United Kingdom and other countries were then assigned to you, and with these dollar credits you could satisfy your widespread appetites for American radios, refrigerators, vacuum cleaners, automobiles, nylon stockings, oranges, grapefruit, and Florida and California weather. For a century you have been our best customer, but now the triangle has broken down. England and other countries lack sufficient goods to sell to us and the money with which to buy from us or from you. Your historic reservoir of dollar credits ran dry and you can no longer buy from us. You cannot even drop in to see us!

This is a sad state of things! We miss you, and when we say we miss you, we mean business!

Furthermore, in addition to Canada being our best customer, United States citizens have invested more money in Canada than in any other country in the world. Of $13,542,000,000 which we have invested in foreign assets, over one-third - $4,419,000,000 - is invested in Canada. This is four times greater than our investments in either Germany or the United Kingdom. This is almost exactly the same as our investment in all of Europe - $4,418,000,000. (3)

Is it possible that we who have enjoyed such warm friendships and relationships of mutual confidence, unheard of

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(3) As of May 1943, the latest figures procurable. See "Census of American-Owned Assets in Foreign Countries," United States Treasury Department 1947, pages 17-19.

in the old world, can be forced into an artificial, self-sufficient autarchy - each country relying in a strained and unnatural manner upon its own national resources? Hitler's Germany proved the ultimate futility and barrenness of such a course.

What is the alternative?

Is not Canada's fate, like ours, inextricably tied up with the economy of the United Kingdom and Western Europe? Is not the stake which we both have in the fate of Europe as great as the common objectives which we had in the war.

There is only one alternative for both of our countries, and that is the Marshall plan, for the revival of Western Europe. If so, let us jointly examine its essential provisions and purposes.

2. THE MARSHALL PLAN

What is it? In simplest terms, it is, first, a determination with rather accurate precision for the next 15 months (and with much less certainty thereafter) of what is needed to assist the industrial and agricultural revival of the 16 participating countries in Europe (Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, United Kingdom). Secondly, it is a plan for supplying their needs at a time when those countries are unable to buy the essential goods.

In concrete summarized terms, Western Europe must have millions of tons of the following goods during the next 15 months :

<u>For industry</u>: Coal, coal-mining machinery, petroleum, timber, iron ore, crude semi-finished steel, finished steel, trucks, freight cars, steel equipment, timber equipment, electrical equipment.

<u>For agriculture</u>: Nitrogen fertilizer and farm machinery.

<u>For food</u>: Bread grains, coarse grains, fats and oils, oil, cake and meals, sugar, meat, dairy products, eggs, dried fruit, fresh fruit, coffee, cocoa, tobacco.

These are the bare needs arrived at after months of study by the committee for European Economic Recovery, made up of delegates from the 16 countries. Where will the goods or money come from?

A relatively small portion will be paid for by the International Bank and by exports of the countries of the Western Hemisphere - $1,285,000,000. (4) This includes a continued contribution from Canada within its means, particularly in

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(4) Outline of "European Recovery Programme," State Department, page 47.

the field of wheat shipments. That still leaves for contributions by the United States the almost irreducible sum of $6,800,000,000 - the mystic figure which looms so large in the press of the United States today.

Constitutional arrangements on the North American continent prevent the voice of Canada, our polite neighbour and partner on the North, from being raised in the American Congress, but the voice of her experience ought to resound there, for try as she did to the fullest limit of her capacity, Canada could fill only a fraction of the necessities for European recovery.

Is it possible with this lesson before us that we too in the United States will pay the price of appropriating "too little"? Is it possible that the $6,800,000,000 (which has already shrunk in its buying power due to increasing prices, in the amount of $400,000,000 since the estimates were made) will be slashed by the remnants of the old-guard isolationists in the United States Congress, who down in their hearts think we ought to stay at home anyhow?

Is it possible that a rehabilitation programme to revive European industry will degenerate into a bare relief programme by slashing the $6,800,000,000 to $4000,000,000 or $5,000,000,000?

This debate must be left to Congress, which in turn must answer to history for its decision.

An open question for each and every one of us, however, is whether or not the Marshall plan as proposed calls forth the best and quickest resources for attacking the problem of European recovery. I think it is an excellent specific for the crisis ably conceived, but I believe it leaves untapped a great reservoir of reconstructive power.

