

THE WORLD BANK GROUP ARCHIVES

PUBLIC DISCLOSURE AUTHORIZED

Folder Title: Public Relations - Tours By Bank Personnel - Mr. Robert Garner - Correspondence - 1948

Folder ID: 1070796

Series: Support and communications of the Office of the President and senior staff

Dates: 09/16/1947 – 09/16/1948

Fonds: Records of the Office of External Relations

ISAD Reference Code: WB IBRD/IDA EXT-04

Digitized: 04/04/2022

To cite materials from this archival folder, please follow the following format:
[Descriptive name of item], [Folder Title], Folder ID [Folder ID], ISAD(G) Reference Code [Reference Code], [Each Level Label as applicable], World Bank Group Archives, Washington, D.C., United States.

The records in this folder were created or received by The World Bank in the course of its business.

The records that were created by the staff of The World Bank are subject to the Bank's copyright.

Please refer to <http://www.worldbank.org/terms-of-use-earchives> for full copyright terms of use and disclaimers.



THE WORLD BANK

Washington, D.C.

© International Bank for Reconstruction and Development / International Development Association or

The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

PUBLIC DISCLOSURE AUTHORIZED

TOURS - GARNER - 1948



RETURN TO RECORDS CENTER
ROOM A 124
CONTAINS ONLY PRE 1966
MATERIAL

ROOM A 124

Globe-Wernicke
CINCINNATI
USA Patent No. 1484611
MADE IN U. S. A.

Archives
A1994-037 Other #: 42 183967B
Public Relations - Tours By Bank Personnel - Mr. Robert Garner - Correspondence -
1948

DECLASSIFIED
WBG Archives

847

THIS FILE IS CLOSED AS OF

SEPTEMBER 16, 1948

FOR FURTHER CORRESPONDENCE SEE:

TOURS 1949

RECORDS CENTER



THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

Equal Files
Clack
Rosch

Xref slip in Germany 104

Frankfurt, September 16, 1948

Mr. R. L. Garner,
Vice President,
International Bank for Reconstruction and Development,
Washington 6, D. C.

Dear Bob:

As I mentioned in my recent letter to you I am sending you a number of publications. There is a mass of material available, my only question is whether you would consider it desirable to build up a file. You could easily get more literature than one man could read if he were going to do anything besides reading.

I am sending you a series of reports by the Price Analysis Section of the Commerce Branch of the Commerce and Industry Group of the Bipartite Control Office. This series is entitled Price and Market Developments and is especially devoted to the effects of currency reform. I am also sending you the paper by Gottlieb, which I mentioned in my previous letter and a series of six papers in German which parallels the Commerce and Industry Group studies above mentioned. The German papers are issued by the "Verwaltung fuer Wirtschaft" and I think will continue to be issued at least until the novelty wears off.

RF 350 /
No

RF 102

I also bring to your attention the following:

Aussenhandel, a bi-weekly review in magazine form of German foreign trade, produced by the VFW. This runs to 30 or 40 pages. It costs 4.50 Deutsche Marks per month and may be subscribed for by addressing: Verwaltung fuer Wirtschaft, Frankfurt am Main, Hoechst.

Copy Enclosed
RF 240

Background Letter, publication of the Control Commission Germany (the British OMGUS) prepared by the British Information Services Division, 63 H.Q., CCG (BE), B.A.O.R. 3. This is a small leaflet perhaps not technical enough for your purposes.

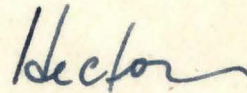
You are no doubt familiar with the regular OMGUS publications, Monthly Report of the Military Governor, statistical reports, etc. There is also what is called Weekly Information Bulletin, a publication with a blue cover, known as the magazine of the U.S. Government in Germany, which provides lighter reading than the OMGUS publications.

The Bipartite organizations in Frankfurt all turn out periodical mimeographed reports. BICO has press releases and each one of its divisions, which are called groups, issues reports usually of a more standard type than the special price and market developments papers which I am sending. The Commerce and Industry group puts out a weekly

report summarizing production and similar information, the Transport group does the same and also the Finance group and the Food and Agriculture group. A good deal, if not most of this material is not classified.

JEIA has its own publications, some of them are: JEIA Monthly Reports which are freely circulated, JEIA Press Releases which are available to everyone and summarize German newspaper comment on the trade situation. OMCUS, BICO and JEIA can all be addressed directly or through the Department of the Army.

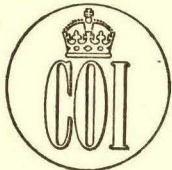
Yours sincerely,



H. Prud'homme

HP:bm

European Tour
Hoar
Ex.



CENTRAL OFFICE OF INFORMATION
LOMBARD HOUSE, GREAT CHARLES STREET, BIRMINGHAM, 3

Telephone: CENTral 7234-9

Telegrams: CENTROFORM, BIRMINGHAM

Your reference

8th September, 1948.

DC/HJ.

Dear Mr. Garner,

It was most kind of you to write to me and I do appreciate very much the kind sentiments you express. It was a very real pleasure to receive you in this Region and to have the opportunity of showing you something of the day to day activities here.

I shall be grateful if you will convey my sincere regards to Mr. Hoar.

Yours sincerely

(DOUGLAS CRANSTON)
Chief Regional Officer.

R. L. Garner, Esq.,
Vice-President,
International Bank for Reconstruction & Development,
WASHINGTON D.C.
U.S.A.

RECEIVED
INTERNATIONAL BANK FOR
RECONST. AND DEVEL.

SEP 23 8 49 AM 1948

SEP 23 1948



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D. C.



**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

WASHINGTON 25, D. C.

August 17, 1948

Mr. John J. McCloy
St. Hubert's Post Office
Keene Valley
Essex County
New York

Dear Jack:

I am enclosing copy of a letter received from Martin Rosen. I believe that our view on this matter is eventually going to be proved correct.

I saw Paul Hoffman on the golf course Sunday morning and told him I had some information I thought would be of interest to him and he said he would be glad to get it. I sent over to him an extract of this letter without disclosing the author but telling him that he is both reliable and well informed and asked that he consider it entirely confidential and not to attribute the source to the Bank.

We had a full dress discussion with Hoffman and his group on Friday, at which they agreed that there might well be a number of cases in which our loans should be subordinated to theirs. They are unwilling, however, to make any general agreement to this effect but want to consider each case as it arises. They finally understood our point of view that it is not sufficient from our purposes to wait until an emergency may arise wherein a country cannot service their loans and ours, and seemed to be prepared to agree in advance to subordination in any case provided we consider it an essential condition to our making a loan.

Chester is now working with their attorneys on a clause to be inserted in their loan contracts which would put them in position to make such an agreement with us.

They reiterate that they feel it necessary to get NAC support for any such subordination. We have revised the memorandum drafted by Chester, laying out the arguments, and after reviewing it Wayne Taylor called yesterday and said that he thinks it is excellent. It is our thinking that we should discuss this individually with members of the NAC preparatory to the question coming before them in connection with any specific loan. Unless you have a contrary opinion we will work along this line on the assumption that a specific question will not arise in the next few weeks.

We also discussed Belgium and the French Potash loan and Hoffman's attitude in general is that, subject to examination of each particular case, he will favor our financing whatever is acceptable to us. We have supplied him with a list of all projects under consideration in ECA countries and, at his request, we are having his men who are handling loans over for lunch on Thursday. I hope that we can

button this up tightly enough so that they will not take any action before we have had a chance to thrash matters out with them.

I saw Bob Lovett on Saturday morning and discussed a number of matters but the results were not very satisfactory as he had his mind chiefly on his Russian troubles. Specifically on timber, he was inclined to think the State Department would not take a position until the Berlin situation clarifies, which he thought might be around the middle of September. I explained that we were very anxious to fish or cut bait. He laid the chief difficulty on getting export licenses and I tried to point out to him that this would probably be dependent on the State Department's attitude. It seems almost impossible to get anybody to take a firm position. The question of export licenses is now before the Commerce Department committee and Hooker is following up on this. He told me this morning that he believes the prospects are dim. We will keep pushing to try to get some conclusion on this matter.

We just finished the Directors' Meeting. In accordance with arrangements we had worked out with Baranski he made a very measured statement. After discussion of various aspects of the report the only firm objection that crystallized was on the reference to market attitude concerning loans to Eastern Europe. We finally agreed to transpose it from this part of the report referring to Eastern Europe only and put it on page 2. With this concession the Directors seemed quite happy and gave their approval subject to minor changes and refinements in line with their action last year.

We had received your comments and with slight changes incorporated your paragraph concerning the importance of ERP, together with your other suggestions.

We have decided to make the closing date August 31 which will enable us to be definitive regarding Austria's application and perhaps the Chilean loan. In Staff Meeting we debated the question of sending the report to the Governors in advance and I finally decided against it. Bringing it up to date as of August 31 will, in fact, make this impossible.

Sincerely,

Bob

*Hope you are enjoying yourself.
My best to the family*

Mr. John L. Cook

August 12, 1948

Patrick Acheson

Mr. Garner's tour of Western Europe

I thought you might be interested in the following experiences which I had with the American Express Company on my recent trip with Mr. Garner to Europe.

1. Brussels

I found that, for our Switzerland-Italy journey, the American Express Company had got for us reservations on a train leaving Basle for Milan at noon on June 14. As we were supposed to attend a luncheon in Basle on that day, it was impossible for us to catch this train. While the Brussels office could not change these reservations, they undertook to write to the Basle office and ask them to do so.

(See para. 3 below)

2. The Hague

The Hague office of the American Express Company would not honor the coupon for our air tickets from Amsterdam to Basle. I was informed that this could only be done by their Amsterdam office. Consequently, Mr. Tchihatchef, of the Bank's office in The Hague, had to make six telephone calls to Amsterdam before he was able to get the Amsterdam office of the American Express Company to send our tickets from Amsterdam to The Hague. The tickets were finally sent to us by registered mail and arrived only shortly before our departure.

3. Basle

We arrived in Basle on Saturday afternoon, June 12, after the American Express Company's office had closed. I was, therefore,

FILE -2- COPY

unable to get in touch with them until Monday morning. I then discovered that they had received no word from their Brussels office asking them to change our reservations. As there are only two first-class compartments on the train from Basle to Milan, we were indeed fortunate, at ~~this~~^{that} late hour, to be able to secure one of them. I need not point out to you how embarrassing this might have proved had not a compartment been available.

I asked about our intended flight from Rome to Paris by Air France on June 21. They told me that they doubted whether there was such a flight, ~~but~~ they could give me no definite information on this but told me to get in touch with their Milan office upon my arrival there.

4. Milan

Upon my arrival in Milan, I went to the American Express Company's office to inquire about the flight mentioned in the paragraph above. They informed me that they knew nothing definite about it and I would have to find out from their Rome office. Fortunately, when we got to Rome, we found that there was such a flight and that our tickets were in order.

5. Paris

The American Express Company was supposed to have four first-class sleepers for us on the train ferry from Paris to London on the night of June 28. The Company, however, had got for us two first-class sleepers and two second-class sleepers. I noticed on the tickets that they had been bought on May 19, which meant that the Company had had a good five weeks' notice

of our intended travel. They told me that they were allotted only so many berths on this train and they had, therefore, made no further effort to get us the accommodations that we desired. Mr. Tyler told me that if he had had ^{one}~~two~~ weeks' notice, he could have got us four first-class sleepers without any difficulty.

As a result of my conversations with Mr. Tyler and Mr. Tchihatchef, I got the very definite impression that they would far prefer to make the reservations themselves in the first instance, rather than to have to tidy-up at the last moment the mess made by the American Express Company. They have contacts who, on very short notice, can obtain air, train and hotel reservations in most parts of Western Europe. The American Express Company does not seem to be particularly interested in seeing that one gets exactly the reservations one wants and certainly does not appear to make any very great effort to do so.

PA:mmr

Garnet Treasury
European
8/7/88.

Dear Drew,

Enclosed are the press cuttings I promised you in an earlier note.

The Provincial tour went very well, and I was sorry to miss the last day. Food poisoning kept me out of it.

Mr. Garner made an excellent impression wherever he went. I hope he was equally impressed with what he saw!

Yours,
George

Mr. Alderwell
"Secret" - to be
returned to Mr.
Cruz de Joseph
after you have
read the attached
material from
Mr. Garner.

DECLASSIFIED

MAR 18 2022

WBG ARCHIVES

Ysh

FROM - 1. Office of the President

2. Office of the Vice President

Date 7/23/48

TO-		Name	Room No.
1		Mr. Creva de Longh	
2			
3			
4			

FOR-

	Action		Initialing
	Approval		Preparing Reply
	Comment		Previous Papers
	Filing		Noting and Returning
	Full Report		Recommendation
	Information		Signature

REMARKS

DECLASSIFIED*MUR*

MAR 18 2022

WBG ARCHIVES

MAR 18 2022

WESTERN EUROPE*Mr. Cress de Longh*

July 21, 1948

Tours - RLG.
48

The East-West political division in Europe is of course a factor of major importance. There is a certain amount of substantial opinion that this division, if maintained, will prevent any sustained recovery. However, the division exists and the prospects of Western Europe must be appraised on the basis of things as they are.

Whatever may be the economic importance of the division, there is no question that Western Europe is shadowed by a depressing fear of war. On the Continent it seems to be assumed that war would mean a quick sweep of Russia to the Atlantic. In the absence of hope for preventing this, there will be a widespread sense of dread and futility.

Aside from this threat of war, there seems to be fairly general agreement that the three most critical problems are those of Great Britain, France and Germany. Unless progress can be made in moving towards a solution of the fundamental difficulties in these three countries, general recovery cannot be expected.

In all of the countries which we visited, outside of Germany, we were impressed with the noteworthy accomplishments in reconstruction and in production. However, the output of coal, particularly in Great Britain and the Ruhr, remains disappointing, and the shortage of coking coal is a serious handicap, limiting steel production and extending its effects to many other industries.

Excellent progress has been made in restoring transport, and we saw encouraging examples in every country of first rate operations in industry. Plants have either been modernized or are in the process of modernization; alert and in many cases, surprisingly young management is driving hard to get the maximum production and to reduce costs. The importance of these examples should be considered against the fact that the general average of industrial plants is obsolete in varying degree and that much of management remains old fashioned. However, there appears to be a growing consciousness of the need for greater efficiency on the part of management as well as a continuance of the general trend of greater productivity by labor.

The attitude of labor is of primary importance and it is doubtful, particularly in Great Britain, where there is practically no unemployment, whether the workers yet realize that U. S. aid stands between them and severe depression of their conditions of life. Thus the importance of using the next four years to achieve a real advance towards economic and financial stability, with all that that implies in budgetary economies and increased productive effort, is somewhat clouded. It is urgently necessary to do everything possible to make this situation understood but it may be that only the pinch of adversity will secure that understanding. It may be that disinflation in Great Britain will need to be pressed until there is appreciable unemployment; whether a Labor Government will be able to press it to that extent is questioned in many quarters.

Probably the single most encouraging fact in Europe is the promise of a greatly improved harvest which, combined with equally good prospects in other parts of the world, gives promise of increased supplies of foodstuffs and hopes of lower world food prices. For most continental countries a reduction in the volume and value of their food imports should improve substantially their balance of payments. As concerns Great Britain, the main benefit of better crops will be from lower prices provided, of course, prices of manufactured goods do not decline equally.

Offsetting the improvement in productivity is the disturbing extent to which trade is being handicapped. Costs and consequent internal prices of goods almost everywhere are very high compared to the purchasing power of the majority of the people. Trade between the various European countries is being handicapped to an even greater extent. Endless restrictions prevent the movement of goods or people, and goods urgently needed in one country are piling up in another. Moreover, with the exception of Belgian and Swiss francs, no European country accepts willingly any other European currency and to a considerable extent the dollar shortage is accentuated by the low state of European trade. On the other hand, resistance to accepting payment for exports in any other medium than dollars, or raw materials or other primary products, is preventing normal and essential trade in secondary goods. Bilateral trade agreements, attempts to work out clearing schemes, and possibilities of exchange adjustments represent only partial solutions to the essential increase of inter-European trade.

The universal complaint of the dollar shortage is obscuring what may be the even more important shortage in almost every country of existing local capital and the great decrease in the volume of current savings. The major requirements for continuing reconstruction, modernization of productive facilities and the development of new facilities appear to require a high proportion of local investment capital as contrasted to dollars. In addition to possibilities of stimulating local savings, the counterpart of ECA funds will provide some supply of internal capital, but in most countries the amount of funds to be available appears to be inadequate for urgent needs. Furthermore, in certain countries it will be essential to use substantial amounts of these funds to counteract inflationary pressures rather than for capital purposes.

It seems, therefore, a sound conclusion that vital though ECA aid is to European recovery, it alone cannot free the trade of Europe nor meet the basic lack of local investment capital. Furthermore, the requirements in the ECA act that up to a billion dollars (less a maximum of \$300 millions for guarantees of private investments) can only be advanced in the form of loans raises serious questions. Although certain smaller countries may be considered creditworthy, it seems doubtful whether Great Britain, France, Italy and Germany should have put upon them any substantial additional debt load. Aside from the questionable policy of creating loans of doubtful character, any substantial addition to the external debt of Europe through ECA, unless clearly subordinated, will be a deterrent to loans from the International Bank and from private sources.

It is difficult to avoid the conclusion that the prospects are dim for the recovery of the old pre-war Europe. In our opinion, solid hopes must be built on some basically new concepts, in order to remove some of Europe's fundamental weaknesses and provide new sources of strength.

We have tried to appraise the basic assets and liabilities of Europe, as well as to consider some of the potential elements of strength which might be developed.

In the first place, the division of Western Europe into relatively small economic and political units is its major handicap. To us, the most significant and hopeful impression gained on the Continent is the widespread realization of this fact and the conviction in many quarters of the urgent necessity for some form of union. No one underestimates the difficulties and many people see no early prospect of overcoming them. On the other hand, we found many leaders in government and business who seem convinced that the European countries must get together or sink together.

In summary, the basic reasons for this conviction appear to be as follows:

1. Only through closer association can Europe provide a large and diversified free market which will permit development and expansion of trade in accord with economic considerations. This is essential to permit in each part of the area concentration on activities for which it is particularly fitted and an industrial specialisation which can take advantage of modern techniques and methods in production and trade.
2. Such union would permit the movement of peoples from areas of overpopulation to those where manpower is needed. Perhaps this would be merely a preliminary step in a long term migration of a surplus population from Western Europe as a whole to some of the undeveloped areas of the world.
3. It would provide for pooling of military strength, with the hope that the United States would supply modern armaments. This would seem to be essential if, within the next few years, Western Europe is to have a fighting chance for protecting itself against military invasion from the East.
4. It would provide a positive program to challenge the imagination and effort of the peoples of Europe to create a better economic life, with financial and political stability, and to overcome the sources of weakness which expose them to the dangers of war.

As offsetting the support of union which we found on the Continent, there is no such general opinion in Great Britain. Under the leadership of Mr. Churchill there is some strong individual support but in general we gained the impression that up to now the British are quite cool towards throwing in their lot with the Continent. This seems to be based on the memories of centuries of independence with regard to Continental affairs, on the desire to remain immune from political instability on the Continent and on the problem of reconciling union with the Continental countries with their relations to the Commonwealth. One can only raise, and not answer, the question as to whether Continental countries can proceed towards federation without Great Britain or whether the latter may decide to join in and assert the leadership which would probably be accorded to her.

Most of the advocates of union on the Continent emphasized to us that it could only come about backed by tactful but strong and continuous pressure from America, particularly through ECA. Although we emphasize that a fairly early crystallization of the objectives of federation (or some equivalent) and persistent steps towards its accomplishment, is the basic hope for Europe, there are a number of corollary fundamentals.

First might come some generally acceptable solution of the German problem, continuation of the present faint signs of German recovery and the inclusion of Germany as an accepted member state of Western Europe.

Perhaps next in importance is the development of new sources of food and raw materials and of markets for European manufacturers. The Colonial and other areas of Africa might well become a new frontier for Western Europe. Potentialities there seem to be strongly recognized both in Great Britain and France.

Another essential would seem to be the rebirth of a spirit of enterprise and competition in Europe. Our impression is that although state control of such things as transport and power and a fairly advanced theory of social benefits is generally accepted, there is a growing opposition to the socialization of such industries as steel. If our belief is correct that in Great Britain there is a slow turn against the present government, we would guess that private enterprise will steadily gain in favor. The productivity of America under its system of relatively competitive capitalism is exercising its influence. At least some Europeans appear to be getting a better understanding of the importance of competition as they see the deadening effect of state monopolies. To what extent they will accept the corollary that competition means bankruptcy of the weak and inefficient in industry only time will tell.

And finally, the basic trade policy of the United States will be of major importance to Europe. Will America permit European goods to compete in its markets? The present hesitancy on the part of many Europeans to seek outlets in this market is based partly on the fear that to the extent that they succeed in developing sales in America they merely lay themselves open to future restrictions.

DECL ASSIFIED

MAR 18 2022

July 21, 1948

SECRET

WBG ARCHIVES BELGIUM

Belgium was fortunate in that apart from some severe, but localized, damage in Antwerp and the Liege basin, the war passed lightly over the industrial machine. The Belgians were therefore able to bring their powerful productive apparatus into action very quickly after the liberation in the most favorable conditions of a seller's market. In order to increase the effectiveness of this basically favorable situation, they took drastic action to deal with the inflationary legacy of the occupation and were willing to take the risks of a free economy. The results have so far been extremely gratifying and the Belgians may be forgiven for being a little self-righteous about their achievements.

The general situation is characterized by the individual Belgian's energy, enterprise, and capacity and willingness to work hard. Industrial management and technique are good.

The workers are accustomed to hard work and to earning substantial rewards in cash, which can be turned into goods, for that work. Substantial social benefits are also a feature of their standard of living.

There is an undercurrent of anxiety about the future as Belgian exports (mainly textiles) are beginning to encounter sales resistance. Primarily, that resistance arises from currency difficulties but the influence of high prices is having an increasing effect.

For a while currency difficulties were met by credits extended by Belgium to Europe. They are not being repaid and the government is not inclined to increase them. Belgium's debtors (mainly U.K., Holland and France) feel that this attitude is too negative and that in its present favorable position the country should grant new credits, and for this purpose have a budget surplus which would erase their inflationary effects.

High prices in Belgium arise both from high production costs and from high profits. There is no sign of any material change in economic or financial policy to meet this problem of prices. Some of the people to whom we talked considered that it would be possible to compress production costs somewhat, but more generally reliance was placed upon production costs in other countries catching up to the Belgian level. We believe that as the buyer's market gains in strength the Belgians will have to give serious attention to reducing costs and prices.

For the time being at any rate, the Congo does not seem to be the source of income to Belgium which it is generally supposed to be. We were told that profits are being plowed back and that the demands of the colony for capital equipment and consumption goods mean that it contributes a net outflow, rather than income, of dollars.

We found no eagerness to press ahead for the effective implementation for the Benelux Union. We gained the impression that the Belgians feel themselves at the moment to be in a stronger position than the Dutch and are tending to back away from tying themselves closely to a weaker partner. Apart from M. Spaak, whom we did not see, the political leadership seems to be mediocre.

Our general conclusion is that, almost alone in the European scene, Belgium is for the time being situated in an extremely favorable position which could contribute materially to the restoration of economic stability in Europe. Perhaps the very fact that they are doing so well at the moment makes it difficult for them to take the long range and broader view. Many Belgians (Frere in particular) are keenly aware of the fragile character of their country's prosperity and agree that a windfall cannot last forever.

DECLASIFIED

SECRET

MAR 18 2022

July 22, 1948

WBG ARCHIVES HOLLAND

The general aspect of Holland is deceptive in that the clearance of war damage and the degree of reconstruction are apt to conceal the extent to which the country suffered during the war. The reconstruction effort has been devoted not only to the means of production and transport but to the restoration of high standards of convenience and outward appearances in all the aspects of domestic and economic life. Bombed sites are cleared and tidy; houses have been repaired or rebuilt with high standards of decoration; roads and railways have been brought a long way towards their pre-war standards; factories have been rebuilt in advanced design and equipped with modern and highly efficient machinery. In their anxiety to get their country back into the condition in which they would like to see it, the Dutch are apt to exaggerate their needs and one is tempted to criticize them for being perfectionists in their approach to these things. Nevertheless, there is no doubt that it is under such conditions of good order and pleasant aspect that the Dutch work their best.

The people are orderly, disciplined and industrious. Because of these good qualities the deficits which the reconstructive effort has entailed are likely to be less dangerous than in other countries where there is less stability. It is our conclusion that the Dutch will steadily move towards the restoration of equilibrium in their public finances and to the removal of controls which might hamper the full employment of their productive potential. The removal of food subsidies and price controls will, of course, mean higher prices and probably lead to pressure for higher wages.

Our impression from the industrial plants we visited is of enterprise and alertness for progress. Relations between management and labor seem to be extraordinarily good.

The general situation is, for the time being, clouded by the very serious difficulties arising from the low ebb of trade with Germany and the deterioration of the Netherlands East Indies from a rich asset into no inconsiderable liability. Holland's future is clearly bound up with the degree to which a satisfactory solution can be found to these difficulties. In the meantime, they are leading the Dutch to positive pressure for the effective organization of the Benelux Union and for action towards wider union still. We understand confidentially that in their discussions with the Belgians the suggestion was made that substantial credits would be needed in addition to ECA aid to enable them to make necessary adjustments.

There is good solid political leadership without brilliance.

Our general conclusion is that, so far as those problems are concerned which lie within the power of the Dutch to deal with themselves, they will do well, but that the future of their country is largely in the hands of forces outside their control and the outlook therefore remains uncertain.

MAR 18 2022

SECRET

WBG ARCHIVES

July 22, 1948

I T A L Y

The whole Italian scene is overcast by the over-population problem; nearly all other problems spring from or end up in this. There are probably 5-10 million people in Italy at this moment beyond the country's capacity to support them at a reasonable standard of living, and this surplus is being added to at the rate of nearly half million a year. It is hoped that emigration can do something to alleviate the pressure. The Italians are hard working and psychologically good emigrants, but the candidates for emigration are largely untrained and unskilled. In any case, no program of emigration can hope to solve an over-population problem of such magnitude. Nevertheless, we found little inclination to face the need for a cut in the birth rate, though there were some hints that the Church is becoming more flexible in its attitude towards birth control.

Meanwhile, there is a serious unemployment problem, and a large proportion of the population live in conditions of great poverty.

The Italian reconstructive effort has been remarkable and in some measure is due to local initiative in defiance of regulations and controls.

Industrial management is mixed. We saw some excellent plants and others which are remarkably poor. Regulations, enacted before liberation, which prevent the discharge of surplus workers, handicap many plants with large numbers of idle hands. This is demoralizing for the other workers and, of course, increases production costs. De Gasperi and Lombardo, among others, recognize clearly the need to free industry from this burden -- in spite of the difficulty inherent in the already existing unemployment.

The present crisis in Italy is notably due to temporary currency difficulties and costs. In fact, the country is a net creditor on current accounts which hints that exchange rates are at present rather fair. But fundamental readjustments are involved regarding important branches of industry (steel and even some mechanical industries) which were developed on the basis of autarchy and protection.

We formed serious doubts as to the wisdom of developing Italian production of basic steel since Italy produces neither iron ore nor coal, and the necessary labor force for steel is very small in proportion to the capital investment involved. We met important people, both in government and in industry, who share this view.

Italy's only important natural resource is water power, and there are possibilities of a good deal of further profitable hydroelectric development. Such development would not only assist the power situation but provide the possibility of further development of the land, through irrigation, in central and south Italy.

The difficulty about all agricultural and industrial development as well as the pressing need for housing is the acute shortage of capital. The Italians are pathetically looking to the lira counterpart of ERP aid, but at the best it can provide only a small proportion of the many needs. Thus, substantial improvement must be very slow and at long range.

On the political scene there is divided opinion as to whether the recent election results represent a lasting victory. Our feeling is that the Communist influence is still quite strong. There are obvious political dangers in the persistence of unemployment, and the solutions talked about (more industrialization, intensification of agriculture, housing development and emigration) cannot hope to solve the main problem completely. It seems to us that the most that the Italians can hope to do is to improvise partial solutions to keep the lid from blowing off pending stabilization or reduction of their population.

Because of their great need for outlets for trade and population, the Italians have a keen realization of the benefits of wider European integration. In their case they particularly look to France for a solution of some of their problems.

DECLASSIFIED

SECRET

MAR 18 2022

July 22, 1948

WBG ARCHIVES

G R E A T B R I T A I N

The difficulties of analyzing the British position arise in part from the deterioration in her material strength as a world power and the center of a great empire.

The present difficult conditions are the culmination of a long adverse trend which has been brought to the point of crisis by the losses and costs of two world wars and the unhappy period between them.

Great Britain's position as one of the great creditor nations has now been changed into that of a heavy debtor; her ability to support military and naval power is greatly impaired; her control in some important colonial areas has been considerably weakened with consequent loss of important trading advantages. Although in a number of industries production is above pre-war, a considerable amount of her productive equipment is obsolete and her operating and administering methods not modernized. In the presence of these inherent difficulties she is attempting to revolutionize her social structure, which involves shorter hours of work and social benefits to the masses at the cost of heavy taxation which is a burdensome charge on production. Until recently the monetary policy has been strongly inflationary. There is widespread scepticism as to the ability of Cripps to maintain his efforts to curtail inflation when they actually result in unemployment.

As an inevitable accompaniment of the Labor Government's program of control and socialization, an immense administrative machinery has been built up. This is absorbing out of production and trade large numbers of personnel, and also slows down productive activity and dampens initiative and enterprise. There appears to be a growing opposition to those policies and even in some governmental circles a lack of enthusiasm for them.

On the favorable side, moreover, one is impressed with the maintenance of orderly government and general public discipline, and the innate faith of the people in themselves and in their country. There still remains the great assets of solid character and integrity, long experience and organizing ability. Furthermore, even a short visit enabled us to see examples of first class industrial enterprise with young aggressive managements, conscious of the need for greater productivity and lower costs, with modern equipment and up to date operating methods. These examples indicate potentialities of imagination, energy and boldness on which England's strength was built up in the past and which was again evidenced during World War II.

However, the magnitude of the task of developing exports to a level which will support a decent standard of living would seem to call for drastically new concepts of productivity, costs and trade. As one talks to a cross section of Englishmen there appears to be a lack of full realization of what drastic changes may be necessary for England to pay for what it needs to buy. I think this is true even among the leaders in business as well as in public life, and there is every indication that the workman has no conception of the nature of this crisis. It appears improbable that the facts can be made clear to the people in general terms nor that at the present time the leaders of England are particularly receptive to advice from outside. The opinion that things must get worse before they improve, that realities will only be borne home in the form

of severe individual hardships which will accompany even lower rations and unemployment, is prevalent among most of the people with whom we talked outside of the Ministries and the trade unions.

Even a full facing up to the facts will not automatically solve the problem, and assuming a maximum of effort and sacrifice, the accomplishment of the balance in their external payments will still be most difficult. Expansion of coal production to pre-war levels or above would appear to be the single most valuable development.

The recovery of the U. K. would seem to be intimately dependent upon recovery of the other countries in Western Europe as well as a general expansion of world trade. Although at the present time England is probably more cool towards European Federation than most of the Western Continental countries, it appears to be as vital to the U. K. as to any of the others. In fact, a high degree of British leadership may be essential if Federation is to result. The problem of reconciling the relations of the U. K. with the Continent and with the Commonwealth presents, of course, a problem of particular delicacy.

DECLASSIFIED

MAR 18 2022

SECRET

WBG ARCHIVES

July 22, 1948

FRANCE

Our predominant impression of France is one of deep-seated uneasiness and uncertainty. The frustrations and futilities of the inter-war period, the 1940 debacle, and the German occupation have cut deep into French national life. The result is a most difficult psychology and overall lack of confidence.

There are good men at the helm. Schuman and Mayer impressed us with their clear thinking, farsightedness, courage, and determination. Nevertheless, while the business men with whom we talked realize that the Schuman Government is their best bet and that there are no good alternatives, they do not warm to it; there is respect but no enthusiasm. Consequently, there is no political stability as yet and this confusing and disappointing situation seems characteristic of the whole French scene.

The struggle against inflation will be particularly severe over the next two months until the harvest comes in. The rise in food prices has not been stopped entirely although it has slowed down materially and wage demands remain strong. The general consumption level, however, has increased, the crop prospects are still good in spite of recent poor weather, and it is hoped that the unions will not be able to launch any wholesale concerted action as they did last year. Even without this, somewhat higher prices and wage levels must be anticipated.

Another factor making for higher price levels would be a new foreign exchange reform. In spite of its devaluation last January, France is a debtor to all European countries and it would be in line with the Mayer policy to adjust European currency rates to the dollar rate. No hint was made that such action might be contemplated but it would be a logical move.

The Government will be faced with very great difficulty in maintaining the budgetary balance of the first six months of this year. Mayer will have a hard struggle to cut expenditures and raise revenue to the necessary extent.

From a long range point of view there is an element of hope in what Mayer is trying to do with taxation and budgetary reform, but equally there is skepticism as to whether he can carry his reforms through and in any case the benefits will not quickly materialize. The great saving middle class is being pressed very hard. The farmers have become the most prosperous class and they are not used either to paying taxes nor to investing their savings. The Government payroll remains heavy, both on civil and military account. (We encountered some strong expressions of opinion (a) that France cannot afford heavy military expenditures while she is struggling to get on her feet and (b) that the present army is not an effective fighting force).

One must not overlook the basic strength in France's agricultural potential, the possession of important raw materials both at home and in the colonies, and in some good elements of industry. Some of the industrial management was impressive and in many of the plants we saw hard and effective work on the part of labor. The industrial machine is, however, suffering from shortage of coke and a consequent shortage of steel. The reconstruction of the railways is impressive.

Politically, the extreme left is on the whole still very strong in the councils of labor.

Somehow or other it is essential for the French to regain faith in themselves and to produce a strong government commanding national confidence. The importance of this cannot be overemphasized. General Robertson stressed that Western Europe will never be stable and strong so long as France is weak.

DECLASSIFIED

SECRET

MAR 18 2022

July 22, 1948

WBG ARCHIVES

GERMANY

The war destruction in Germany was tremendous and the work of clearance has hardly begun. The worst city in this regard which we visited was Cologne, where many of the streets are still blocked with debris. Nevertheless, quite remarkable efforts have been expended in restoring the railway network, clearing the canals and recommencing industrial production, sometimes under the most adverse conditions.

The population is not starving nor absolutely destitute but the strain of city life under cramped living and working conditions, and with inadequate and monotonous food, shows itself particularly in forms of work demanding heavy expenditure of physical energy.

There is no impression of active resentment against the British and American occupation and certainly not of any tendency to revolt. A number of Germans to whom we talked said that the Anglo-American occupation did not press hard upon them though they thought that many of its procedures were cumbersome and unnecessary. Apparently, the Germans in the Western zones are well aware of conditions in the Soviet zone and consider them very bad. Of course, every aspect of hardship and every economic difficulty is exploited by the Communist element in favor of the Soviet system and this has obvious implications for general Anglo-American policy.

The Germans complained that the French were unreasonably stripping their zone both of capital equipment and current produce. We were unable to visit the French Zone and therefore cannot comment upon this criticism. It is worth remarking, however, that many of the Germans persistently endeavor to pin all blame for their troubles on someone else, while, either deliberately or by negligence, failing to make the most of their opportunities for recovery.

General Robertson, whose personal qualities impressed us very much, stressed the basic importance of the problem of seeing that the Germans are mobilized in spirit on the Western side rather than on the Eastern side. If the Western Allies are wise this seems possible, because the main sentiment is undoubtedly inclined westward. The crucial point will be to see that the Germans provide themselves with decent leadership, and we were inclined to agree with the opinion expressed in some allied quarters that there might be a need for some man to produce that leadership rather than a body of politicians. From a neutral source the interesting suggestion came of re-establishing the monarchy, with Lord Mountbatten as a candidate providing a combination of German ancestry (Battenberg), a glamorous figure and a strong-minded man with a good military record. The present German political scene is one of extreme immaturity, this being due partly to absolute deficiency due to lack of experience and partly to relative deficiency due to the fact that the first-class men are not coming forward. The continuance of the denazification process is a bar to getting really able Germans back into circulation, both in Government and industry, and it should be brought to an end quickly.

We were impressed with the need for an early settlement of the Ruhr problem, both as to its control as an area and with regard to the ownership of industry. This is a key problem both because of the value of the Ruhr to Germany and to Europe for production and because of its latent danger as a producer of war potential. Our general feeling is that there is need to control the Ruhr from

its war aspects and that, with that accomplished, it will be the best policy to work towards freeing the rest of Germany to go ahead under its own direction.

At the moment, the German economy is reduced to a pretty primitive level; indeed, almost to that of barter. It is a basic fact, of course, that an occupied country does not produce very well. Nevertheless, we were surprised at the degree of productive equipment that remains available and we had a sense of an economy that, with comparatively little encouragement, could break through its difficulties and start moving forward once more.

To gear up the working of the economic machine it seems to us necessary, as a short-term end, to contrive

- (a) to get more food, and a greater variety of food, to the German population;
- (b) to stimulate the production of coal.

With regard to the production of coal we formed the impression that the introduction into the industry of a comparatively modest quantity of steel (which is becoming available in Belgium and Italy) would result in an appreciable increase of production both for export and internal consumption.

As regards full utilization of the German productive capacity, we feel there is considerable question as to the practical value to the receiving countries of much of the equipment now being dismantled for reparations. In any event the plant in question will be out of action for a considerable time and consumes meanwhile important quantities of labor and transport capacity. Furthermore, it gives the Germans one more alibi for falling below the productive effort required of them.

Above all we feel the need for some relaxation of the present trade policies which require German exports to be paid for in dollars which are expendable only for capital equipment or food of the highest caloric value, and the removal of the barbed wire fence which at present prevents people from moving in and out of Germany. A battle is at present being fought between the group around General Clay in Berlin who hold rigid concepts on these matters and those who advocate more liberal policies, especially John Logan, head of the Joint Export Import Agency. There is some indication that the latter are gradually winning the battle but it is important that positive action for liberalizing trade be pushed forward rapidly.

Our visit took place before the currency reform and we were very conscious of the anxiety with which it was awaited. There was general agreement as to the necessity of trying to establish a sound currency. The difficulties in the way of maintaining its stability are very great and it is not possible to predict at this time what is the likelihood of success.

OFFICE MEMORANDUM

TO: Mr. Drew Dudley

DATE: July 20, 1948

FROM: Ralph Forster

SUBJECT: Program of tour in the United Kingdom of Mr. Garner's party.

I am returning the above as Stanley Hoar informed me that a complete diary had been kept of the tour mentioning the most important contacts made. When you see the diary, may I have a look at it so I can extract from it the names and addresses of those who should be added to our mailing list.