3. THE UNTAPPED RESERVOIR OF RECONSTRUCTIVE POWER; PRIVATE INVESTMENTS

Under the proposed Economic Cooperative Bill embracing the Marshall plan, inadequate consideration is given to a vast resource of private initiative and capital which can be loosed on the objectives of the Marshall plan. The report to Congress seems to touch rather timidly the locks on the sluice gates of these reservoirs instead of vigorously seeking a way to open them. Let us look at certain factors which show that a powerful flow of initiative and capital could be loosed in the not too distant future.

9 I. Corporate earnings and surpluses: With unprecedented earnings which have accumulated in recent years, an ominous cloud appears over the horizon for American corporate management. The famous section "102" of our Internal Revenue Code virtually prohibits the accumulation of earnings or profits beyond "the reasonable needs of the business." Surpluses are subject to high tax levies. (5) With the larger controlling

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(5) Internal Revenue Code, C.C.H. p. 611, Sec. 102; tax of 27-1/2% of excess amount undistributed not exceeding $100,000; 38-1/2% of such income in excess of $100,000.

stockholders already occupying positions in the high-income brackets, particularly in the many family-controlled corporations, (6) little benefit can be derived by them from the declaration of further corporate dividends. Uncle Sam would get all but an insignificant portion of that money.

No assurances from the Internal Revenue Department (7) that the government intends to be reasonable in accepting the judgment of management as to what surpluses are necessary, can alleviate the anxiety in American business today over impending enforcement of section 102.

And now there is talk of adding an excess profits tax! (8)

Capital investments in new plant facilities reasonably required for the business of the company (9) could relieve this pressure and promote the public purposes of the Marshall plan. Thus, a company with a surplus of $2,000,000 might prefer to put $1,000,000 into European industrial development, representing expansion of its business, rather than face enforcement proceedings under 102, or pay the $1,000,000 out of dividends and see it returned tax-wise to Uncle S am. Even if the European expansion might ordinarily seem a little risky, it at least offers a possible net gain ultimately, especially when this advantage is considered with another factor which I shall now discuss.

II. <u>Decline of exports; exhaustion of dollar exchange</u>: Canada is not the only country during 1947 which, like a passenger riding in a taxicab toward a distant destination (European recovery), nervously watching the taximeter and measuring the mounting costs against the contents of her purse, anxiously stops the cab and says, "Driver, I'll get out here, please."

Our neighbour on the South, Mexico, also stopped the ride and got out to walk in July 1947, Others did likewise.

What is the effect on the high level of industrial production in the United States? A schoolboy can answer. The highest record in exports for any month in the history of the United States was in May 1947, a total of $1,441,000,000 in goods. Exports declined after that with a slight rally in October and November largely due to loading up on merchandise

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(6) A man with $50,000 taxable income in the United States, but not over $60,000, pays a federal income tax of $26,820 plus 75% of the excess over $50,000. With $100,000 of income, but not over $150,000, a taxpayer pays $67,320 plus 89% of the excess over $100,000. With an income of $200,000 a taxpayer pays $156,820 plus 91% of the excess over $200,000. In addition, he pays taxes to the state and has little or nothing left if he is in the highest brackets. See "The Tax Barometer," Vol. 5, No.3, December 20, 1947, re Internal Revenue commissioner's "crusade" against the family-owned corporation.

(7) See "The Tax Barometer," Vol. 5, December 13, 1947.

(8) See testimony of Bernard Baruch on the Marshall plan before the Foreign Relations Committee of the Senate, January 19, 1948.

(9) See "Distribution of Profits," Sec. 102, C.C.H. pamphlet, Reg. 111, p. 17.

in your country in anticipation of slamming the door on further purchases on November 17. (10) Exports were the cream of the business. Will corporate management and individual enterprises willingly give up those outlets abroad, knowing full well that it will be a long wait for European recovery and that in the meantime competitors operating in soft-currency countries will, in due course, fill those market demands with products priced in more reasonable relationship to the pocketbooks in the consuming country to pay? Would it not be better to enter the soft-currency country where costs of production are lower than those in the United States, offering the American "know-how," spare capital, and a share of ownership with European capital?

In facing the problem frankly, cannot we see that a new pattern had already begun to emerge during the war when the sinking of ships and destruction of transportation facilities broke up the trading habits of the world and resulted in new production facilities? Were not new tanneries established when American leather could not reach its former destinations? Did not Marseilles, France, cease to be the capital of the world in the refining of peanut oil when a new refinery was established in West Africa; new ones are now contemplated in the British colonies of Uganda, Kenya and Nigeria?

Many illustrations could be given of new industries being born in what was formerly a part of the British Empire.

To keep its place in the foreign field, American industry must, in a large measure, abandon its hope of regaining lost exports and move quickly into a pattern of partnership in production in foreign lands. Many, indeed, have already done so, as I shall show later, after considering the following factors.

III. Bargains in equities: Where else in the world can an American investor, seeking a long-term investment, get so much for his money as in those European countries well known to us as traditionally industrious, thrifty and reliable, and with standards of living like our own?

For Americans in the high-income bracket, the only possible opportunity for substantial gain under the Internal Revenue law is in the field of capital gains. Since you do not have this law in Canada, I will explain in rough outline that an investment held for longer than six months, for example, in the stock of a corporation, is a "long-term investment." If it is sold at a profit, the gain is said to be a capital gain. If it is sold at a loss, this is a capital loss. The tax on the gain is limited to 25% of the gain. 75% can be retained tax-free. (11)

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(10) See monthly and quarterly "Foreign Trade of the United States," published by the Department of Commerce, and advance November summary (by Mrs. Keyserling, Special Programmes Divisions, Areas Branch, Office of International Trade). The largest year of exports in the United States was 1944, $14,500,000,-000, compared to $7,900,000,000 in 1919 after the last war and $8,200,000,000 in 1920. Of course, higher prices today account for some of the differences.

(11) Internal Revenue Code, Sec. 117(a); 472 C.C.H. para 859.

In Europe, with prospects of recovery in the next few years, are great opportunities for American investors - greater than can be found, generally speaking, among the highly-valued equities of American business.

This is subject, of course, to the hazards of taxation policy in the country involved, but let us consider these political hazards in a moment.

IV. Protection of American investments already owned: A factor not operating on the general population, but nevertheless a factor in full force and effect, is the desire to protect and revive existing investments abroad. As has already been noticed, Americans have $13,542,200,000 invested abroad, of which $4,418,300,000 are invested in Europe, as of May 31, 1943. (12)

These assets are owned by 215,000 American individuals, corporations and organizations. More than 6,000 individuals, corporations and other organizations held controlling interests in 15,210 foreign enterprises embracing manufacturing, mining and smelting, petroleum, public utilities, transportation, agriculture, trade, finance and a miscellaneous group -all of which businesses are woven into the fabric of European countries, and also into the fabric of American investment pattern. American controlling interests in these 15,210 corporations had a total book value of $7,365,000,000, or about 54% of the United States' privately-owned investments in foreign countries. The owners were located in every state and territory of the United States, with average investments of less than $10,000. (13)

Furthermore, approximately 300,000 citizens of the United States, or roughly 100,000 American families, lived in foreign countries in 1943. Large numbers had already been repatriated from Europe and Asia on the outbreak of war, reducing the normal number living abroad. Many have returned since the end of the war.

It cannot be denied that this body of citizens - call them special pleaders if you will - exerts great influence in the United States toward further investments abroad to redeem or retrench interests there. Many millions of dollars will flow through the channels of these particular interests, irrespective of adoption of the Marshall plan.

V. Readiness of European investors to join American investors in Europe: It comes with faint surprise to many Americans, living on their high plateau of economic prosperity and ample "dollar exchange," to learn that there is capital in Europe left intact and awaiting only American partnership in the reconstruction of Europe. Switzerland is on as high a plateau as we are, with booming production, and its industrial plants are in splendid condition except for a measure of

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(12) "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, page 17, et seq.

(13) "Census of American-Owned Assets in Foreign Countries," United States Treasury Department, Office of the Secretary, 1947, page 25.

obsolescence. There are hundreds of millions of francs in Switzerland seeking outlets in reconstructed European industry. To my personal knowledge, substantial companies there have been gathering data for many months regarding specific projects of reconstruction in war-torn Europe to be undertaken in partnership with American capital and technical assistance.