RF

Recon-European Town

FILE COPY

July 14, 1948

Dear George:

Mr. Garner, as you know, arrived in New York this morning on the Queen Elizabeth and will be returning to his office at the Bank on Friday, the 16th. I know that he will have good news of you and all you have done to make his visit in England such a success. May I thank you for all your efforts in his behalf. I consider that Mr. Garner was very fortunate in having you as his guide and I am sure that the press activity was particularly effective under your aegis. The reports which you sent in were widely publicized throughout the Bank and I am awaiting with interest the specific clippings from the British press.

I hope that when the Chancellor comes to the Governors' Meeting of the Bank and the Fund in September, which, as you know, is to be held in Washington, you may be coming with him.

Many thanks again for all you have done.

Sincerely,

DD

Drew Dudley
Director of Public Relations

one

Mr. George Young
Assistant to the Chancellor
of the Exchequer
Economic Information Unit
Treasury Chambers
Great George Street
Whitehall, London
England

OFFICE MEMORANDUM

Garner

TO: Drew Dudley
FROM: Ralph Forster
SUBJECT: George Young's Report

DATE: July 14, 1948

Your friend Young's idea has done an excellent job. I note that even the "Daily Worker" was represented at Mr. Garner's Press Conference.

At your convenience if you would let me have the "Program of Tour" arranged by the Central Office of Information, I would like to check it with Stanley Hoar with a view to adding some of the key names to the Mailing List.

RF

Given to RF 7/15/48

ame

Treasury
2nd July, '48

Dear Drew,

Please pardon this scribble, but I thought you would like an interim report. Mr. Garner and Party have seen Cripps, Bevin, Wilson, Creech-Jones. On the Banking side, he has seen Catto, Cobbold, and several others. In Industry he has met the President of the FBT, the Chairman of Vickers, Lever of Steel Co. of Wales, and several others.

I fixed a broadcast with the BBC. Garner has recorded it for broadcast this evening. This morning we held our first Press Conference, and the attendance was

as on the attached lists. The
parcel of Questions & Answers, etc,
was all distributed at the Conference.
I am supplying Barnes with a set
of cuttings on the conference, and
have asked a Press Cuttings Agency
to cover it for you. Acheson says
he thinks you will not mind footing
the bill. I also enclose herewith
a copy of the Provincial programme.
Rist & Acheson are abstaining, and
Hoar is going to S. Wales on the
Tuesday, so Barnes and I will
cover Manchester and Liverpool
by ourselves. And so we go.
Sorry no time for a more detailed
account. Speed is the essence, n'icht?

Yours, George,
ps. There will be no charge
for the cuttings. G.

NAME

PAPER

2/7/48

Marsin

C.B. Kivoch

Jane H. Lowmire

Jammworth

A.B. Thomas

? Baresan

H.H. Duck

H. H. Duck

H. H. Duck

C. F. Adams

J. B. Burt

J. H. Gray - H. C. W. W. W.

C. F. Lupton

R. H. Fry

L. J. Pether

Telegraphs

West. Press. Prov. News.

Baltimore Sun

Bankers' Magazine.

Daily Express.

The Economist.

Stock Exchange Gazette

The Times.

London Chronicle

Yorkshire Post.

Daily Herald.

Sheffield Telegraph

Liverpool Post.

New York Journal

San Francisco Times

NAME. 2/7/48.

THIRD

Miss Robertson

Berkeley

Miss Koeps

DPD

Alan White

Exchange Telegraph

Francis

Press Association

Norman Green

Sunday Times

John Heffernan

City Press

J. Wetz

A.E.P.

June Bainbridge

Reuters

S.A. Cochran

Glasgow Herald

J. S. Gilmer

Agence France Press

G. E. Egan

My Times

R. H. H. H.

Artel

Edwards

Evening Standard

NAME

PAPER

Wm Dady

Days Bank Review.

W. Jenkins

Kensley

Sam Russell

Daily Worker

J. H. Lees

Daily News. G.

Wm. D. Farnis

Berry Republican

Douglas Haig

Ripool Post

W. H. Marfalar

St. Helens - 1st



WHITEHALL 1234

ECONOMIC INFORMATION UNIT

**TREASURY CHAMBERS,
GREAT GEORGE STREET,
S.W.1**

24/6/48.

Dear Drew,

This is a personal note to let you know that I have been asked to act as guide to Garner and party during the whole of their stay here from June 29th to July 8th. We are doing our best to see that the visit is worthwhile, and the programme includes the following:

Interviews with Chancellor, Bevin, Harold Wilson, etc. Lunch with Cripps, and the Governor of the Bank of England. Tour of British industry, including Birmingham, Manchester, Liverpool, coal mine, etc., and various gatherings with industrialists in the provinces. Tour of bombed areas and Shakespeare country.

Accommodation has been booked at Claridges, and we are all set to have Press Conferences. I thought you would like to know that things are well under control.

No sign of your friends the Fitzgeralds or McElroys. They were probably too rushed.

*Kindest regards,
Yours,
George*

Tours - b. P.

OFFICE MEMORANDUM

TO: Mr. D. Crena de Iongh

DATE: July 9, 1948

FROM: H. R. Slusser

SUBJECT: Notes taken from Mr. Garner's diary of his visit in Germany last month

The comments which follow have been taken from the diary kept by Mr. Garner during his visit in Germany June 1 to 8, 1948. They are based on the interviews reported in the diary and they cover all of the topics to which repeated reference was made.

Administration by Occupation Authorities.

It appeared that British occupation authorities are doing their work more smoothly and at the same time more understandingly and competently than the U.S. authorities seemed to do. A capable German official (Dr. Reuter, of the Demag works at Duisburg) felt that the British control did not press upon him in any restrictive way, yet the British estimate of the rate of production was sufficiently thorough to take full account of the possibility of concealed activities. At a British Regional Control Office in the Land Nord Rhein Westfalen, an information room had been established where a series of graphs, charts, pictures and exhibits set forth the situation of the various aspects of the life of the Land, while members of the staff added a very clear exposition in general terms. The only reference to competence on the part of U.S. authorities was in the UK/US Coal Control Commission near Essen, where it was noted that the joint team seemed to work together with perfect cooperation and considerable efficiency. It seemed in general that the U.S. authorities had made rather less preparation for receiving and assisting the Bank mission than had the British officials.

Reconstruction.

Impressions of the extent of physical reconstruction since the war varied. At the port of Duisburg a large number of rusted and damaged barges, sunk by the Germans during the war, had been raised and were awaiting towing to Holland and elsewhere for repair. A large number of similar barges had already been towed away, and many remained to be raised. Surface works of the Salzer-Amalie coal mine at Essen had been largely reconstructed, but the neighboring Krupp works were "four square miles of incredible devastation," though their locomotive shop contained a number of Reichsbahn locomotives under repair. At Oberhausen, the equipment in a steel mill was deteriorating rapidly because holes in roof and walls had not yet been repaired. The I.G. Farben works at Leverkusen was short of power because part of the electrical generating capacity destroyed by bombing had not yet been replaced. In the Demag works at Duisburg, workmen suffered from lack of light due to the very slow replacement of glass broken during the war. A machine shop at Duesseldorf-Ober Kassel that had escaped bomb damage was a model of tidiness. The sheer mass of the destruction in Cologne was indescribable.

Production -

Food

Crops were reported much better than last year, despite some trouble with the potato bug. Cattle population was intentionally below the prewar level to save feed. A British official thought that increased supplies of fertilizer rather than farm machinery would ensure greater food production since farms were small.

Coal

Coal production is, of course, one step in the series of mutual bottlenecks to increased production. The mines lack steel for keeping equipment in operating condition, while steel mills and cement plants are limited by the amount of coal they can obtain. Railroads, lacking steel for repairs and construction, are not capable of handling all the coal that is mined, so that trucks must be used for hauling coal, and still the stock piles at the mines are growing. In a general discussion of coal problems with the UK/US Coal Control Commission at Essen, the members of the Bank mission confirmed their previous impressions that "the most important single thing to do to assist German industrial production to gain momentum would be to inject a substantial quantity of steel into the coal industry." It seemed also that the dismantling program was depriving the mines of a certain amount of equipment at a critical period.

Other reasons for the failure of coal production to grow were thought to be low price (an increase from 15 to 25 marks a ton in 1948 was the first since 1932), lack of young men in the mining force, low labor efficiency, and the absence of any real incentive to work harder. It was suggested that young men might be obtained for the mines by bringing home the prisoners of war from the Belgian and French mines, where the nature of the coal deposit rendered impossible as much production as the same men could effect in the Ruhr mines. There was also attention to the fact that high-grade coal from the Ruhr mines was exported while lower grades of coal were imported from the U.K. and Poland.

Decartelization.

The problem of coal production seemed to be directly related to the question of decartelization. A German official at Essen pointed out the disadvantages of separating coal activities from the steel or chemical plants they had supplied formerly, mentioning that under the former arrangement coal mining had yielded no profit, but had allowed a greater profit on the finished steel or chemical products. Two German trades unionists of the Ruhr offered the same opinion, while admitting that there were cases where separation could be accomplished. Each case must be decided on its merits, they felt. Brigadier Noel, Regional Economic Officer for Nord Rhein Westfalen, explained that British policy had not accepted the principle of decartelization until forced to do so by four-power pressure, but was now complying fully, while the U.S. had altered its policy. General Clay indicated, at another time, that U.S. policy opposed further splitting up, in opposition to the current British policy. There was evidence of this lack of coordination on some other subjects, as is noted in later paragraphs.

Labor Efficiency.

All industry suffers from the low efficiency of labor. Too few of the workers are young men able to perform the heavier tasks. In the Ruhr mines, the average age of workers is 45, where before the war it was 38; at a cement factory in Hesse the average age was 46, and there were few 20- or 30-year-old workers; at Demag the same condition existed. Everywhere the efficiency of labor decreased as the physical heaviness of the work increased. Certain incentives which might have offset the condition to some extent were impossible to provide. Housing was inadequate, food not what it might be, old-age pensions to miners were in default for the second time in a generation, pay was useless if stores were empty, and planned incentive schemes did more harm than good.

Incentives.

Incentives for greater productivity on the part of labor fall into ~~two~~^{two} separate classes. There have been several incentive schemes where some scarce consumers' goods, such as food or clothing or tobacco, was given as a sort of prize for unusually high production. These schemes have been short-lived, it seems, and the increases in production have disappeared as soon as the prizes were stopped. Moreover, each scheme covered only one industry, causing great resentment among workers in neighboring industries. Nobody expressed himself as favoring this type of incentive.

By contrast, the idea of more consumer goods in the stores as an incentive to harder work was certainly favored by German leaders and by British officials from General Robertson on down. A recent shipment of lemons from Italy was frequently recalled. The Saar was pointed out as a place where obtainable goods and the money to buy them had been effective in increasing productivity. Only Lawrence Wilkinson, Economic Advisor to General Clay, opposed the idea of providing incentives for German labor. He saw no possibility of paying for the incentives out of German production, and did not wish to see the United States pay the cost of incentives to reward German workers.

Currency Reform.

Very often the discussion of incentives in the broad sense turned to the expected currency reform. Quite generally it was felt that a sound currency would be the best incentive possible for labor. The currency would be sound, however, only if the shops were immediately stocked with goods that had thitherto been unobtainable. A local Minister of Economics expected the shops to offer their goods only after a period of judging the permanence of the new currency; others only hoped the goods would appear promptly.* (*Today's news includes an account of well-stocked stores and Germans on a spending spree. NYT July 7, 1948)

A German banker deplored the fact that the details of the reform had been worked out by a mortgage banker and some university

* means
foot note

professors, without assistance from commercial bankers. He hoped for great flexibility in the state banking system to get through the reform period. General Clay's financial advisor expected the reform to occur before harvest time in order to offer a good currency to the farmer for his crops. British officers foresaw serious difficulties with the Soviet authorities as soon as the currency reform should be effected. Each of them, General Robertson included, claimed that firmness would eventually save the situation, and that the end result would be good. Stability in prices and budgets might come slowly, but certainly by 1949.

Foreign Trade.

Occupation authorities forbid the export of German products against any currency except dollars, and allow the dollars to be used only for raw materials and capital equipment for German industry. Whatever its origin, the policy seemed now to be most strongly supported by General Clay and his financial and economic advisors, who opposed the use of exchange for food and other consumer goods. At one time General Clay was said to have made a promise to that effect to the U.S. Congress. There were indications, however, that Clay had been released from the promise, yet continued the policy it had begun.

A wish for more latitude in the conduct of Germany's foreign trade was expressed by German, British and U.S. spokesmen. German objections were general resentment at having to accept outside control of their affairs, but there was also objection to the current rigidity on the part of John Logan, U.S. Head of the Joint Export Import Agency, and of Prud'homme, General Clay's political advisor. British authorities had specific reasons for desiring easier policies. The British Head of the Bipartite Control Office and some others saw it as a possible means of providing incentives to German labor; elsewhere there was the feeling that the present policy would lead to a diminution of trade and activity to the detriment not only of Germany but of all the rest of Europe. For either reason, it was desirable that exports be allowed against currencies that would buy needed consumer goods, or even in direct barter for "articles of secondary importance."

Barter was vehemently opposed by the U.S. officials, with the explanation that their instructions from Washington completely excluded the practice. No reason was offered for the insistence on dollar return, and on "practical" imports, beyond Wilkinson's statement that consumer goods could be admitted only at irrecoverable cost to the United States.

As evidence that the rigid trade policy was indeed restrictive, it was noted that the Demag works could make many sales of heavy equipment for foreign exchange if only dollars were not insisted upon, and that a cement works which could have exported every ton it produced held no future orders because its customers could not find dollars for payment. The situation is made still worse by a provision of the Potsdam Agreement which prohibits the movement of German barges outside the country, thus forcing German importers to pay freight in dollars.

Financial Control.

The same rigidity that was deplored in the conduct of foreign trade was affecting the domestic financial problems of budgets and high taxes. The strict policies were attributed to the same source, but less importance was assigned to the consequences.

Dismantling.

The men responsible for coal production felt that the dismantling program was causing direct damage to their efforts by depriving them of badly needed equipment. They were accused of exaggeration by other occupation officials, who insisted that the equipment actually removed was not of serious damage and that it was only a part of the excess productive capacity in the country. They admitted other strong arguments against the practice at this time, however, recognizing that the manpower used in dismantling could certainly be used more productively elsewhere, and acknowledging the bad psychological effect of the program at a critical time in the country's economic recovery. Nevertheless the instructions from home governments had not changed, and until they did change, the program would be continued. In response to a direct inquiry, a British official cited specific cases of dismantling and of exemption from it to prove that competition with British industries was not the primary factor in selecting plants to be removed.

German leaders.

The members of the Bank mission were distinctly disappointed in the quality of the Germans they found in positions of leadership. The members of the German Cabinet of Nord Rhein Westfalen, for example, were an evasive lot, with no program for increasing production, no direct answers to questions, and nothing to say that did not amount to whining about their condition. In other places there were accounts of German mismanagement of programs for manufacturing ^{binder, twine and} spray for potato plants (both from imported raw materials), and of poor German estimates of food requirements which eventually forced the occupying powers to import additional food to keep civil peace.

By contrast there were many individuals who made very satisfactory impressions. Two trades unionists in the Ruhr seemed to be good solid men who avoided extreme statements; Dr. Reuter of the Demag works appeared alert, energetic, and intelligent; and Schirner of the coal Directorate pleased the Bank representatives by his conduct.

One explanation offered for the lack of capable German leaders was in the vulnerability of the men who did come forward. As in the case of Reusch, personal enemies could do him damage that would last for ten or twenty years, simply by denouncing him to the denazification offices. To avoid this, men of ability were willing to wait several years, if necessary, until denazification had ended and malcontents had not their present destructive power.

HRS/mct

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

July 8, 1948

*James
Lynch*

Dear Drsw:

Mr. Sarnsr made a recording for
The BBC last Friday, July 2. The
announcer said the substance of Para. 1.
in introducing Mr. Sarnsr. As a result, they
cut out the first paragraph of the talk, so
that Mr. Sarnsr began with the 2nd paragraph.
The last paragraph was cut out - presumably
for lack of time.

See you next week

Sincerely yours,
Patrick Achen

Drsw Dudley, Esq.

BBC BROADCAST

July 2, 1948

*Harvard
Europe*

[With three associates from the International Bank for Reconstruction and Development, I arrived in London on Tuesday after six weeks of travel on the Continent -- through Belgium, Holland, the Bizone of Germany, Italy and France. We have been talking with leaders in Government, industry, banking and labor and seeing as much as possible of the industrial activity in these countries. In London we have had the opportunity to consult with many of your leading people, and next week we shall visit a variety of works in your great industrial centers, such as Birmingham, Manchester and Wales.]

I might remind you that the International Bank for Reconstruction and Development -- sometimes called the World Bank -- is a cooperative organization in which the United Kingdom and forty-five other nations have joined to assist in supplying materials and equipment for reconstruction in Europe and for the development of useful industries in the less developed countries of the world.

Copy

// As we have travelled, we have been impressed with how much has been accomplished in repairing the heavy physical destruction of the war. London looks much improved from my previous visit twenty months ago. Paris in the spring-time is again a beautiful and lively city. More important, railways, ports and factories have been repaired or rebuilt. Particularly noteworthy has been the accomplishment in France, Holland and Italy in getting back into operation railway

systems which were fearfully damaged. Thousands of totally destroyed bridges have been rebuilt; damaged and destroyed tracks relaid and, despite the shortage and bad condition of much of the rolling stock, a greater volume of traffic is now being handled than before the war. Factories which were masses of rubble are again in production; and in them men and women are busy turning out steel and ships and textiles and the countless other goods needed everywhere. From early morning until darkness one sees farmers cultivating the fields which promise an abundant harvest. Additional aid from America under the Marshall Plan is beginning to flow.

All of this is good; but in honesty and frankness I have to question whether it is enough to ensure sustained and lasting recovery. At every turn we have been impressed with the fact that recovery in each country depends on recovery in all, and that trade between them must flow in increasing volume.

However, despite the gains of the past three years, the trade of every country is hampered by countless restrictions. The money of one country cannot be exchanged for the goods of another, and the movement of goods and of people is barred at every national border. Badly needed British machinery cannot be purchased on the Continent. French steel production is suffering from lack of British and German coal; timber to rebuild British houses is lacking because the Scandinavian countries cannot buy sufficient supplies from the Continent.

What is the solution to this critical problem? I can only say that as I have talked to people in every country which we have visited, I have found a strong conviction that the only solution is in greater unity within Europe. Many say that customs unions will help, but that they alone are not sufficient. I have been surprised to find how widespread and strong is the conviction that for the countries of Western Europe, including the United Kingdom, the only real hope of prosperity lies in the separate countries getting together, call it federation or whatever you will.

As an observer from across the Atlantic -- and may I say that I am not speaking as an American but as the Vice President of an international organization -- the amount of support for such a combination is the most significant development which I have observed in Europe. The difficulties are admittedly great. Some see these difficulties and say that they cannot be overcome. But the fact is that we have found many men in England and on the Continent who insist that the need is so urgent that the difficulties must be faced and the objective attained.

[This at least is beyond dispute -- to a greater extent than ever before, Englishmen, Frenchmen, Americans, Belgians, Italians, Dutchmen are sitting down together and frankly accepting the fact that many vital problems of national interest can only be solved in partnership with their neighbors.]

What is the solution to this critical problem? I can only say that as I have talked to people in every country which we have visited, I have found a strong conviction that the only solution is in greater unity within Europe. Many say that customs unions will help, but that they alone are not sufficient. I have been surprised to find how widespread and strong is the conviction that for the countries of Western Europe, including the United Kingdom, the only real hope of prosperity lies in the separate countries getting together, call it federation or whatever you will.

As an observer from across the Atlantic -- and may I say that I am not speaking as an American but as the Vice President of an international organization -- the amount of support for such a combination is the most significant development which I have observed in Europe. The difficulties are admittedly great. Some see these difficulties and say that they cannot be overcome. But the fact is that we have found many men in England and on the Continent who insist that the need is so urgent that the difficulties must be faced and the objective attained.

This at least is beyond dispute -- to a greater extent than ever before, Englishmen, Frenchmen, Americans, Belgians, Italians, Dutchmen are sitting down together and frankly accepting the fact that many vital problems of national interest can only be solved in partnership with their neighbors.

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

JUL 12 9 08 AM 1948

Garner Tour in 1949

MEMORANDUM

Tours Vice Pres.
European 148
x U.K. Col. Dev.

Of Meeting at the Colonial Office with Sir Sidney Caine, Under Secretary, W. Gorell Barnes, Under Secretary, and Kenneth Robinson, Assistant Secretary, at 4:00 P.M. on Wednesday, June 30, 1948

Mr. Rist

Sir Sidney Caine, who is shortly going over to the Treasury, asked Mr. Barnes to explain to Mr. Garner and myself the British position.

1. Colonial Office Reactions after Gorell Barnes' Conversations in Washington.

The rate of interest appears generally high in view of the 1% commission. Paying a premium as high as 1-1 $\frac{1}{2}$ % would only appear justified if the equipment desired could be delivered from the dollar area in a much shorter time than from the U.K.

Another difficulty is that in most cases the amount of expenditure in local currency involved by any project as well as the amount payable in sterling in the U.K. represent together, say, 80-90% of the total project, leaving only 10-20% to be financed in dollars. The question therefore arose whether complete specific projects should be submitted to the Bank for financing or whether the Bank would consider financing, say, all the equipment to be purchased in dollars for one particular colony over a period even if this equipment concerns various unrelated projects. For instance, East Africa must import each year several million dollars of agricultural equipment from the Western Hemisphere, such equipment to be either sold to individual operators or leased by cooperatives. Would such an operation fall within the scope of the Bank?

Mr. Garner said that just that type of financing had been accepted for Chile. Mr. Barnes then asked whether past purchases could be covered in the same way. Mr. Garner indicated that in the case of Chile this had not been done.

2. Bodies which might be interested in Borrowing from the Bank

Upon his return from the U.S., Mr. Gorell Barnes had cabled all the Colonial authorities about the conclusion of his conversations. Most of the Colonies had indicated that they were not interested because they were not hard pressed for financing or because they expected to finance themselves on cheaper terms in London. However, the following expressed interest:

Nigeria
Tangyaniks
Sierra Leone (a railroad project)

and possibly:

Cyprus
Guiana (a rice project).

On the other hand, the Overseas Food Corporation and the Colonial Development Corporation continue to show interest in the IBRD financing possibilities. Of their plans, which might involve in the end over \$50 million each, only small fractions were ready.

They would presumably not concern just one colonial territory but several. It was expected that at the time Craig Martin and Schmidt came through London some details could be given to them on the matter. They would probably concern only small items.

3. Cooperation with Other Colonial Powers

Besides the technical conferences involving two or more Colonial Powers in Africa which have taken place over the last two years and have concerned health, erosion, locusts, labor problems, etc., some more important meetings have taken place in London and Paris, especially since the beginning of 1948, the idea being to prevent harmful duplications between the development projects of the various Powers and to set up, whenever necessary, common projects which would serve the needs of several powers. Such projects are not very numerous. Up till now, they include only:

- (a) Extension of the Sierra Leone railroad to the French border to serve the needs of the French territories.
- (b) Provision of manpower from Nigeria to French Gabon for forestry purposes. A treaty is about to be signed.
- (c) A joint Franco-British mission is shortly leaving for the Chad region to study the possibility of erecting a common canning factory to serve the needs of British and French territories in the area where cattle is abundant but export is almost impossible in view of transportation difficulties.
- (d) A study is under way on the problem of linking the East African and South African territories with the coast in agreement with or through the Portuguese Colonies.

In addition to such technical and concrete conversations, meetings on policy matters are taking place and on July 9 in Brussels a conference will meet including representatives of British, French and Belgian Colonial Offices.

4. Foreign Investment

On the question whether efforts were being made to attract into the Crown Colonies foreign investment, the answer was that in a few weeks the Colonial Secretary, Mr. Creech-Jones, was to make a statement to the House on precisely this point. He would probably take the line that no discrimination was the rule. The officials of the Colonial Office felt, however, that in effect

certain administrative regulations might act as a bar against some foreign investment. In West Africa, the land belongs to the natives and cannot be sold which debars anyone from buying plants. (This broad statement seems to require some further investigation, and it is not clear whether the natives mean the Government or the individual indigenees.) In most colonies import licenses, building permits, town planning regulations, etc., may well act as a brake on foreign initiative. Such administrative problems, however, might be more discouraging for small than for big business, the latter usually having means and staff at its disposal to overcome them.

At a later meeting, the Colonial Secretary told us that he personally was in favor of nondiscrimination; while at still another meeting, Sir Stafford Cripps had told Mr. Garner that private interests generally, whether British or other, would not be desired to take more than minority interests in the new colonial schemes.

Contrary to what the French had told us, the British did not mention the possible effects of the Bilateral Agreement upon investment in the Colonies.

* * *

Mr. Gorell Barnes mentioned incidentally that the British and French Colonial Offices had prepared some commodity studies in common. It would be interesting to be able to have such studies made available to us.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

JUN 28 REC'D

INCOMING WIRE

Date of Wire JUNE 28, 1948
 To ILIFF
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
 WASHINGTON, D.C.
 From PARIS, FRANCE

TEXT: RETURNED FROM LYONS TODAY AND FOUND YOUR BAKER ONE.
 CONTENTS NOTED LEAVE FOR GENEVE NIGHT TRAIN. GARNER
 WANTS ME ENGLAND WITH HIM SO STAY GENEVA COMPRESSED TWO
 DAYS. SHOULD SUFFICIE. CONVERSATIONS HERE APPEAR REVIAL REVEAL (?)
 LITTLE ENTHUSIASM WESTERN POWERS EXCEPTIONAL MEASURES FOR
 MORE TIMBER. WILL TRY TO GET AT FACTS AND GIVE ASSISTANCE
 WITHOUT COMMITMENT WHERE APPROPRIATE. REGARDS.

HOAR

ROUTING:

ACTION copy to

INFORMATION copy to

Decoded by

~~Mr. Iliff~~

N. N. Cloz

10

W.T.

28/vi.

ORIGINAL

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

JUN 28 1948

INCOMING WIRE

Date of Wire

JUNE 28, 1948

To

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

From

PARIS, FRANCE

TEXT:

RETURNED FROM LYONS TODAY AND FOUND YOUR BAKER ONE.
 CONTENTS NOTED LEAVE FOR GENEVE NIGHT TRAIN. GARNER
 WANTS ME ENGLAND WITH HIM SO STAY GENEVA COMPRESSED TWO
 DAYS. SHOULD SUFFICE. CONVERSATIONS HERE APPEAR REVIVAL
 LITTLE ENTHUSIASM WESTERN POWERS EXCEPTIONAL MEASURES FOR
 MORE TIMBER. WILL TRY TO GET AT FACTS AND GIVE ASSISTANCE
 WITHOUT COMMITMENT WHERE APPROPRIATE. REGARDS.

HOAR

(?) REVEAL

ORIGINAL

RECEIVED
 INTERNATIONAL BANK FOR
 RECONSTRUCTION AND DEVEL.

JUN 28 9 31 AM 1948

Mr. Hill

ROUTING:

ACTION copy to

INFORMATION copy to

Decoded by

W. J. Hill

Recon - European Tour

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: June 16, 1948

To: Mr. Robert L. Garner
c/o Mr. Forte
Banca d'Italia
Sede di Milano
Milan, Italy

CLASS OF SERVICE DESIRED			
URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input checked="" type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT: FOR YOUR INFORMATION ALONE WE ARE CABLING CHAIRMAN BOARD OF GOVERNORS FOR AUTHORITY TO INVITE AUBOIN TO ATTEND ANNUAL MEETING OF BANK IN RETURN FOR COURTESY OF YOUR INVITATION TO BIS. HOPE TO HAVE IT IN FEW DAYS. THIS ACTION NECESSARY UNDER CHARTER.

McCLOY

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

JUN 16 11 12 AM 1948

AND DEVELOPMENT
FOR RECONSTRUCTION

AUTHORIZED BY: McCloy
NAME: McCloy
DEPT.: Same

JUN 16 11 55 AM 1948

CLEARED BY:

INTERNATIONAL BANK

DUPLICATE

** Filed - Gov. Board 3 Meeting
Liaison - R. L. S.*

20

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE DESIRED	
<input type="checkbox"/> URGENT	<input type="checkbox"/> DEFERRED
<input type="checkbox"/> FULL RATE	<input checked="" type="checkbox"/> NIGHT LETTER
<input type="checkbox"/> DAY LETTER	<input type="checkbox"/> CODE RATE

Date: June 16, 1948

To: Mr. Robert L. Garner
 c/o Mr. Forte
 Banca d'Italia
 Sede di Milano
 Milan, Italy

TEXT: FOR YOUR INFORMATION ALONE WE ARE CARLING CHAIRMAN BOARD OF GOVERNORS FOR
 AUTHORITY TO INVITE AUBOIN TO ATTEND ANNUAL MEETING OF BANK IN RETURN FOR
 COURTESY OF YOUR INVITATION TO BIS. HOPE TO HAVE IT IN FEW DAYS. THIS
 ACTION NECESSARY UNDER CHARTER.

McGLOY

RECEIVED
 INTERNATIONAL BANK FOR
 RECONST. AND DEVEL.
 JUN 16 11 15 AM 1948

FOR RECONSTRUCTION
 AND DEVELOPMENT

CLEARED BY:

JUN 16 11 22 AM 1948
mt

AUTHORIZED BY: McGLOY

NAME: McGLOY

DEPT. Same
 INTERNATIONAL BANK

DUPLICATE

1 aw
 * Title - Robert L. Garner
 Robert L. Garner

JUN 17 REC'D

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Schweizerhof
Basle
Switzerland

June 13, 1948

*Copy for Rumsfeld
sent 6/18/48*

Mr. John J. McCloy, President
International Bank for Reconstruction
and Development
Washington 25, D. C., U.S.A.

Dear Jack:

Having completed a busy and interesting stay in the Ruhr, the Dutch Government sent a plane down to Cologne for us and we had a good look at Holland from the air. In the following three days, we talked to a large number of people, visited the Port of Rotterdam and inspected the Phillips factories at Eindhoven and the steel works at IJmuiden.

The Dutch are moving with great energy and determination to restore their country and I believe that they will accomplish what is within their power. The two critical problems for them are Germany and the Indies. There is general and, I believe, sincere support for Benelux in Holland which is quite in contrast to the coolness towards it in Belgium.

I am enclosing a letter from Lieftinck, the Finance Minister, which I am sure will be as pleasing to you as it is to me. I believe that he is thoroughly sincere in his desire to work with us both in the sale of bonds and in making available credits out of the Dutch subscription. I am sending a copy of this letter to Gene Black so that he will be informed when he arrives at the Hague.

*Ret'd to Mr. Warner's
by 7/28/48
m.s.*

We are having an opportunity to talk to the people who are here for the B.I.S. meeting and leave Monday afternoon for Milan.

Sincerely,

Bob
R. L. Garner

5

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Hotel des Indes
The Hague

June 9, 1948

W. A. B. Iliff, Esq.
Loan Director
International Bank for
Reconstruction & Development
Washington 25, D. C., U.S.A.

Dear Bill:

Our trip is proving to be most interesting and I believe that we are getting a considerable amount of useful information and impressions. We have just come out of Germany and I have written a letter to Jack McCloy giving our impressions. Your British compatriots put on a fine show for us and were most pleasant as well as cooperative.

We flew up last night from Cologne and found quite a lot of memoranda, bulletins and other mail which I have been reading. However, I do not find any reports regarding Staff Loan meetings which I had rather expected, particularly as to our procedure regarding the Philippines and Peru. I told the President of our differences of opinion and the agreement that this matter was to be thoroughly discussed by the Staff Loan Committee with him. I think this matter is of the utmost importance and, if it has not been thrashed out, I urge that it be done without delay. I should be most interested in receiving some advice.

We are going at a fast pace but everyone continues to stand up under the pressure.

With all good wishes,

Sincerely,



R. L. Garner

FILE COPY

18 June 1948

R.L. Garner, Esq.,
c/o International Bank
77 Avenue des Champs Elysees
Paris, France

Dear Bob:

I have been away from Washington for almost a fortnight on a rather protracted visit to the Northwest where I was talking to the Pacific Coast Bankers and also to the Board of Trade in Vancouver. I dropped in at Chicago on my way out to talk to the Bankers of the State of Illinois.

This is the first opportunity I have had either to bring myself up-to-date on recent happenings within the Loan Department and to answer your letter of 9th June which was waiting for me.

I did not arrange to send you on Staff Loan Committee papers as I did not wish to clutter you up with a lot of dull stuff. Arrangements were, however, made - and I hope they have worked - to send to Hoar copies of the weekly report of Loan Department operations. I hope that these have kept all of you reasonably in touch with movements in the Loan Department.

As regards the Philippines and Peru, these questions have not again been discussed in Staff Loan Committee since the meeting over which you presided before you left for Europe. Conversations have, however, taken place between the President and myself and the Bank attitude has been formulated in accordance with the views which you yourself expressed. I think in the end there was really very little, if anything at all, between you and me.

The President has written to Elizalde and I enclose a copy of his letter and also a copy of a record of a discussion which took place between Elizalde on the one hand and Consolo and Beecroft on the other, when the President's letter was handed over to the Philippine Ambassador. This will bring you up-to-date so far as the Philippines are concerned.

With regard to Peru there has been a complete clean-out of the present Cabinet of Admirals and Generals. None of the old lot remains, except the President himself. We have not yet heard what Government is to take the place of the displaced militarists. The President has, therefore, felt that the present is not an opportune moment to communicate with the Peruvians. The obligation which he entered into in Lima was a personal obligation to the Admiral who was then Minister of Finance. The Admiral is no longer Minister of Finance and the President does not, therefore, think that it is incumbent on him to write

FILE COPY

-2-

R.L. Garner Esq.,
Paris, France

18 June 1948

at all. We are, therefore, waiting until the situation has clarified before we decide what communication should be made to the Peruvians and to whom.

I have just heard from the President to-day the good news of the possibilities of a bond issue both in Holland and Belgium. If you can pull this off it will be an excellent thing for the Bank.

I am glad to hear that you are enjoying your trip and I hope you will not find it too exhausting. If my British compatriots treated you in London as well as your American compatriots treated me on the Pacific coast, then they treated you very well indeed. So far as my experience was concerned the hospitality extended to me deserves only one epithet - namely, oceanic.

You will at least have the chance of a short rest on the ocean trip back to America, but perhaps that, too, is only a vain hope.

With kind regards,

Yours sincerely,

W.A.B. Iliff
Loan Director.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

Vice Pres.
JUN 11 REC'D

York House
Dusseldorf
Germany

June 7, 1948

Mr. John J. McCloy, President
International Bank for Recon-
struction and Development
Washington 25, D. C., U. S. A.

Dear Jack:

We have had an interesting week here in Germany and, I believe, have been able to get a grasp of the basic conditions and problems. During our three days in Frankfurt, we saw Generals Clay, Robertson and Adcock and most of the important people on both the American and British sides. We talked to some German industrialists. We drove to Dusseldorf on Friday and have a full schedule. We spent a day with the Coal Control Commission, both U.S., U.K. and Germans, and inspected a number of plants.

Contrary to impressions which had reached us in Washington, the coal problem still remains serious and probably the key to industrial production. The rise in coal production which was fairly satisfactory in response to special incentives has not been maintained although there is some hope that a new plan will produce improvement for June and July. The difficulties continue to be the same as have been stressed before; lack of food; housing; transportation; lack of steel; selling price below cost of production; uncertainty as to ultimate ownership; uncertainty about currency reform; and dismantlement and reparations policy.

Currency reform seems to be imminent and most of those with whom we talked agreed that it was necessary. There is, however, a wide difference of opinion as to its effect: Some hope for miracles from it whereas others think that for a time it will be disruptive. Our own opinion is that the quicker the better but that it will be followed by a period of dislocations. The hope is that it will bring out a very considerable amount of hoarded goods and stimulate production sufficiently to give purchasing power to the new mark. On the other hand, it will unquestionably bring about a shortage of working capital in industry which is of great concern to the Germans. There is considerable scepticism among them as to whether the banking system will be able to operate with sufficient elasticity to supply the necessary credit. Perhaps the local currency counterpart of Marshall Aid could be used to supply a part of the needed credit. It seems to be agreed that tax reform will have to come along with currency reform. Present taxes are unduly heavy on industry and personal taxes at such a level that the mine managers are earning less than the miners.

The program of dismantlement of plants for reparations, particularly here in the Ruhr, is a most controversial subject. The British and American Coal Control people consider that dismantling plants that are now producing supplies for the mining industry is senseless. They claim that special ^{knowledge} and equipment which is marked for removal is urgently required and give examples which seem to prove their point. The contrary argument is that the equipment designated for removal is only a small part and cannot have a decisive effect. After hearing both sides of the argument, it is our opinion that nothing should be removed at the present time which can be used to increase German production. The case for dismantlement is theoretically correct but practically and psychologically wrong. At best it means that a large amount of labor is required in dismantling and transport and that machines will be out of production anywhere over a critical period. Also one may question whether this equipment, much of which is quite old, will prove to be really valuable to the receiving nations. Finally it gives the Germans one more alibi for their failure to increase production. You may think it advisable to pass these views on to some of your friends in the Administration.

In Frankfurt we found perhaps the principal battle on the question of foreign trade. The line followed by Clay and his immediate group of advisers has been that German exports could be sold only for dollars or in exchange for goods of the highest priority. The contrary view, propounded by the Joint Export-Import Agency which is headed by John Logan, formerly of the Central Hanover, seems widely supported by those who are not in the Clay coterie, which is that a great part of the export potential can only be sold ^{for} useful but secondarily vital goods. For instance, they want to start exporting to Norway in exchange for fish, Italy in exchange for fruits and vegetables, Denmark in exchange for dairy products, even though these foods do not have the maximum calory content. This latter concept seems sound to us and, we believe, is gradually winning but the other side is fighting a rearguard action and is throwing many blocks in the road. My personal opinion is that the inflexibility of the military mind is retarding the recovery of Germany. From the standpoint of Germany and of Europe as a whole, it seems to us necessary to expand the overall volume of trade without such strict requirements as to the nature of the goods exchanged. The restrictive policy is not only failing to expand trade but seems likely to cause a definite decline.

One of the great difficulties here is to get the good Germans to take responsibility and to work with the Occupying Powers. The German political organizations seem to be manned by third-raters, noticeably inferior to the quality of the industrialists whom we have seen. This presents one of the most difficult problems in the whole situation. We are told that there is good stuff in the trade unions and this evening we are to have a meeting with two or three of the leaders.

Despite all the difficulties, we are inclined to believe the elements necessary for recovery are now present in Germany, assuming the amount of dollar assistance which is contemplated, but the difficulties are great and there is widespread dissatisfaction with many of the top policies. The next few months will be most critical.