American companies, which are ready and willing to consider European investments but are hesitant to do so for lack of knowledge of languages and conditions in the countries where business factors dictate the advisability of opening shop, can join with interests having the "know-how" of European affairs, dividing in any proportions they wish both the capital requirements and the responsibility for management.

4. OBJECTIONS, DOUBTS AND DEMURS

If these factors are really in full force and effect, what then is stopping the flow of American private capital? It has been said a) that Europeans themselves are waiting for the United States to bail them out instead of getting down to hard work, and that they are not making a sufficient effort to remove obstacles such as customs barriers which stand in the way of trade; b) it is said that American business will not invest in Europe in fear of political uncertainties there. Why risk confiscatory taxation, nationalization policies, or possible loss of investments through exchange restrictions forbidding removal of capital or income derived therefrom? Let us consider these objections:

I. The lazy Europe bogey: There could be no more unjust calumny on our blood relations across the sea than a charge of laziness or lack of initiative in attacking the desperate plight in which the war left them.

In France, in spite of political strife, while the struggle for power teetered between the Communists and the Socialists, with the Rightists in the middle, production rose between liberation and May of 1947 from 25% of the 1938 production to 100% of the 1938 production. Ever since the war, French factories have worked longer hours and have had more men and women employed than were at work before the war - 106 for every 100 persons employed in 1938 - and this in spite of inadequate food, heat and clothing. The transportation system has been restored and is working. A start has been made toward replacing housing and modernizing plants, but production of consumer goods is inevitably below that of 1938.

Food production has been so low as to be disastrous. Only heavy imports saved France. Depleted farm lands, denuded of farm equipment by the Germans, without fertilizer for years, and unattended while the armed forces or slave labour for Germany drained France, left conditions which cannot be overcome merely by human will power. (14)

The story of Holland's recovery is one of the dramatic stories of the post-war period. As recently described in Washington, D.C., by the commercial counselor for the Netherlands Embassy, "When Holland was liberated in the spring of

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(14) See report of committee for European Recovery, Chapter 5 - France.

1945, it was stripped of practically everything which makes life possible. The food packages dropped from allied airplanes were literally lifesavers for the city population. Had the occupation lasted only a few weeks longer, mass starvation would have taken place. Factories were stripped, bridges were destroyed and transportation equipment was carried away." (15) Dikes had been destroyed by the Germans and vast areas of agricultural land were flooded.

Starting from this state of ruin, Holland has repaired her dikes, drained her land, rebuilt bombed-out bridges, relaid railroad tracks, and trains are running on schedule.

In regard to customs barriers, it is an easy thing for us to say that other countries should abolish tariff barriers, but can we forget our own history? Tampering with tariffs in the United States of America has always raised hot political issues. While wool is only a by-product of the sheep industry in the United States, the sheep men came roaring into Washington, D.C., at the mere suggestion that tariffs be lowered to permit imports of Australian wool. If anybody wants to start a first-class fight, just let him suggest a tariff reduction to admit greater importation of Argentina beef!

Europeans are human beings just like ourselves. Tariff barriers abroad have entrenched human interests behind them just as they do here, not to mention the dependence of many countries on income derived from tariffs.

Nevertheless, even while the war was still on, the governments of the Netherlands, Belgium and Luxembourg, in exile in London, attacked in advance the complex task of striking down customs barriers. This has been done.

As of January 1, 1948, a common tariff went into effect among Netherlands, Belgium and Luxembourg. The Netherlands-Belgium-Luxembourg Economic Union, commonly called "Benelux," is moving ahead to greater achievements in the elimination of all trade barriers, such as "excise duties, quota regulations and foreign exchange restrictions." (16) No magic wand waved over Europe can abolish these ancient barriers, but the way has been blazed by Benelux, and a study group is at work on the problems of all Europe.