Mr. John J. McCloy

- 3 -

June 7, 1948

I have been somewhat embarrassed to compare our handling by the Americans as against the British. When we arrived in Frankfurt, the cars which were to meet us were not there and no one had made any schedule for us. Everyone was cordial and pleasant but we lost a considerable amount of time. I gather that Chauncey Parker had requested Wilkinson to set up the thing but he had made no arrangements. On the other hand, the British laid out an excellent program and it has gone like clockwork.

The Dutch are flying a plane down tomorrow and picking us up for our Netherlands visit.

Sincerely,

Bob

R. L. Garner

? P
c.m.

JUN 11 11 41 AM 1948
RECEIVED
U. S. DEPARTMENT OF STATE

June 7, 1948

- 3 -

Mr. John J. McElroy

I have been somewhat embarrassed to compare our handling by the Americans as against the British. When we arrived in Frankfurt, the cars which were to meet us were not there and no one had made any schedule for us. Everyone was cordial and pleasant but we lost a considerable amount of time. I gather that Chancey Parker had requested Wilkinson to set up the thing but he had made no arrangements. On the other hand, the British laid out an excellent program and it has gone like clockwork.

The Dutch are flying a plane down tomorrow and picking us up for our Netherlands visit.

Sincerely,



R. L. Garner

RECEIVED
 INTERNATIONAL BANK FOR
 RECONSTRUCTION AND DEVELOPMENT

JUN 11 12 47 PM 1948

57
 67

Alcom - European Tour

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

WN1

Date of Wire **JUNE 7, 1948**

To **WELK**
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C..

From **FRANKFURTMAIN**

TEXT:

IN FRANKFURT UNTIL MORNING TENTH EXCELSIOR HOTEL TALKED
TELEPHONE WITH HOAR WILL CHANGE ITINERARY TO FRENCH ZONE
GARNER PARTY COVERING RUHR NEXT ADDRESS AMERICAN EXPRESS
LONDON 12 JUNE.

SPOTTSWOOD

JUNE 7TH

ROUTING:

ACTION copy to **MR. WELK**

INFORMATION copy to **MRS. BROCK**

Decoded by

ORIGINAL

ORIGINAL

Decoded by

INTERNATIONAL BANK

INFORMATION copy to

WBS BROC

JUN 7 9 25 AM 1948

ACTION copy to

WBS METK

BOG LINC

CONSTRUCTION
FOR RECONSTRUCTION
AND DEVELOPMENT

TIME 11H

STANDARD

LONDON IS TIME

GARRIEN BVBVA COLLEGE HOWE MEXL ADDRESS AMERICAN EXPRESS
LEGATION MICH HOWE MITT CHANGE ILLINOISVA TO MICHON SOME
IN BRANKEVLEL DALLI MORNING LEVIN EXCEPTON MODEL JATKED

TEXT:

BRANKEVLELVAIA

From

WASHINGTON D.C.

To

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
METK

Date of message

TIME 1 10P8

MIT

INCOMING MESSAGE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Recon - European War

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

WA2 LC

Date of Wire JUNE 2, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

From FRANKFURT

TEXT: CAN BE REACHED THROUGH THURSDAY CARE KANE BICO THROUGH CAD WAR
DEPT.

GARNER

JUNE 2ND

AND DEVELOPMENT
FOR RECONSTRUCTION

ROUTING:

ACTION copy to MRS. RUSSELL 10 32 AM 1948

INFORMATION copy to MR. MCCLOY
INTERNATIONAL BANK

Decoded by

DUPLICATE

DOUBLED

Decoded by

ИНФОРМАЦИЯ содл по INTERNATIONAL BANK
МВ * СССР

АКЦИЯ содл по МВ * ВУС 10 35 AM 1948

КОПИЯ:

FOR RECONSTRUCTION
AND DEVELOPMENT

100E 510

СВЯЗЬ

ДЕП.

TEXT: CAN BE REACHED THROUGH THURSDAY CASE NAME BICO THROUGH CAD MAF

From: БРЯНСК

To: WASHINGTON, D.C.
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Date of M: 100E 5, 1048

MAS TC

INCOMING MIB

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Given - [unclear]

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: **M** June 1st 1948
 To: RIST
 77 Avenue Champs Elysees
 PARIS

CLASS OF SERVICE DESIRED

URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input checked="" type="checkbox"/>

IN CODE

TEXT: *Coret 72*

January EXECUTIVE BRANCH ESTIMATES APRIL ~~10~~, 1948 REPRESENT ROUGHLY A 5% INCREASE *over*
~~IN~~ ESTIMATES OF EUROPE'S DOLLAR DEFICIT FOR 15 MONTHS STOP MCCLOY'S
 STATEMENT/ TO VANDENBERG THAT QUOTE THE PROPOSED DOLLAR 6.8 BILLION
 APPROPRIATION RECOMMENDED BY THE ADMINISTRATION FOR THE FIRST 15 MONTHS
 OF THE PROGRAM COMMA FAR FROM BEING EXTRAVAGANT COMMA PROVIDES A RATHER
 TIGHT FIT UNQUOTE CAN STILL BE UPHELD STOP REAPPRAISAL OF EXECUTIVE
 BRANCH ESTIMATES IMPOSSIBLE BEFORE COMPLETE IMPORT AND INVESTMENT
 PROGRAMS/ CO-ORDINATED AT CEEC STOP OUR OWN ROUGH ESTIMATES FOR 15
 MONTHS ENVISAGES/ DOLLAR DEFICIT OF 10 BILLION INSTEAD OF OFFICIAL U.S. APRIL
 ESTIMATE OF DOLLAR 9 BILLION STOP OFFICIAL ESTIMATE OF CREDITS OTHER
 THAN/ ECA IS DOLLAR 2.137 BILLION OUR OWN APPRAISAL DOLLAR 1.7 BILLION IN
 WHICH IBRD LOANS DOLLAR 200 MILLION STOP/ THEREFORE STILL UNCOVER/ ^{ED} DOLLAR
 DEFICIT OFFICIAL ESTIMATE/ DOLLAR 200 MILLION WHILE OURS DOLLAR 1.6 BILLION
 STOP DETAILS AIRMAILED STOP IN ANY CASE ADDITIONAL INVESTMENT IMPORTANT
 SINCE EVEN OUR HIGHER ESTIMATES OF DOLLAR DEFICIT ALREADY ON THE BASIS
 OF 30% CUT IN CEEC EQUIPMENT IMPORT TARGETS IMPLYING A REDUCTION OF
 GROSS INVESTMENT TO ONLY 12% OF NATIONAL INCOME - RODAN

AUTHORIZED BY: Paul N. Rosenstein-Rodan *R.R.*

NAME

DEPT. Economic

ORIGINAL

X-Recon-Econ. Coop. Adm.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

Date of Wire MAY ³¹~~21~~, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

From PARIS

TEXT: AIRMAIL URGENT VIEWS BASCH STEVENSON ON EXTENT ECA COVERS
EUROPEAN NEEDS IN WESTERN HEMISPHERE
RIST

RECONSTR. AND DEVELT.
INTERNATIONAL BANK FOR
RECEIVED

MAY 21 10 42 AM 1948

ROUTING:

ACTION copy to DR. RODAN

INFORMATION copy to

Decoded by

DUPLICATE

X-Recon-Econ. Coop. Adm.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

Date of Wire ³¹ MAY 31, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

From PARIS

TEXT: AIRMAIL URGENT VIEWS BASCH STEVENSON ON EXTENT RCA COVERS

EUROPEAN NEEDS IN WESTERN HEMISPHERE

RIST

RECEIVED
INTERNATIONAL BANK FOR
RECONSTR. AND DEVEL.

MAY 31 10 45 AM 1948

ROUTING:

ACTION copy to DR. ROBAN

INFORMATION copy to

Decoded by

DUPLICATE

X-Press - Gen Corp. Wm

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 25, D. C.

JUN 2 REC'D

Brussels, Belgium

May 30, 1948

Mr. John J. McCloy, President
International Bank for Reconstruction
and Development
Washington 25, D. C., U.S.A.

Dear Jack:

We have had a very full program since our arrival.

I have had the opportunity of discussing the Belgian position and prospects at some length with a number of bankers, industrialists and Government people. Hoar and I have also been shown over several industrial plants in the Liege basin and tomorrow we visit the port of Antwerp.

I will not overload this letter with detail, which I shall be able to give you on my return, but I would say that we have been impressed with the production side of the Belgian economy. There is evident drive and efficiency, with hard-working workmen at the bottom and excellent management at the top. On the whole, I found agreement with my judgment that Belgium has only one serious problem in sight, that of her production costs in relation to those of her competitors. Probably there is a degree of compressibility within Belgium itself, and the industrial producers will certainly force it as far as they can, but it is doubtful whether they will find the whole solution by such means. Those to whom I talked, however, turned consistently away from discussing devaluation as a remedy and it is evident that they are mainly banking on price and other cost developments bringing their competitors' effective costs up to a level with their own.

On several occasions we have been attacked on the negative pledge clause and the necessity to seek Parliamentary ratification; Eyskens, in particular, expressed himself very critically of the fact that, as he alleged, this demand had been raised at such a late stage. Vandeputte spoke similarly to Hoar. However unjustified their allegations on this score may be -- and, quite apart from what Penton and Rembert may have said, Basyn has, of course, been well aware of the contents of the Bank's earlier contracts -- their present embarrassment seems entirely genuine. The situation is somewhat similar to the one we encountered in Brazil in that the Government does not want to go to Parliament with legislation concentrating on particular private companies, while the companies, for their part, are worried at the possible hold up in placing their orders.

Mr. John J. McCloy

- 2 -

May 30, 1948

①
②

I do not wish, of course, to intervene in the negotiations which are proceeding in Washington, but I could hardly avoid some expressions of opinion. I think it important that the Bank should insist both on inclusion of the negative pledge and on specific Parliamentary endorsement of the various commitments of the Government involved in the guarantee. I think these requirements should be unequivocally laid down and adhered to. I have indeed expressed them to Eyskens, Vandeputte and Frere. On the subject of legislation I have recommended them to make it general, on the lines we originally suggested to Brazil, rather than applying only to the loans now under consideration for the three companies. On the companies' difficulties, I have suggested that the National Bank should cover them in foreign exchange for the period of delay so that they can place their orders now, and Frere has told me privately that he would be willing to do so provided the companies could get the necessary credits in francs. The companies, Linalux in particular, may still have difficulty in finding the necessary underlying Belgians francs, but I think they should be able to find some way out.

I have received your telegram of the 28th May and Rist is leaving for Paris today. He will miss the German part of the trip but may be able to catch up with us again in Holland. As regards the line he should take at the Paris meetings, I have instructed him to maintain the role of an observer and to report to Washington when any matters are brought up which affect the Bank. On our way through Paris, we saw Rosen and he impressed me with the necessity of our sending some responsible person to be in Paris for an indefinite period for liaison with the OEEC. I think he should arrive within three or four weeks from now.

We leave for Frankfurt tomorrow and I think arrangements there are satisfactory.

Sincerely,

Bob
R. L. Garner

May 30, 1948

Mr. John J. McCloy

I do not wish, of course, to intervene in the negotiations which are proceeding in Washington, but I could hardly avoid some expressions of opinion. I think it important that the Bank should insist both on inclusion of the negative pledge and on specific Parliamentary endorsement of the various commitments of the Government involved in the guarantee. I think these requirements should be unequivocally laid down and adhered to. I have indeed expressed them to Håkens, Vandebute and Frere. On the subject of legislation I have recommended them to make it general, on the lines we originally suggested to Brazil, rather than applying only to the loans now under consideration for the three companies. On the companies' difficulties, I have suggested that the National Bank should cover them in foreign exchange for the period of delay so that they can place their orders now, and Frere has told me privately that he would be willing to do so provided the companies could get the necessary credits in France. The companies, Linlux in particular, may still have difficulty in finding the necessary underlying Belgian francs, but I think they should be able to find some way out.

I have received your telegram of the 28th May and that is leaving for Paris today. He will miss the German part of the trip but may be able to catch up with us again in Holland. As regards the line he should take at the Paris meetings, I have instructed him to maintain the role of an observer and to report to Washington when any matters are brought up which affect the Bank. On our way through Paris, we saw Rosen and he impressed me with the necessity of our sending some responsible person to Paris for an indefinite period for liaison with the OEEC. This he should arrive within three or four weeks from now.

We leave for Frankfurt tomorrow and I think arrangements there are satisfactory.

Sincerely,



R. L. Garner

RECEIVED
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
MAY 31 1948
10
MAY 31 1948

Towers - V.P. - 1948

==

NOTE OF TELEPHONE CONVERSATIONS WITH
MR. LAWRENCE WILKINSON'S SECRETARY IN
BERLIN AND MRS. RUSSELL IN WASHINGTON
SATURDAY AFTERNOON, MAY 29, 1948

Mr. Wilkinson's secretary called me from Berlin this afternoon. We had a very poor connection and I heard only with the greatest difficulty. She told me that we would be billeted at Kronberg Castle in Frankfurt. A car would meet us at the Airport. If the car was not there, I was to call Mr. Phelps at Frankfurt 21385. Incidentally, we are to enquire at the desk inside the terminal for the car under Mr. Garner's name.

If we had any difficulty with our billets, we are to call Colonel Kelly, the billeting officer, at Redline 8 in Frankfurt.

On Tuesday, we should get in touch with P. L. Adcock, U. S. Chairman of the Bi-Partite Control, at Frankfurt 21385 or Redline 62. We should also see Mr. Logan, Director-General of the Export-Import Agency.

Mr. Wilkinson would come to Frankfurt on Tuesday afternoon and get in touch with us there. Adcock would be able to put us in touch with anyone we might want to see.

Mr. Wilkinson's secretary suggested that we go to Berlin, but I said that ^{I thought} Mr. Garner was anxious to see as much of Western Germany as possible in the short time that was available and did not particularly want to go to Berlin unless it was considered necessary.

Mrs. Russell called from Washington at about 5:15 pm to report that Mr. Parker had talked to General Ederle, Deputy Chief of Military Government in General Draper's office, ^{who} ~~he~~ would talk to General Hayes, General Clay's deputy in Berlin. He also suggested that we use the American Embassy in Brussels for making our telephone calls to Germany.

^{Sr. Ederle} ~~he~~ suggested that ^{we} get in touch with Tony Biddle in Frankfurt. He is a friend of both Mr. McCloy and Mr. Parker. He also suggested Mr. Adcock.

Mrs. Russell told me that we should identify ourselves as representatives of the World Bank rather than the International Bank.

Sir Gordon Munro told Mr. Parker that all arrangements for our visit to the British Zone had been made and that John Owen of the British Treasury would get in touch with us from London this afternoon to give us the details of our visit. However, I have heard nothing from him yet.

PA

CLASS OF SERVICE

This is a full-rate Telegram or Cablegram unless its deferred character is indicated by a suitable symbol above or preceding the address.



WESTERN UNION

1201

JOSEPH L. EGAN
PRESIDENT

1948 MAY 29 AM 7 29

SYMBOLS

- DL = Day Letter
- NL = Night Letter
- LC = Deferred Cable
- NLT = Cable Night Letter
- ⊗ = Radiogram

The filing time shown in the date line on telegrams and day letters is STANDARD TIME at point of origin. Time of receipt is STANDARD TIME at point of destination

WZ1 INTL=ZP BRUSSELS VIA WU CABLES 47 29 1025A

LC CHAUNCEY PARKER INTABAFRAD=(INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT 1818 H ST NORTHWEST)

OR 3314 O ST NORTHWEST WASHDC=

NO NEWS YET OF GERMAN ARRANGEMENTS AND UNABLE CONTACT WILINSON STOP PLEASE CABLE URGENTLY IF FRANKFURT PREPARED FOR US WHOM WE SHOULD CONTACT WHETHER YOU HAVE ANY NEWS OF BRITISH ARRANGEMENTS STOP REPLY ACHESON HOTEL PLAZA=

*Wg
Kerwell*



No 3728 U.S. Embassy. Military Permit Office in Brussels.

1818 H 3314 O.

Tripartite

Genl Clarke -
—

Genl Clarke.
—

644K

3698.

CAD

Col.

Genl Hayes

Berlin.
—

Wire or telephone
—

Tom Liddler

CL ADCOCK.

G. Chairman

for points
control office.

TELETYPE

To New York Office: NY 1-761

Authorized by: _____

Only messages prepared on this form will be transmitted.

Recon - European Four

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TELETYPE

To New York Office: NY 1-761

Authorized by:

Only messages prepared on this form will be transmitted

May 28, 1948

No. 2

Mr. Robert L. Garner
c/o Secretary to the Governor
Banque Nationale de Belgique
Brussels, Belgium

Dear Mr. Garner:

Dick Demuth is at Lake Success for a couple of days. In his absence I am sending on to you some routine papers which have come in in the last couple of days.

I believe there is no special news since Dick's first letter of May 25th.

Sincerely yours,

David L. Gordon

enclosures

*Garner
Europe*

May 27, 1948

Mr. Patrick Acheson

Drew Dudley

Letter from Mr. Bernard Rickatson-Hatt

The attached is self-explanatory. Hope you had a nice crossing and that the trip is going well.

Drew Dudley

Attachment 1

C
O
P
Y

Bank of England

May 24, 1948

Dear Mr. Drew Dudley:

Thank you for your letter of May 20 about the visit to London next month of your Vice-President, Mr. Robert L. Garner, accompanied by Leonard Rist, Stanley Hoar and Patrick Acheson.

I had heard about their trip from Sir Gordon Munro who was lunching here the other day, and I shall look forward to meeting Mr. Garner and his colleagues. You may rely upon me to render any assistance that I can to Mr. Acheson.

With best wishes,

Yours sincerely,

/s/ Bernard Rickatson-Hatt
Adviser to the Governor

Gamer
Europe

Tues May 15

Cunard White Star



R.M.S. "Queen Mary"

Dear Drew:

Thanks for the books. I enjoyed the first story of Loyalty & am looking forward to the others!

Everything is most comfortable & pleasant - a quiet passage & today the sun is out after two cloudy days.

The passenger list on the whole is rather a queer lot - one wonders where many of them

Come from

All good wishes

Sincerely

Bob

FILE COPY

*Wilson
Europe Tour*

May 24, 1948.

Mr. A.S.G. Hoar
International Bank for Reconstruction
and Development
c/o The Banque Nationale de Belgique
Brussels, Belgium

Dear Mr. Hoar:

I looked into your office last Friday to wish you a pleasant and profitable journey, but unfortunately you had already left when I called. May I not use this means to wish you and the other members of your party a most enjoyable and successful trip!

With kindest regards,

Sincerely yours,

William G. Welk
Loan Officer

WGW:bld

rec. european tour

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

FOR THE PRESS

Press Release No. 99

FOR IMMEDIATE DELIVERY

May 21, 1948

The International Bank for Reconstruction and Development announced that Robert L. Garner, Vice President, will leave Washington today for a six weeks' visit to several European countries. He will be accompanied by A.S.G. Hoar, Assistant Loan Director, Leonard B. Rist, Director of the Economic Department, and Patrick Acheson, staff member.

They will sail on the Queen Mary, arriving at Cherbourg on May 27, and expect to visit Brussels, The Hague, Amsterdam, Basle, Milan, Rome, Paris and London.

Mr. Garner's trip is in keeping with the Bank's policy of visiting member countries to study at first hand the economic and financial situations of the countries and factors affecting their problems of reconstruction and development.

*Dup. filed
Press Release*

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

May 20, 1948

MR. MENDELS:

Mr. Garner would like to have from you before he leaves the names and addresses of the Advisory Council members living in the countries where he will visit.

Also, he asked me to tell you that, if you should receive notice of any of the Council members coming here on the July 9th sailing of the Queen Elizabeth, he would like you to notify him en route.

Mr. Garner would like you to see to it that all mail to be forwarded to him abroad clears through Mr. Demuth.

Miss Walton
Grace asked
to let us
know

M. Russell
M. RUSSELL

Have asked Miss Russell
for this

76

1. Addresses of Governors and Alternate Governors of the International Bank for Reconstruction and Development, and Members of the Advisory Council residing in countries to be visited by the Vice President on his tour of European countries:

BELGIUM

Governor

: Monsieur Gaston Eyskens,
Ministre des Finances de Belgique,
14, rue de la Loi,
Bruxelles,
Belgium.

Alternate Governor

: Monsieur Maurice Frère,
Rue du Bois Sauvage, (Gouverneur de la Banque
Bruxelles, Nationale de Belgique)
Belgium.

ENGLAND

Governor

: The Right Honorable
Sir Stafford Cripps,
Chancellor of the Exchequer,
Great George Street,
London, S.W. 1,
England.

Alternate Governor

: Sir Gordon Munro (in Washington, D.C.)

Advisory Council
(Chairman)

: The Right Honorable
Sir Arthur Salter,
West House,
35 Clebe Place,
Chelsea,
London, S.W. 3,
England.

(Member)
(Economist)

: Prof. Lionel Robbins,
10 Meadway Close,
London, S.W. 11,
England.

FRANCE

Governor

: Monsieur René Mayer,
Ministre des Finances,
Rue de Rivoli,
Paris 1,
France.

Sent to
Mr. Garner
May 14

FRANCE (Cont'd)

Alternate Governor

: Monsieur Pierre Mendès-France,
s/s Ministère des Finances, (Député et Ancien
Rue de Rivoli, (Ministre)
Paris 1,
France.

Advisory Council

(Member)
(Labor)

: Monsieur Léon Jouhaux,
10 bis, Boulevard de la Bastille,
Paris XII,
France.

ITALY

Governor

: Dr. Donato Menichella,
Direttore Generale,
Banca d'Italia,
Via Nazionale 91,
Roma,
Italy.

Alternate Governor

: Dr. Giorgio Cigliana-Piazza, (in Washington, D.C.)

THE NETHERLANDS

Governor

: Zijne Excellentie
Den Minister van Financiën
Professor Mr. Dr. P. Lieftinck,
Kneuterdijk 22,
's Gravenhage,
The Netherlands.

Alternate Governor

: Dr. M. W. Holtrop,
President,
Nederlandsche Bank, N.V.,
Rokin,
Amsterdam,
The Netherlands.

2. Addresses of Executive Directors who may be in Europe during the visit of the Vice President:

Mr. Leon Baranski
(Poland, Czechoslovakia,
Yugoslavia)

Is now in Prague. He expects to be in London for three weeks prior to his return on or about June 28.

1st Part of June : c/o Narodowy Bank Polski,
Warszawa,
Poland.

2nd Part of June : c/o J. Lipinski, (his son-in-law)
163 Cornwald Rd,
Ruislip Manor,
Middlesex,
England.

Mr. Costantino Bresciani-Turroni
(Italy, Turkey, Denmark,
Venezuela)

Is now in Italy.

Address in Italy : Via Bocchetto 6,
Milano,
Italy.

Mr. Frans De Voghel
(Belgium, Norway, Luxembourg,
Iceland)

Makes his headquarters in Brussels.

Address in Belgium : Banque Nationale de Belgique,
Bruxelles,
Belgium.

*Garner
Europe*

May 20, 1948

Dear Mr. Rickatson-Hatt:

Mr. Robert L. Garner, the Vice President of the International Bank, accompanied by Leonard Rist, of France, Director of the Bank's Economic Department; Stanley Hear, Assistant Loan Director; and Patrick Acheson, of the staff, will be in London from June 29 to July 9. Arrangements for their appointments in London are being made by Sir Gordon Munro, Executive Director for the Bank for the United Kingdom.

I am sure that your office knows about their plan to be in London, but I am writing particularly because I would like to have you meet Mr. Garner while he is there and I have also told Patrick Acheson that he can rely on you for guidance and help. Although Mr. Garner is not seeking publicity, his coming to London is of importance and I am sure that he should meet with the press while he is there. Mr. Acheson will be handling these arrangements and I have told him that he can count on you for assistance. As yet, we do not know the hotel at which they will be staying, but I will let you know at a later date so that you may call them there upon their arrival.

I do wish that I were coming with them, so that I could renew my pleasant acquaintanceship with you.

Sincerely yours,

Drew Dudley, Director
Department of Public Relations

Mr. Bernard Rickatson-Hatt
Adviser to the Governor
Bank of England
London, England

May 20, 1948

Dear George:

Mr. Robert L. Garner, the Vice President of the International Bank, accompanied by Leonard Rist, of France, Director of the Bank's Economic Department; Stanley Hoar, Assistant Loan Director; and Patrick Acheson, of the staff, will be in London from June 29 to July 9. Arrangements for their appointments in London are being made by Sir Gordon Munro, Executive Director for the Bank for the United Kingdom.

I am sure that your office knows about their plan to be in London, but I am writing particularly because I would like to have you meet Mr. Garner while he is there and I have also told Patrick Acheson that he can rely on you for guidance and help. Although Mr. Garner is not seeking publicity, his coming to London is of importance and I am sure that he should meet with the press while he is there. Mr. Acheson will be handling these arrangements and I have told him that he can count on you for assistance. As yet, we do not know the hotel at which they will be staying, but I will let you know at a later date so that you may call them there directly upon their arrival.

With kindest regards,

Sincerely,

Drew Dudley, Director
Department of Public Relations

Mr. George Young
Assistant to the Chancellor of the Exchequer
Treasury Chambers
Great George Street
Whitehall, London

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

May 18, 1948

FROM: THE SECRETARY

The following are forwarding addresses for Mr.

Garner's party:

May 27-31	c/o Secretary to the Governor Banque Nationale de Belgique Brussels, Belgium
June 8-11	c/o International Bank for Reconstruction and Development 5 Johan van Oldenbarneveldlaan The Hague, The Netherlands
June 12-14	c/o Secretary to the General Manager Bank for International Settlements Basle, Switzerland
June 15-17	c/o Mr. Forte Banca d'Italia Sede di Milano Milan, Italy
June 18-21	c/o Secretary to the Governor Banca d'Italia Via Nazionale Rome, Italy
June 22-28	International Bank for Reconstruction and Development 77 Avenue des Champs Elysees Paris, France
June 29-July 9	c/o Secretary to the Governor The Bank of England London, E.C.2, England

Distribution

President
Department Heads

file v. Garner

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

May 20, 1948

Trip of Mr. Garner and Party to Europe

Members of the party:

MR. ROBERT L. GARNER
Vice President

MR. A. S. G. HOAR
Asst. Loan Director

MR. LEONARD B. RIST
Director, Economic Dept.

MR. P. ACHESON

<u>Date</u>		<u>City</u>	<u>Time</u>	<u>Service</u>	<u>Hotel</u>
Fri. 5/21	Lv.	Washington			
Fri. 5/21	Lv.	New York	8:00 PM - 12:00	SS "Queen Mary"	
Thurs. 5/27	Ar.	Cherbourg			
Thurs. 5/27	Lv.	Paris	6:30 PM	Rail	
Thurs. 5/27	Ar.	Brussels	10:35 PM	(Pullman)	
<u>Spend Friday, Saturday, Sunday and Monday in Belgium</u>					
Mon. 5/31	Lv.	Brussels	4:00 PM	Air	
Mon. 5/31	Ar.	Frankfurt	6:25 PM	(Sabena Airlines)	
<u>Spend Tuesday, Wednesday, Thursday, Friday, Saturday, Sunday and Monday in Germany</u>					
Tues. 6/8	Drive from Dusseldorf to The Hague				
<u>Spend Tuesday, Wednesday, Thursday and Friday in The Netherlands</u>					<u>Vieux Doelen</u>
Sat. 6/12	Lv.	Amsterdam	10:00 AM	Air	
Sat. 6/12	Ar.	Basle	1:20 PM		
<u>Spend Saturday, Sunday and Monday in Basle</u>					<u>Schweizerhof</u>
Mon. 6/14	Lv.	Basle	12:00 Noon	Rail	
Mon. 6/14	Ar.	Milan	8:30 PM	(Pullman)	
<u>Spend Tuesday, Wednesday and Thursday in Milan</u>					<u>Continental</u>
Thurs. 6/17	Lv.	Milan	10:00 PM	Rail	
Fri. 5/18	Ar.	Rome	8:30 AM	(Sleeper)	
<u>Spend Friday, Saturday, Sunday and Monday in Rome</u>					<u>Grand</u>

<u>Date</u>			<u>City</u>	<u>Time</u>	<u>Service</u>	<u>Hotel</u>
Mon.	6/21	Lv.	Rome	3:00 PM	Air	
Mon.	6/21	Ar.	Paris	7:30 PM	(Air France Flight #191)	

Spend Tuesday, Wednesday, Thursday, Friday,
Saturday, Sunday and Monday in Paris

Mon.	6/28	Lv.	Paris	8:30 PM	Rail	
Tues.	6/29	Ar.	London	9:10 AM	(Sleeper)	

Spend Tuesday, June 29 through Thursday, July 8,
in London

Fri.	7/9	Lv.	Southampton		SS "Queen Elizabeth"	
------	-----	-----	-------------	--	----------------------	--

Rec. European Tour

FILE COPY

May 20, 1948

Dear Mr. Rennie:

Herewith is the information on the transfer account card issued to this office on the 19th May 1948.

The holder of this card is Patrick Acheson. He will be touring Europe on official business, stopping in England, Belgium, Germany, Netherlands, Switzerland, France and Italy. He will file messages to INTBAFRAD, Washington D.C. from these countries. The tour will begin the 22nd of May.

We appreciate the cooperation you have given us in this matter.

Sincerely yours,

Wm. E. McCorkle
Office Manager

Radio Corporation of America,
Attention: Mr. D. J. Rennie,
1112 Connecticut Ave. N.W.
Washington, D.C.

WEM 5/20

*Millions
European Tour
5/19/48
1.*

1. It is suggested that Mr. Garner and Mr. Hoar might want to see the following persons:

Central Bank - President, Mr. Holtrop
Professor S. Posthuma

Ministry of Finance - Minister, Mr. Liefstink (Right Wing of Labour Party)

Treasurer General, Dr. Treep

Director General of Foreign Exchange, Mr. de Block

Ministry of Overseas Territories - Minister, Mr. Jonkman

Ministry of Economic Affairs - Minister, Mr. Van der Brink (Roman Catholic)

Ministry of Shipping - Minister, Mr. Kein Vos (Labour)

Central Planning Bureau - Professor Tinbergen

Reconstruction Bank - Mr. J. F. Posthuma

Amsterdamsche Bank - Managing Director, Professor Verrijn Stuart

Rotterdamsche Bank - Managing Director, Mr. H. L. Woltersom

Twentsche Bank - Managing Director, Mr. van Leeuwen

Netherlands Trading Society - Mr. Albarda, Director
Secretary General of the Department of Finance

Dr. Steenberghe (Catholic Party) - 1, Carnegie Laan, The Hague

Philips Works (Electrical appliances, radios,) - President, Mr. Oppen
largest single exporting industry) Financial Director,
Mr. de Vries

2. Current Position of the Netherlands

Production: Industrial production as of recent months has fluctuated around prewar levels but labour productivity is low because of raw material supply shortages and outworn machinery. Agricultural production is recovering well from the drought of last summer which caused a reduction in the production of milk and cheese and the slaughter of nearly 10% of cattle stock.

Prices and Wages: Cost of living has been kept at relatively low levels due to rigid price and wage controls but this policy necessitates ever-increasing food subsidies as world prices rise and which now account for one-third of the 1948 budget deficit.

Budget: This question of food subsidies added to the constant drain of funds necessitated by the maintenance of armed forces in the Netherlands East Indies underscores one of the chief problems of the Netherlands Government at present, namely, the difficulty of achieving a balanced budget. Out of total budgetary expenditures of almost five billion guilders in 1947, the deficit was in excess of two billion guilders. The deficit for 1948 is estimated at $1\frac{1}{2}$ billion guilders.

Present Volume of Exports is about one-half that of prewar years due to great need of investment at home and sharply increased population. Exports to European countries have recovered satisfactorily but exports to hard currency countries are below reasonable expectations.

Balance of Payments: Of the adverse balance of trade in 1947, (1.63 billion guilders) over 75% was with the dollar area (1.24 billion guilders). This underscores the two continuing problems of the Netherlands postwar economy, namely,

- (1) the drastic reduction in German trade which is further complicated by the necessity for settlement in dollars, and
- (2) the elimination of the triangular trade between U.S.A., N.E.I., and the Netherlands which provided the Netherlands with the necessary dollars to pay for imports from the U.S.A.

The Dollar Shortage before the passage of E.R.P. had become very acute. Imports from the U.S. were drastically curtailed at the beginning of 1948. Since voluntary liquidation was too slow, securities have been recently requisitioned and in the last month some of the monetary reserves of gold held in New York have been pledged against an advance in dollars from the Federal Reserve Bank.

The official rate of exchange is 2.65285 guilders per U.S. dollar or 37.6953 U.S. cents per guilder.

3. The I.B.R.D.'s \$195 million 25-year loan:

The categories of goods financed and the amounts withdrawn as of May 10th are set out below: (in millions of \$)

	<u>Old Items</u>		
	<u>Total</u>	<u>Disbursed</u>	<u>In hand</u>
Raw materials	18.6	18.1	.5
Ships	33	33	-
Equipment	<u>28.4</u>	<u>12.2</u>	<u>16.2</u>
	<u>80.0</u>	<u>63.3</u>	<u>16.7</u>
	<u>New Items</u>		
	<u>Total</u>	<u>Disbursed</u>	<u>In hand and to come</u>
Raw materials	71.4	62.8	8.6
Ships	12.0	10.6	1.4
Equipment	<u>31.6</u>	<u>16.0</u>	<u>15.6</u>
	<u>115.0</u>	<u>89.4</u>	<u>25.6</u>

Most of the raw materials and equipment financed was disbursed to small producers. The main industrial beneficiary was the Philips Works at Eindhoven. Under the equipment category a considerable amount of spare parts for repair of aeroplanes was supplied to K.L.M. and under the raw materials category a certain amount of timber and cement was purchased by the IJmuiden Steel Works for the construction of workers' dwellings. Two of the main beneficiaries for ships were the United Netherland Navigation Co. and the Nederland Line.

4. A \$12 million 10-year loan is being negotiated with four Dutch Shipping Companies. These are: Holland America Line, United Netherland Navigation Co., Rotterdam Lloyd and Nederland Line.
5. Problems which have arisen in connection with the administration of the Netherlands Loan and the manner in which they have been resolved, are as follows:

(a) Extension of the Closing Date: In February Dr. Holtrop requested an extension of the Closing Date from March 31 to June 30 for "new" items and until April 15 for "old" items. The Bank agreed to the extension of the Closing Date until June 30 for "new" items and until 30 April for "old" items. Recently Dr. Soutendijk asked for an extension of the Closing Date for "old" items until June 30 but this was refused. However, it is understood that by giving the Netherlands a few days grace, sufficient documents have now been received by the Treasurer's Office to document the total amount of "old" items, namely, \$80 million.

(b) Advance against "old" items: In February an advance against "old" items was agreed to by the I.B.R.D. The Dutch withdrew \$10 million on

February 25, \$10 million on March 3, and \$7 million on March 22. Sufficient "old" documents have now been received to document the total of the advances made of \$27 million.

(c) Change in Categories: On March 15 the Bank agreed to make changes in the sub-categories of goods, the chief of which were a decrease of \$5 million in each of the sub-categories lumber and coal and an increase of \$5 million in each of the categories non-ferrous metals and feeding grains.

(d) Swiss Franc Agreement: An agreement has practically been completed with the Netherlands by which the Bank will make available a loan of 17 million Swiss francs in exchange for a cancellation of an equivalent amount of dollars (about \$4 million) from the \$195 million loan.

(e) Gold Pledge Loan: The Nederlandsche Bank obtained a loan of \$10 million from the Federal Reserve Bank of New York against a pledge of gold. The I.B.R.D. was concerned that as required under terms of Article 7 (1) of the Loan Agreement, the Netherlands Government did not first seek the Bank's consent. However, the I.B.R.D. did give its consent after explanation had been received and agreed to a pledge of an additional amount of gold against a second loan of \$20 million.

Millions -

Mr. Frank Figgures

May 19, 1948

Mr. A. S. G. Hear

EUROPEAN MISSION - U.K. and German Phases

I think it would be helpful if the following points could be cleared with Sir Gordon Moore:

United Kingdom

- (a) Accommodations in London for Messrs. Garner, Rist and Acheson and Accommodations where necessary outside of London if trips to the provinces are either arranged or contemplated.
- (b) The name of the man designated to act as liaison with the party.
- (c) A tentative itinerary for the party in England.
- (d) A list of the people it is suggested the party should see.

Items (c) and (d) could perhaps be cabled to us aboard the Queen Mary.

Germany

- (a) Warning given to the authorities of our visit.
- (b) Accommodations arranged for our party of four.
- (c) If possible, a car to be put at our disposal.

We propose to go to Frankfurt first (see attached itinerary).

We should like to spend about four days in the Ruhr at the end of our stay in Germany, avoiding going to Berlin if possible.

Rec. European 1047

OUTGOING TELEGRAM OR CABLEGRAM

Date: **May 18, 1948**

PILOTTI

BANK FOR INTERNATIONAL SETTLEMENTS

BASLE, SWITZERLAND

ACCEPT WITH PLEASURE YOUR INVITATION OFFICIAL LUNCHEON JUNE FOURTEENTH

GARNER

CHARGE TO:

Official: Authorized by:

Personal: Name:
Room Number:

AND DEVELOPMENT
FOR RECONSTRUCTION

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MAY 18 2 21 PM 1948

INTERNATIONAL BANK

1818 H Street, N. W., Washington 6, D. C.

121

From
Int. Sect.

1818 H Street N. W. Washington D. C.

INTERNATIONAL BANK

Room Number:

Personal:

Name:

Official: Authorized by:

CHARGE TO:

MAY 19 9 51 AM 1948

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
FOR RECONSTRUCTION AND DEVELOPMENT

CHARGE

FOR THE ACCOUNT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR THE ACCOUNT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR THE ACCOUNT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FOR THE ACCOUNT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Date: MAY 18 1948

OFFICIAL RECEIPT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

*Reconstruction - European
Tour*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

RC2 NLT

Date of Wire **MAY 14, 1948**

To **COOK
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.**

From **BASEL**

TEXT: YOUR CABLE ADVISING ARRIVAL GARNER PARTY JUNE 12TH FOR TWO NIGHTS RESERVATIONS SCHWEIZERHOF ADJUSTED ACCORDINGLY. OUR ANNUAL GENERAL MEETING 14TH JUNE WILL BRING TO BASLE REPRESENTATIVES MANY CENTRAL BANKS SHOULD MUCH WELCOME IT IF GARNER AND PARTY WOULD STAY EXTRA DAY TO ATTEND OFFICIAL LUNCHEON.

**PILOTTI
BANK FOR INTERNATIONAL SETTLEMENTS**

MAY 14TH

ROUTING:

ACTION copy to **MR. COOK**

INFORMATION copy to *Mr. Garner*
Mr. Aderson

Decoded by

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
MAY 14 8 49 AM 1948
INTERNATIONAL BANK

DUPLICATE

X
100000
but 1000

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

RCS M.T.

Date of Wire MAY 14, 1948

To
 From
 WASHINGTON, D.C.
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
 COOK
 BASEL

TEXT:

AND PARTY WOULD STAY EXTRA DAY TO ATTEND OFFICIAL LUNCHEON.
 REPRESENTATIVES MANY CENTRAL BANKS SHOULD MUCH WELCOME IT IF GARNER
 ANNUAL GENERAL MEETING 14TH JUNE WILL BRING TO BASEL REPRESENT-
 NIGTS RESERVATIONS SCHWEIZERHOF ADJUSTED ACCORDINGLY. OUR
 YOUR CABLE ADVISING ARRIVAL GARNER PARTY JUNE 12TH FOR TWO

BANK FOR INTERNATIONAL SETTLEMENTS
 PILOTTI

MAY 14TH

FOR RECONSTRUCTION
 AND DEVELOPMENT

ROUTING:

ACTION copy to MR. COOK

INFORMATION copy to

M. Garner
M. Debra

Decoded by

MAY 14 9 43 AM 1948
 INTERNATIONAL BANK

DUPLICATE

Reconst. European Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: May 13, 1948

To: INTERBANK
BASLE
SWITZERLAND

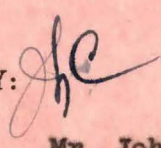
CLASS OF SERVICE DESIRED			
URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input checked="" type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT:

REUTEL CONFIRMING BOOKINGS GARNER PARTY SCHWEIZERHOF JUNE 11
TO 13 NOW ADVISING ARRIVAL JUNE 12 VIA KLM FROM AMSTERDAM FOR
TWO NIGHTS. PLEASE CONFIRM.

COOK
INTBAFRAD

AUTHORIZED BY:



NAME Mr. John L. Cook

DEPT. Travel and Transportation

УНД ДЕЛЕГОВАНІ
ЛОУ РЕКОНСТРУКЦІЇ

MAY 13 4 21 PM 1948

INTERNATIONAL BANK

CLEARED BY:

122

DUPLICATE

Handwritten notes at bottom right

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE DESIRED			
<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>	URGENT
<input checked="" type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>	FULL RATE
<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>	DAY LETTER

Date: May 13, 1948

To: INTERBANK
BASLE
SWITZERLAND

TEXT:

TWO MESSAGES. PLEASE CONFIRM.
 TO IS NOW ADVISING ARRIVAL JUNE 12 VIA KLM FROM AMSTERDAM FOR
 HOTEL COMPLAINING BOOKING GARNER PARTY SCHWITZERLAND JUNE 11

COOK
INTERBANK

CLEARED BY:

FOR RECONSTRUCTION
AND DEVELOPMENT

MAY 13 4 51 PM 1948

INTERNATIONAL BANK
Travel and Transportation

Mr. John L. Cook

NAME

DEPT.

AUTHORIZED BY: *JL*

DUPLICATE

*Reconstruction Bank
European Tour*

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

RC2 NLT

Date of Wire **MAY 7, 1948**

To **INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.**

From **BASEL**

TEXT: **FOR MR. COOK
YOUR WIRE MAY 6TH. FOUR SINGLE ROOMS WITH BATH RESERVED
HOTEL SCHWEIZERHOF JUNE 11TH TO 13TH FOR VICE PRESIDENT
AND PARTY.**

BANK FOR INTERNATIONAL SETTLEMENTS

MAY 7TH

ROUTING:

ACTION copy to MR. COOK

INFORMATION copy to

Decoded by

УИД ДЕЛЕГОВМЕНИ
ЕОВ ВЕСОИСТРОИЦИОН

MAY 7 1 32 PM 1948

INTERNATIONAL BANK

DUPLICATE

*Hanson
Int. Settlement*

DUPLICULE

Decoded by

INFORMATION copy to

ACTION copy to MR. COOK

ROUTINE:

INTERNATIONAL BANK

MAY 7 1 35 PM 1948

FOR RECONSTRUCTION
AND DEVELOPMENT

MAY 1948

BANK FOR INTERNATIONAL SETTLEMENTS

AND BUREAU

ROBERT SCHWEITZERHOFF ROOM 1111 TO 1131 FOR LICE PRESIDENT

YOUR MIBE MAY 1948. FOUR SINGLE ROOMS WITH BATH RESERVED

TEXT:

FOR MR. COOK

FROM

BUREAU

TO

WASHINGTON, D.C.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Date of MIB

MAY 1, 1948

RCS MIB

INCOMING MIBE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Handwritten notes and signatures at the bottom right corner.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: May 6, 1948

To: INTERBANK
BASLE
SWITZERLAND

CLASS OF SERVICE DESIRED

URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input checked="" type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT: GREATLY APPRECIATE BOOKING FOUR SINGLE ROOMS WITH BATH HOTEL
SCHWEIZERHOF JUNE ELEVENTH TO THIRTEENTH FOR ROBERT L. GARNER
VICE PRESIDENT INTERNATIONAL BANK WASHINGTON AND PARTY ARRIVING
BY TRAIN MORNING JUNE ELEVENTH FROM COLOGNE.

COOK
INTBAFRAD

PREPAY REPLY

AND DEVELOPMENT
FOR RECONSTRUCTION

AUTHORIZED BY

NAME

John L. Cook

DEPT.

Travel and Transportation

CLEARED BY:

DUPLICATE

112

DUPLICATE

175

DEPT: TREASURY INTERNATIONAL BANK

NAME: JOHN F. COOK

AUTHORIZED BY: [Signature]

MAY 6 4 42 PM 1948

CONTROLLED BY:

FOR RECONSTRUCTION AND DEVELOPMENT

RECEIVED

RECEIVED
COOK

BY JOHN MORNING JOHN STEINMAN FROM COLOMBIA

VICE PRESIDENT INTERNATIONAL BANK WASHINGTON AND BUREAU BELGIUM

COMMUNICATIONS JOHN STEINMAN TO DIRECTOR GENERAL JOHN MORNING F. GANNON

TEXT: SUBJECT: BELGIUM BOOKING ROOM VISIT ROOMS ALLEN PAUL ROLET

RECEIVED

DATE

TO: DIRECTOR

DIRECTOR

DATE: May 6 1948

DVA TELER	<input type="checkbox"/>	CODE PAGE	<input type="checkbox"/>
ENGT PAGE	<input type="checkbox"/>	NIGHT TELER	<input checked="" type="checkbox"/>
UNSEAL	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>

CLASS OF SERVICE DESIRED

INTERNATIONAL BANK

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

FILE COPY

Mr. O. A. Schmidt

May 17, 1948

Vincent Checchi

Itinerary of Garner, Hoar and Rist Party

1. Reference is made to the attached draft of the Italian itinerary for the Garner, Hoar, Rist party. Following are some bits of information which Mr. Acheson may want to incorporate in the itinerary when completed.
2. The Banca d'Italia is Italy's central bank. The Banca Commerciale Italiana and the Credito Italiano are two of the three banks of "national interest," the third being the Banco d'Roma. This means that controlling interest in them is held by IRI and their operation is subject to government direction. The Banca d'America & d'Italia is one of the largest of the wholly owned private banks.
3. Pirelli is Italy's largest producer of rubber products. Snia Viscosa is the largest producer of rayon and related products and is owned in large part by British interests. Montecatini is the Dupont of Italy dominating the field of chemicals and synthetics. Falck is the only Italian steel works not controlled by IRI. Fiat is a leader in automotive and plane manufacture, and controls a great part of its own raw material supply, including, for example, a steel mill. Ansaldo is controlled by IRI and is Italy's largest ship builder. TERNI is the largest producer of electric power. I am not familiar with Cotoni Fi Cio Alcese which is a producer of textiles.
4. IMI (Istituto Mobiliare Italiano) and IRI (Istituto per la Ricostruzione Industriale) are the Italian counterparts of the American Reconstruction Finance Corporation. IMI is principally a lending agency and does not as a rule acquire an equity interest in the firms which it assists. The Export-Import Bank has utilized IMI as its disbursing agency for the \$100,000,000 loan of 1946. IRI has a controlling interest in many Italian industrial firms and in the three largest Italian banks. It virtually dominates the steel and shipbuilding industries.
5. I note that the draft calls for insertion of the first names of certain industrialists. I do not know all of these names and I doubt if I can procure them in time to meet the dead line you have set. I suggest that the list be made up using only surnames and the word Signor.
6. I have never heard of Senator Renaldi. The Giordani classified as industrialist must be one of several brothers who are prominent in Italian industry but I cannot identify him further. I believe that the other individuals named are identified by their position in the government or industrial firm.
7. Misspellings should also be noted in the case of Signor Faina and Signor Mattioli.

FILE COPY

Mr. A.S.G. Hoar

May 17, 1948

J. M. Penton

European Trip: France and Belgium

France

I suggest that these people should be contacted also:

M. Leon Jouhaux	Force Ouvriere (at Conseil Economique)
M. Monick	Governor, Banque de France
M. Bolgert	Banque de France
M. Georges Villiers	Head of the Association Patronale

The office in Paris knows M. Villiers and he can suggest and arrange visits to French industries.

If you have time, it might also be interesting for one of you to visit Mr. Ronald Fraser, who is the Commercial Minister at the British Embassy. He has been there since 1945 and has a good knowledge of industrial and commercial conditions in the country. He would also be able to bring you together with several interesting people.

Mr. McCloy last year visited the Genissiat Dam on the Rhone. I have not seen it myself, but I understand that it is a striking example of what the French are able to do in the sphere of hydroelectric development. M. Villiers could arrange a trip up there if you wanted it.

You might also find it worthwhile to contact M. Moreau-Neret, who is the Director of the Credit Lyonnais and formerly Secretary-General of the Ministry of Finance. As you may remember, he showed interest in the idea of the Bank's placing a dollar loan on the French market rather along the lines of the one which is under consideration for Belgium. He would also be able to tell you a good deal about banking and industrial conditions, as well as Government policy, seen from the outside (this is important in France).

FILE COPY

-2-

Belgium

I expect you will in any case be in contact with M. Frere, the Governor of the National Bank of Belgium, as well as M. de Voghel, who is a Director of the National Bank of Belgium and, of course, a Director of the IBRD. You should, I think, also see, if time allows, the Prime Minister, M. Spaak, the Minister of Finance, M. Eyskens, and M. de Barcy, who is the head of the Commission Bancaire. M. de Barcy will be able to tell you a good deal not only about internal credit conditions in Belgium, but also about the position of Belgian industry, since when companies wish to make an issue, they have to give him full details of their situation.

Mr. Garner, I understand, saw M. de Groot, the Minister of Re-equipment when the latter was in Washington recently. He would be able to arrange visits to textile factories and other industries.

I think you should also see M. Van der Rest, who is the head of the Belgian industrial association. He is in constant contact with all the heads of Belgian industry and would be able to put you in touch with some of them if necessary.

If time allows, it would be well worthwhile to visit the Port of Antwerp, which is an impressive sight. M. de Voghel would be able to arrange this visit.

If you visit any industries, I would suggest that you should go to the Liege basin where the firms which we are going to finance, i.e., Ougree Marihaye, Cockerill and Linalux, are situated. Ougree Marihaye might be the most interesting, especially as they have a chemical works also next-door to their steel works; but I think that all these visits are best arranged on the spot.

I attach a statement summarizing the current position in France and Belgium.

JMPenton/mvp

FILE COPY

Belgium

I expect you will in any case be in contact with M. Frere, the Gov-
 ernor of the National Bank of Belgium, as well as M. de Voghel, who is a Director
 of the National Bank of Belgium and, of course, a Director of the IFRD. You
 should, I think, also see, if time allows, the Prime Minister, M. Spaak, the
 Minister of Finance, M. Ryssels, and M. de Bary, who is the head of the Com-
 mission for Belgium. M. de Bary will be able to tell you a good deal not only
 about internal credit conditions in Belgium, but also about the position of Bel-
 gian industry, since when companies wish to make an issue, they have to give
 him full details of their situation.

Mr. Garner, I understand, saw M. de Groot, the Minister of Re-educat-
 ion when the latter was in Washington recently. He would be able to arrange
 visits to textile factories and other industries.

I think you should also see M. Van der Bunt, who is the head of the
 Belgian industrial association. He is in constant contact with all the heads
 of Belgian industry and would be able to put you in touch with some of them if
 necessary.

If time allows, it would be well worthwhile to visit the Port of
 Antwerp, which is an impressive sight. M. de Voghel would be able to arrange
 this visit.

If you visit any industries, I would suggest that you should go to
 the large basin where the firms which we are going to finance, i.e., Ourve
 Harlaye, Gockel and Linaux, are situated. Ourve Harlaye might be the
 most interesting, especially as they have a chemical works also next-door to
 their steel works; but I think that all these visits are best arranged on the
 spot.

I attach a statement summarizing the current position in France and

Belgium.

Rec - European Tour

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: 14th May 1948

To: E. W. HEMBERT
c/o Bank of Italy
ROME, ITALY

CLASS OF SERVICE DESIRED			
URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT: THANKS YOUR TELEGRAM 14TH AND INFORMATION stop GRATEFUL FOR ASSISTANCE BANCA D'ITALIA BUT HOPE THEY WILL NOT MAKE THINGS TOO CUT AND DRIED stop FOR YOUR INFORMATION GARNER WILL BE MORE ANXIOUS TO SEE PHYSICAL EVIDENCES OF WHAT IS HAPPENING AND TO TALK WITH INDUSTRIALISTS AND BUSINESSMEN THAN TO SPEND TIME WITH GOVERNMENTAL PLANNERS stop WE HOPE FORMAL ENTERTAINMENT WILL BE CUT TO MINIMUM.

HOAR

AND DEVELOPMENT
FOR RECONSTRUCTION

AUTHORIZED BY:

NAME A.S.G. HOAR
Assistant Loan Director
DEPT. Loan

MAY 14 2 34 PM 1948

INTERNATIONAL BANK

CLEARED BY:

142

DUPLICATE

* Rec. European Tour

DIFFICULT

174

DEBT: FROM INTERNATIONAL BANK
ASSISTANT GOV. DIRECTOR
NAME: V. S. G. HOVE

MAY 14 5 37 PM 1948

AUTHORIZED BY:

CHECKED BY:

FOR RECONSTRUCTION
AND DEVELOPMENT

HOVE

WILL BE CAL TO MINIMUM

TO SPEND TIME WITH GOVERNMENT BUSINESS AND WE HOPE FOR THE ENTIRETY

OF THAT IS HAPPENING AND TO LIVE WITH IMPROVEMENTS AND BUSINESSMEN THAT

FOR SOME INFORMATION WHICH WILL BE MORE VIGILANT TO SEE PHYSICAL EVIDENCES

WHICH D. ILLUSTRATE THAT WE WILL NOT MAKE THINGS TOO CAL AND DRYED AND

TEXT: THANKS FOR INFORMATION THAT AND INFORMATION AND CHECKED FOR ASSISTANCE

TO: HOME? ILLUSTRATE
c/o BANK OF INDIA
E. A. BERNARD

Date: JUNE 10 1948

DVA FELLOW	<input type="checkbox"/>	CODE PAGE	<input type="checkbox"/>
LEFT PAGE	<input type="checkbox"/>	RIGHT FELLOW	<input type="checkbox"/>
UNSEEN	<input type="checkbox"/>	DELETED	<input type="checkbox"/>
CLASS OF SERVICE DESIRED			

OUTGOING MIB

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

15

OFFICE MEMORANDUM

TO: Mr. A. S. G. Hoar

DATE: May 14, 1948

FROM: Orvis A. Schmidt

SUBJECT: Suggestions Concerning Germany

I. Persons in the American Military Government in Berlin

1. General Lucius Clay
Military Governor
2. Mr. Robert Murphy
Political Adviser to Military Governor
(rank of full Ambassador)
3. Mr. Jack Bennet
Finance Adviser to the Military Governor
(The Office of Finance Adviser includes the following groups:
Foreign Exchange Policy Group
International Finance Policy Group
Central Bank Group
Foreign Exchange Depository Group
Finance Intelligence Group)
4. Mr. Lawrence Wilkinson
Economics Adviser to Military Governor
(The Office of Economics Adviser includes the following groups:
Food and Agriculture Group
Industry Group
Communications Group
Transport Group
Research Control Group
Reports and Statistics Group)
5. Mr. Don D. Humphrey
Deputy to the Economics Adviser
(Acts as policy adviser for the Economics Division)

II. Persons stationed in Frankfurt

1. Mr. Clarence L. Adcock
(Formerly General Adcock who in 1945 served as
Deputy Chief of Staff G-5 in Frankfurt)
U. S. Chairman of Bipartite Zonal Commission
2. Lt. Gen. Sir Gordon Macready
U. K. Chairman of Bipartite Zonal Commission
3. Mr. William John Logan
Chief of the Joint Export Import Agency
(Commonly referred to as JEIA) which has charge of the
international trade of the Bizonal areas.

The Bipartite Commission and JEIA are the two bizonal operations in Frankfurt most likely to interest the party.

III. Suggestions Concerning Visit to the Ruhr

1. The headquarters of the U.S.-U.K. Coal Control Group is located at Dusseldorf (416 Hq C.C.G. (EE) BAOR 4) and the headquarters of the German Coal Administration is in Essen (Deutsche Kohlen Bergbau ~~L~~ertung)
2. The administrative and operating headquarters of the steel industry are also located in Dusseldorf and Essen respectively.
3. Should time permit and the party desire to drive by car from Frankfurt through the Ruhr and back, the following itinerary is suggested:

Frankfurt to Wiesbaden to Mainz and up the west bank of the Rhine through Coblenz and Bonn to Cologne. Cross over to Leverkusen (site of big I.G.-Farben plant) and up to Dusseldorf and Essen. Return to Frankfurt via Autobahn.

IV. Persons in Washington To Be Seen Prior to Departure

1. Mr. William Draper
Under Secretary of Army
(Prior to his appointment as Under Secretary of Army, General Draper was head of the Economic Division in Germany and Economics Adviser to the Military Governor)
2. General Charles F. Saltzman
Assistant Secretary of State in charge of Occupied Areas

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

WU D 98 **INCOMING WIRE**

Date of Wire MAY 14, 1948

To INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

From ROME

TEXT: FOR HOAR.

AM BOOKED TO ARRIVE WASHINGTON WEDNESDAY MAY NINETEENTH.
WILL HAVE DETAILS OF ALL PROJECTS SUBMITTED. IN PREPARING
ITINERARY SUGGEST MINIMUM OF TWO DAYS IN ROME ONE DAY IN
TERNI ON HYDRO PROJECTS ONE DAY NAPLES WEEK END IF POSSIBLE
ON STEEL MILL AND IRRIGATION PROJECTS AND TWO DAYS IN MILAN
FOR DISCUSSIONS. IF TIME PERMITS A DAY IN TURIN AT FIAT IS
DESIRABLE BANCA D ITALIA CAN MAKE ALL NECESSARY ARRANGEMENTS
AND APPOINTMENTS. WILL DISCUSS YOUR VISIT WITH THEM BEFORE
LEAVING. ADVISE IF FURTHER DETAILS REQUIRED PRIOR MY ARRIVAL.

FOR RIST.

HAVE BEEN TO PARIS AND GENEVA WITH SATISFACTORY RESULTS
PLEASE ADVISE MR. REMBER OF MY PLANS.

(M49) ?

E. W. REMBERT

ROUTING: MAY 14TH

ACTION copy to MR. HOAR & MR. RIST

INFORMATION copy to

Decoded by

AND DEVELOPMENT
FOR RECONSTRUCTION

INTERNATIONAL BANK

DUPLICATE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

WU D 98

MAY 14, 1948

Date of Wire

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.

To

ROME

From

FOR HOAR.

TEXT:

AM BOOKED TO ARRIVE WASHINGTON WEDNESDAY MAY NINETEENTH.
 WILL HAVE DETAILS OF ALL PROJECTS SUBMITTED. IN PREPARING
 ITINERARY SUGGEST MINIMUM OF TWO DAYS IN ROME ONE DAY IN
 TERNI ON HYDRO PROJECTS ONE DAY NAPLES WEEK END IF POSSIBLE
 ON STEEL MILL AND IRRIGATION PROJECTS AND TWO DAYS IN MILAN
 FOR DISCUSSIONS. IF TIME PERMITS A DAY IN TURIN AT THAT IS
 DESIRABLE BANCA D ITALIA CAN MAKE ALL NECESSARY ARRANGEMENTS
 AND APPOINTMENTS. WILL DISCUSS YOUR VISIT WITH THEM BEFORE
 LEAVING. ADVISE IF FURTHER DETAILS REQUIRED PRIOR MY ARRIVAL.

FOR RIST.

HAVE BEEN TO PARIS AND GENEVA WITH SATISFACTORY RESULTS
 PLEASE ADVISE MR. REMBER OF MY PLANS.

E. W. REMBERT

FOR RECONSTRUCTION
AND DEVELOPMENT

MAY 14 11 31 AM 1948

INTERNATIONAL BANK

MAY 14TH

ROUTING:

ACTION copy to

INFORMATION copy to

Decoded by

DUPLICATE

Alcon - European Tour

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: May 13, 1948

To: Mr. L. Svoboda
OR
Mr. E. W. Rembert
c/o Daroma
Bank of Italy
Rome

CLASS OF SERVICE DESIRED			
URGENT	<input checked="" type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT:

please

To assist preparation itinerary before departure Garner and party on European trip, cable immediately projects most suitable for inspection, name and position of persons concerned with each project indicating those you dealing with and those party might see, and other government, finance, or industry persons party might see. Hope soon receive more detailed air mail reports re projects and discussions.

Hoar

AUTHORIZED BY:

NAME A.S.G. Hoar

DEPT. Loan Department

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MAY 13 1 11 PM 1948

INTERNATIONAL BANK

CLEARED BY:

121

DUPLICATE

ДАНГІСЫДЭ

DEPT: FORM 100-1000000

INTERNATIONAL BANK

ИМЯ: А.С.С. ДОН

MAY 13 1 11 PM 1948

AUTHORIZED BY:

CHECKED BY:

FOR RECONSTRUCTION
AND DEVELOPMENT

НОМ

mirrored text (upside down)

TEXT:

Handwritten text and signature

DVA FELLEK	<input type="checkbox"/>	CODE BVLE	<input type="checkbox"/>
EUT BVLE	<input type="checkbox"/>	NICHL FELLEK	<input type="checkbox"/>
UBSEAL	<input checked="" type="checkbox"/>	DEFEKED	<input type="checkbox"/>
CLASS OF SERVICE DESIRED			

ОПІСОІНС МІВЕ

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

CROSS REFERENCE SHEET

DOCUMENT: Letter

DATED: May 11, 1948

REPLY May 12, 1948

TO: Mr. McCloy, President

FROM: Maurice Frere,
Bank for International Settlements

SUMMARY:

General assembly of BIS will convene in Basle on
June 14th, suggest representatives attend.

FILED UNDER: LIAISON-International Settlements, Bank for

CROSS REFERENCE: RECONSTRUCTION-European Tour

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

Date: **MAY 12, 1948**
To: **J. W. BEYEN**
HOTEL VERENAHOS
BADEN (NEAR ZURICH)
SWITZERLAND

CLASS OF SERVICE DESIRED			
URGENT	<input type="checkbox"/>	DEFERRED	<input type="checkbox"/>
FULL RATE	<input type="checkbox"/>	NIGHT LETTER	<input type="checkbox"/>
DAY LETTER	<input type="checkbox"/>	CODE RATE	<input type="checkbox"/>

TEXT: **WILL BE IN BASLE AM JUNE TWELFTH TO PM FOURTEENTH.**

GARNER

AUTHORIZED BY:

NAME

DEPT.

McR

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MAY 15 3 31 PM 1948

INTERNATIONAL BANK

CLEARED BY:

124

DUPLICATE

X

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

OUTGOING WIRE

CLASS OF SERVICE DESIRED	
<input type="checkbox"/> URGENT	<input type="checkbox"/> DEFERRED
<input type="checkbox"/> FULL RATE	<input type="checkbox"/> NIGHT LETTER
<input type="checkbox"/> DAY LETTER	<input type="checkbox"/> CODE RATE

Date: MAY 12, 1948
 To: J. W. BEYER
 HOTEL VERBAHNS
 BADEN (NEAR ZURICH)
 SWITZERLAND

TEXT: WILL BE IN BASEL AM JUNE TWELFTH TO PM FOURTEENTH.

CARRIER

AUTHORIZED BY:

NAME

DEPT.

FOR RECONSTRUCTION AND DEVELOPMENT

MAY 12 3 31 PM 1948

INTERNATIONAL BANK

DUPLICATE

CLEARED BY:

154

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

RC2 NLT

Date of Wire **MAY 12, 1948**

To **ROBERT GARNER
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
WASHINGTON, D.C.**

From **ZURICH**

TEXT:

**HAVE HEARD YOU INTEND BEING BASLE JUNE 13TH JUST MISSING ANNUAL
MEETING BIS. VENTURE TO SUGGEST YOU CHANGE PROGRAM AND PARTI-
CIPATE MEETING YOU WILL FIND IT HIGHLY INTERESTING WHILST
GESTURE WILL BE MUCH APPRECIATED FORGIVE MEDDLING REGARDS.**

BEYEN

MAY 12TH

ROUTING:

ACTION copy to **MR. GARNER**

INFORMATION copy to

Decoded by

RECEIVED
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MAY 15 15 05 PM 1948

INTERNATIONAL BANK

DUPLICATE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INCOMING WIRE

RCS M.L.T.

Date of Wire MAY 12, 1948

To ROBERT GARNER
 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
 WASHINGTON, D.C.

From ZURICH

TEXT:

HAVE HEARD YOU INTEND BEING BASLE JUNE 13TH JUST MISSING ANNUAL
 MEETING BIS. VENTURE TO SUGGEST YOU CHANGE PROGRAM AND PARTI-
 CIPATE MEETING YOU WILL FIND IT HIGHLY INTERESTING WILLST
 GESTURE WILL BE MUCH APPRECIATED FORGIVE MEDDLING REGARDS.

BEYEN

MAY 12TH

INTERNATIONAL BANK
 MAY 12 12 02 PM 1948
 FOR RECONSTRUCTION
 AND DEVELOPMENT

DUPLICATE

Decoded by
 INFORMATION copy to
 ACTION copy to MR. GARNER
 ROUTING:

Missions

Mr. Acheson

11th May 1948

A.S.G. Hoar

European Trip: France

When we come to putting our detailed arrangements together, will you please bring forward the following suggestions which I have received from Mr. Hoppenot:

1. He thinks that we must without fail see

Schuman

Meyer

Monnet

Guindey

Nathan

2. He does not think it will be worth our while visiting the textile mills in the Lyon area. For up-to-date textile operation, he refers us to Roubaix.
3. For steel, he has offered to write to Jean Raty and, for rayon textiles, to Bizot.
4. In case we are interested in champagne, he will also write to Voglé.
5. Mr. Hoppenot himself expects to be in France at the time we are there.

cc: Mr. Rucinski

ASGH/ts

Files

7th May 1948

P. Acheson

European Mission - Netherlands Phase

In a telephone conversation with Mr. Hoar yesterday, Mr. Koster suggested that the first day of the mission's stay in the Netherlands be spent in seeing people of Cabinet level. For the remaining two days Mr. Koster suggested that the mission split up, each member examining those phases of the country's economic life in which he was most interested i.e., Mr. Garner might see industrialists and factories, Mr. Rist, those officials dealing with planning and Mr. Hoar, bankers.

Mr. Koster told me yesterday he would cable his Government concerning the visit of the mission and would convey to it Mr. Garner's desire for the mission's visit to be as informal as possible. He said that Mr. P. Liefstinck, the Dutch Minister of Finance, would see that hotel reservations for the mission in the Netherlands were made as soon as he knew the hour of the mission's arrival in The Hague. Mr. Liefstinck would also arrange for customs clearance for the mission when he knew where it would cross the frontier into the Netherlands.

I told Mr. Koster that the mission planned to leave Amsterdam by air for Frankfurt on June 4th and he undertook so to arrange the mission's schedule that we would spend the night of June 3rd in Amsterdam.

PA/ts

Miss Walton

OFFICE MEMORANDUM

DATE: May 5, 1948

TO: Mr. R.L. Garner

FROM: M.M. Mendels

SUBJECT: Forthcoming European Trip

(1)

Prior to his departure for Latin America, Mr. McCloy agreed that I formally advise the Governors of this Bank for the countries he would visit of his itinerary.

Do you wish similar advice to go regarding your forthcoming trip, when your itinerary is firm? Also, Sir Gordon Munro has requested permission to advise the United Kingdom Embassies in the countries you will visit of the respective dates of your arrival.

M. M. M. (3)
 file seen. wants
 E. H. S.

(2)

I am going to make arrangements thru the Ex. Dir. So think it is not necessary
 M.M.M.

ITALY

European tour

No date

1. Arrive Milan 11:55 PM Monday 14th June. Car will meet us at station. Accommodation arranged, probably at Continental Hotel. Office suite will be provided for us by Banca d'Italia.
2. Tuesday (15th) and Thursday (17th) to be occupied with interviews in and around Milan itself.

Suggestions

Sig. Vittorio Forte, Manager	Banca d'Italia (Central Bank)
Sig. Mattioli, Managing Director	Banca Commerciale Italiana
Sig. Giannino Stringher, Managing Director	Credito Italiano
Sig. Costantino T. Bracciani, Managing Director (Executive Director IRI)	Banca d'Rom
	(These are the three banks of "national interest", i.e. controlling interest in them is held by IRI and their operation is subject to government direction).
Sig. Alvino, Managing Director	Banca d'America & d'Italia (one of the largest wholly owned private banks)
Sig. Alberto Pirelli	Pirelli (largest producer of rubber products)
Sig. Marinotti	Enia Viscosa (largest producer of rayon and related products. Owned largely by British interests)
Sig. Faiva, Administrative Delegate	Montecatini
Sig. Morandi " "	(it dominates the field of chemicals and synthetics)
Sig. Falck	Falck Steel Works (the only steel works not controlled by IRI)
Sig. Ciccio	Cotoni FI Cie Ciccio (textiles)

3. On Wednesday (16th) the group might split into two parties:

One visiting Enia

Sig. Valletta, Chairman of the Board Fiat
 (leading automotive and plane manufacturer, controlling a great part of its own raw material supply, including a steel mill)

Sig. Campilli

Christian Democrat M.P., former Minister of Finance, Chief of Permanent Commission for ERP.

Sig. Marchesano, Director General of IRI
ISTITUTO per la Ricostruzione Industriale (IRI)

IRI and IRI are counterparts of the American EPC. IRI has a controlling interest in many Italian industrial firms and in the three largest Italian banks. It virtually dominates the steel and shipbuilding industries.

Sig. Giustiniano, Administrative Delegate of T.E.R.E.I.

T.E.R.E.I. is the largest producer of electric power.

Sig. Pascolo, Banca di Roma

Administrative Delegate

Prof. Francesco Giordani

Alternate Executive Director, IIRI

9. Embert has suggested we should visit the hydro-electric projects at Terni (60 miles from Rome) and, if possible, steel mill and irrigation projects at Naples (135 miles from Rome). Possibly the group might split to enable a visit to be made to enable a visit to be made to Terni, but it would not seem possible to be able to include Naples.
10. Leave Rome by air 3:00 PM on Monday 21st June by Air France.

Jour S. Garner
1948

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ROUTING SLIP

Date 5-1-52

TO-	Name	Room No.
1	Miss Georgina	209
2		
3		
4		

FOR-		
	Action	Initialing
	Approval	Preparing Reply
	Comment	Previous Papers
	Filing	Noting and Returning
	Full Report	Recommendation
	Information	Signature

REMARKS

For your files File
Jours Garner

FROM- L. Cathala

D I A R Y .

CENTRAL OFFICE OF INFORMATION

(TOURS AND FACILITIES SECTION.)

*Garner
Europe*

Programme of Tour Arranged for:-

Mr. Robert L. Garner, Vice-President of the International Bank for Reconstruction and Development.
Mr. A.S.G. Hoar, Assistant Loan Director.
Mr. Patrick Acheson, Secretary to Party.

Accompanied by:-

Mr. G.R. Young, H.M. Treasury.

SYNOPSIS OF TOUR

SUNDAY, JULY 4th. 4.30 p.m. Leave London (Euston) for Birmingham. Queen's Hotel.

MONDAY, JULY 5th. In Birmingham visiting Messrs. Alfred Bird & Sons, Austin Motor Co., G.E.C.

Evening. Dinner as guest of the Lord Mayor.

TUESDAY, JULY 6th. Visit to Messrs. John Garrington & Sons, Darlaston and Messrs. J. Wedgwood & Sons, Barlaston. By car to Manchester. Midland Hotel.

Evening. Dinner as guest of the Lord Mayor.

WEDNESDAY, JULY 7th. Visit Messrs. Tootal Broadhurst Lee & Co., Bolton. Lunch as guest of Liverpool Chamber of Commerce. Visit to Speke Trading Estate including Dunlop Rubber Co. & Distillers Supply Co.

5.25 p.m. Leave Liverpool (Lime Street)

9.20 p.m. Arrive London (Euston)

CHIEF REGIONAL OFFICERS

BIRMINGHAM Mr. DOUGLAS CRANSTON, O.B.E.
MANCHESTER Mr. GEORGE MOULD, O.B.E.

CENTRAL OFFICE OF INFORMATION, 62/64, BAKER STREET, LONDON, W.1.
Telephone: WELbeck 4120, Ext. 733.

1st July, 1948.

Programme.

SUNDAY, JULY 4th.

- 3.55 p.m. Cars will be at Claridges Hotel to transfer the party to Euston Station. Proceed to reserved compartment.
- 4.30 p.m. Leave Euston Station.
- 7.30 p.m. Arrive Birmingham (New Street Station) Met by Mr. Douglas Cranston, O.B.E. Chief Regional Officer, Midland Region, Central Office of Information, and escorted to Queens Hotel adjoining the station.
Evening free.

Accommodation provided in Queens Hotel.

MONDAY, JULY 5th.

- 9.15 a.m. Mr. Cranston will call at hotel with cars for visit to Messrs. Alfred Bird & Sons.
- 9.30 a.m. Arrive Derit End. Received by Mr. A.A. Miller, Managing Director and Mr. G.M. Lainbeer, Deputy Managing Director.
- 10.30 a.m. Leave Derit End for Longbridge.
- 11.00 a.m. Arrive Austin Motor Works. Received by Mr. L.P. Lord, Managing Director, Austin Motor Co.
- 12.30 p.m. Lunch as guests of the Company.
- 2.00 p.m. Leave by car for Whitton.
- 2.30 p.m. Arrive G.E.C. works. Received by Mr. J.J. Gracie, Managing Director.
- 4.30 p.m. Leave Whitton by car.
- 5.00 p.m. Arrive Birmingham.
- 7.00 p.m. to) Press Conference at Queens Hotel. ✓
7.30 p.m.)
- 7.40 p.m. Leave Hotel for Council Chamber.
- 7.45 p.m. for) Informal dinner party as guests of the
8.00 p.m.) Rt. Worshipful the Lord Mayor of Birmingham, Alderman J.C. Burman, J.P.

The following guests have also been invited:-

- Mr. Walter Higgs, President, Birmingham Chamber of Commerce.
- Sir Arthur Smout, Vice-President, Birmingham Chamber of Commerce.
- Sir Percy Mills, Chairman, Messrs. W.T. Avery Ltd.,
- Mr. W.H. Stokes, Chairman, Midland Region, Regional Board for Industry,
- Mr. A.F. Bradbeer, Deputy Lord Mayor.
- Sir George Nelson, Chairman, English Electric Company.
- Mr. L.P. Lord, Managing Director, Austin Motor Company.
- Sir Ben Smith, Chairman, National Coal Board, West Midland Region.
- Mr. John Wedgwood, Director, Messrs. J. Wedgwood & Sons.
- Mr. J.J. Gracie, Managing Director, General Electric Company.

TUESDAY, JULY 6th.

- 9.15 a.m. Mr. Cranston will call at hotel with cars and transport the party to Darlaston.
- 9.45 a.m. Arrive at Messrs. John Garrington & Sons Ltd., Drop Forging works. Received by Mr. L.P. Brooks, Managing Director and Mr. R.A.R. MacClelland, Director and Commercial Manager.
- 11.15 a.m. Leave Darlaston.
- 12.30 p.m. Arrive Messrs. J. Wedgwood & Sons, pottery works, Barlaston. Received by Mr. John Wedgwood. Lunch as guests of the Company.
- 4.00 p.m. Met by Mr. G. Mould, Chief Regional Officer, Central Office of Information, N.W. Region. Leave by cars for Manchester.
- 5.00 p.m. Arrive Manchester.
- Accommodation in Midland Hotel.
- 6.15 p.m. to) Press Conference at Midland Hotel. ✓
6.45 p.m.)
- 7.00 p.m. for) Informal dinner party at the Town Hall
7.15 p.m.) as guests of the Rt. Worshipful The Lord Mayor of Manchester, Alderman Miss Mary L. Kingsmill Jones, J.P.

The following have also been invited:-

- Sir Raymond Streat, C.B.E., Chairman of the Cotton Board.
Major J.H. Mandleberg, Chairman of the N.W. Regional Board
for Industry,
Sir Kenneth Lee, Bart, Chairman of Messrs. Tootal, Broadhurst,
Lee & Co. Ltd., Manchester.
Mr. R.M. Lee, Chairman of the Calico Printers Association.
Mr. E.W. Steele, Director and General Manager,
Messrs. Metropolitan Vickers,
Manchester.
Mr. W.L. Jones, Immediate Past President of Manchester
Chamber of Commerce.
Alderman W.P. Jackson, J.P., Leader of the Conservative Party.
Councillor T. Nally, Leader of the Labour Party,
Alderman Sir Miles Mitchell, Leader of the Liberal Party,
Councillor W. Onions, Chairman of the Finance Committee.
Alderman Colonel S.P. Dawson, Vice-Chairman of Finance Committee.
Sir William Kay, Former Lord Mayor of Manchester,
Philip B. Dingle, Town Clerk of Manchester.
Mr. J. Lythgoe, City Treasurer.
Dr. Metcalfe Brown, Medical Officer of Health.

WEDNESDAY, JULY 7th.

- 9.30 a.m. Mr. G. Mould will call at hotel with cars and escort the party to Bolton,
- 10.00 a.m. Arrive Sunnyside Mills of Messrs. Toctal, Broadhurst, Lee & Co., Ltd. Received by Mr. J.C. Tremayne, Director.
- 11.20 a.m. Leave Bolton for Liverpool.
- 12.15 p.m. to) Press Conference to be held in the
12.45 p.m.) Chamber of Commerce Offices, Old Hall Street, Liverpool.
- 12.45 p.m. for) Lunch as guests of the Executive Committee
1.00 p.m.) of the Liverpool Chamber of Commerce. Chairman, Mr. E.A.G. Caroe, Member of the Chamber of Commerce and Consul in Liverpool for Denmark and Iceland.