II. Will American business act in the face of political difficulties: As to possible availability of private investments, the State Department says in its report to Congress: "As economic conditions in Europe improve and political conditions become more stable, private financing may be expected to take up an increasing percentage of that portion of the financing which can appropriately be in the form of loans. Every encouragement should be given to the early initiation of private financing." (17) This is well said, but before pointing out

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(15) Address by Dr. A.H. Philipse entitled, "Some Economic Problems of the Netherlands in the Postwar Period," is printed in the Congressional Record, January 12, 1948, page A87.

(16) Address of Dr. A.H. Philipse, supra, footnote 15.

(17) State Department report on "European Recovery Programme," December 1947, page 47.

that little encouragement is in fact given, and before considering whether private investments need be so long deferred, let us consider the extent to which American business is already on the march, under the banner of enlightened self-interest. Note the following examples:

Creamery business in Mexico: To take a case close to home, a large creamery company in San Francisco Bay, facing a decline of business upon the removal of several million men in the armed forces and their families after the war, went into the powdered-milk business, invested capitalin Mexico together with Mexican investors, and established plant facilities for properly restoring water to the powdered milk so scientifically that consumers are unable to detect the differences between the ordinary pasteurized milk and this product. Milk is delivered in bottles to homes in Mexico City as well as in San Francisco. It is safe, too. There is no chance for any tubercular cow to extend its destructive influence.

Butane gas for England and Europe: The Pacific Gas Company of New York sells tanks of liquid butane gas for individual household heat and cooking purposes. Anyone who has lived in a summer cottage, at a point remote from city utilities, knows the convenience of this transportable heat in lieu of coal. The company is making substantial shipments to England where this canned heat has been a godsend during coal shortages. Costs are low.

What a blessing it would have been if plant facilities could have been established and wide distribution accomplished this winter throughout Europe.

Plumbing fittings in Holland: As a result of war's destruction, Holland suffered a desperate lack of plumbing fitgings and the government explored the possibility of encouraging construction of a plant in Holland to supply these needs. European cartel interests declined to cooperate, so Crane and Company of Chicago was invited to participate in order to secure the necessary "know-how". Both capital and "know-how" were supplied by the American company and a thriving new industry is growing as a result. (18)

Automobile tire manufacturing plant in Holland: The Vredesteyn Rubber Company is an old and established bicycle tire manufacturer in Holland. The country needed automobile tires. The Dutch company sought an American company and together with the Goodrich tire company created the "Netherlands-American Tire Factory." Again the American company contributed both "know-how" and capital. The arrangement was made in 1946 when political conditions in Europe were darker than they are now. This is now a thriving business.

Glass; Holland: Similarly, the possible establishment of a glass manufacturing plant is under study now. Americans might apply!

Automobile service industry; Belgium: C.B. Thomas,

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(18) Capitalized for 9,000,000 guilders, Crane and Company subscribed to 1,400,000, or about 17%.

president of the Chrysler Export Corporation, (which, as one division of the Chrysler Corporation, does $110,000,000 in business a year) established the Chrysler S.A. in Belgium, servicing and repairing cars after the war. The company blossomed into a highly-successful enterprise in a limited time.

American business attitudes: C.B. Thomas, president of the Chrysler Export Corporation, with vast experience in doing business throughout the world, informed me that there are unlimited opportunities for American capital in Europe. Personal enquiries have been directed to him by those wishing to make investments in Western Europe.

Following the Socratic method, the writer interviewed the head of an association for industrial intelligence and efficiency engineering service embracing about1,200 American companies, including subsidiaries and affiliates, representing a cross-section of American industry. I was assured that there is now readiness among many members to explore projects for the extension of their business into European production.

An American tool manufacturer whose name must be omitted has completed plans for establishing a plant in Europe. Every boat carries businessmen bound for Europe bent on exploring similar possibilities.

Certain American tanneries are ready to explore the possible extension of their operations into the European field.

Many large American companies - such as the oil companies, Chrysler, Ford, General Motors, Remington Rand and others - had already recognized before the war the outlines of a new pattern of doing business abroad, and had established businesses abroad. Capital is already flowing back into those channels on a wide front. (I refrain from commenting on the delicate problems of American concerns which wrote off their European investments as losses during the excess profits years of the war and now find the properties back on their hands as potential going concerns.) Finished cars may be barred from import by limited dollar exchange, as in Mexico, but parts may be imported and manufactured, and cars assembled abroad, thus keeping the labour expenditures within the importing country.