The following have also been invited:-

- Major, The Rt. Hon. The Earl of Derby, M.C., D.L.
- Lt. Col. Albert Buckley, C.B.E., D.S.O., J.P. Wool Merchant.
- Lt. Col. P.G.R. Burford, T.D., M.A., Secretary, Chamber of Commerce.
- Sir Henry T. Hancock, J.P. Canned Goods Importer.
- Mr. Dan Tobey, J.P. " " "
- Mr. A. Temple Dobell, Timber Importer.
- Mr. F. Hugh Jackson, Shipping and Forwarding Agents.
- Mr. Frank W. Irving, Warehouseman.
- Mr. Arthur D. Dean, Solicitor.
- Mr. R.C. de Zouche, Chartered Accountant.
- Major R.H. Thornton, M.C. J.P. Shipowner.
- Mr. W.H. Perry, Provision Merchant.
- Mr. R.B. Stockdale, Road Transport.
- Mr. G.E. Carr, Bank of England.
- Mr. H. Jackson, Barclays Bank.
- Mr. J. McKendrick, Martins Bank.
- Col. Alan C. Tod, C.B.E., T.D., D.L., J.P. Royal Insurance Co.,
- Sir James Simpson, " " "
- Mr. R.J. Hodges, General Manager, Mersey Docks and Harbour Board.

- 2.15 p.m. Party will leave by cars for Speke Estate, accompanied by Mr. J.P. Phoenix, Information Officer, Liverpool Corporation.
- 2.45 p.m. Arrive Dunlop Rubber Co., Speke. Received by Mr. D.B. Collett, General Works Manager.
- 4.00 p.m. to) Visit the Distillers Supply Co., Ltd.
4.30 p.m.) (manufacturers of Penicillin).
- 4.45 p.m. Leave by cars for Liverpool.
- 5.25 p.m. Leave Liverpool (Lime Street). Reserved Compartment. Dinner on train.
- 9.20 p.m. Arrive London (Euston Station). Met by cars and transferred to Claridges Hotel.

REFERENCE DIVISION. Central Office of Information, London

Notes on Provincial Cities:- 1. BIRMINGHAM. Warwickshire

Area: 51, 147 acres

Population: Approximately 1,125,000

Birmingham, the second largest city in England and the chief centre of the hardware trade of the world is a City and County Borough, governed by a Municipal Corporation which is headed by the Lord Mayor and a Council of 136 members.

Main Industries: Within the boundaries of Birmingham there are 1,500 trades of a widely diversified character, ranging from heavy and light engineering, motor cars, motor cycles, power presses, to the manufacture of cheap jewellery, wireless sets and plastic goods.

Principal Social Services: Noted for its civic administration, Birmingham provides many public and social services, among the chief of these being health, public baths, libraries, art galleries, education, housing, salvage, parks, gardens and golf courses. The city led the way in town planning schemes and the first section of a new Civic Centre is completed and in use. Birmingham has a fine Municipal Orchestra which, throughout the season, gives at least two concerts a week in the Town Hall. The Shakespeare Memorial Library contains 32,000 volumes relating to Shakespeare in 57 languages. The Corporation established (in 1919) the first Municipal Bank in the United Kingdom; the amount standing to the credit of depositors in 1945 being nearly £68,000,000. There is an Information Bureau for the use of tourists at the Council House. The Municipal Airport was opened in July, 1939.

Quote No. R. 1414/9
Date: 14.6.48

Reference Division, Central Office of Information, London

Notes on Provincial Cities and Towns: 9. LIVERPOOL, Lancashire

Area: 27,364

Population: About 751,898 (1947)

Liverpool, known as the "City of Ships", is the second largest seaport in the world. During the war it was the headquarters of the Commander-in-Chief, Western Approaches, from which the great ocean convoys of Allied ships were directed. The Mersey Tunnel for vehicular traffic, the greatest of its kind in the world, connecting Liverpool and Birkenhead and costing nearly £8,000,000, was opened to traffic in July 1934. In 1946-47 over 4 million vehicles passed through it. The City is governed by a Municipal Corporation headed by a Lord Mayor.

Main Industries: The Mersey Docks and Harbour Board administer the Dock Estate at Liverpool and Birkenhead, covering an area (land and water) of 2,040 acres. The heavy chemical industry is located in and near Liverpool, which is the premier chemical exporting centre in the world. Merseyside is the greatest flour milling centre in the United Kingdom. Other industries include shipbuilding yards, ship repairing and engineering works, oil and seed-crushing mills, tobacco, sugar refining, tanning, rubber, metal foundries and breweries, the manufacture of matches, biscuits, vegetable canning, jams and marmalade, sauce, pickles, borax, chocolates and confectionery, dry soap, bobbins for textile industries, automatic telephones, electrical equipment, wireless apparatus, artificial silk stockings, clothing, tropical wear, overalls, uniforms, rope and twine, leather belting, toys, organs, other musical instruments and Meccano. In addition to the industrial areas already developed at Fazakerley and Speke, the Corporation have recently taken over the site of the Royal Ordnance Factory at Kirkby and are developing it as a Trading Estate. The airport at Speke is admirably equipped.

Principal Social Services: Liverpool University, Walker Art Gallery (temporarily used as a Food Office), the Liverpool Playhouse Repertory Theatre (under Municipal control), hospitals, sanatoria, and clinics, "Torpenhow" open air school for pre-tubercular children, Seamen's Dispensary, Cottage Homes and Working Boys' Home, Coloured People's Welfare Society, British Council (Allied Centre) and Merseyside Council for Hospitality, Liverpool University Department of Social Sciences and Administration, Merchant Seamen's Welfare Society, Ocean Club and Mersey Mission to Seamen, Wavertree Community Centre and Victoria Settlement. Liverpool Cathedral is the only Anglican Cathedral built in the XXth Century.

Quote No. R. 1414/10
Date: . 25.6.47

Reference Division, Central Office of Information, London.

Notes on Provincial Cities:- 10. MANCHESTER, Lancashire

Area: About 27,260 acres

Population: 638,800 (estimated 1944)

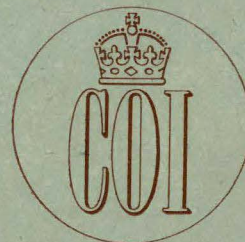
Manchester is a financial and transport centre for an area many times larger than itself; the rateable value of the district within a 15-mile radius of the centre of the City is £20,000,000. Although 54 miles from the open sea, Manchester has direct access to it by means of the Manchester Ship Canal (35½ miles long) and its ocean trade is of sufficient magnitude to make it one of the largest ports in the British Isles. Manchester is governed by a Municipal Corporation, headed by a Lord Mayor, and the City Council employs over 36,000 persons in its Services.

Main Industries: Manchester is probably the largest engineering centre in the country. Its products include locomotives, mobile Power stations, textile machinery, vehicles, civil and military aircraft and driving chains. It is the distribution centre of the cotton spinning and weaving of Lancashire for the whole world. Chemicals, clothing, rubber goods, cables, bricks, tiles, mosaics, adhesives, furniture, bedding, leather, tobacco, omnibuses, radio, are a selection of the many other main products.

Principal School Services: The municipal activities of Manchester are on such a scale as to invite favourable comparison with those of the largest cities in the world; notably the College of Technology, the High School of Commerce, the School of Art and the Training School for Domestic Economy; special schools for handicapped children, play centres, camps and welfare provision, as well as adult education courses and youth service arrangements. Manchester claims to be the birthplace of public libraries, and these, including the famous Rylands Library, to-day contain over 1,000,000 volumes. The Corporation is developing the Wythenshawe estate as a satellite town, and extensive planning proposals for the whole of the City are under consideration. The water supply is drawn from the English Lake District of Cumberland and Westmorland. The "Manchester Guardian" newspaper exercises an important influence throughout the English-speaking world. It is claimed that Kemsley House, Withy Grove, the home of Kemsley Newspapers, is the largest newspaper office in the world. Among music lovers, Manchester has long been famous as the home of the Halle Orchestra.



CENTRAL OFFICE OF INFORMATION



Tour Programme

CENTRAL OFFICE OF INFORMATION HEADQUARTERS

Norgeby House, 83, Baker Street, London, W.1
Telephone: *WELbeck* 4420. Telegrams: *Centroform, London*

TOURS & FACILITIES SECTION

62-64, Baker Street, London, W.1
Telephone: *WELbeck* 4420. Extensions 733, 218, 103 & 5

REGIONAL OFFICES (*England*)

1. NORTHERN..... Metrovick House, Northumberland Road,
Newcastle-upon-Tyne, 2.
Telephone : Newcastle 27351-2.
2. EAST & WEST
RIDINGS..... 7, Wetherby Road, Leeds, 8.
Telephone : Leeds 58241-2-3.
3. NORTH MIDLAND Sherwood Buildings,
Sherwood Street, Nottingham.
Telephone : Nottingham 46221-2-3-4.
4. EASTERN Leighton House,
Trumpington Road, Cambridge.
Telephone : Cambridge 55461.
5. LONDON 70, Victoria Street, London, S.W.1.
Telephone : Victoria 4424.
6. SOUTHERN Leopold House,
Tilehurst Road, Reading.
Telephone : Reading 60226-7-8-9.
7. SOUTH WESTERN 15, Belgrave Road, Bristol, 8.
Telephone : Bristol 37026-7.
9. MIDLAND Lombard House, Gt. Charles Street,
Birmingham, 3.
Telephone : Central 7234-5.
10. NORTH WESTERN 3, Cross Street, Manchester.
Telephone : Deansgate 2173.

HEAD OFFICE FOR WALES

8. WALES 2, Cathedral Road, Cardiff.
Telephone : Cardiff 9213.

LIAISON OFFICES *in Scotland & N. Ireland*

- SCOTLAND Scottish Information Office,
St. Andrew's House, Edinburgh, 1.
Telephone : Edinburgh 33433.
Sub Office,
95, Bothwell Street, Glasgow, C.2.
Telephone : Glasgow Central 9584.
- NORTHERN IRELAND Government of Northern Ireland,
Press & Publicity Office,
Stormont Castle, Belfast.
Telephone : Belfast 63210.

DIARY

Saturday, May 22, 1948

at 6:00 am.

Hoar, Rist, Acheson and I sailed from New York aboard the Queen Mary. On board I met Stewart MacDonald, Assistant Treasurer of Warner Brothers Pictures; and Mr. Joseph K. Westreich; Major and Mrs. (Opal) Herbert P. Holt; Mr. and Mrs. A. B. See; and Mr. Alberto Pirelli.

Thursday, May 27

We disembarked from the Queen Mary about 9:00 am. by tender, reaching Cherbourg about 9:30 am. We left for Paris by the boat train at 11:10 am, arriving at 4:45 pm. We were met at the Gare St. Lazare by Legh-Jones of the Paris office and Martin Rosen of the Economic Department, at present on loan to ECA. We left the Gare du Nord for Brussels at 6:30 pm.

We reached Brussels at 10:35 pm. and were met at the station by M. de Voghel, Directeur of the National Bank of Belgium and Executive Director of the IBRD, and M. de Bievre, of the National Bank of Belgium, who was to act as liaison. I drove with M. de Voghel to the house of M. Maurice Frere, Governor of the National Bank, with whom I was to stay. The rest of the party stayed at the Plaza.

Friday, May 28

In the early morning, I had a few minutes' talk with Governor Frere. Then, with Hoar, I saw M. Vandeputte, Administrateur-Directeur of the Societe Nationale de Credit a l'Industrie at 10:15 am. M. Vandeputte described the function and method of working of the S.N.C.I.; He stated that the S.N.C.I. did not seek out borrowers but waited for them to come to it. If an industrial project for which financing was requested were opposed by the Ministry of Reconstruction, the S.N.C.I. would not make the loan: Otherwise the activities of the S.N.C.I. were not in any way integrated with government planning. M. Vandeputte said that Belgian industry was well managed. The management was flexible as to ideas, aggressive in negotiation, hard working and technically very competent. He stressed that industry needed capital for modernization and said that the S.N.C.I. had had direct experience of its loans leading to reduced costs (economy of manpower) and reduced prices. As regards ~~industrial working~~ capital resources, M. Vandeputte said that high prices in the post-liberation period had permitted Belgian industry to earn large sums and that a policy of paying small dividends had permitted (a) the reconstitution of working capital which had been reduced by Gutt's deflationary measures and (b) the accumulation of funds for reconstruction and modernization. The restriction of dividends had been deliberate for these purposes but had also been encouraged by the pressure of taxation. Consequent upon the low dividend policy (on top of political uncertainty), the public was not inclined to invest in industrial securities. Savings went into savings banks, where they were available for public but not for private borrowing. M. Vandeputte added that dollar loans were sought by Belgium only because the U.S. was the only source of supply for certain necessary equipment. Belgium would welcome American firms entering into association with Belgian enterprises to develop new industries, such as the production of household appliances and automobiles.

Friday, May 28 (cont.)

12

At 11:30 a.m., I went with Hoar to see M. de Munck, Vice President of the Banque de la Societe Generale. He stressed that Belgian industry had had two good years but was now facing a more difficult period. He confirmed what Vandeputte had said about the competence and hard work of the Belgian industrialist but emphasized that the latter liked big profits. An adjustment to world prices must come and the process would not be easy.

I then called on M. Gaston Eyskens, Minister of Finance.

He expressed disapproval of the attitude of the Bank. He felt it was unreasonable to ask for Parliamentary ratification and the negative pledge in view of the size of the loan requested and of the fact that these points had only been brought up at a late stage of the negotiations. I told him the negative pledge was something that had been incorporated in all our other loan agreements and that I had assumed this fact was known to the Belgian Government. I explained to him the importance of having certain clauses, such as those containing the negative pledge and the consultation provisions, in all of our contracts. As regards the Belgian Government's legislative procedure, I suggested that legislation be in general terms, providing for some larger amount than that now asked and omitting specific reference to any particular projects. He agreed that this approach might be possible though he continued to argue the political difficulties. I told him that that was his affair.

M. Eyskens said that his 1948 budget would be balanced, including reconstruction expenditures, and that other public works he expected to cover through a Treasury loan of two billion francs.

I asked M. Eyskens what he was doing to reduce the deficit of the State Railways. He told me that its personnel had been cut from 107,000 to 93,000 men. The deficit would be reduced from 200 million francs to 100 million francs this year. He also admitted the importance of reducing the number of government employees and claimed that he was putting pressure on to this effect.

Governor Frere gave a luncheon party at the National Bank at 1:00 p.m., at which the following, in addition to the members of our party, were present:

National Bank of Belgium

M. Maurice Frere, Governor
M. Adolphe Baudewyns, Vice-Governor
M. Jean Van Nieuwenhuyse, Directeur
M. Franz de Voghel, Directeur
Mlle. Elisabeth Malaise, Secretaire de Direction

M. Gaston Eyskens, Ministre des Finances
M. Paul De Groote, Ministre de la Coordination Economique
et du Reequipement National
M. G. Moens de Fernig, Ministre du Revitaillement et des
Importations

Friday, May 28 (cont.)

- M. J. Duvieusart, Ministre des Affaires Economiques et des Classes Moyennes
 M. le Baron J.C. Snoy et d'Oppuers, Secretaire general du Ministere des Affaires Economiques et des Classes Moyennes
 M. R. Lefebure, Secretaire general du Ministere des Finances
 M. A. Magain, Chef de Cabinet du Ministre des Finances
 M. H. Janne, Chef de Cabinet du Ministre de la Coordination Economique et du Reequipement National
 M. Ch. Roger, Chef de Cabinet du Ministre des Affaires Economiques et des Classes Moyennes
 M. Max Suetens, Directeur general du Commerce Exterieur aux Affaires Etrangeres
 M. O.M. Gerard, Directeur general adjoint du Commerce Exterieur aux Affaires Etrangeres
 M. M. Masoin, Conseiller Financier du Ministre des Finances
 M. J. Valley, Conseiller du Ministere du Reequipement National
 M. Roger Ockrent, Secretaire general du Plan Marshall en Belgique
 M. E. G. de Barsy, President de la Commission bancaire
 M. A. Dewandre, Membre du Conseil de Regence de La Banque Nationale de Belgique
 M. R. Vandeputte, Administrateur-Directeur de la Societe Nationale de Credit a l'Industrie.

During the course of the lunch M. Eyskens returned to the attack on the Bank's attitude about the loan and Hoar was similarly attacked by MM. Vandeputte & de Groote. After luncheon, MM. Vandeputte and de Bievre took Hoar and me to Liege to see the Ougree Marihay plant. We were received by M. Bostem, Directeur general, and M. Herlin, Directeur general adjoint. We were shown around the works by M. de Soer, Chef des Service de la Metallurgie, and several of his assistants. We were favorably impressed with the management and particularly with M. de Soer. The latter has paid frequent visits to the U.S. and seemed to be familiar with the best steel practices. He is a man of great energy and drive.

We saw the blast furnaces, rolling mills and electrical generating plant. There had been great damage during the war from bombing, particularly by V-1 bombs, 14 of which landed within the area of the works. A good deal of the bomb damage has already been made good. The whole plant showed evidences of excellent organization and work was proceeding very actively. Production continues 24 hours a day in three 8-hour shifts, the workmen doing a 48-hour week.

M. de Soer stressed the economies which would be effected by the new blooming mill and sheet mill, for which Ougree Marihay wished to borrow. Construction is already proceeding and he urged the importance of getting the loan through quickly in order to place orders for equipment. In the general field, M. de Soer seemed to be quite conscious of the importance of cost reduction, both from improved equipment and improved methods.

We dined at Liege at the Chapon Fin and then drove to the northern coalmining district where, near Eisdien, we saw a new village

Friday, May 28 (cont.)

being built for coalminers, consisting of good brick houses in the pine woods. The new village adjoins an old village with good shops and superior houses. Evidently the miners here, which include Italian importations, have excellent living conditions. We were told, incidentally, that the mines in this neighborhood, which operate with efficiency and profit, have an arrangement whereby they subsidise the higher-cost producers in the Charleroi area. This is a voluntary arrangement entered into by the coal industry itself as a measure to avert nationalisation.

On our return to Brussels about 10:30 p.m., we found Tchihatchef and discussed our itinerary for the Netherlands.

During the course of the day, Rist had been having conversations with M. de Voghel and with some candidates for appointment to the IBRD Economic Department.

Saturday, May 29

Hoar and I were again taken to Liege by MM. Vandeputte and de Bievre. We first visited the Fabrique National d'Armes de Guerre, where we were received by M. Joassart, Directeur general, and by M. Laloup, Directeur general adjoint.

We were conducted round the plant by M. Joassart, a dynamic personality who impressed me considerably. The plant is in excellent shape, as with Ougree Marihaye, and bore abundant evidence of the energy and activity of the Belgian workman. One interesting feature, to which M. Joassart referred, was that their technical school has a high attendance of workmen who wish to improve themselves with a view to promotion.

The works produce firearms, trucks and motor cycles and M. Joassart gave me to understand that later in the year he was likely to ask the S.N.C.I. to apply for an IBRD loan on his behalf for extension and modernization of the plant.

We were then taken to the head office of Linalux where we were received by M. and M.

We were shown diagrams explaining the Linalux system under which the current production of various industrial enterprises is linked together so that the excess and deficiency of supply by individual plants may be offset with considerable overall economy. We were also shown the main control room and obtained a very good idea of the high degree of efficiency of this organization. We were shown round by the engineer in charge of technical research, M. Hubert, who impressed us very much with his keenness for continual effort for improved efficiency.

Saturday, May 29 (cont.)

5

The Linalux people then took us to lunch, again at the Chapon Fin, and afterwards to inspect their generating station, adjacent to the John Cockerill plant.

At this point we proceeded to inspect the Cockerill plant itself, being received by M. Houbaer, the General Manager, who was accompanied by MM. Gevres and d'Heur, who were in charge of certain sections of the works. The plant is similar to that of Ougree Marihay and bears the same stamp of activity and good overall direction. In spite of the activity however, M. Houbaer admitted, as had M. de Soer of Ougree Marihay, that the efficiency of the individual workman was not more than 65 percent of prewar.

During the day, Rist had visited Louvain for discussions with some professor of economics there which, I gathered, were not particularly productive.

Rist, Acheson and I dined with M. Frere en famille. Hoar dined with M. Baudewyns, the Vice-Governor.

Sunday, May 30

M. de Bievre, Acheson and I drove to Ghent and Bruges, where we lunched at the Hotel du Duc de Bourgogne. After lunch we went by motor boat round the canals and visited the Beguinage and Memling Museum. We then went to Le Zoute and returned to Brussels at about 8:15 p.m.

Hoar and Rist had remained in Brussels to clear up odd items of work. Hoar saw Joint, the Commercial Secretary of the British Embassy, who confirmed our general impressions of the high state of activity in Belgium and of the probability that high costs of production would soon become a major problem. Joint gave a mild warning to be careful not to place too much reliance on Belgian statements and statistics in support of their own case, which, he said, were apt to be doctored or invented to fit the occasion.

Joint also said that the experience we had had of the Belgians continually sniping at the Dutch was symptomatic of their present attitude to Benelux. At the time Benelux was first discussed, in London during the war, the Belgians thought they had to deal with Holland as a wealthy country possessing a rich empire. Now that they had found that association with Holland was one in which they were more likely to be a contributor than a beneficiary, they were by no means so enthusiastic for it as they were in the early stages.

Rist left for Paris in the afternoon to act as the Bank's observer at the meeting of the Committee on Commerce and Inter-European Payments.

M. de Bievre, Hoar, Acheson and I dined at the Savoy Restaurant. The food was excellent

Monday, May 31

6

M. de Bievre, Hoar, Acheson and I left Brussels for Antwerp at 8:00 a.m. by car. We went to the branch office of the National Bank of Belgium where we picked up the manager, M. Neven. We then drove to the Townhall, where we were received by Burgomaster Craay-beeckx. After being shown over the Townhall by the Burgomaster, we proceeded to the port with M. P. W. Seghers, Alderman of the Port, who is also President of the Christian Workers Union, and M. Leemans, Director of the Port.

Here we boarded a steam launch, the Flandria II. We were received by the owner, M. Eugene van Marcke, and the Captain of the Port of Antwerp, Captain Van der Auwers. We proceeded up the Scheldt and made an extended tour of the harbor, which was in a state of great activity.

In the course of the tour we stopped to visit the shipyards of the Mercantile Marine Engineering Company, around which we were conducted by the General Manager, M. C. De Bievre (uncle of our National Bank liaison man). The whole installation bore the stamp of M. de Bievre's driving personality. There was much evidence of excellent organization, drive and hard work and we were considerably impressed.

On our way to lunch, at the Hotel de Londres, we stopped to see the Rubens house.

After lunch, we drove back to Brussels. At 4:00 p.m. we took off from Haren Airport in an Sabena Airline plane for Frankfurt, which we reached at 6:25 p.m. We drove out to our quarters in Kronberg Castle. Mr. Ivan Nyblad, who is connected with the Joint Export-Import Agency, and his wife dined with us at the Castle.

Tuesday, June 1

We had been told that arrangements for our interviews were in the hands of General B.L.Adcock, the U.S.Joint Chairman of the Bipartite Control Office. On telephoning General Adcock, however, we found that he knew nothing of our arrival or, indeed, who we were. Since we had been told that arrangements for our tour in the British Zone would be waiting for us in Frankfort, and that the British were in touch with whoever was to look after us in Frankfort, we proceeded to the British Headquarters. Here we were given a detailed schedule of the arrangements for us in the British Zone and were also put into touch with Mr. W.M.Kane, the Executive Officer to General Adcock, who was apparently, after all, expecting us.

We were then taken to the I.G.Farben Building and made contact with Mr.Kane. No arrangements of any kind had been made for us in the U.S.Zone and we briefly outlined to him what we wanted to do and the kind of people we wanted to see. Mr.Kane then set about making what arrangements he could.

Hoar and I had a few words with General Adcock but he had nothing to contribute beyond general expressions of willingness to assist.

We then saw Sir Cecil Weir, who is Adcock's opposite number, the British Chairman of the Bipartite Control Office. He expressed the opinion that, while things in Germany still remain very difficult, there had been a distinct lifting of morale and productivity during the last twelve months. He said that recorded production was now running at 50% of 1936 but that the real figure allowing for concealed activities was probably nearly 60%. The inadequate supply of food was still a handicap and anxiety about the impending currency reform both discouraged the workers and encouraged holders of goods to keep them off the market. The currency reform was now imminent and it was hoped that it would have a marked effect in increasing the flow of production, although, no doubt, there would first be a period of some dislocation. One of the main things hoped for was that, with a realistic currency available, once more hoarded goods would come forward into the shops for sale.

Sir Cecil mentioned that the incentive schemes to boost production had tended to be of very short-lived effect and, moreover, aroused a good deal of resentment in the trades to which they did not apply. He was keen, however, on providing the workers with as much incentive as possible and agreed fully that it would be wise to loosen up on import policy. He said that a recent importation of lemons from Italy, although it allowed a distribution of only one lemon per family had had a very noticeable effect. Hewould like to

abandon the rigid present formula of allowing German exports only against payment in Dollars to be used for the importation of capital goods or essential raw materials; he would allow the transactions to be worked out which would bring in articles of secondary importance. Indeed, he said that he would not shrink from barter although that was a word which Frankfort had tried to expunge from its vocabulary. He was confident that the industry of the German worker, combined with the remaining capital equipment, even after war damage and reparations deliveries, would permit production to rise rapidly once the machine got properly started. To do that, he regarded it as essential to enable the workers to buy things in the shops which went beyond their necessities.

He stressed the fact that one of the handicaps of the present German situation was the poor quality of the German leaders; in general they were only playing their third eleven.

We had lunch with Mr. Kane in the Casino, a restaurant for the bipartite staffs attached to the I.G. Farben Building.

In the early afternoon we had a discussion with Mr. Howard Jones (USS.), Deputy Chief of the finance group of the B.C.O., and several members of his staff, including Messrs. Brommage and Lisle (British). Jones told us that high taxation and rigid control of expenditure was now holding the budgets of all the Länder in balance. Taxation was extremely high, however, and some relief would be necessary if the currency reform was to have its full effect in encouraging production. With regard to the currency reform proposals he referred to Jack ~~Bennet~~ ^{Bennet}, the financial advisor to General Clay. He confirmed the impression we were already forming of over-rigidity in certain quarters in approaching financial and, particularly, foreign trade problems. He also confirmed what Sir Cecil Weir had said about the difficulty of getting Germans of good quality to accept any kind of responsible position.

Hear and I had dinner with John Logan, the U.S. Head of the Joint Export Import Agency, at his house at Falckenberg. Mrs. Logan was also present; Sir Cecil Weir; the Swiss Consul in Frankfort and his wife; Clark Denney (who, I think, is on the Legal Staff of the U.S. Military Government) and Mr. and Mrs. Hector Prud'homme. **Mr. Prud'homme is on the staff of General Clay's Political Adviser.**

In the course of the evening I had an extensive talk with Logan and found that he was very strongly in favour of loosening up on foreign trade. His views and Weir's appeared to be entirely in line. Nevertheless G.E.I.A. was finding it hard to make any change in the present rigid system. I gathered that the hard ~~work~~ ^{core} of resistance centers ~~was~~ ⁱⁿ General Clay and his advisors, Wilkinson and Bennet.

Wednesday, June 2

WBG ARCHIVES

At 9:30 am, Hoar and I went to see Prud'homme and had a lengthy conversation in which he spoke confidentially and very frankly:

1. He said that BICO encountered a number of difficulties with Washington arising from the fact that the State Department could not understand that JEIA did not have a large free working balance in dollars. The State Department were aware that JEIA had credit balances with banks amounting to the equivalent (at 20 May, 1948) of \$206 million. What they did not recognize was that against that sum contingent liabilities under letters of credit (\$180 million) and other offsetting items reduced the actual net total to \$18 million. Moreover, even the net sum of \$18 million included some amounts of sterling. He added that this net sum had been steadily declining for some time and showed us a statement for 20 April, 1948, when the equivalent figure was \$64 million.
2. He referred to a recent JEIA deal with Italy. The Italians were desperately anxious to export fruit and the Bi-Zone was, of course, anxious to get some. Nevertheless, it was not possible for JEIA to authorize the importation of Italian fruit as part of a trade agreement because present policy prohibited the Bi-Zone from exchanging goods for foodstuffs. In the circumstances, the difficulty had been got round by JEIA, by agreement with ECA, spending \$10 million in cash in anticipation of the grant of ECA funds to that amount and for that purpose. ECA has not yet reimbursed JEIA.
3. The Italian deal referred to in (2) above, according to Prud'homme, had had a curious consequence. JEIA's balances are normally held partly in sterling and partly in dollars, but there is an agreement under which, when JEIA's dollar balances run exceptionally low, the U.K. will convert sterling into dollars to raise the dollar proportion of the total. Recently, owing to the present low position of the account, and to the Italian deal in particular, the U.K. has converted certain sums of sterling into dollars. Thus the U.K. has, in fact, to this extent been financing ECA: Since the sums so converted are not reconvertible into sterling, the U.K. is naturally restive.

Prud'homme dilated at some length on the difficulties, indicated in the above numbered paragraphs, inherent in the rigid segregation of foreign exchange receipts and payments, but he said that the policy of not allowing the Bi-Zone to trade for foodstuffs arose from an undertaking given by General Clay to certain groups in Congress at the time funds were voted by Congress for the purpose of relieving distress and averting unrest in the Zone. As a condition of obtaining funds for that purpose, General Clay had apparently agreed that the proceeds of German exports would be used entirely for the importation of raw materials and capital equipment for the Bi-Zone.

Wednesday, June 2 (cont.)

At 11:30 am, we saw Lawrence Wilkinson, Economic Adviser to General Clay. He showed no sympathy at all for the idea of stimulating German production by the provision of incentives for the workers. He alleged that, in view of

- a) the virtual disappearance of all favorable invisible items in the German balance of payments;
- b) the loss, by war destruction and reparation deliveries, of so much capital equipment; and
- c) the enormous influx of refugees into Bizonia,

it was not possible to conceive of the German balance of payments being able to support the provision of any substantial amount of consumer goods by way of incentives within the foreseeable future. Therefore, he argued, the provision of any such incentives could only be made at an irrecoverable cost to the U.S. When pressed to justify this in detail, he hedged noticeably but did not budge from his rigid attitude. He was similarly antagonistic to any suggestion of anything approaching barter transactions, which he characterized as wholly excluded by policies laid down by Washington.

One interesting point, however, was that Wilkinson stated that, in conversations between General Clay and Senator Bridges and Congressman Tabor some three or four weeks ago, General Clay had been released from his undertaking to ensure that the proceeds of German exports would be used only for the importation of capital goods and raw materials for industry. It will be noted that this statement is in direct contradiction to what Prud'homme believes to be the situation: If Wilkinson was correct in his statement, it is evident that this important change in the situation has not been made available to the staff of General Clay's Political Adviser!

At 12:00, we had a very brief interview with Jack Bennet, Financial Adviser to General Clay. He told us confidentially that currency reform would be instituted before the harvest so that the German farmer may have a meaningful currency in return for his crops. He pointed out that, pending reform, there had been a slow-down in industry when there should have been a pick-up. He said that the reform would follow classical lines rather than attempt to cure all the ills of the world, which was what the German Economic Council desired.

At 1:10 pm, Hoar and I had a very short interview with General Sir Bryan Robertson, U.K. Military Governor of Germany. General Robertson spoke briefly in very general terms. He feels that there has been considerable improvement in the situation in the Bi-Zone, both as regards production and the general spirit of the people. He anticipates that the currency reform will cause substantial dislocation for a period but that the difficulties will be overcome and that, while certain risks will be run, the end result will be good.

He is sure the currency reform will be the signal for all sorts of trouble with the Russians but is confident that, if we hold firm, the situation will not get out of hand. He stressed this last point very heavily, saying that there would be a period of grave anxiety ahead, but that we must at all costs be firm.

From this point, he made a diversion to express his opinion that one of the major factors of difficulty at the present was the weakness of France, militarily, financially and psychologically. He thinks Western Europe will never be stable and strong so long as France is weak. He is encouraged by certain signs of movement towards a better position in France but recognizes that the full result cannot possibly be obtained quickly.

General Robertson is entirely in favor of the integration of Western Europe but stressed that all the divisions which have grown up with the centuries cannot be eliminated in a day. At the same time, he sees the necessity to work towards such integration and said that he hoped the U.S. would maintain a discreet but steady pressure to that end.

While we did not discuss the matter in detail, General Robertson is in favor of the provision of incentives to the Germans as a means of helping production. He would like to see all the flexibility of trade and payments in foreign exchange that can practically be exercised.

He impressed me as a strong man with imagination, breadth of vision and patience.

At 2:00 pm, Hoar and I saw General Clay for a short while. ^{Wilkinson} Lawrence joined us in the course of the interview. General Clay, without going into detail, reflected the same outlook as Wilkinson had done earlier in the day.

One interesting point made by General Clay was in connection with the deconcentration of the steel industry. On this matter he alleges the U.S. policy is against further splitting up but that the British are pressing for it. This is a point which might be checked up in Dusseldorf and London.

In the course of the afternoon, accompanied by Hoar and Acheson, I went to Wiesbaden to see Mr. Stanley H. Sisson, who is in charge of industry in the Military Government of Land Hesse. Sisson had with him Herr Walter Kassner, President des Landeswirtschaftsamtes fur Hessen, and they took us to see the Dyckerhoff cement factory. We were received by Harold Dyckerhoff, a young man who seemed to be the driving force in the concern; his brother Wilhelm, the production manager; Alexander von Engelberg and other officials.

They first of all showed us a number of charts of their plants' (a) coal allocations, (b) production, and (c) exports for the years 1936, 1938, and 1945, 1946, 1947 and the first half of 1948.

Roughly they produce three or four tons of cement for every one ton of coal. Therefore the severe shortage of coal in the occupation period is reflected in the production figures. Nevertheless, there has been a steady rise in coal allocations and a remarkable rise in exports in 1948: Indeed, on the basis of the first six months of 1948, the amount of cement they export this year should come very near their total exports in 1936. ~~Most~~ most of the 1948 production has gone to Holland and some to Latin America. This favorable result may be short-lived, however, if the foreign currency situation is not changed. Although, they stated, they could export every ton they produce, and more, they have no export orders beyond the end of this month because of the inability of their customers to pay in dollars.

A further interesting chart showed the age of their working staff: The bulk of their employees are now around 46 years of age, the ranks being extremely thin in the twenties and thirties. This last chart was an indication of the kind of troubles which may beset the German productive machine as the manpower shortage arising from the war becomes increasingly felt over the next ten years.

We then went on a tour of the works. These were badly damaged by bombs but have been substantially repaired and appeared in pretty good shape. The present labor force in the mills and shops were about 850 and we were told this was about 250 short of their pre-war working force. Except for the packing shop, the whole plant works two shifts a day. Harold Dyckerhoff said that they are very fortunate in having practically no labor troubles. This he attributes to two facts:

- a) He himself is the fourth generation of his family to be connected with the firm and many of his working people have seen longeservice and are even, some of them, in their second or third generation with the firm. He said that he had a nucleus of 300 or 400 on whom he could rely to stand by the firm in any circumstance so that they gave a strong core of stability.
- b) Their system of incentives (worked by a system of points for attendance, with a rising bonus for work in excess of the 48-hour week and on Sundays and carrying entitlement to such items as shoes and shirts at intervals) is working extremely well. Indeed, during the month of May, the workers voluntarily worked on three out of four legal holidays.

Incidentally, the workers are paid 95 pfennigs an hour for semiskilled work and up to RM 1.25 or RM 1.50 for skilled work. On this basis, two days' work is sufficient to enable a man to buy all the rationed food and other goods that are likely to be available to him. This is a clear indication of the good morale of the working people in this particular plant. As regards the efficiency of the labor force, for those parts of the plant where the operations are almost entirely mechanical, Harold Dyckerhoff said the efficiency was pretty nearly 100 percent of

pre-war: In the rest of the plant he would put it at 60 percent for the most part, with 30 percent or 35 percent in arduous work (such as where there is great heat) where the lack of physical stamina was most telling. He regarded this relatively high level of efficiency as something altogether exceptional in present-day Germany.

The plant generates its own electricity from a thermal plant (at present worked by oil imported from Holland) and has an arrangement whereby it feeds current into the town grid or takes current from it according to the ebb and flow of the works' demand. Dyckerhoff said that at the moment their power supply was adequate but that, if they should succeed in raising production further, they would be short for the time being. They have been promised a new boiler for the thermal plant in January, 1949 and they should then be able to take care of all their needs.

It was evident from what we were told that the Dyckerhoff concern is very active in seeking means to increase production. This was demonstrated not only by their operation of their incentives scheme but by various multi-cornered deals under which they have increased their coal supply beyond the official allocations. In all these operations they have certainly transgressed the law at many points but both Kassner and Sisson are prepared to close their eyes to these ~~conflicts~~ *infractions* because they know the result is increased production.

The production of this plant is about 850,000 tons a year. The same company has three other plants in the British Zone, which Harold Dyckerhoff said were operating at a rather higher level of efficiency than this one in Wiesbaden, and one in the French Zone which he said was working at a low level and is in some danger of dismantlement for reparations. These other four plants must be much smaller than the Wiesbaden one since the prewar total production of the firm was about 1,250,000 tons.

In a general conversation after the tour was completed, the Germans spoke of their anxiety about working capital, stressing the heavy pressure of the present taxation system and the expected denudation of cash resources when the currency reform went through. They asked about the possibility of foreign credits to help them and I said that I thought it would be a good long time before America would be prepared again to make credit available.

Thursday, June 3, 1948

14

At 9:30 am, Hoar and I saw Sir Eric Coates, who is

Sir Eric said that the currency reform scheme, when announced, would show a number of loose ends. This was to be regretted but was inevitable because of the small number of expert staff who had been available to work on it and ~~for~~ the inevitable complications of meeting German wishes so far as possible. In consequence, he anticipated that there would be considerable disturbance which might last for four or five months until things settled down into a new pattern adjusted to the circumstances. In particular, he anticipated difficulty with prices and budgets. It had not been possible to work out a new price structure and prices would just have to shake themselves down into adjustment with the new supply of money. He thought the effect might also be to tend to unbalance budgets but every effort would be made to avoid this: So far as the British Zone was concerned he had given orders that no budget estimates which envisaged a deficit would be accepted, although he recognized that in practice some unbalancing would probably be unavoidable. He was prepared to have things go considerably wrong for 1948 but hoped that, with luck, budgetary stability could be regained in 1949.