The old concept of exporting from this country is gone forever, or permanently modified in the extreme. The best-informed businessman knows that.

Without waiting for the Marshall plant, many American companies, having their own foreign service departments (like the efficient Chrysler Corporation under K.T. Keller, president, and C.B. Thomas, head of the Chrysler Export Division,) are already at work in Western Europe and the United Kingdom.

5. THE ALL-OUT EFFORT

In spite of the mounting evidence of readiness to invest in Europe, let us frankly recognize that a formidable obstacle remains - fear of economic restrictions and political hazards confronting the investor in Europe. What, if anything, can or should the Marshall plan do to overcome these hazards and to unleash private resources in aid of European recovery?

The present proposal would give only slight aid and encouragement to private investors by authorizing the administrator to guarantee private investments for fourteen years under the following conditions:

> Amount: The amount (of such guarantee) "shall not exceed 5% of the total funds appropriated."
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> Approval: The project must be approved by the administrator and the participating country as furthering the purposes of the act.
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> The guarantee: The guarantee of the amount invested assumes no business risk, but is limited to guaranteeing the transfer to the United States of dollars received "as income," "as repayment or return" of the investment "in whole or in part," "as compensation for sale or disposition of all or any part thereof."
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> The type of project: The projects to which guarantees are extended must be those which in the absence of private financing under such guarantees would be eligible for financing in the form of loans to the participating countries from appropriated funds. (The report to Congress and not the proposed act states this as a conclusion drawn from the language of Section 7 of proposed Economic Cooperation Bill., State Department Report, pages 15 and 47.)

If a principal objective of the European Recovery Programme "is to eliminate the necessity for direct assistance by the United States Government" (19) - and it should be - then I believe that the foregoing conditions are faltering and inadequate to accomplish this objective in the following respects, for which I propose six remedies:

I. Guarantee confined to convertibility of currency; political risks: It is perfectly appropriate to confine the guarantee, as suggested by the State Department in the proposed act, to the risk of governmental restrictions abroad, namely, to the conversion of any currency into dollars in case any participating country should at some later date forbid the export of capital or impose other restrictions (even as Canada was forced to do). Investors are naturally reluctant to invest abroad unless income can be taken out of the country as an asset of the over-all operation of the American concern. The act proposes to guarantee this right and to guarantee the ability to remove capital invested, if the enterprise should be sold in whole or in part or nationalized.

The United States can go further in its guarantees to investors without any risk watever to itself. It should require as a condition to acceptance of benefits under the act by any country participating, in addition to those conditions now specified, (20) that any such country pledge itself to

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(19) State Department outline of "European Recovery Programme," page 47.

(20) See proposed Economic Cooperation Bill, State Department, December 19, 1947, Section 10(b), pages 9-10.

<u>support and carry out the terms of any private contract which may be entered into between an American investor and any national of the country where the loan is made and to make no discrimination in its tax or fiscal policies between its own citizens and those investing pursuant to the Marshall plan</u>.(21)

It must be recognized as a basic tenet of sovereignty that no government can by present contract abdicate from its power in the future to change national policy as internal needs shall dictate, until and unless guarantees from an international body extend the doctrine of collective security to the economic field, supplying currency-and-exchange support in such fluidity as to bridge the crises which breed extreme autarchical and sometimes militant nationalism. As the Federal Reserve Bank protects its member banks so some day will international cooperation protect member countries. This day is not yet!

This proposal in no way would violate the principle stated or interfere with internal policies of a participating country, because no contract for private investments would be approved by the country in question, or the administrator, until the terms of that contract were satisfactory and acceptable. This leaves a wide latitude of business initiative to the individuals involved, as in everyday business life, but in the end when the participating country does approve the contract, then it pledges itself morally and legally to respect and honour the terms of that contract. A commitment to this policy as a condition of accepting Marshall plan assistance would not only have the dignity of a treaty between nations but would clear away most of the investors' resistance.

II. <u>The five per cent limit on guarantees</u>: Assuming that the appropriation will be $6,800,000,000, this would limit private investment guarantees to $340,000,000.

The guarantee principle, properly applied, could very largely fill the void between the present minimum requirement of $6,800,000,000 and the much disputed gross amount necessary to effect recovery. There is not the slightest doubt that participating governments will absorb the $6,800,000,000 for high priority government projects and no one knows what additional sum will be required.

Then why not authorize guarantees to private investors in a separate and additional amount approximating the amount of our investment in Europe, say $4,000,000,000. Such a guarantee offers a flexible margin instead of an arbitrary statutory limit. If the guarantee is used, fine! If not used, there is no harm done.

A guarantee has the possibility of costing nothing at all, or

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(21) The Finance Minister of the Netherlands wrote a letter assuring the United States Government that this nondiscrimination policy was the policy of the government, but the letter could not constitute a binding commitment and adherence to it rests on the acknowledged moral integrity of the Dutch people and their government.

at worst costing very little if the plan succeeds and there is economic recovery in Europe. Why, then, limit guarantees to the sum of $340,000,000 as the act is now drafted? Why not give the principle full swing up to whatever limit Congress fixes over and above the $6,800,000,000 of known immediate needs, and see to what extend private investments fill the void.

Fifteen months is an inadequate time for analyzing investment projects. It sometimes takes approximately that much time to analyze a prospective enterprise of any magnitude in the United States where the circumstances are far less complex. Organizing the administration and getting under way mechanically takes time, but the desired effect in Europe accrues immediately. A minimum of three years should be allowed for these guarantees. Congress can review the situation whenever it so desires.

III. Export guarantees: As an adjunct of the administrator's office in the United States should be a system of export guarantees utilizing whatever portion of the guarantee authority the administrator finds proper to finance commercial exports. Here again Canada pioneered the way immediately after the war; such guarantees are available there as in the United Kingdom. It works - the pattern is ready for us.

IV. Confining guarantees to projects elibible for loans to participating countries from appropriated funds: It is impracticable to have private investors in effect competing with the participating countries for an allocation out of the appropriated funds. It would be too much to expect of a participating government to give due consideration to an applicant for private investment if the loan had to come out of the same funds which the government itself was eligible to receive, unless by chance the private applicant undertook a project which was high on the government's own list of essential enterprises.

It is only reasonable to assume that participating countries will concentrate much of the benefits of their loans on such essential public projects as reconstruction of ports, rebuilding damaged or destroyed utilities, repairing transportation and constructing mass housing projects, schools and hospitals. Why limit private investors to the same general category of projects as participating countries would undertake? If the object is, as it should be, to release a vast resource of private initiative and capital for energetic attack along the full length and breadth of the economic battlefront of devastated Europe, then let private industry select its projects in conjunction with private interests in countries abroad, just as Crane and Company and the Goodrich tire company have done in the Netherlands.

Individual American and European initiative should be released at every possible point with full appreciation of its volatile power.

Without excluding private enterprise from the participating government's lists of projects (a construction company might well undertake the construction of a port facility for a participating country in exchange for an assignment of future revenues from that port, in whole or in part), but the administrator should be specifically instructed to leave the widest possible latitude of choice to private investors, subject to approval of the participating country.

A separate and distinct limit should be placed upon guarantees (which require no appropriation whatsoever at the outset). It would be very wrong, indeed, to set up a reserve even of five per cent ($340,000,000) out of the funds appropriated in order to meet future possible liabilities which might never accrue (like trying to appropriate for future court of claims decisions which no one can estimate. It is never done). Why immobilize capital which ought to be actively at work in Europe.

Between the broad lines of undertaking by participating countries, here are vast areas in which industry and trade can and should operate. The revival of industry in the ways of life, characteristic of free enterprise among free people, is one of the main objectives of the whole European recovery programme.

V. Tax admustments in Internal Revenue Code: Although the subject is too complex for complete analysis here, further protection and inducements to American investors can and should be given by a provision of the Economic Cooperation Bill amending the Internal Revenue Code to a) make clear that investments in European plants would be permitted out of surplus not only for the purpose of extending the present business operations, but also to go into new and additional business enterprises, which, under the present regulation, might not be deemed to be "reasonably required by the business"; (22) b) to permit business losses, to which government guarantees would not extend, to have carry-forward or carry-back advantages: and c) to allow amortization in lieu of depreciation as in the case of war plants.