Sir Eric recognized that industry might be faced with a shortage of working capital. With this in mind, it had been agreed to set up a kind of RFC which would borrow from the public and, in the last resort, could look for subventions from the Laender budgets. Industries needing assistance would thus have recourse first to the ordinary commercial banking sources, backed by the support of the Laender central banks and, behind them, the Bank ~~de~~ Deutsche Laender, with the new RFC available in case of need. The RFC would lend at long, medium or short term. Sir Eric's opinion was that restriction on industrial activity will not arise from financial grounds but from the shortage of materials and equipment.

He recognized that the present insistence on dollar trading was leading to difficulties with the German export trade. He hoped for a gradual loosening up but, by implication, made it clear that he found opposition on the U.S. side. He himself would not be afraid of barter. He agreed fully with my remarks about incentives: He said that he thought rigid insistence upon value for value in terms of calories or utilitarian worth, for all foreign trade transactions, would lead to increasing diminution of trade and activity to the detriment not only of Germany but of all the rest of Europe.

At 11:00 am, I drove over to Hoechst to pay a visit to JEIA headquarters in the I. G. Farben plant, while Hoar saw Dr. Wilhelm Vocke, President of the Direktorium of the Bank Deutscher Laender. Before the German surrender Vocke was with the Reichsbank Direktorium in Berlin, and having been cleared politically, was brought out of Berlin by the British for use in their Zone.

Vocke was, of course, concerned about the possible effects of the currency reform measures. He was evidently aware of the main lines proposed but did not care to discuss them. Nevertheless it was evident that he was worried about the possibility of overrigidity

Being introduced into the banking system. He anticipated that the general public would at first hurry to withdraw whatever funds were left available to them in the banks and that the banking system, up to and including the Bank Deutscher Laender, would need to work with great flexibility in order to avoid trouble. In this connection he mentioned that the board of Germans who had worked out details of currency reform for the consideration of the currency authorities contained no central bankers nor experienced commercial bankers: it was headed by a man from a mortgage bank and consisted mostly of university professors. Vocke expects considerable dislocation for a few months but an eventual steadying down. Provided the banking system is left sufficiently flexible to meet the demands upon it, he does not anticipate any very serious danger. With respect to foreign exchange payments and foreign trade he hopes for increasing liberalization of policy.

At 11:30 a.m. I had a further conversation with Logan which followed the same general lines as on Tuesday evening. One interesting point however was that he said he was aware that General Clay had been released from whatever undertakings he had given in Washington with regard to the exchange of German goods only for capital goods and raw materials: the trouble was that in spite of that release, ~~however~~ General Clay refused to depart from his policy ~~hitherto~~ while the undertakings remained operative. In other words, this rigidity is voluntarily assumed by General Clay and not forced upon him.

At 12:00 I saw von Maltzan, the Head of VFW, who made the following main points:

1. The Germans are enclosed behind a barbed wire fence: they cannot get out of Germany to do business nor can foreign businessmen come in to promote trade.
2. It is impossible to sell for dollars and therefore it is necessary to develop a position whereby German products can be ^{exchanged} ~~sold~~ for many useful things which Germany needs.
3. He believes that his group of Germans should negotiate the trade agreements rather than have them done by the occupation authorities. He realizes the necessity for final approval by the latter.
4. Opportunity should ~~be~~ ^{be} given for foreign investment to come into Germany. He admits that this may be slow but the present prohibition is very bad psychologically.

At 12:45 p.m. I had lunch with Hoar and Acheson at the Casino where Mr. Wright was supposed to join us. However, he failed to appear. However, we saw him at 3:15 p.m. He is one of General Adcock's advisers. He made the following points:

1. At present levels of coal production transportation was no hindrance since, while coal production remained about level, transportation production was rising. The main shortage lay in wagons though there was a locomotive shortage as well.

2. Under the Potsdam Agreement, German barges were forbidden to operate outside the country. Consequently, importers had to pay for freight in dollars.
3. While the Ruhr was exporting coal, BICO was importing about 26,000 tons a week from the U.K. and some from Poland. The imported coal was low grade, thus permitting the high-grade Ruhr coal to be used in the manufacture of steel.
4. The French wanted Ruhr coal ~~exported to them~~ ^{brought to their ore, rather than} ~~vice versa,~~ although it took three tons of coal for two tons of ore. However the strength of the French position had been weakened by the ability of the U.K. to export coal.
5. The chief bottlenecks in steel production were coal and high-grade ore. Wright stated that the British did not want Germany to compete for Swedish ore which was the chief British source of supply.

At 4:30 p.m. Hoar and I saw Mr. J. C. Lynn, Deputy Chief of the Food and Agriculture Group. The main points we discussed with him were:

1. Crops were much better than last year. However, they were having some trouble with the potato bug. He had imported enough material four months ago to manufacture sufficient spray to cover a million hectares. He stated that a week or so ago the German officials responsible for the spray program had come to him to ask that spray be imported as none had been manufactured. Lynn had refused to import any spray, and now the spray manufacturers were working three shifts a day in order to try to produce the spray. The binder twine program had been similarly delayed by the Germans.
2. Lynn stated that there had been no serious deterioration in German health. The infant mortality rate was down to the prewar level while the disease rate is very little above prewar with the exception of TB; ~~which has risen~~ ^{even in the latter case the rise is not alarming.}
3. At the present time the Germans were getting about 1500 calories a day from rations and it was Lynn's opinion that they must be getting at least another 400 calories from other sources. About 800 calories of the rationed food came from indigenous production. It was hoped to raise this to 1000 as a result of this year's crop
4. Lynn stated that the cattle population was below the prewar level intentionally because they ate too much. Cattle were about 15% under 1938-39 while sheep were 14% above and pigs 45% under because they consumed as much grain as human beings. He also said that the bull population would have to be reduced as there were at present one bull to ten cows which he considered too high.

5. Last year BICO had attempted to estimate with the Germans 8 or 10 months in advance the food requirements of each Land. Food imports were based on these estimates. However, when the Germans fell down on the bread ration, the pressure from strikes was so great that more had to be imported. This, Lynn felt, only encouraged the Germans to produce less since they now believed they could always rely on the U.S. to provide more food and make up any deficit.

6. Lynn felt that ERP would be a step towards starting German trade with its neighbors. He told us that the lemons recently imported from Italy had had a tremendous effect on German morale even though the quantity had been very limited

This evening, Mr. and Mrs. Kane and Signor Carlo E. Giulini dined with us at Kronberg Castle. Giulini represents Italian industry in trading with Germany: he comes from Stresa.

Friday, June 4

At 8 a.m. we set off for Dusseldorf, travelling up the autobahn from near Wiesbaden. At Dusseldorf where we arrived at 10.45, we were installed in Yorkhouse, now British Officers Mess and formerly the Park Hotel.

At 11.30 we were received by Brigadier Noeb, the Regional Economic Officer for Land Nord Rhein Westfalen. We were conducted to the Information Room of the British Regional Control Office, situated in the Stahl Haus, former Headquarters of the Vereinigte Stahl Werke. Here we found assembled the following officers of Brigadier Noel's staff:- Colonel Barnard, Industry; Colonel Venn, Mechanical Engineering; Mr. Crooks, Metallurgic (Ferrous); Mr. McGlentic, Chemicals; Mr. MacLeod, H. & H.T.; Mr. Greensmith, Finance; Colonel Hall, T.D. Staff.

The information ^{room} is very impressive. A series of large bays is devoted to graphs, charts, pictures and other exhibits, comparing the pre-war position, the immediate post-war position and the present for a number of different aspects of each of the sections of economic, financial and social life in the Land. All the exhibits were well-done and told their story clearly. Brigadier Noel's staff went round with us and gave a very clear exposition in general terms.

We were entertained to lunch by Brigadier Noeb, the same people being present as are listed above.

At 2.15 p.m. we were taken by Colonel Hall to Duisburg and received by the British officials in charge. A motor launch was provided and we were conducted into the various ^{parts} berths of this large inland port. We saw a large number of rusted and damaged barges, mostly Dutch, which had been sunk by the Germans and raised since the Occupation. They had been patched up and were awaiting towage to Holland and elsewhere for repair. A large number of similarly damaged craft has already gone and there still remain a number to be raised. In view of the stagnation of trade the various berths were by no means fully occupied but there is great capacity available in spite of bomb damage. In the course of our tour we landed and inspected a large mechanical plant for receiving coal from railway waggons and delivering it, either as received or in a mixture, into adjacent barges.

At 6.15 p.m. Hoar and I met with representatives of the German Cabinet of the Land consisting of the following:- Minister Arnold, Ministerpräsident; Dr. Weitz, Minister of Finance; Ministerialdirektor **Renkers** (?), ^{from the} Minister of Economics; Minister Gnos, Minister of Reconstruction, and Minister Lubke, Minister of Food. These Germans made an extremely poor impression.

They would not give a direct answer in practical terms but talked generalities which contained a large element of wining and were nothing but political posturings. Here was abundant evidence of the third eleven to which Sir Cecil Weir had referred.

Dinner followed, at Yorkhouse, the following being present:- Brigadier Barraclough, Deputy Regional Commissioner; Brigadier Noeb, Regional Economic Officer; Mr. MacDonald, Regional Government Officer; Mr. Greensmith, Finance; Dr. Weitz, Minister of Finance; Dr. Hulse, Chairman of the Land Central Bank; Ministerialdirektor **Renkers(?)**; ^{of the} Ministry of Economics; Minister Gnos, Minister of Reconstruction, and Minister Lubke, Minister of Food.

At 9:00 a.m. Hoar, Acheson and I were taken to visit the UK/US Coal Control Commission at the Villa Huegel, near Essen. We were received by the Joint Chairmen, Messrs. Collins (British) and Estill (American) and joined by other members of their staff. We had a general discussion about coal problems which confirmed our previous impressions that the most important single thing to do to assist German industrial production to gain momentum would be to inject a substantial quantity of steel into the coal industry.

Evidently the Coal Control people have waged and are waging a fierce fight with the dismantling and reparations people. They told us of several absurdities. Subsequent checking led us to believe there was perhaps some exaggeration in their presentation of their case but there is no doubt that, on the whole, dismantlement is putting certain productive apparatus out of action during a critical period.

At 11:30 a.m. we met members of the Deutsche Kohlen Bergbau-
leitung (DKBL). In the course of discussion these men turned out to be of a very different stamp from the politicians we had met on Friday. I was particularly impressed with Herr Schirner, who took the lead and presented a most reasonable case, and Herr Vits, who acts as adviser to the Financial Officer of the Control. The other men present, all of whom were good, were Herren Schnitzke, Ahlers and Schmidt. The main points arising from the discussion were the following:

Coal Production

Herr Schirner gave as his reasons for the low production of coal the following:

1. Food question
2. Housingshortage
3. Lack of material for repairing mine machinery
4. The age of miners. The average age of miners before the war had been 38; it was now about 45. It was difficult to recruit young men because the old age pension for the second time in a generation could not be paid. This had been one of the great attractions of mining. The conditions in the Ruhr with regard to food and housing were worse than any other part of Germany.
5. Lack of discipline (because leading men were removed because they were leading men) denazification; and the question of ultimate ownership of the mines

Dismantling

Herr Schirner stated that factories were being dismantled which were essential to the development of the mining industry. He pointed out the contradiction between the dismantling program on the one hand and the Marshall Plan on the other: under the former people tried to stand in the way of the Germans when they were trying to help themselves.

Decartelization

Herr Schirner asserted that the Ruhr's industry had been built on coal. He felt it was wrong to cut the connections between the mines and the steel and chemical industries. About 75-85% of the mines had been linked up with these industries. It was brought out that the coal mines had operated at a loss before the war, all the profits having come from the end product -- steel.

Socialization of the Mines

The trade union leaders wanted the mines to be socialized. They ~~are~~^{are} not ~~be~~ convinced that the nationalization of the mines in the U.K. has not been a success. The miner himself does not care. All that he is interested in is having sufficient food for his family, a decent place to live and his pig, of which he ~~has~~^{has} been deprived because there ~~is~~ not enough food for it. Nothing would do as much for the miner's morale as the return of his pig to him.

Incentives

The Germans did not have much liking for the various incentive schemes which had been tried. They felt that such schemes could at best produce only temporary improvements. They would prefer a more gradual improvement which could be obtained by paying the miner his wages in money with which he could buy something that he wanted. Herr Schirner pointed out that production in the Saar had risen ~~terrifically~~^{substantially} since the miner ~~was~~ had been paid in francs with which he could buy all he wanted. In order for currency reform to be effective the shops must be full of goods.

Transportation

Herr Schirner stated that if there were any further increase in coal production the railways would be ~~unable~~^{unable} to transport it owing to the lack of locomotives. As it was, at some mines 10,000 tons of coal were loaded daily while 6000 tons were put on stock piles. Little could be transported on the inland waterways because of the shortage of barges caused by the lack of steel needed to repair them. Only 50,000 tons on the Rhine were ~~repaired~~^{repaired} during 1947 due to lack of steel, manpower, etc.

Steel

Under the present allocation scheme,

Herr Schirner asserted that four kilograms of steel were needed per ton of coal production and they were only getting half that amount. The first priority went to Transport, the second to coal and the third to power. He pointed out that there was also a shortage of limestone and good ore.

The Price of Coal

Coal prices in Germany had not changed from 1932 to 1948. Recently the price had been raised from 15 to 25 marks a ton. The cost of materials and wages ~~has~~^{has} risen to the extent that this increase in price would not cover depreciation and capital ~~expenditures~~^{service}.

Herr Schirner felt that if the price of coal for export purposes were set at from 40 to 45 marks a ton there would be no need for a subsidy to the coal industry.

Taxation

Taxation on individuals was at present so high that in many cases the managers of the mines received less in salary than the miners who worked for them.

After lunching with the officers of the Control at the Villa Huegel, we were taken to visit the Salzer-Amalie coal mine at the main Krupp works at Essen. We had only time to have a hurried tour around the surface works which had been badly damaged during the air raids but where a good deal of reconstruction has taken place. The General Manager, who showed us round, gave me some "before and after" photographs. Some charts he showed us demonstrated that there was ^{quick} recovery of production after air raids until after a couple of raids on Essen, (2000 tons in half an hour from the RAF ^{by night} and 1500 tons the next morning from the U.S. ~~SEA~~ Air Force dropped in ten minutes in March 1944 from then until the end of the war the production of this mine never recovered to any considerable extent

We were then taken to see the main Krupp works, four square miles of incredible devastation. We were received by Mr. Talbot, the Controller, and shown over ^{some of the} ~~the~~ shops, notably the locomotive shop. The latter contained a number of Reichsbahn locomotives under repair but no new building is going forward at present. Most of the works were in too smashed up a condition to be worth looking at: Talbot told us that from three shops alone 30,000 tons of debris had had to be removed before the machinery could be got at. He told us, incidentally, that Krupps' treatment of their conscript labor from the occupied countries had been atrociously bad. Another interesting point concerned German war preparations: Talbot told us that the specifications for the giant long-range gun which shelled Sebastopol, the "Schwerer Gustav", had been laid down by the Wehrmacht in 1936 when ^{specific} map readings were given for the gun sights which would be established!

After tea we were conducted over the Villa Huegel, an amazing example of vulgar ostentation.

In the evening Mr. Estill gave a party to which a number of Control officials and their friends were also invited.

A lasting impression of this day was the extremely good comradeship of the combined UK/US team on this Joint Control. They seemed to work together with perfect cooperation and considerable efficiency.

Sunday, June 6, 1948

With Hoar, was conducted over the Gutshoffnungshuette plant at Oberhausen by Mr. Crooks, Head of the Metallurgy (Ferrous) Section, and Dr. Graeff, the Works Manager. The blast furnaces and sheet mill were in better shape than the rolling mill but the whole plant was badly run down. There had been little structural damage by bombs but blast had perforated roofs and walls to the detriment of the equipment. One impressive feature was the age of much of that equipment. The sheet mill was built in 1901 and most of its equipment was installed at that time. Evidently economic conditions and political pressure stood in the way of modernisation between the wars.

Afterwards we lunched with Brigadier and Mrs. Noel at the Officers' Country Club of the 6th (Highland) Brigade at Mulheim.

We had dinner at York House with Colonel Venn, Head of the Mechanical Engineering Industries Section. Colonel Venn said the Coal Control people were inclined to exaggerate the detriment to Germany industry of the dismantlement program. He stressed that the total amount of plant to be dismantled was very small in proportion to the available productive capacity. Nevertheless he admitted that dismantlement meant reducing production to some extent during the present critical period and that it used up considerable manpower.

I tackled him on the allegation that the British had selected those plants for dismantlement which had been their keenest competitors. He said that the Germans were continually making that allegation but that it was entirely false. As an example, he took the boiler industry, in which he said that the most important units were Steinmuller and the Vereinigte Kesselwerke, both of whom had been fiercely competitive ^{with} Britain. Next came the Babcockwerke (which, it was generally agreed, could not in any case be touched because of foreign participation -- British and American), Walther and the Duerrwerke, all of which had been competitive to some extent. No dismantlement had been scheduled for any of these five primary plants. After them came Koerver und Loersch and Munk und Schmidt which had been so scheduled. Neither of these firms could by any stretch of the imagination be said to be competitive of the British industry: Indeed, before he came to Germany with the Military Government, he had never heard of them.

Monday, June 7

24

At 10:00 a.m. Hoar, Acheson and I met with the Metallurgy (ferrous), Manpower and the North German Iron and Steel Control Sections of the Regional Economic Office, in the Conference Room at Steel House. We had a general discussion, in which the following points were raised:

Decartelization

At the end of hostilities there were eight ~~companies~~^{combines} which controlled 95% of iron and steel production as well as a large number of mechanical engineering works. Under the Potsdam agreement, the iron and steel companies were taken away by the Military Government from the combines and set up as 25 new operating companies.

Brigadier Noel pointed out that whereas the U.K. at the start was not so earnest about decartelization as in getting going, pressure from the Quadripartite authorities had made them maintain this policy whereas the U.S. had now changed its policy.

Before the war, the Germans subordinated coal and raw steel industry to the needs of their end production. Coal and steel prices were not raised between 1932 and 1947. Consequently all the profit had come from the end production. Keeping the price ~~of~~ coal and steel low had prevented new competition from coming into the industry.

Fertilizers

There was a plan to meet nitrogen requirements by 1951, the main holdup being steel for construction.

Manpower

There was generally sufficient manpower, the main problem being that the productive capacity of the labor was poor because of food and housing problems.

Steel

The injection of imported steel into the German economy would, in Brigadier Noel's opinion have a salutary but not a great effect unless coal production could be increased or the export of coal stopped. The type of steel required was structural steel because Germany really could produce the other kinds. ~~Mr. Gardner~~^{Mr. Gardner} expressed the view that if sufficient steel could be obtained to minimize the breakdowns in coal mines, then coal production and consequently indigenous steel production could be increased.

Food

Mr. Youard thought that increased supplies of fertilizer rather than farm machinery would ensure greater food production since farms were small. The farmer wanted to be ~~sk~~ able to invest his money so that in ten years time he could have the farm equipment he wanted; hence the need for a stable currency. Much farm equipment was not in use

for lack of nuts and bolts. These might come onto the market as the result of currency reform.

The fat ration had improved morale far beyond expectation because the housewife could now vary dishes. There was no starvation but people were protecting themselves by working less hard.

Transportation

37,000 tons of coal had ^{on occasion} been lifted by truck a day to relieve pressure on the railroads. The figure at the present time was about 15,000 tons a day.

Oil

Crude oil production ^{was} ~~is~~ running about 600,000 barrels a year. There was a plan for importing Venezuelan crude for refining at Hamburg in order to reduce dollar imports but it had not yet been finalized.

The following were present at this meeting:

- | | |
|--------------------|-------------------------------------|
| Brigadier Noel | Regional Economic Officer |
| Mr. Young | Manpower |
| Mr. Harris-Burland | North German Iron and Steel Control |
| Mr. Holgate | Metallurgy (Ferrous) |
| Colonel Venn | Mechanical Engineering |
| Mr. McClintic | Chemical |
| Mr. Youard | Food and Agriculture |
| Colonel Barnard | Industry |

At 11:30 am we had a conference with the following local German officials:

- | | |
|--------------------------|------------------------------------|
| Prof. Dr. Noelting | Minister of Economics |
| Dr. Ewers | Economics Ministerium |
| Dr. Potthoff | Economics Ministerium |
| Herr Mueller | Verwaltungsrat fur Stahl und Eisen |
| Dr. Monden | " " |
| Dr. Schroeder | Treuhandverwaltung |
| Ministerialdirektor Ruhl | Ministry of Reconstruction |
| Minister Lubke | Minister of Food |
| Prof. Dr. Wilden | President of Chambers of Commerce |

Dr. Noelting acted as spokesman for the group. In answer to a question from me, he stated that the prospects for a continued increase in German production would depend on the future development of coal production figures. He had little faith in incentive schemes as a means of producing a steady increase in production. The main reasons for the decline in coal production figures he thought were (1) food and (2) lack of necessary technical equipment. He pointed out that in 1938 140 million marks was spent on developing the mines but it was his opinion that even this figure was insufficient to keep up production at that time so far as technical equipment was concerned. He felt that the present allocation of 100 million marks to the mines for a building program would be sufficient only for a production of 300,000 tons a day

He pointed out that 66 undertakings ancillary to the coal industry were on the list for dismantlement. He was afraid that Marshall Plan aid would not do as much good as it could because they would be unable to process as many goods as they had hoped

Dr. Noelting felt that currency reform would not automatically bring goods onto the market. He thought that people would first wait to see how reform developed. Production must be as great as current income. If people saw that the new currency was going to be of permanent value they would start saving money

It was impossible to elicit from the Germans present any information as to their plans for increasing production. They merely concentrated on the obstacles in the way of increasing production. Dr. Noelting said that they were looking into the fact that too many men were employed above ground and trying to see if more could not be employed at the face. He stated that the prisoners of war held by France and Belgium would mine 20,000 tons more than they were now producing. He stated that there were still 40,000 POW left in France and Belgium, most of whom were young men. If these young men were returned, it would be possible to release some of the fifty and sixty year olds. The greater part of the miners who had been POW had returned to the mines. Owing to geological reasons production per man per shift was greater in the Ruhr than in the French or Belgian mines, so from an economic point of view it would be better if they were returned to Germany though some were remaining behind because living conditions were better abroad than in the Ruhr if brought home

On the food question, the need for a greater supply of potatoes was emphasised because the German worker needed to have his stomach filled. It would be better to have more potatoes and less bread.

Apart from Dr. Lubke, these Germans were also present at a luncheon given by Major General W. H. A. Bishop, Acting Regional Commissioner, at York House. General Bishop is an intelligent, rather intellectual type of chap but apparently a good soldier. Like most of the other English, he feels that the Germans are going to need a strong hand, also that the English themselves have a hard row ahead of them and will need incentives to pull out of their present grim level of living. He says that his son at Cambridge and many of his associates are impatient at what he calls grandmother measures: they want opportunity rather than somebody to take care of them. This is encouraging if it is typical of the thinking of English youth.

In the afternoon Hoar and I were taken by Mr. McClintic to the I.G. Farben works at Leverkusen. We were shown round the laboratories where pharmaceutical preparations are packed (they are manufactured at another I.G. Farben plant at Wuppertal), the dye stuffs plant and sulphuric acid plant. The works had a certain amount of bomb damage but not too much. The bombing did, however, knock out part of their electrical generating capacity and they are now short of power and have to draw on the town supply. Normally they had been self-supporting. The works cover a great area and seem to be well organized. After our tour around we had tea with Mrs. Douglas Fowles, the wife of the Controller, Mr. Shaw

Mr. Fowles,

The deputy controller, and Mrs. Shaw, and Dr. Simpson, one of their assistants.

At 6:30 p.m. Hoar and I saw two German trades unionists, of whom one was Herr von Hoff, and discussed general Ruhr affairs. These seemed good solid men who did not present their views in any extreme way. They wanted nationalization of the mines but not, they said, state socialism on the Russian model. They said they had no personal animosity against Reusch but that he was unacceptable because of his identification with the prewar German class of Ruhr industrialists who had twice pushed Germany into war.

As regards decartelization, they insisted that, while some mines could well be split from other connected concerns, others could not. Each case should be considered on its merits. What was important was to preserve economic units; they wanted the mines to make profits so they could pay the miners good wages.

They were confident the currency reform would soon have a good effect on mine attendance and that the incentive of good currency with some goods to buy would steadily push up production. They said that they were against incentives for particular industries but would like it applied to types of work.

They thought that the Germans should have more voice than at present in the distribution of available food and in negotiations to get food from abroad. They said that the workers in the western zone were well aware of conditions in the Russian zone and that that fact was weighing steadily against communism; an average of something like 10% was all the support that communism could claim, and not all of that represented genuine ideological conviction.

In the evening Brigadier Noel gave a dinner at York House at which the following members of the North Rhine Westphalian Control were present:

Brigadier Noel
~~Mr. King~~
Mr. Harris-Burland
Mr. Holgate
~~Colonel Mann~~
~~Mr. Macdonald~~
Mr. Greensmith
Colonel Barnard
Mr. Angus Macdonald
Mr. Bate

Tuesday, June 8

28

This morning Hoar and I were taken by Colonel Venn, of the Mechanical Engineering Industries Section, to visit the Demag works at Duisburg and Rohde and Doerrenberg at Duesseldorf-Oberkassel.

The Demag machine works had little major bombing damage but lost a lot of glass and roofing, which is only being replaced very slowly. In many cases the shops are ~~so dark~~ ^{so dark} that it is difficult for the men to do their work properly; a difficulty which is increased by the short supply of electric light bulbs. We went through the forge, shops making heavy castings, shops making rolling mills, cranes, mining equipment, pneumatic rock drills, etc. There was a considerable quantity of heavy rolling mill equipment ordered before the war, mainly by Italy, and never delivered. Some of this latter may be fit only for scrap, since the main projects for which it was made have now been abandoned; other items, however, have recently been finished off and the sale to Italy (for dollars) completed. A large part of the output of this concern was formerly exported and many foreign exchange sales could now be made if only dollar payments were not insisted upon.

We were received by Dr. Reuter, General Manager of the Technical Directorate, and Dr. Schultze, Director in charge of agencies and personnel. Dr. Reuter is the best type of German we have met on this trip. Alert, energetic, intelligent and not afraid to speak his mind. Moreover, he is no whiner; he deplores the shortages and other difficulties but is prepared to go ahead and do what he can with what is available.

Reuter said that he did not find that the British control pressed upon him in any restrictive way as a control but that there was a vast amount of red tape, largely in the German end of the machinery, which caused an awful lot of delays.

He thought that the currency reform should have a quick effect, provided it were well planned; it would be absolutely necessary to the adequate stocking of shops to give the ~~holders~~ ^{holders} of the new notes immediate purchasing power. His staff, like those of other industrial concerns, was of too high an average age. Its efficiency was in diminishing ratio to the heaviness of the work involved. He said that communism was not strong in his works but that the leaders were young and energetic men ~~but~~ on the whole he had no trouble with the trades unions and he enjoyed their confidence.

In reply to an inquiry as to why first-class leadership was not coming forward in Germany, he stressed the danger which good men ran of their being attacked -- as Reusch had been attacked -- and as a consequence excluded from industry for perhaps 10, 15 or 20 years. Most such men preferred to wait another year, or two or three years even, to wait for more general stability. He thought that denazification should now be stopped; so long as it continued everyone in authority was in danger from denunciation by people with a grudge. As to the type of government which Germany could make work, he said that he felt it essential that there should be no more than two, or at most three, main parties. If there were a number of small parties trouble would be bound to result since, in such circumstances, small minorities can determine policy. By implication he criticised proportional representation.

Rohde und Doerrenberg have machine shops at Duesseldorf-Ober Kassel at which they manufacture twist drills of various sorts and sizes.

They are in the unique position of having had no bomb damage whatever and their works were a model of tidiness. We went round the various shops and the only point which calls for comment is the inferior light available for some of the machines. This is not due, of course, to blacked out windows as in the case of Demag but to the shortage of electric light bulbs for the special lamps employed.

We were taken round by Herr Doerrenberg who was the most pessimistic individual we had yet encountered. He insisted that hope had steadily declined in Germany since the occupation and that it was now at its lowest ebb. He did not agree that the increased fat ration, coupled with the possibility of ERP aid and currency reform, or the prospects of a good harvest gave any grounds for better feeling. His works were feeling the shortage of hard steel and consequently were able to compete very little in the export market; they had plenty of orders from within Germany. He expected little good of the currency reform and complained bitterly about prices, mentioning that milk for a mother and young baby cost 60 pfennigs a day. Later on he admitted, without turning a hair, that he charges his working people one mark a day for their midday meal (compared with anything from 30 pfennigs to nothing in most concerns which provide these meals). He said that taxation was crippling and that he himself paid no income tax since he had no income.

We were given a final lunch at York House by Brigadier Noel, at which Colonel Venn, Colonel Cantrell, Colonel Barnard, Major Cooper, Miss Boyle and Mr. Logan were present.

Cantrell and Logan, who were concerned with reparations and restitution, said that a good deal of what we had heard from various elements in Germany, including the Coal Control people, expressed exaggerated fears which did not take account of present unused productive capacity. At the same time, they made it clear that they felt it unwise to proceed further with dismantlements at this time both because of the loss of manpower and of the adverse psychological effect. Nevertheless, while their present instructions remain, they must continue to enforce the policy laid down and indeed do so.

INCENDATO

After lunch we drove via the old fortified village of Zoens and Cologne to the RAF station at Wahn. The sheer mass of the destruction in Cologne is indescribable. We went into the Cathedral which has suffered badly from blast but has, miraculously, sustained no serious structural damage. At Wahn we were met by Mr. Tchihatchef, Dr. E. A. Lieftrinck, Head of the Foreign Department of the Netherlands Ministry of Finance, and a representative of the KLM. We took off from Wahn about 6:00 p.m. in a DC-3 belonging to the KLM which brought us very comfortably to Schiphol Airdrome on the outskirts of Amsterdam at about 7:00 p.m. The pilot followed a circuitous route to give us views of the Philips works at Eindhoven, the ancient fortified town of Willemstad, the Island of Walcheren and the Port of Rotterdam.

THE NETHERLANDS

At Schiphol, which we reached about 7:00 p.m., we were welcomed by Dr. A. Treep, Treasurer General of the Ministry of Finance, Dr. L. W. R. Soutendijk, Financial Counsellor at the Netherlands Embassy in Washington, and Mr. Veendaal, Technical Director of the KLM. After complying with the customs and passport formalities, Mr. Veendaal took us on a hurried tour of the KLM shops at the Airport. These shops are entirely new in every respect, the old ones having been blown up by the Germans. Buildings and every item of equipment are new; lay out, organization and equipment are remarkable. These works not only service all the KLM planes but maintain aircraft for other nations as well. Their activities are a powerful earning asset in foreign exchange for the Dutch economy. After dining at the Airport, we were motored to The Hague and installed at the Hotel des Indes where we found Rist (who now rejoined the party), Stewart Mason and Andersen.

At 9:30 a.m. Hoar, Rist and I were received by Professor P. Lief tinck, Minister of Finance, Dr. Treep being present. Prof. Lief tinck spoke of the importance of reducing his deficit and of the essential nature of Dutch trade with Germany. Having just returned from the East Indies, he expressed some confidence that the Dutch would have ~~the~~ conditions there in hand. He was sure the Dutch could handle the situation if they were not interfered with. (For a more detailed description see Mr. Rist's memorandum of 10 June).

At 11:45 a.m. we saw Dr. de Jong, of the Netherlands Bank. There was nothing outstanding in what he had to say.

At 12:30 p.m. we were all entertained to lunch at the Hotel Wittebrug by the Netherlands bankers, of whom the following were present:

- Dr. A.M. de Jong, Acting President of the Netherlands Bank
- Dr. S. Posthuma, Executive Director of the Netherlands Bank
- Mr. H.R. van Taalingen, Executive Director of the Netherlands Bank
- Dr. A. Treep, Treasurer General
- Mr. E. A. Lief rinck, Head Foreign Dept. Ministry of Finance
- Dr. L.R.W. Soutendijk, Financial Counsellor to the Netherlands Embassy, Washington
- Mr. H. Albarda, Executive Director of the Nederlandsche Handel-Maatschappij
- Mr. H.F. van Leeuwen, Executive Director Twentsche Bank N.V., Amsterdam
- Mr. W.M. Houwing, Exec. Director Amsterdamsche Bank N.V., Amsterdam
- Mr. H.L. Woltersom, Exec. Director Rotterdamsche Bank N.V., The Hague
- Mr. C.A. Klaasse, Exec. Director Incasso-Bank N.V., Amsterdam
- Mr. J.L. Pierson Azn, Member of the firm Pierson & Co., Amsterdam
- Mr. H. Ter Meulen, Member of the firm Hope & Co., Amsterdam
- Mr. H.C. Hintzen, Member of the firm R. Mees & Zoonen, Rotterdam

At 2:45 p.m. Tchihatchef and I called on Dr. Beel, the Prime Minister, at his residence. He is rather an academic type: I think his personality and position might be compared with that of Attlee. He expressed confidence that Benelux would gradually progress because it was completely necessary. He believes that the Dutch can work out a solution to the Indies problem if they are not interfered with from outside.

At 3:15 p.m. I called with Hoar on Mr. Pool, of the Ministry of Agriculture. He said that a certain amount of mechanization could be used in Holland to improve agriculture although the possibilities were limited. He talked generally about the necessity of regaining the German market for Dutch agricultural products.

At 5:30 p.m. I called on Dr. Herman B. Baruch, the American Ambassador. He expressed great confidence in the Dutch. He is concerned about the Congressional cut in ERP. He believes the value of ERP is as great on the side of showing Europe it does not stand alone as in the economic support. He talks a generally idealistic line. I met several other members of his staff. I went with him for cocktails at the French Embassy. It is pleasant to see well-dressed and smart-looking men and women after Germany.

Tchihatchef, Mason and Andersen dined with us in the Miramar Room of the Palace Hotel at Nordwijk. The food was excellent but expensive.

Thursday, June 10

32

We were all taken on a visit to the Port of Rotterdam. Our cars were met at the outskirts of the city by two motorcycle policemen, who escorted us to the Town Hall. Here we were received by the Burgo-master, Dr. P. J. Oud, and various officials, including Dr. C. van Traa, Director of Townplanning, and Dr. N. Th. Koomans, Director of the Port. The two last named gave us a talk, illustrated by charts, showing the amount of damage done to Rotterdam and the reconstruction effected to date, and the proposed expansion of port facilities.

^{"Stad Rotterdam"} After this we were driven to the Port and embarked on ^{the} a steam launch and taken on a tour of the harbor. Unfortunately the tour was more of a sightseeing ^{excursion} than I wished and we had no opportunity to land at, for instance, the ship repairing yards. As a generalizing summary it can be said that there was plenty of activity and that the Dutch were evidently straining every nerve to maintain Rotterdam as an important world port.

We had a picnic lunch aboard the "Stad Rotterdam" and on landing were immediately driven off to Eindhoven, the motorcycle policemen again escorting us to the boundary of the city.

At Eindhoven, which we reached at about 2:15 p.m. after a two-hour drive, we were received at the Philips factory by van Walsem, Guepin and other officials of the company and were escorted round part of this enormous industrial establishment, which employs, directly or indirectly, practically the whole population of Eindhoven. We were taken round various shops and shown the processes involved in the manufacture of electric light bulbs and tubes and the moulding of plastic cases for radio sets. We were then taken to an audition room for a demonstration of a new type of recording medium, on tape instead of the normal disc, which permits marvellously true and "stereoscopic" reproduction of music. The Philips works are impressive in their size and organization but most particularly in their research after new processes and new discoveries.

After tea with officials of the company, we had a hair-raising two-hour drive to Warmond, a small village between Leyden and The Hague. We dined at Meerrust where we were the guests of the Minister of Finance, Prof. P. Lief tinck. Among those present were:

Ir. H. Vos	Minister of Traffic and Public Works
Dr. A. Treep	Treasurer General of the Ministry of
Dr. L.R.W. Scoutendijk	(Finance)
Mr. L. de Block	Ministry of Finance
Mr. A.W. Oudshoorn	Ministry of Finance
Dr. J.F. Posthuma	President of the Finance Corporation for National Reconstruction Ltd.
Dr. S. Korteweg	Ministry of Economic Affairs

At dinner I had a long talk with Lief tinck. I was pleased to have him suggest his willingness to assist in the sale of, say, a \$10 million bond issue to Dutch investors as well as to allow us to use some of the Dutch 18% for lending purposes. He said he would confirm this in a letter, which he sent to me on 11 June. The more I see of him the more I am impressed with his sincerity, capacity and determination to get the Dutch financial situation in hand.

Friday, June 11

33

At 9:00 am I talked briefly to Mr. Brouwer and advised him to attempt to get his name included among nominations for candidates for the training course at the Bank.

At 9:30 a.m. I met Dr. Plesman, President of KLM. He immediately launched into what he called his peace plan which is a proposal that all countries put into the common fund 7% of their national budget for major construction programs which will benefit world trade. He called this the operational side of UN. He said that he had received favorable reactions from a number of important officials in several countries. Operating airlines throughout the world has convinced him of the necessity of practical measures of international cooperation as the only hope of avoiding disastrous wars. He also explained to us the setup of his company and took us around his office building which is a first-class lay-out. He ^{has} a strong personality and is a driver and one gathers the impression that he has an excellent company.

At 11:00 a.m., I saw Mr. van Hasselt, of Royal Dutch Shell. He told me of their program for developing a great oil refinery at Rotterdam as well as of their expansion in England. They are moving aggressively. They are also restoring and expanding their facilities in the Indies despite the political uncertainties. He pointed out that the oil business was risky and that unless one was willing to accept risks one should not be in the business.

At 12:00 I met with members of the Foundation of Labor, among whom were:

- M. H. Damme, Chairman, Vice President of the Central Social Employers Association (neutral)
- E. Kupers, President of the Netherlands Trade Union Congress (socialist)
- H. Oosterhuis, Vice-President of the Netherlands T.U.C.
- A. Borst, President of the Prot.-Christ. Employers Assoc.
- J. van Aartsen, Secretary of the Prot.-Christ. Employers Assoc.
- A. W. Biewenga, President of the Head-Department Social Affairs of the Foundation for Agriculture
- M. Ruppert, President of the Christ. T.U.C.
- R.A.H.M. Dobbelman, Roman-Cath. Employers Association
- Th.S.J. Hooij, representing the Committee of the 4 organizations of the so-called "Middleclass" Employers Association
- A.C. de Bruijn, President of the Roman-Cath. T.U.C.
- H. Smidt van Gelder, representing the Central Social Employers Assoc.
- Prof. Dr. B.C. Slotemaker, Sec. Gen. of the Foundation of Labor.

This organization was founded during the war and consists of representatives of all the labor unions and the personnel officials from industry. They discuss all mutual problems and apparently are most successful. It seems that the Dutch have the best labor situation in the world. In the discussion the labor leaders emphasized that increased production was the basic necessity and the employer representatives agreed that the labor organizations were doing an excellent job in promoting production and efficiency.

Friday, June 11 (cont.)

34
P. 23

I had lunch with Rist and Debrays, the Financial Counsellor at the French Embassies at Brussels and the Hague. Rist thinks he should be considered for the post of one of our representatives in Europe.

After lunch I inspected our Hague office.

At 2:45 p.m. Ir. de Hollander, President of the Dutch Railways, called and explained the progress which had been made in reconstructing the railways. He has a big program for the next five years of about 900 million guilders, including extending electrification to all the main lines, replacing rolling stock which has been considerably reduced and building up his right of way. Despite shortages he is carrying about 190% of passengers and 160% of goods as compared with 1938. The railways own bus and barge lines and he expects to round out all these three types of transportation.

In addition to running the railways he is in several industrial enterprises. He is a strong man and, I would think, quite capable. He says that the railways, which are owned by the state, operate as a private company and he has no political interference.

At 4:00 p.m. Mr. de Mouchy, of the Holland America Line, called. He is optimistic, for the next several years at least, on shipping. He has a fairly adequate cargo fleet although Liberty and Victory ships which they have bought are not ideal. However he is anxious to get additional passenger vessels of medium tonnage; He does not believe in the superliners. He is most interested in promoting American tourist trade to Europe and thinks that European countries should combine in promoting this. He is also interested in measures to promote the sale of Dutch goods in the U.S.

After luncheon, Hoar was taken by Dr. Lieftrinck to look at the iron and steel works at IJmuiden. The works cover a considerable area of ground and enjoy a favorable situation with direct access both to deep water and to the inland canals. The works are quite modern, having been started in 1918 and being still in the process of expanding. They consist of blast furnaces; foundry; rolling mills for sheets, plates and sections; and a nitrogen plant. The sheet mill was not completed until 1940 and, within a few months of its installation, was completely removed by the Germans to the Hermann Goering Werke at Brunswick. Even the building was demolished and the brick flooring removed. The equipment was recovered, however, and the whole building reconstituted. Hoar understood them to say that it was the biggest sheet mill in the world, the building being 400 meters in length and about 100 wide. The works intend to instal a blooming mill and to triple the present nitrogen plant.

There is a generating plant for electricity, worked by the blast furnace gases, but under a recent arrangement the gases are conveyed through long pipes to the provincial electric generating station nearby. The works now draw their electricity from the provincial station, their own plant being held as a standby in case of excess demand on the other.

This plant is exporting a greater amount of pig iron than the whole of the rest of the world put together, sending it to many countries, including the U.S. It is therefore a powerful contributor to the earning side of the Dutch balance of payments and has no difficulty in obtaining allocations of foreign exchange for its necessary importations of raw material.

The general impression of the works is of excellent planning and management, with every advantage being taken of the up-to-date equipment. The workmen all seemed to be energetic and keen but Hoar was told that productivity in the heavier and hotter grades of work was not more than 80% of prewar. The management met with few labor troubles and found that, although they had a number of communists, their numbers and influence were steadily diminishing.

The one shortage of which the management complained was in quartzite for the making of bricks for lining the furnaces. They said that this material came largely from the French zone of Germany and was being excessively diverted to France.

Hoar was conducted around the works by Mr. Bentz van den Berg, one of the Managing Directors, and Mr. Jacobson, secretary to the Board.

At 6:00 p.m. we went to a cocktail party given by Barclay Gage, the British Charge d'Affairs. Among those present were Messrs. Bonsal and Wilkinson, of the U.S. Embassy, Larkins,

the Labor Attache at the British Embassy, and other members of the British Embassy staff.

At 8:00 p.m. Hoar, Rist, Acheson and I dined at the American Embassy. In addition to the Ambassador, the following were present:

Prof. Lieftinck, Minister of Finance
Dr. Treep, Treasurer General
Dr. Postuma, Directeur Netherlands Bank
Mr. Woltersom, Directeur Rotterdam Bank
Mr. van Hasselt, Directeur Royal Dutch Shell
Jhr. H.G.A. Quarles van Ufford, Pres. Neths. Chamber of Com-
Ir. den Hollander, Pres. National Railways (merce.
Mr. Block, Manager Foreign Exchange Dept. Min. Finance
Mr. Lieftrinck, Manager Foreign Dept. Min. Finance
Dr. Ir. Chr. Th. Groothoff, Pres. Dir. Staatsmijnen
Dr. Soutendijk
Mr. P. W. Bonsal, U. S. Embassy
Mr. L. V. Steere, " "
Mr. E. C. Wilkinson, " "
Mr. Renelard, " "

I sat next to Dr. Groothoff, Head of the State mines. He is quite critical of the handling of the German coal production. He feels that the Dutch know German coal production and their knowledge should be used. He claims that Dutch coal production is relatively satisfactory but believes that basically coal miners are disinclined to produce the maximum for fear that when the shortages are over they will lose their trading power. He thinks this is a universal attitude.

Friday, June 11 (cont.)

In a discussion after dinner with Baruch and Lieftinck on the Indies, The latter expressed the strongest views that the Dutch had an inescapable obligation both to protect their own investments, which represent 20% of their national wealth, and to provide government for the 75 million people who are incapable of governing themselves. We discussed frankly the criticisms of the Dutch in many quarters of being too inflexible and I again urged him to improve their publicity in the United States. I told him that I thought that they should get the leading publishers together for a frank expression of the Dutch position and invite reliable people to visit the Indies and see conditions for themselves.

Saturday, June 12

We left the Hague at 8:40 a.m. and were driven to Schiphol whence we took off by KLM for Basle shortly after 10:15 a.m. Mr. Tchihatchef accompanied us to the Airport and we were seen off by Messrs. Treep, Scutendijk and Veneendaal. After a pleasant flight we arrived in Basle at 1:30 p.m. and were met at the Airport by two members of the BIS staff who helped us through the customs. Dr. Baruch had very kindly obtained for the party a Laissez passer from the Swiss Minister at the Hague. We proceeded to the Schweizerhof.

Saturday, June 12 (cont.)

Almost immediately after our arrival in Basle, Hoar and I joined Per Jacobson, Economic Adviser to the BIS, in drinking post-prandial coffee at the Hotel des Trois Rois. Mr. T. M. Snow, the British Minister, Mr. F.G. Conolly, one of the BIS Managers, and Mrs. Conolly, and Mr. A. Ross, of the Reserve Bank of New Zealand, were present. The talk was general and of no particular interest.

We then went to the BIS where I had a brief talk with T. H. McKittrick about his new job in Paris with Averill Harriman. I gave him my impressions of Germany that Clay and his group were too inflexible and were holding up recovery and suggested that the ECA people should insist on having a strong representative there to promote the loosening up of trade. McKittrick was in agreement. He also believed strongly that the 16-nation organization must screen the individual programs.

In the evening Frere invited us to a dinner at the Schuetzenhaus Restaurant, at which the following were present:

M. H. Parsons, IMF
R. Triffin, IMF
Ivar Rooth, Governor of the Swedish Riksbank
Herbert Prack, Austrian National Bank
Felix P. Norcy,
Hubert Ansiaux, National Bank of Belgium
A. Ross, Reserve Bank of New Zealand
Dr. M.W. Holtrop, President of the Nederlandsche Bank
Maurice Frere, Governor of the National Bank of Belgium
Roger Auboin, General Manager of the BIS
Dr. Raffaele Pilotti, Secretary General of the BIS
Marcel van Zeeland, Directeur of the BIS
Oluf Berntsen, Directeur of the BIS
Per Jacobsson, Economic Adviser of the BIS
F. G. Conolly, Directeur of the BIS
F. A. Colenutt, Administrative Officer of the BIS
S. Hartogsohn, National Bank of Denmark
H. Haugen-Johansen, National Bank of Denmark
Gunnar Jahn, Bank of Norway
Alf Eriksen, Bank of Norway

I talked to Frere at dinner about the high costs in Belgium. He agreed and said that one of the reasons why he was unwilling to extend any further inter-European credits ^{was} to put pressure on Belgian manufacturers for reduction of prices. He was very critical of the Dutch and refused to accept their promises for the elimination of subsidies and the balancing of their budget. I expressed to him my disappointment at the Belgian coolness towards Benelux. His reply was that they should first coordinate their military efforts.

Rooth, Governor of the Swedish Riksbank, has been in Germany frequently and he agreed with me on the necessity of loosening up trade. He stated that Swedish experience on Germany on this point had improved over the last six months. He claimed that their Russian trade was going slowly and that they had got more from Russia than they had delivered. He believed that the whole trade would not amount to more than half of the projected volume.

Sunday, June 13

During the morning, Hear spoke to Sir Otto Niemeyer, who touched on the following topics:

C 1. Currency Reform in Germany

He thought it was a pity that the reform should be put through now but agreed that, in view of the talk there had been about it, it was inevitable. He was pessimistic about the outcome:

- (a) because he thought the new banking system was ill-adapted to German needs and would find it difficult to meet the strain;
- (b) because he thought the Laender budgets were balanced only by imposing extremely high taxation on the one hand, which was penal in its effects, and by neglecting essential expenditures on the other hand; he thought the force of events would sooner or later bring about unbalance in the budgets with consequent renewal of inflationary finance;
- (c) because he thought the mechanism of the currency reform was being quite unnecessarily extended to achieve other ends (such as adjusting the relationship between different forms of indebtedness) which would better be left for later attention.

2. Foreign Trade

Sir Otto was critical of the present foreign trading policy and, like us, in favor of allowing the Germans more freedom to make deals on their own. He mentioned, in particular, that he felt that the present policy with regard to the reopening of foreign banks in Germany was restrictive of the possibility of their doing useful work.

- 3. Sir Otto thought the IBRD would be well advised to operate as much as possible in future by way of guaranteeing loans rather than making loans itself direct; this in order to assist the borrowers as quickly as possible in re-establishing connections, and their credit, in the lending centers.

When I saw him and Cobbold after lunch, Niemeyer was reticent I tried to get his opinion on the importance and possibilities of inter-European cooperation. I told him about the Bank's role as related to ERF and the importance we attached to getting the use of the 18% of members other than the U.S. Cobbold stated that his Government was agreeable in principle and that it was a matter of timing and selection of purposes for which it would be easiest for them to extend credits.

Rist and I had lunch with Auboin, McKittrick, Monick and Deroy. Monick spoke strongly on the necessity of European federation and with considerable confidence as to the possibility of its accomplishment.

Hoar and Acheson were entertained to luncheon by Jacobsson at the Trois Rois.

Hartogsohn and Haugen-Johansen, of the National Bank of Denmark, expressed concern that the Bank was making it impossible for them to go ahead with their purchasing program. I challenged them sharply on this: I said that we had given them a period of nearly 18 months in which to draw down their loan; that they had done very little; and that we were surprised at their request for an extension of the period of time. I told them that the question had arisen in our minds as to whether they really wanted to use the loan. They stated positively that they did and that in no sense did they expect to keep it as a sort of reserve. They said that they had dropped their request for an extension of time but that they did need some changes in the categories. I told them that I supposed that Cope now had all the information and that I would suggest to Washington that they attempt to give them clearances as soon as possible.

Hoar was buttonholed by Hartogsohn on Monday morning who said that, without raising the general question of the Bank's end-use supervision, he thought the Treasurer's Representatives were inclined to split hairs and cause trouble and annoyance for no practical end. This fell in line with certain remarks made by Baumgartner with respect to the French position. The latter had said that on one occasion the French Minister of Finance had been driven to refuse a request for information because he thought it quite unreasonable: it was a request for a quarterly statement of the geographical location of all locomotives purchased out of the Bank's loan.

This whole subject seems worthy of investigation in Washington after the conclusion of our tour when perhaps some additional points will have come to light.

During the course of the day, Rist saw McKittrick, who made the following points:

1. He ^{was} a little disappointed by the fact that the U.S. had detailed top men to the ERP job but that, outside of Belgium and the U.K., the other European countries do not seem inclined to do so. (France was in a special position since OEEC was in the capital.)
2. A revision of the allocations system of ERP was not impossible. McKittrick thinks of allocating not according to one's deficit versus the Western Hemisphere but according to one's overall deficit. This would allow a development of offshore purchases in Europe itself in one form or another.
3. This was not necessarily related to the merging of credit margins known as "multilateralization" although such a machinery might be a useful means of ensuring **greater flexibility**
4. The settlement of the past can, in his view, wait a little longer provided negotiations started quickly.

Monday, June 14 (cont.)

We arrived at Milan at 11:55 p.m., Milan time. We were met at the station by Stephens and Signor Danielli, of the Milan branch of the Bank of Italy, and were conducted to the Hotel Continental, not one of the quietest of hotels, where we were later joined by Signor Baffi, of the head office of the Bank of Italy, who was to act as our ~~liaison~~^{liaison} man during our stay in Italy.

Tuesday, June 15

At 8:30 a.m. we set off to visit Turin and Genoa, Stephens and I driving to Turin, Hoar and Rist to Genoa.

Stephens and I went to the Fiat office in Turin where the Vice President explained that the President, Vittorio Valletta, had been delayed by a one-day sympathy strike in the plant. He eventually turned up and we went to the Fiat works. The strike was completely quiet, with a large number of employees hanging around playing games. We drove around the automobile assembly plant which seemed well equipped with modern machines and with what appeared to be a well-arranged assembly line. Despite this the Fiat car sells for the equivalent of \$3000. We noticed that the plant was full of trucks; we were led to understand that they were cutting down production. Through poor arrangements we went through none other of the works but merely drove around the town.

We lunched at the Hotel Principe de Piemonte. Valletta believes that the lire counterpart fund should be used for building which would stimulate all branches of industry and he also said that training programs should be instituted since Italian workmen, if well trained, could be one of their best exports.

Stephens and I returned to Milan and saw Soldini and Olcese, of the Cotton Association. They said that their installations were very little damaged by the war. They were able to conceal fairly substantial stocks from the Germans and got off to an excellent start in a seller's market. They spoke with considerable optimism about the possibilities of the export business. They, like a number of others, thought that the exchange rate was too high. They expressed great concern that cotton under the Marshall Plan would be purchased by the Government and not through the ordinary trade channels. They thought they had convinced the Government to let them buy normally but they were not sure.

Stephens and I then saw Sig. Faina and Ing. Morandi, of Montecatini. They complained of costs due to the necessity of employing surplus labor. They thought that the yield of Italian agriculture could be increased principally by the use of fertilizer.

Hoar and Rist arrived in Genoa at about 11:15 a.m. and were received by Comm. Bindocci, the local manager of the Bank of Italy. He took them to the Ansaldo shipbuilding yards where they were met by Ing. Bandettini and were later joined by Ing. Saraceno. In the course of a preliminary talk in the office Mr. Bandettini showed them a plan of the

Ansaldo works in Genoa which included not only the shipbuilding and fitting-out yards but a foundry, general engineering works, and works in which motor trucks and railway wagons are manufactured.

Mr. Bandettini explained that the workmen are paid a basic wage with a graduated bonus for exceeding specified targets: the overall wage of an average workman in the yards would work out at about 40,000 lire a month. Because of government ~~restrictions~~ ^{regulations} they cannot turn off surplus workmen: their method of dealing with them is to transfer them to a special affiliate where they give them training and keep them otherwise employed to avoid allowing them to mix, while in enforced idleness, with other workers doing their job. Mr. Bandettini produced charts showing that the productivity of the workmen had risen quite remarkably from the trough at the end of 1945. The last wage scale adjustment was more than 12 months ago but productivity has continued to rise steadily since that adjustment. Absenteeism is negligible (about 2%).

The only shortage he complained of was of steel plates and in this connection Mr. Saraceno made the interesting comment that he found it cheaper to import plates from the U.S. than to buy the Italian product. A visit was paid to the shipbuilding yards which are admirably equipped with a gigantic system of overhead cranes, running on wires suspended from two banks of concrete towers 175 feet high. These cranes enable large sections of ships (up to 25 tons weight) to be assembled in a separate yard and then transported for incorporation in the hull under construction on the shipways. This system was completed in 1938, being an improvement on one installed by the Deutsche Werft at Hamburg.

Three ships had been launched in the early days of this month and four more (three Norwegian and one Argentine), all of 9000 tons, were on the stocks. In the fitting-out basin there were two 9000 ton ships launched earlier in the month (both Norwegian) and two Italian ships which had been raised from the harbor, having been sunk by the Germans, and now under repair. There was great activity and the whole of the shipbuilding plant gave the impression of good planning and work. Mr. Bandettini said that a new ship of 9000 tons could be delivered within 18 months of placing the contract, construction taking about 8 months and fitting out another 8 or 9 months.

At lunch, taken in a restaurant at the top of a thirty-storey skyscraper which commands a magnificent view of the city and harbor, Hoar and Rist were introduced to ^{the} Head of the Port Authority. Afterwards they were taken on a tour of the port in a launch and found it a scene of activity more reminiscent of Antwerp than of Rotterdam. The Germans had sunk a number of ships in an attempt to block the harbor entrance but most have been cleared so that there is an adequate fairway. Two ships, however, filled with cement remain to be disposed of. There was much destruction of the port, partly by British naval bombardment but mostly by German destruction. The Genoese have made great efforts to restore the port to working condition and "before and after" photographs show that they have achieved a great deal in the time available. Several quays, which were still half destroyed, were occupied by ships loading or unloading in the remaining half. Where warehouses are lacking, goods are covered with tarpaulins. Mr. ^{showed} plans for expansion of the port westwards which include the construction of a considerable airfield at the water's edge. Because of the lack of space for marshalling yards some consideration is being given to the construction of an aerial ropeway over the mountains to enable cargoes to be transported from the docks to a depot in the Po valley where they

would be marshalled for distribution. There is apparently an existing scheme of similar nature already in operation, for coal, at some other Italian port.

Rist's memorandum of June 15 contains further details of his conversations in Genoa.

We were all entertained to dinner at the Restaurant Firenze by Signor Menichella, Governor of the Bank of Italy; among those present being Mr. and Mrs. Vittorio Forte, Mr. and Mrs. Bresciani, Mr. Baffi and Mr. Danielli. Hoar and Rist returned very late from Genoa and only arrived at the end of the meal.

Wednesday, June 16, 1948

P.44

At 9:00 a.m. Hoar, Rist and I were received by Prof. Bresciani and shown over the modern bank building occupied by the Banco di Roma.

Afterwards we proceeded to the suite allotted us in the Banca d'Italia and had conversations with ~~ErxxRaffalaxMaffiaki~~ Signor Figni, of the Foreign Department of the Credito Italiano. He talked quite sensibly about Italy's main problem of overpopulation, high costs and shortage of capital.

At 11:30 a.m. Hoar, Stephens and I were taken to see the textile works of de Angeli-Frua at Saronna, about 15 miles from Milan. The main works of this company were in Milan but were completely burned out in an airraid. They have therefore embarked upon the erection of a complete new plant in Saronna, where they already had a small separate unit. We were received by Mr. Frua de Angeli, the Head of the firm and the third generation of his family to be concerned. ^{With} He made the best impression upon me of any Italian I have yet met, pleasant, clear-headed, energetic and far-sighted. He took us round the works and showed how the new construction would enable the installation of a system of treating the materials concerned in correct sequence from start to finish, moving on from shop to shop, under cover, with a minimum of delay. Of the various processes demonstrated to us the most interesting was the handprinting of designs upon silk and rayon fabrics. It is apparently impossible to obtain the same pleasing results with machine methods and these handprinted goods command high prices.

Mr. de Angeli said that his production was now about the same as prewar and that the same proportion (50 to 60%) was being exported. Export deals were not easy to arrange, because of currency difficulties, and he sometimes had to make quite complicated compensation transactions to bring off a deal. This was a most impressive plant and seemed to me to be just the ~~thing~~ kind of thing that Italy badly needs.

At 1:30 we had lunch with Mr. and Mrs. Bresciani at the Rosso. Mr. and Mrs. Forte were present together with Messrs. Ceruso, Cambieri and other members of the staff of the Banco di Roma

In the afternoon we visited the Pirelli works and saw the processing of rubber, its manufacture into ~~bx~~ bicycle and motor tires, and the manufacture of electrical cables, including wire drawing. This is, of course, an extremely big plant which seemed to be working well but called for no particular comment.

On our way back we visited the Church of ~~of~~ and saw the famous da Vinci fresco of the Last Supper. Two-thirds of the Church were destroyed during an airraid. They have now been rebuilt and the roof restored but in the meantime exposure to the elements have done great harm to da Vinci's masterpiece. An attempt is being made to preserve it but I understand that it is possible that it may be irretrievably lost before many years have elapsed.

At 6:30 p.m. I was visited by Dr. Mattioli, of the Banca Commerciale. He is obviously a highly intelligent man but I could get nothing from him beyond generalities on the measures necessary to deal with Italy's basic problems.

During the afternoon, Rist saw Mario Roli, of the Banca d'America e d'Italia. He was insistent on the necessity of facilitating emigration from Italy and pointed out that the Gianini Bank had about \$40 million outstanding in credits for raw materials to Italian concerns, mostly in dollars but partly in sterling. There was no guarantee for those credits on the part of either the Banca d'Italia or the Exchange Office; that they were relying on the capacity of their debtors to re-export. These credits are from three to six months.

At 7:00 p.m. we all went to a cocktail party given by Sig. Ventimiglia on the terrace of his apartment. I talked to Bay, the U.S. Consul General, at the party; he emphasized the great lack of internal capital in Italy and the need for assistance, particularly for hydro-electric development. I explained to him the limitations on the Bank and the fact that it would take a long time for Italy to reconstitute the capital that had been lost through Mussolini and the war.

Both Bay and Root, the U.S. Consul, stated that they believed that the Italians wanted to get back on their feet and out of the charity class. Root mentioned what has struck me that while they all talk over-population none of them have suggested cutting down the production!

Ventimiglia told Rist about his negotiations in the U.S. in connection with the settlement of the Italian debt. Forty per cent of the bondholders had already accepted the offer. Negotiations with the British and the Swiss were in process and he expected that they would not insist upon better terms, or else the American terms would have to be changed.

At 8:50 a.m. I received a visit, at the Hotel, from Mr. W. E. Cornish, the British Vice Consul, who said that the Consul General had been instructed to be as helpful to us as possible. Hoar went back with him to the British Consulate and had an interesting conversation with Mr. Cornish and the Consul General, Mr. R. G. Goldie. The point which most exercised them was the level of Italian prices, which caused them to have serious doubts about the present exchange rate. They gave the following examples:

1. British refrigerators can be sold profitably in Italy at less than the Italian product;
2. Dunlop tennis balls are retailed in Italy at 350 lire against 570 lire for the Pirelli product;
3. Italian motorcycles are much dearer than their British counterparts; a Bianchi 125 c.c. retails here for the equivalent of £94 against the price (in England) of £58-10-0 for a Royal Enfield of the same capacity;
4. Italy was by no means cheap for tourists; one of the staff of the American Embassy had been able to arrange a holiday in the South of France for \$5 a day cheaper than he would have had to pay for equivalent accommodation in Italy.

An interesting sidelight on the emigration question was shed by Mr. Goldie when he said that someone was here from the British Ministry of Labour from December, 1947, to April, 1948, trying to recruit skilled foundrymen for work in England. The result of four months' effort was the recruitment of 120 men, of whom about 30% have already returned to Italy, partly because of dissatisfaction with housing conditions, etc. in England, partly because they had evidently not seriously intended to stay, and partly because they proved to be inefficient and unsatisfactory from the work point of view.

Mr. Goldie said that an interesting man to see at Snia Viscosa would be Mr. Allitt, an Englishman who had been put in there by Courtaulds. He added that Courtaulds had recently invested a considerable sum in Snia Viscosa, amounting to several million pounds sterling.

Rist saw Mr. Marinotti, Administrative Delegate of Snia Viscosa. He mentioned the recent doubling of his capital from four to eight billion lire but not the presence of Mr. Allitt nor the Courtauld participation. He has just returned from the U.S. and will send us the report on the Italian textile industry which he gave to Mr. Allan Dulles, his counsel.

The unused capacity of his plants is now 60% against 20% pre-war, i.e. more than in the other textile industries. He still exports 2/3 of his production, of which one half to India. The other foreign markets were closing their doors or finding other artificial silk producers (Britain). The price question was not important to his mind nor was the exchange rate. He did not complain about lack of raw materials either but expressed generally grave doubts as to the wisdom of all

expansionist plans concerning artificial silk in other countries. He is not earning money on current account but is facing his needs in modernization and replacement out of his working capital, i.e. by selling his stocks which are high. The stocks in other textile branches are also high. He did not believe that prices were an obstacle to the development of the internal market but conceded that the abuse of rayon during the war had made it unpopular so that mixing to the extent usual in the U.S. was not yet feasible here. His great hope was a relaxation of American tariff duties. Twenty per cent of his personnel is surplus.

He mentioned, incidentally, that he could have bought coal from Yugoslavia against rayon but was refused the import license, his explanation being that the Government had to allocate all Marshall Plan ~~by~~ coal by priority.

The Vice President of Breda picked Stephens and me up and took us out to the Plant at 9:00 a.m. The machine/^{shop} and ^{shop} were busy but disorganized. The steel plant was very sloppy. They are building a four-motor plane for the Argentine. The whole plant gives the impression of disorganization and lack of control.

Stephens and I then went to the Falck Steel works. In contrast to Breda, they are well laid out, organized and clean apparently. One gets the impression that there is about half the amount of labor used as at Breda. The equipment is generally modern. Giovanni Falck believes that Italy cannot compete in heavy steels but can do a profitable internal and export business in special steels and in providing steels for the fabricating industries and fabrications which require a large amount of labor. He says that his labor efficiency and production are both about 75% of prewar. He hopes that there will be no financing of the state-owned steel enterprises. He is one of the best Italians I have seen. We had lunch with Falck and his assistants.

After lunch we called on Alberto Pirelli at his offices. He said that he had hoped that, following the elections, industrial and commercial conditions in Italy would improve. However since his return from America he had been somewhat disappointed. He expected more active policies by the Government to eliminate existing labor surpluses and subsidies. He realizes the political difficulties and thinks that perhaps de Gasperi, of whom he has a high opinion, may be wise in not moving too rapidly. However, he understands the basic necessity of reducing costs if Italy is to export. He believes it necessary to give weight to the social problem by building houses and attempting to find employment for more people. He believes European federation is necessary but points out the many difficulties.

In the afternoon, I was visited by the President of Breda, Signor _____, and his Vice President, with whom I had previously talked. The President is pompous and unimpressive.

At 4:30 p.m. I was visited by Signor Clerici, a small independent banker. He had nothing particularly interesting to say except to complain that all foreign business in Italy was kept entirely in the hands of the big banks. He thought that if the small banks could participate they would be able to assist exporters to ^{get} cheaper financial

Thursday, June 17 (cont.)

P.48

accommodation.

We dined at a restaurant opposite the Hotel Continental. It was very noisy owing to the proximity of the streetcars.

At 10:00 p.m. Hoar, Rist, Stephens, Acheson, Baffi and I took the night train to Rome. We were seen off at the station by Signore Forte and Danielli.

At 11 a.m. we went to the Bank of Italy for a meeting with Dr. Menichella, the General Manager, Dr. Formentini, his deputy, and Professor Giordani. Most of the meeting was taken up by a vigorous exchange of views between Giordani and myself on the subject of the Italian steel industry. Giordani advanced masses of data in support of his contention that the projected reorganization and rehabilitation of the industry would enable it to compete with other countries at world prices.

At 12:45 p.m. Hoar and I went to see Sig. D'Aieta, of the Directorate of General Economic Affairs in the Ministry of Foreign Affairs. The only point of note arising from the discussion was his opinion that the most useful steps that could be taken towards coping with Italy's problem of surplus manpower were:

- a) intensification of agriculture in the South;
- b) development of small specialized industries.

He told me, with some pride, that he had an American mother. He did not mention that in the Fascist Government he was Ciano's Chef de Cabinet.

Hoar, Acheson and I lunched at the Hotel.

At 4:30 Hoar, Rist and I went to see Comm. Marchesano, President of the Istituto per la Ricostruzione Industriale (IRI). He assured me that the IRI did not control only a collection of white elephants. It had its origin in the necessity of taking over from the banks, in the crisis of the early 1930's, the shares they held in a number of industrial enterprises; some of these enterprises were good; some bad. It was not the Government's wish to expand IRI's grip upon private industry and, indeed, they left the management of the IRI concerns alone as much as possible. He agreed that it would be beneficial to Italy if it developed specialized mechanical industries as much as possible but argued, as Giordani had done, that the basic steel industry was a field in which Italy could operate economically.

At 5:30 we went to see the Minister of Industry and Commerce, Sig. Lombardo, and found him, in his own field, at least as impressive as Sforza. He did not talk generalities but answered my questions practically and to the point. He has a most realistic approach and, while recognizing that Fate has dealt him a difficult hand to play, he is evidently determined to make what tricks he can with it. He told me, and I believed him, that he is in favor of private industry, with as much competition as possible. He agreed with me in having grave doubts about Italy's capacity to produce basic steel and simple shapes at economical prices. He, too, would like to see Italy develop specialized mechanical processes, especially those where the application of skilled and unskilled labor is an important element.

At 6:15 p.m. we had a meeting with the Minister of Foreign Commerce, Sig. Merzagora. Nothing of importance emerged.

At 7:00 pm we all went to a cocktail party given by Mr. Empson, Commercial Counsellor at the British Embassy, at his home, 13 Via San Alberto Agno. The following were present:

American Embassy

Mr. Walmsley, Economic Counsellor
Mr. Paul Hyde Bonner, Special Economic Attache
Mr. M. L. Dayton, Head of AUSA Administration

French Embassy

M. Jean Hugues, Commercial Counsellor
M. Christian de Lavarene, Financial Attache

British Embassy

Mr. Jack Ward, Counsellor
Lt.-Col. Tooby, First Secretary (Economic)
Mr. J. Gordon Boyd, Second Secretary (Commercial)

Mr. Empson had available an outline program for us in the U.K. and I was able to suggest further additions for inclusion in it. Empson later telegraphed these to London with a request that the full program be sent to us in Paris.

During the course of general conversation, the British present underlined very strongly the Italian capacity for work and the initiative and persistence they had shown, in the face of most adverse circumstances, in clearing war damage and reconstructing. They mentioned in particular the work done on the railways and highways. Mr Ward stressed how wrong it was to condemn the Italian as a bad soldier. The poor performances in the last war were largely accountable for by the fact that, for 90% of the soldiers concerned, their heart was not in the war at all. The Italian brigades which had been formed after the Italian surrender and which had fought with the British Army in Italy, had fought extremely well and suffered heavy casualties. He also mentioned the courage of the Italian peasants who had sheltered escaped Allied prisoners.

We dined at the Grand Hotel.

Saturday, June 19

P.5
3

At 8 a.m. Hoar, Rist, Stephens and I set out for Terni. We were received by the General Manager of the TERNI works, Sig. Giustiniani and conducted round the works by him and a number of his officials.

We first of all visited the steelworks which appears to be well organized and efficient although the equipment is not modern. The chief feature was the large amount of stocks on hand. Indeed, working space appeared cramped because of the piles of ingots, sections, rails and castings which were stacked all over the place. There may be other explanations but on the face of it it looked as if production were not being sold -- presumably because of high prices.

We were then driven a further 20 miles, over steep and winding mountain roads through magnificent mountain scenery, to beyond Rieli to see one of the Company's hydro-electric plants. The plant was in no way remarkable and hardly worth the trip but the Terni system of hydro-electric stations is evidently well organized and managed and the strong point of the* We returned to Terni for luncheon, at which the following were present:

Sig. Giustiniani
Prof. A.M. Anzolini, Direttore Cent. Lettore Energia
Sig. Terfano,
Sig. Pampana, Direttore Centr. Lettore Amministrative
Dr. Vasio, Direttore Segreteria della Morati(?)
Dr. Ghisoli V. Direttore Segreteria Industriale
Sig. Ricci,
Sig. De Gaspari, Direttore
Dr. O. Mezzetti, Direttore Cent. Chiurico Miniere

In the course of conversation at lunch, Sig. Giustiniani assured me that IRI does not interfere with the management of his company. He said that whether or not there was such interference depended upon the strength of character of the manager concerned. So far as he was concerned, he had to agree broad lines of policy and planning with IRI but was left completely free in their detailed execution.

After lunch, we visited the company's chemical works which are just outside the town of Terni.

At 6:30 pm we attended a reception at the Bank of Italy at which the senior staff of the Bank and most of the Government people with whom we had had contact were present.

At 9 p.m. there was an official dinner given by the Minister of the Treasury, Sig. Pella, at the Ristorante Tor Fiorenza, 2 Via Monte delle Gioie, at which the following, in addition to members of our party, were present:

*Terni concern. They sell their surplus current to the railways and local municipalities.

Sig. Pella, Minister of the Treasury
Sig. Campilli, ERP Ambassador
Sig. Lombardo, Minister of Industry
Dr. Menichella, President of the Bank of Italy
Sig. del Vecchio, Governor of the IMF
Sig. Pella's Chief of Protocol

Sunday, June 20

At 9 a.m. Sig. Cantuti, of the Bank of Italy, who is a Count of the Papal Court, took us on a tour of the Vatican and St. Peter's. In the Vatican we visited a number of galleries, assembly rooms and chapels, including the Sistine Chapel.

At 11:00 a.m. Hoar, Rist and I went to see Sig. Tremelloni, who is in charge of ERP affairs. He is a very worried man who showed evidences of severe physical and mental strain. He foresees an uncovered gap of one billion lire in his reconstruction program and does not know where the bulk of it will come from.

At 12 Hoar and I saw Signore Marchese and Manuele, of Sinsider, and Professor Giordani. Giordani was really there only to assist with translation but, in fact, seized the ball and ran away with it completely. The Sinsider representatives said that before the war Italian steel production costs were about 40% above the American but that their plan was to approach the American price. They now had over 70 small plants and wanted to reduce the number to three main plants and a very few secondary ones. They contend that before the war their costs of producing pig iron (from a mixture of Italian and foreign ores) was about the same as in Luxembourg, and that their costs at Bagnoli was ~~now~~ now at the Luxembourg level. Giordani admitted, however, that customs duty was still necessary to protect Italian pig iron production but gave as an explanation the fact that, owing to bombing and German looting, blast furnace production was much reduced so that they had to use the expensive electric furnace production.

I asked them about the conversations they had had with the French concerning North African ore. Giordani replied that, in the ERP discussions in Paris, the French had agreed to the Italian ore plan and ~~had~~ ^{said}, moreover, that they had had conversations with Senegalia and the Comité des Forges.

As a final point, Giordani stressed that though the Government owned the shares of Sinsider they did not interfere with management policy.

I had made it clear throughout this conversation, as I had in earlier ones with Giordani and other Italian officials concerned, that I had grave doubts about the wisdom of developing production of basic steel in Italy. I said, however, that my mind was not closed and that Sinsider's report, with the reports of our own investigators, would be carefully studied in Washington.

At 12:30 I drank cocktails with Dr. Ciulli-Ruggieri, of the Chase National Bank.

Mr. and Mrs. Stephens lunched with Hoar, Acheson and myself at the Grand Hotel.

At 3:00 p.m., Dr. Baffi and another man from the Bank of Italy called to take Mrs. Stephens, Hoar, Acheson and myself to Tivoli. Rist was already lunching at Tivoli with some person or persons unknown. At Tivoli, we visited the Villa Giorgiana and its waterfalls and the Villa d'Este with its beautiful steeply terraced gardens and its fountains.

At 7:00 p.m. I visited the Robertis, whom I had seen at the Villa d'Este, for cocktails.

At 8:00 p.m. the whole party was entertained for dinner at the Hotel Hassler, the other guests being:

Sr. Sangroniz, the Spanish Ambassador
Count Emmerick Chapski, who is in charge of dispersing
Anders Army of Poles remaining
in Italy

Mr. Richard Allen, European Head of Interim Aid.

Mr. and Mrs. F. D. Stephens were our hosts.

Hear and Acheson left Rome this morning at 7 a.m. by the Simplon-Orient Express for Paris.

At 9 a.m. I met Zora Stephens and we did some fast shopping for leather goods, ties, etc. ; they were good bargains.

At 10:30 a.m. I called on Prime Minister De Gasperi. He is an intelligent, serious man giving the impression of quiet determination and courage. One feels the heavy weight of the burdens he is carrying. He spoke of the problem of attempting to make life bearable for Italy's excessive population, particularly in the South. The difficulties are great due to their limited natural resources and lack of capital. He realizes the long-range nature of this problem. Among the important projects necessary to meet it are irrigation and reforestation, particularly in the South and this requires heavy investments in power. He says that some of his ministers bring in beautiful schemes but many of them are not realistic because the capital simply will not be available. The use of the lira fund will be helpful but cannot supply all these needs. It is therefore a question of carefully selecting the most important projects

He talked of the importance of greater unity in Europe and said that Italy would do everything possible to bring this about. He seems to realize that emigration cannot be expected to solve their over-population problem. He thinks that the figure of 1½ million unemployed may perhaps be somewhat high; he realizes the necessity of reducing costs particularly by relieving industry of excess workers; he says he is determined to revise present legislation to make this possible.

He spoke with deep appreciation of the aid from America and said that its psychological effects are as important as its material effects in that it gives hope to the Italians and makes them realize that they are not standing alone. In this connection, he says that the expenditures which were made to meet communist propoganda had their effect but the real reason for the victory was that he told the Italian people in simple words the basic issues that were involved and that they responded to the truth.

He expressed appreciation for the interest the Bank had shown in Italy and hoped that we would be able to assist them by loans.

At 11 a.m. I called with Rist on President Einaudi. He is a tiny cripple: my impression is of a sweet character and a good man. He spoke in halting English of the great problems particularly of Southern Italy. He pointed out, however, the great possibilities of improving agriculture and gave examples of irrigated land producing four ^{separate} crops simultaneously: wheat, grapes, fruit and nuts. He also described the model farm in the rather poor country surrounding Rome which had been developed by a newspaper publisher whose paper had been closed by Mussolini. There, on 5000 acres, he had developed most modern agriculture and was getting high yields. He had paid \$30,000 for a bull from America and now had some of the finest cattle in the world. This sort of thing could be done on a great scale and this might do much towards changing Italy's whole economy.

President Einaudi spoke optimistically of the possibilities of increasing power both in the North and in the South. He also recognizes that this is a long-term program and that quick improvement cannot be expected.

As I was leaving the Palace, I got a message that Black was at the Rome airdrome. We drove out there and had 15 minutes talk with him while his plane was refuelling on its way to the East Indies. He said that he had had meetings with both Dutch and Belgian bankers and that they were in competition to see which could first float a \$10 million issue of the Bank's bonds. He thought he would probably return to Europe and have further talks. He told of his experience with the Senate and House Committees on the Bill to exempt our securities. In two days he spent about twelve hours before the Committees. The House finally tabled the Bill.