VI. Other conditions which can be reasonably imposed upon participating countries: There is now being completed at Havana, Cuba, the final draft of the charter for the International Trade Organization, hereinafter called "ITO." This charter might be roughly described as an international code of fair practice in recognition of economic mutual interdependence, just as the United States in the proposed draft of legislation recognizes the "interdependence of the United States and of Europe." A principal obstacle to American business in Europe, and a basic element of the conflict between Germany and the United States, was the cartel system whereby trade was monopolized, controlled and saddled with restrictions on competitive production of vital materials, which at the outset had a throttling effect upon the American war effort. (23)

Chapter 5 of the proposed ITO charter provides that each participating country will take appropriate action to prevent practices which restrain competition, limit access to markets, or foster momopoly, and that complaints may be made to the ITO and steps taken to remedy the evils complained of.

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(22) See discussion, supra, Section III "1", and footnotes re Section 102 of Internal Revenue Code, and pertinent regulations.

(23) As in the case of tungsten carbide, magnesium, military optical instruments and many other materials. See "The German Invasion of American Business," an address by the writer, when he was Assistant Attorney General of the United States, before the Indiana Bar Association, January 1941.

The final draft of the International Trade Organization charter will be completed in Cuba and available before the Marshall plan is enacted into law. The bill should require, in addition to conditions specified, (24) that the participating country be a member of the International Trade Organization before receiving the benefits of the act.

6. CONCLUSION

These are the practical incentives essential to an all-out effort. Can we consider anything less?

It is no longer possible for a Charles Martel to meet and defeat the barbaric hordes in the Spanish marshes, saving Christian civilization in the Western World for 1,500 years. This is not 733 A.D., this is 1948. We confront a similar conflict with an alien way of life. The battle today is between men of good will and men of ill will, but the battle line ranges along a broad front among the complex forces of modern society. The decision must be made in the minds and hearts of men, and supported with all the dynamic force and volatile initiative of freedom-loving people - the same force which a few short years ago built 50,000 planes a year when it could not be done!

Let us constantly remember that the countries to which we hold out a helping hand are the heart of Europe and the centre of civilization. Look back. The tiny area of the earth's surface of which we speak in Europe is our own mother. Christianity was nourished there. Our art, our language, our industry, our agriculture, our every impulse towards the finer development of the human mind and spirit in the long struggle away from the beast within, have sprung from the heart throbs of these tiny countries. The greatest flowering of mankind on earth has taken place as a result of what has been thought, said, and done there.

Can we in Canada and the United States, and in the Western Hemisphere, hesitate for one moment about spending the very utmost of our means, if this should be necessary, to preserve so priceless an inheritence against barbaric tyranny? Can we not see that men only abandon our free way of life and yield to tyranny when individual effort is of no avail and hopelessness and despair reign? Can we not see that our friends and blood relatives need us now and that millions more of freedom-loving men and women, already blanketed against their will under the miasmic fog of untruth and barbaric assertion of power over much of Europe, are also our potential allies in the Spanish marshes of 1948?

Let us offer public aid to friendly governments in need, and also the maximum incentive to private investors to muster the full power of individual intiative in aid of national policy. But let no man forget - not even the most hardheaded businessman considering the prospects in Europe, that this is more than a business proposition. It is an all-out contest along the entire front of human relationships to preserve our way of living. Let every man remember, no matter how

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(24) State Department draft of proposed Economic Cooperation Bill, Section 10(b), pages 9 and 10.

weary he may be from the war just concluded in defence of democracy, the simple words of an American veteran of World War I: (25)

> "Liberty is not merely something the veterans inherited. Liberty is something they fought to keep ...
>
> "People who ask us that question, 'what did it get you?'
> forget one thing. True, we fought the last war to make the world safe for democracy, and we did for a while.
>
> "The thing they forget is that liberty and freedom and democracy are so very precious that you do not fight to win them once - and then stop. Liberty and freedom and democracy are prizes awarded only to those people who fight to win them and then keep fighting eternally to hold them."

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(25) Alvin C. York at the Tomb of the Unknown Soldier in Arlington Cemetery on May 30, 1941.