Colonel Richard Stilwell, who is on special duty at the U.S. Embassy, had lunch with Rist, Stephens and myself. He is particularly watching the Trieste situation. He says that the city would be a liability to Italy ~~as~~ although there is great sentiment for its return. ~~Furthermore~~ he does not see how Austria can exist economically and says that it should have probably been left with Germany.

At 3 p.m. Rist and I took the Air France plane to Paris. Menichella, together with other officials of the Bank of Italy, courteously came out to the airport to see us off. The dumb Italian customs officers made trouble about my Italian purchases and it required the ~~intervention~~ ^{attention} of the Bank of Italy people to ~~get~~ get them cleared.

We had a beautiful flight in perfect weather. We skirted Corsica which is wildly beautiful. We hit the coast of France near Toulon at the point where the Southern invasion landings took place; then up the valley of the Rhone; I never saw more beautiful countryside and better looking crops, particularly as we neared Paris.

FRANCE

We were met at the airport by Hoppenot and Tyler who got us through the French customs with great speed. We drove to the Hotel Bristol in Paris. I dined with Hoppenot and Rist at an excellent restaurant on the left bank.

Hoppenot insisted on seeing the town after dinner and tried to get us into the Ambassadeur, the famous nightclub but a private party was on. Hoppenot insisted on seeing the host but was told very courteously that we could not get in. We ended up at a small place and finally got to bed in the wee hours.

We met at the Treasury at 10 a.m. with Bloch-Laine, Direction du Tresor, Guindey, Direction des Finances Exterieures and Nathan, Direction des Relations Economiques Exterieures, and other members of their staff. We discussed the budget situation. They explained that the budget had been practically balanced for the first six months of this year due to extraordinary income from special levies, etc. and admitted that the second six months would be more difficult.

They pointed out the steps already taken for tax reform and indicated the necessity of pushing this forward to completion this autumn. They expected a small rise in the price of wheat to be fixed on July 1 but in view of a bumper harvest thought that would not raise the total cost of living as it would reduce the consumption of the higher priced foods. They said that the shops were full of goods and were hopeful of lower prices. They admitted that French costs were too high. They believed that exports were gradually responding to the devaluation of the franc but pointed out the difficulties of trade.

They pointed out that though French coal production was higher than before the war owing to the fact that there were a substantially larger number of miners coal was still a bottleneck due to limited imports from Britain and Germany.

At 11:55 M. Bothereau, assistant head of the Force Ouvriere, called on me at the Bristol. Almost his entire conversation was devoted to the price of coal. He stated that his union was trying to hold down wages and get lower prices as contrasted with the communist-dominated CGT but ~~thinks~~ ^{thought} that the cost of coal was a critical element. He wanted to know if there was any possibility of a reduction in the price of American coal. I told him that was in the hands of John L. Lewis. In reply to my question as to the attitude of his people towards the Marshall Plan, he replied that they were for it provided it did not infringe on French sovereignty.

At 12:30 p.m. Hoar and I, accompanied by Hoppenot and Lamy, called upon the Finance Minister, M. Rene Mayer. We were most favorably impressed with his apparent candor, drive and determination to get French fiscal affairs onto a sound basis. He seemed a man of clear-sighted, sound ideas, courage and ability to take quick decisive action -- just the type of man, in my opinion, that France needs in that position at this time.

He spoke generally about the budget situation and particularly about the simplification of the tax system which he intends to bring about. He told me that he had already cut down from four to two the departments within the Treasury dealing with taxation. We did not, however, have time to go into the immediate problem of the next six months.

At 1 p.m. there was an official luncheon in our honor at the Banque de France, at which the following were present:

MM. Monick, Gouverneur
de Bletterie, Sous-Gouverneur
Saltes, Sous-Gouverneur
Bolgert, Directeur des Services Exterieurs
Rousseau, Caissier

Mendes-France
Hoppenot
Baumgartner, President Directeur General, Credit
de Carmoy National
Lorain, Societe Generale
Guindey
Escarra, Credit Lyonnais
Hottinguer, Banques Privees
Lamy
Farnier, Comptoir d'Escompte
Filippi, Directeur des Relations Economiques Exterieurs
Gilet, B.N.E.I.

At lunch Monick explained to me the tight control which he has been exercising over bank credit as an anti-inflationary measure. He told me that while he was permitting adequate credits for production he has been watching carefully to see that they are not used for building up inventories.

I talked to Filippi, who had ^{previously} been economic adviser in the French Zone of Germany. I explained my thinking regarding the possibility of international private ownership in the Ruhr and control by a truly international body of experts. He expressed the opinion that this would be satisfactory to the French.

At 4 p.m. Hoar and I went to see M. Dreyfus, of the Ministry of Industrial Production. He had a number of departmental specialists present and we had a sharp debate on the necessity, or otherwise, of looking to America for so much equipment needs. They argued strongly that they had to look to the U.S., either because it was only in the U.S. that they could get the specialized equipment needed or because they could get earlier delivery. They did not satisfactorily answer my inquiry why it was that, when talking to the Bank last year, the European countries concerned said that if they were given the raw materials they could look after equipment needs themselves, whereas now they were all insisting that they must have American equipment. The impression left with me was that their answers were true for a part of their needs but not for the whole.

At 5 p.m. called on W. Averrell Harriman and David Bruce at the U.S. Embassy; Bill Foster joined us, having just arrived from the U.S. Harriman asked my impressions and I explained our opinion that the population problem made Italy's future merely a question whether they could avoid a blow up. He seemed to agree.

On Germany, I told him I thought that progress was being held up by Clay's group restricting trade in secondary products but that I felt that John Logan's ideas were gradually winning. I told him that I thought he should have a strong man in Germany and he said that he was trying to find the proper one.

In reply to my statement that we wanted to ~~get~~^{get} an observer in Paris promptly, Harriman suggested that we could be best served by having our man on his staff. He probably had in mind trying to keep Rosen; but on further consideration I am convinced that we should have a Bank representative who could deal with the European Group as well as with Harriman.

At 6:15 I went to see M. Coste-Floret, the Minister of France Outremer. He made a short statement expressing adèsire for assistance in French colonial development and outlined the projects which he wished us to consider. He explained the discussions which they have held with the British on coordinating development and pointed out that one should not exaggerate the importance of what has so far been accomplished. He believes that work must be carried on largely on a technical basis. He said that they were waiting for the consent of the British to bring the Belgians into the discussion. I asked whether foreign private capital would be permitted to participate in colonial development. He expressed the personal opinion that this was desirable but pointed out that different laws in the various colonies imposed certain limitations.

At 7 p.m. Hoar and I received a visit from M. Dugas, Directeur du Service Technique, Direction General, S.N.C.F. He was a sensible little man, obviously an enthusiastic railwayman by training and inclination. He said that the railways had been nationalized shortly before the war because of financial difficulties and that the nationalizing process was very different from that characterizing postwar action. The old companies, behind whom ranged their existing stockholders, were allotted 49% of the capital of the SNCF, the Government putting up the other 51%; this arrangement still continues. The Conseil d'Administration is nominated by the State and the companies in the 51-49 proportion. The President is appointed by the State but there is no interference with management at all. Indeed, the SNCF has managed to keep its electrification projects out of the nationalization of the electrical industry. The only point ~~in~~ at which State control comes in is that the railways cannot borrow without Treasury permission, because their bonds are guaranteed by the State. The SNCF issued loans before the war and during the war but has not issued anything for the past year because Treasury permission has been withheld.

The main shortage facing the SNCF is in finance. During the war, because the Germans paid for the use of the railways, the SNCF accumulated substantial reserves. These reserves have now been swallowed up, partly through the depreciation of the franc, partly in reconstruction. Normal maintenance construction and war reconstruction are sharply divided in the SNCF's operating expenses. The Government contributes nothing towards the former and only 80% of the latter. The war accumulated reserves have been spent on the 20% not covered by the State. Owing to this financial stringency, the construction and reconstruction programs he said were to be cut by 50%, from 120 milliard francs in 1947 to 60 milliards in 1948.

M. Dugas was unable to tell us the total debt of the SNCF but said that capital charges amounted to 4 milliard francs in 1939; they now were much less of a burden because of the depreciation of the franc, reflected on the other side of the medal in the fact that receipts had risen from 14 milliards in 1939 to 250 milliards at present.

M. Dugas said that the SNCF could get along with its present stock of locomotives but that the shortage of wagons was critical. They had about 360,000 wagons now as against 700,000 before the war, and that while no particular trouble existed at the moment it would arrive with the heavy shipments of the autumn months. About 60,000 wagons had been taken away by the Germans and he anticipated that not more than 10% of these would be recovered. The replacement program was hampered by the shortage of finance already referred to, although the shortage of steel and timber would come to bear if the full construction program could be undertaken. He felt that the only way to get more wagons at present was through their importation from abroad (e.g. Belgium) against foreign financing, but he did regard that as a bad temporary expedient since French industry should be able to look after all the SNCF's needs.

With regard to the labor situation he said that the majority of his work people were associated with trade unions of very left-wing affiliation but that there was a strong tradition among the railwaymen which gave them great loyalty to the railways and ensured a considerable measure of stability and responsibility.

M. Dugas made a very good impression on me. He is evidently strongly in favor of operating railways independently of state interference and, it would appear, is able to record a considerable measure of success in that aim.

At 8:30 p.m. Hoar, Rist and I dined with M. and Mme. de Carmoy. The following were also present:

Baron Hely d'Oissel, President de la Compagnie de St-Gobain
(Chemical products)

Comte de Boissieu, President de l'Union Europeenne
(Banque d'Affaires)

M. F.D. Gregh, Directeur du Budget, Ministere des Finances
Mme Gregh

M. Edmond Giscard d'Estaing, President de plusieurs affaires
coloniales.

Mme. Giscard d'Estaing

M. Philippe Aubertin, associe de Solvay & Cie (Chemicals)

Mme. Aubertin

M. Albert Prouvost fils, associe des Peignages M^r Amedee
Prouvost - Roubaix

M. Sacha Gueronik, Directeur des Services Techniques et des
Programmes, Organisation Europeenne de
de Cooperation Economique

Mme Rene Bouffet

I had an interesting discussion with Mme. de Carmoy on French family life. We agreed that relations between men and women are on a much better basis than in America. She pointed out the French sense of proportion which produces a beautiful city like Paris and their many artistic achievements. We agreed that it was unfortunate the same sense of proportion did not exist in politics. De Carmoy explained his connection with the OEEC as administrative officer. He is hopeful that eventually he may return to Washington as representative of this organization.

Hoar and Acheson arrived in Paris this morning at 9:30 by train from Rome.

At 9 a.m. Hoar and I visited the Renault plant at Billancourt. We were received by M. Kergomor, the Public Relations Officer, and M. Villeneuve, their purchasing agent in New York, who happened to be on leave in France. On our tour of the factory we were joined by M. Marcel Guillelmon, the Export Manager, and at the conclusion of the tour by M. Lefausheux, the Director General, and M. Vernier-Paillez, the Directeur General a joint.

The works suffered heavily from bomb damage both by the RAF by night and the U.S. Air Force by day. Both Forces scored about 80% of hits upon the target. It is about the best plant I have seen in Europe. I was very much impressed with its sense of good management. This plant which was heavily damaged has been completely equipped with modern machines largely from America though their combination automatic machine invented by one of their engineers while in a German prison camp and manufactured by them strikes me as one of the best machine tools I have ever seen. The General Manager is an impressive man. We were convinced of the accuracy of his statement that up till now there had been no political interference although it is probably true that his company got some privileges in getting dollars for new equipment.

At 1 p.m. Tyler and I lunched with M. Baumgartner at his very attractive home, 45 Rue St. Dominique, adjoining the office of the Credit National. The others present were:

- MM. Georges Villiers, President of the Federation of French Employers
- Pierre Fournier, Member of the Board of the Credit National; former Governor of the Banque de France and President of the SNCF
- Leon Daum, Member of the Board of the Credit National; General Manager of Steel Works
- D. de Nervo, President of Denain-Anzin
- de la Grange, ex-Senator (Hotel and Tourism Industry)
- R. R. Hottinguer, President of the Bankers' Association
- J. Boyer, of the Comptoir d'Escompte
- H. Boissard, Directeur of Credit National

Before lunch, M. Baumgartner talked quite frankly of the French situation. He pressed the view that production has been improving satisfactorily but that the financial situation is still far from good. He emphasized the importance of tax reform and a reduction of the number of government employees. He pointed out the shortage of long-term capital and the financial and political uncertainties which mitigate against saving.

I had received letters from McCloy asking me to discuss end-use supervision. I told Baumgartner that, despite certain modifications which we had made in some of our requests for information, we wished it clearly understood that we still retained the right at any time to check into the ultimate use of any equipment financed by us. He replied that there was no question of that and said that, for instance, we could always get any information regarding locomotives which we might reasonably desire. His attitude was cordial and quite different from when he was negotiating the loan. I have the feeling that when he was in Washington he was physically in bad shape which accounted somewhat for his truculence.

M. Villiers talked at length regarding the importance of avoiding a rise in the franc price of American coal. He said that if the new exchange rate is applied it will be impossible to hold down French industrial prices. He proposes that the old rate of 119 frs. to the dollar be continued. He says that the only effect of this will be to reduce the amount going into the franc counterpart fund. I asked what would be the justification for using one rate for imports and another for exports, and he agreed that this should not be done for any materials except coal and that merely temporarily.

Baron de la Grange, formerly a Senator and very much a man of the world, refused to accept my appraisal of the Renault situation, insisting that it was impossible for a state-owned enterprise to be well run. He is intelligent but completely representative of traditional French business conservatism.

After lunch, I stopped by to see Martin Rosen and the Treasury man now working with Harriman. I pointed out my impression that the Europeans had in mind buying too much equipment from America which, I believe, can be obtained within Europe. I called attention to the fact that a year ago they were telling us that if we could finance raw material they could manufacture the equipment. They agreed that this is correct and largely due to the fact that they hoped to get free dollars to buy the American equipment as against giving up goods if they got it within Europe.

At 6:00 p.m. I called on Jean Monnet. He pointed out the serious budgetary problem for the next six months. He said that the only solution is to cut down the army, pointing out that about a third of French expenditures are going for the military. He believes that the army is no good and that the French would be wise to cut these expenditures severely for the next couple of years and concentrate on building up its industrial strength. He said that the present army is practically useless if war should come soon.

With regard to the franc counterpart, he claims that all of this should be devoted to capital investment. He denies that this would be dangerously inflationary and disagrees with my suggestion that some of it should be used to reduce advances from the Banque de France to the State.

He still believes that Russia does not want war now and expresses the belief that in a year or two America and Russia should and can arrive at some working arrangement.

Hoar left Paris at 7:15 p.m. with M. Gabori by train for Chalon sur Saône, where they arrived at 12:40 a.m.

Hoppenot gave a cocktail party at the Bristol this evening.

Among those present were:

MM. Maurice Hennessy, head of the cognac business
Ricard, assistant to the President of Confederation Generale
des du Patronat
Desache, Syndic (President) of the Compagnie des Agents
de change
Raty, owner of Hauts Fourneaux de Saulnes (steel mill)
Fouret, Partner in Hachette & Cie (Publisher)
Lamy

M. Blum-Picard, President of the Mines de Potasse, had to leave before I arrived.

Ricard repeated the story about the price of American coal with practically the identical arguments given by Villiers. He and Hennessy left before the dinner party which Hoppenot gave for us at the Bristol.

At dinner, Raty claimed that M. Lefausheux, the head of Renault, though an able man, was practically a communist. (Rist, who knew Lefausheux in the Underground, says this is absurd but typical of conservative business attitude.) In talking about the ability to get equipment within Europe, Raty said that he had been going on the assumption that since America is putting up the dollars she expects them all to be used to buy her own goods. This is indicative of what is apparently widespread thinking that the Marshall Plan is primarily a means of promoting American exports.

At 11:20 p.m. Lamy and I caught the night train from the Gare de l'Est for Mulhouse.

Lamy and I arrived in Mulhouse at 6:39 this morning. At 8 a.m. we visited the Societe Commerciale des Potasses. This is a company representing a combination of the state-owned mines and the privately-owned mines. The private mines were turned over to the state group for operation and are paid a share of the profits. The Vice President was formerly an iron ore manager. He claims that affairs are run on a business basis without political interference although they are under the direction of the Ministry of Industry. They were fairly badly battered up during the war after they had been operated for several years for the Germans.

We dressed in miner's garb and went down about 500 meters in the Anna mine where they have installed American machines for undercutting, an ingenious machine which scoops up the rock, loads it into a truck and transports it to the conveyor belts. This seems to be working well and they wish to instal similar equipment in their other mines. They are still using inefficient underground cars and have a bottleneck in their shaft, particularly because one of the two shafts has been demolished.

We also went through their refinery where they separate out the clay and salt from the potash. They are now dissolving and piping this salt to the Rhine; they admitted that this is a valuable raw material for soda ash or household salt which should be utilized. They are studying this problem but it is somewhat surprising that they have done nothing with it up till now. My impression is that it is a reasonably good operation but not first class. However, I would think that additional American mining equipment would considerably increase production.

They took us through the miners' villages. In the past they have built substantial brick and concrete houses. Recently they have put up rather good cottages made of pressed wood. In the villages, they have built churches, schools and stores and on the whole they have provided good living conditions for the people. Under present laws, they and the coal mining industry have to provide housing and other facilities free of charge. The Vice President complained bitterly of the burden which this imposes upon them.

They still have a few German prisoners of war. He says that they work well and that some 200 of them have elected voluntarily to remain; he claims that they get along well with the other miners.

at Mulhouse

I lunched at the Hotel du Parc, a typical small town French hotel, with the potash people and other industrialists. At this lunch, organized by the Mines Domaniales de Potasses, the following were also present:

- MM. G. Delacote, Ingenieur en chef des Mines; Assistant Managing Director of Mines Domaniales de Potasses
- Gadonneix, Assistant Managing-Director of Societe commerciale des potasses (selling company)
- Jacquet, President de la Chambre de Commerce de Mulhouse, (Textile industry)
- Wendling, Managing Director of Societe Alsacienne de Constructions Mecaniques, of which M. Arthur Bommelaer is President. (Plants in Mulhouse, Graffenstaden and Clichy)

Mulhouse has important textile and machine shop works.

On politics, the group all agreed that ^{the} Schuman Government had avoided any big mistakes and that it was the best possibility for France for a period. None of them expressed support for de Gaulle. On European federation, they agreed that it was necessary.

After lunch, I visited the plant of the Societe alsacienne de Construction Mecaniques at Mulhouse. This is an important fabricating, engineering and machine shop operation, turning out a very large variety of products, including heavy gas engines, forgings, electrical equipment, etc. They have many good and modern machine tools and are in the process of mechanizing such things as their foundry operation. I had the impression of a fairly traditional organization, quite skillful but lacking any real concept of modern organized production techniques. As I subsequently went around the various steel works I found a large amount of equipment manufactured by them.

We had a long drive to Nancy, going through Bacarat, Hablainville and Petonville where I was during World War I. It had been ~~not~~ badly battered up in the fighting in 1944 and looked in terrible shape. I stayed at the Grand Hotel in Nancy.

At 8:30 p.m. I attended a dinner given by the Chamber of Commerce. Among those present were:

- MM. Arnaud, President of the Nancy Chamber of Commerce
President de la Region Economique
Managing Director of Societe Nanceienne de credit
- Grandpierre, Managing Director of Hauts fourneaux et
fonderies de Pont-a-Mousson
- Pieron, Managing Director of Solvay Plant at Dombasle
- Friedel, President for the department of Meurthe et
Moselle of the Confederation Nationale du
Patronat
Managing Director of Berger Levrault printing house
- Barrucand, Manager of the Nancy Branch of the Banque de France
- Serot, former Staff Officer of Marechal Foch
- D.P. Cavalier, Directeur of Pont-a-Mousson steel mill

Hoar and Gabory spent the night at the Hotel Moderne in Chalons-sur-Saone and left at 9 a.m. for Le Creusot where they arrived an hour later.

The small township of Le Creusot exists simply and solely for the Schneider Works which gave employment directly or indirectly to ~~an~~ almost the whole of its population. It has lateral railway connections with the main lines running south from Paris and is also connected with the Canal du Midi.

Hoar was shown around the works and entertained to lunch by:

M. Chambon, Directeur general
M. d'Ivernois, Chef du Protocol
M. Bernard, Ingenieur.

The works are old and sprawling. Due to the changeover from armament production, which they do not now handle, a great deal of equipment is standing idle. It is, however, retained because from time to time an order comes through for a particularly large forging or some specialized engineering process which they alone have the capacity to produce. They have, for instance, a vertical furnace, originally used for gun barrels, for heating long pieces of metal where it is important there should be no lateral distortion. The retention of this equipment and the shops to accommodate it may be economical but it gives an impression of decay.

The blast furnaces have not operated since before the war, but the steel is made entirely from scrap and difficulty in obtaining scrap of the right quality is somewhat of a handicap. There is a rolling mill and a blooming mill, a shop turning out heavy forgings (Hoar saw a hundred ton forging being pounded into shape), a heavy machine shop which was completing Diesel engines for ships and turbines for the Gennissiat Dam, and a locomotive shop where the latest (last?) steam express locomotives for the State Railways as well as the prototype of some new electric locomotives were under construction.

Hoar was shown over an excellent research and testing laboratory and a technical school run by the works. The school recruits children, by examination, from Le Creusot and villages within a radius of about 20 miles. The children, who enter at about 11 years of age, are given a general education with technical training according to their aptitudes. They are examined yearly and those that show inability to progress further with their technical studies are peeled off into the works at the stage of their competence.

M. Chambon said it was the intention of the Schneider concern to concentrate on specialized products of (a) metallurgy (alloys) and (b) mechanical engineering.

There seemed to be an extremely good spirit among the work people and this seems to be due to the paternalistic attitude of the Schneider family expressed in such forms as the technical school and the hospital in the town. M. Chambon said that there had been no strike against the works as such since 1922. There are some communists but they seem to have little grip upon the people: the representation in the Conseil Municipal of the town is as follows:

Mrp	2
Socialists	3
Communists	8
RPF	14 (including the Mayor)

In the course of conversation during the day, Gabory advanced the opinion that the steel industry should be concentrated in France rather than in the Ruhr and expressed the opinion that Anglo-American policy was quite wrong in wishing to restore German productive capacity. On being challenged on the validity of his arguments, he had very little wherewith to support them but ~~remained~~ remained convinced of the rightness of his original opinion. Though an intelligent young man, he resembles so many of his countrymen in his incapacity to think calmly and logically about Germany.

In the evening, Hoar and Gabory were driven back to Chalons-sur Saone where they caught a train at 8:23 p.m., arriving at Lyon at 10:54 p.m.. They stayed at the Hotel Carlton.

We drove through the iron ore and steel district to Hayange, where I had lunch with Maurice de Wendel and other members of the Etablissements de Wendel, including:

MM. Henri de Wendel, son of the eldest brother Francois
Celier, son-in-law of Maurice and former Inspecteur des des
Finances
Pierard, in charge of technical questions of the de Wendel
établissements
Paschal, Directeur general of the de Wendel plants
Colmant, Manager of the open hearth, plates and sheets Div.
Johannsen, Directeur des Etudes, now retired

We were joined at lunch by M. Daum, whom I had met at M. Baumgartner's lunch.

After lunch, we saw the works. I had the impression of a somewhat laxly run not very modern family operation. The business runs back to before the war of 1870 so that it has been in and out of German territory several times.

We drove to Denain where I dined and spent the night at the house of the Directeur general, M. Damien, who is also Directeur General of the Societe USINOR. While there I met:

MM. Jacques de Nervo, President of the Societe des
Hauts Fourneaux, Forges d'Acieries
de Denain et d'Anzin
Hue de la Colombe, Directeur general adjoint
Geib, Directeur de l'usine de Denain

After dinner, I inspected the heavy plate mill which is now only operated on a night shift due to vacations. I completed my inspection of the plant the following morning and was joined by the two American engineers from United Engineering, Gotschall (electrical man) and Peen (foundation man), who are resident in connection with the installation of the continuous strip mill. Preparations are being made for the erection of the building which will be 500 meters by 200 meters. This mill is being financed out of our \$250 million loan. These engineers say that this mill is in every way comparable to the best U.S. mill. They also spoke very highly of the management and complemented my impression of an alert and progressive operation which had been kept reasonably well modernized in equipment as well as methods. Unlike the Lorraine plants, this is located on the coal fields, half way between the ore in Lorraine and in western France. They claim that the advantage of this location lies in being closer to the big consuming markets.

They told me that lack of coal from the Ruhr and Great Britain was the limiting factor in steel production. They complained generally about the quality of the coal which has come from the U.S. In one case, I was told, that what was delivered presumably as coking coal turned out to be completely unsuitable. Peen told me that to a considerable extent American coal which had been sent over was of a quality which American steel mills would absolutely refuse to take.

Friday, June 25 (cont.)

P.67-A

At 8:30 a.m. Hoar was contacted by M. Perrin, the representative of the Ministry of Industry and Commerce in Lyon. He acted as guide throughout the time in Lyon.

The first visit (8:45 a.m.) was to the Atelier Goudard, 17 Rue Clos Savaron, Croix Rousse. This was a small workshop, only some 50 ft. by 30 ft. and crammed with looms which were weaving silk. Two of the looms were worked by hand in order to deal with patterns needing special accuracy: the rest were power driven. The place was very crowded but orderly and with everybody working extremely hard. The quality of the output was very high. This shop is typical of the many small establishments which used to exist, but are now dying out, to perform specialized functions for the big manufacturers.

At 9:45 a.m. Hoar was taken to the rayon factory at Vaulx en Velin belonging to the Societe des Textiles Artificiels du Rhone (Gillet). He was received by M. de la Chapelle, the Directeur general of the factory and shown around. The factory is modern and very well organized. It deals with the whole process of producing ~~silk~~ rayon textiles, from the receipt of the pulp, through the manufacture of rayon, spinning, weaving, dyeing, printing and packaging for sale. The general impression created by the factory and the work people was of a good workmanlike concern, alert to take advantage of modern methods and organization.

M. de la Chapelle entertained Hoar to lunch, at which he was joined by M. Renault^d Gillet, of the group which controls the Vaulx en Velin factory, as well as many other establishments.

At 2:30 p.m. Hoar was taken to the silk factory belonging to the Maison Henri Bertrand, at 197 Cours Emil Zola, Villeurbaine, where he was received by the Directeur general, M. Joseph Clayette. This, again, was a modern factory, producing high-class finished goods, but in no way particularly remarkable. M. Clayette complained about the exclusion of French silk goods from the British market, on which they had been largely dependent.

At 4:30 p.m. Hoar was taken to another typical small workshop, belonging to M. Terrasse and situated in the Impasse des Pavillons, Caluire. This rather ramshackle establishment occupies two stories on the side of a cliff and contains ranks of machines entirely devoted to twisting silk and artificial silk thread. This was another example of the old small specialized workshop which is now dying out.

In the evening Hoar and Gabory were entertained to dinner by M. Bothier, President of the Federation de la Soierie.

Saturday, June 26

At 7:30 a.m. Hoar and Gabory left Lyon by train for Gennissiat where they were conducted over the Dam by M. Giguet, Directeur general of the Compagnie Nationale du Rhone. The artificial lake is now full and a great deal of the equipment used in the construction of the Dam in course of being dismantled and taken away.

Two of the main generators are already working, a third is installed and will be brought into operation by September; the fourth is expected to operate in 1949 and the fifth in 1950 or perhaps a little later.

Provision is made for the installation of a sixth generator, but this will probably not be installed for some ten or fifteen years. The works are too well known to call for any particular comment.

M. Giguet strongly contested the contention of a number of the manufacturers in Lyon that the price of electric power was too high. He said that it had advanced far less than the general run of prices and that, given the large capital expenditure which the full electrical scheme for France would entail, he thought the price would tend to rise in the future rather than fall.

6 In the afternoon, M. Giguet provided a car to take Hoar to Aix Les Bains, whence he caught the night train back to Paris.

Saturday, June 26

P.68

After completing my inspection of the plants of the Societe des Forges et Acieries de Denain et d'Anzin, I drove to Amiens to see Henri Poire. He has aged rather heavily but he remains the same fine, intelligent and courageous friend.

I arrived back in Paris by train about 10:30 p.m.

Sunday, June 27

At 11 a.m. I called with Tyler on M. Marjolan at his house, 17 Blvd. Richard Wallace. His deputy, Prince Colonna (Italy), was also present. As Secretary-General of the OEEC, Marjolan is a surprisingly young man, intelligent, energetic and apparently frank. He is in agreement on the importance of working towards European federation but thinks it would be a mistake to consider it as a prerequisite to the success of the Marshall Plan. We argued this point somewhat. He says that his policy is to encourage the national delegations to come forward with proposals and to avoid, at least in appearance, assuming undue authority for the secretariat. I urged that he not be too careful. However, he assured me that the decision has been taken that the central organization screen all requests which will demonstrate its importance. He realized the difficulties of this job but concluded that it was essential to take the risks involved.

He spoke highly of Hall-Patch and of the general relations within the group. He believes that working together will gradually become more and more effective. My impression is that his good reputation is well deserved.

With Tyler I lunched with the Dean Jays at Fontainebleau.

In the afternoon, I drove round Paris with Dorsey and Zora Stephens, visiting Notre Dame, the Luxembourg Gardens, the Tuileries and through the Bois de Boulogne. Paris is as lovely as always.

In the evening, I dined with Ted Rousseau, his wife and Josh Campbell, of the Guaranty, in their apartment in the Avenue Foch. We talked over old times and Guaranty people. Ted finds much bitterness among the English in Paris towards America over Palestine.

Hear returned to Paris this morning from his trip to Lyon. He left on the night train to attend the Timber Conference in Geneva.

At 10 a.m. I called on Sir Edmund Hall Patch at the Bristol. We started off discussing the difficulties ~~in~~ of trade which led into the fact of the close interrelationship of the various European countries. He expressed his personal support of federation.

We talked about the Ruhr problem and in reply to my question as to why the British were insisting on nationalization of ~~the~~ ~~mining~~ industry he replied that I should know that that was British Labour Government ~~an~~ doctrine. Again I gather that he is not wholly in accord.

With regard to his own OEEC, he said that the greatest difficulty comes from the fact that, while many of the representatives are good, others are completely incompetent. He pointed out the difficulty under these circumstances of getting any understanding or agreement on complex economic and financial questions. I told him that that was exactly what we in the Bank had pointed out months ago in advocating a really international secretariat to make recommendations. His first reaction was typical: that of course no European government could permit such a group to make recommendations which would vitally affect their economic ~~and~~, therefore, their sovereignty. My reply was that the final decision lay in the hands of the U.S. who was giving the money and that this fact could not be escaped. I explained the experience of the Bank with an international staff and he admitted that ~~that~~ it was remarkable that we have been able to get agreement. I finally smoked him out to the point where he agreed that recommendations arrived at on an objective expert basis was the answer but he said that this must be achieved by experience and without ~~publicly~~ publicly admitting that it was happening.

He said that he welcomed cooperation from the Bank and that Bank representatives would be given the warmest reception and all information. This is what both Harriman's group and Marjolan had previously emphasized.

He underlined the importance of integrating Germany ~~in~~ into the picture and said that if he could not get agreement for the Bizone authorities to sit around the table as equal partners he intended to call the foreign ministers and to make this an issue.

At 11 a.m. I called on Bill Foster ~~&~~ at the American Embassy. I told him of the concern in French industry about the possible increase in the franc price of coal. He said that they were aware of the problem and were attempting to work out a solution. With regard to military expenditures, he said that ECA and the State Department were discussing seriously with the French ~~XXXXXXXXXXXX~~ plans that would lead to a reduction of expenditures and yet give France some hard core of military efficiency.

Harriman came in and asked us to join in a discussion of the timber proposal. We were interrupted by my ~~xxxxxx~~ visit to Schuman but I came back afterwards and had a further discussion with him, Foster, Paul Porter, Hoover, Bissel and a few others. They assured me that timber was a critical item and we agreed that the loan proposed of \$16 million would make available \$50 or \$60 million dollars worth of timber for Europe over the next several years; also that at least half of the

equipment could be obtained from Europe. I posed the question, therefore, whether, if the Bank would make a short-term loan of up to \$16 million (assuming that at least half could be made in other currencies out of our capital), they would authorize offshore purchases in dollars in amounts sufficient to pay the dollar part of the loan. The balance of the loan and additional timber purchases could be worked out on the basis of bilateral agreements. Harriman expressed approval in principle. He believes that the thing could be worked out entirely by agreements between the purchasing and supplying countries but admits that this would take some time and that it is necessary to get the equipment into the woods before the winter sets in. I told him that Hoar was in Geneva now and would inform him of any developments. It was left that we would see what the Geneva conversations produced and that the matter would be discussed with Hoffman's crowd in Washington.

At 11:30 a.m. I called on M. Robert Schuman, the President of the Council, at his office in the Hotel Matignon. He gives the impression of sincerity and intelligence but not of bigness.

I asked him how France was to maintain in the second six months of this year the approximate balance of the budget which had been achieved by various windfalls in the first six months. He expressed complete determination to achieve this, saying that it must be done. Without being precise, he said that they must find additional sources of revenue.

I raised the question of military expenditures. He told me that this was under examination and that they intended to reorganize to the end of reducing expenditures and getting more effective results. He said that the same thing applied to civil servants; that they were reducing the numbers constantly; but that not enough had yet been done.

I told him of my visit to the Renault plant and of my good impression. He expressed gratification but said that it was not good to have it state owned.

With regard to the Bank, he expressed great interest and hope it. He understands that any loan that we may make to private industry must be guaranteed by the French Government. He expressed appreciation of the fact that we in the Bank spoke freely to our members.

At 12:30 p.m. I called on Ambassador Caffrey at the U.S. Embassy. He claimed that he talked turkey to the French and was able to do so because they realized that he was their friend. He was insisting to them that they balance their budget and come across with their figures. It was hard to make them really put the facts on the table. I questioned the heavy expenditures for the military and he countered with the necessity of their maintaining order in Indo-China and North Africa. He claimed that this was where the major part of the expenditure lay. He also talked about the benefit to the French youth of military training, with which I agreed, but he admitted that young Frenchmen marching around with rifles would not be effective against Russia and that it came down to the question whether the U.S. would furnish them with modern equipment. He pointed out the contradiction in America's insisting on strong financial measures and at the same time encouraging military preparedness. I expressed the opinion

that it would be impossible for France to be militarily effective in the next year or two and, therefore, their efforts should be directed to putting their economy on a sound basis.

We talked about the price of coal and he said that discussions were under way to try to find a formula which would prevent a rise in the coal cost to industry and yet not be merely a subsidy to the French budget. He states that if the U.S. is to help in the coal problem, they insist that they be given the facts on the whole financial situation and prove that it will really be effective.

He is an active, aggressive chap, not profound, but I gather that he is doing an effective job and is highly regarded by the French.

At 1 p.m. Tyler and I lunched with Dean Jay at the Ritz, the following also being present:

Bernard S. Carter
Pesson-Didion
Pierre Meynial
Tupper Barrett
Alan Aragon

There was a general exchange of ideas.

At 4 p.m. I called on the British Ambassador, Sir Oliver Harvey, at the British Embassy. He looks like a typical diplomat but proved to be surprisingly conversational. We had an interesting general conversation. He agreed that the solution of the German problem, at the core of which is the Ruhr, was essential to recovery. I gave him my ideas which he doubted would be acceptable to the Germans on the basis of international private ownership or to his Government. (I gather that, like most of the British civil service, he is not a Socialist.) He contended that the French really wanted the extinction of the German steel industry, but I told him that I had not run across this thinking.

At 6 p.m. I saw Charles Gray, of the U.S. Embassy, to whom John Harris had given me a letter of introduction, at the Bristol, but got nothing from him.

At 6:15 p.m. I saw Lowe, the financial editor of the N.Y. Herald Tribune Paris Edition, at the Bristol. He seemed quite intelligent and I hope his story does not get me into trouble.

At 8:30 p.m. Rist, Acheson and I took the train ferry to London. We were seen off at the Gare du Nord by Tyler and Hoppenot. The latter gave us a letter to the French customs officials asking them to facilitate our passage in every way they could. This proved effective.

G R E A T B R I T A I NTuesday, June 29

We arrived in London -- Rist, Acheson and I -- at 9:10 a.m. and were met at Victoria Station by Lt. Col. Sir Eric Crankshaw, Secretary of Government Hospitality, and Mr. George R. Young, of the British Treasury, who was to act as our liaison man during our stay in England. They put us through the customs in the best British style. We drove to Claridge's where we are staying.

At 11 a.m. Rist and I talked to Rowe-Dutton, of the Overseas Finance Division, at the Treasury. Young was also present. This was a rearrangement of the schedule because Sir Stafford Cripps and Sir Henry Wilson Smith had to go to a Cabinet meeting. Rowe-Dutton asked about France and I gave him my impressions. He commented on the disastrous effects on British trade of the franc arrangement. I told him that I understood that the French were hoping to straighten this matter out in the next few months.

We discussed European federation. He admitted that he personally favored it. He pointed out the enormous difficulties for England in view of their Commonwealth relationship. He asked whether I did not consider that the Southern States had lost economically by their union with the North; and I said, no, that I felt the decline of the South had been the result of slavery. He admitted the tremendous benefits of a large trading area and the necessity of such for the full use of modern industrial techniques. He pointed out the impossibility of any early unification. We finally agreed that American pressure and impatience was probably useful.

On the British balance of payments, he and Young emphasized the rise in the cost of English imports of food and raw material out of line with the price of finished products. They maintained that English ~~we~~ production was good and was increasing and that Britain was suffering from forces beyond her control. On the question of what she could do to meet her problem, they were vague.

At 1 p.m. Sir Frederick Bain, President of the Federation of British Industries, and Mr. E.H. Lever, of the Steel Co. of Wales, lunch^d with Rist, Acheson and me at Claridges. They were impressive and I was pleasantly surprised at the degree of vitality and confidence that they exuded.

Bain and Lever were agreed that efficiency of labor was high. Lever said that the men in his steel works were more productive than before the war, witness the record production of the steel industry.

The main labor problem lay in quarrels between rival unions. Lever pointed out that the other trouble lay in the unwillingness of some unions to abide by their contracts, citing as an instance the blastfurnace-men's union in one of his plants who refused to abide by the arbitration provision of their contract and were threatening to strike without arbitration. The Government had been very fair and many Government-appointed arbitrators had found against the unions. It seemed to be the attitude of industry to prefer to allow matters to come to a showdown when a matter of principle was involved even though it might lead to a strike.

Lever stated that his company had undertaken a long-range education program for its men. He said that some time ago he had informed the local union that it would be necessary to change over an old hand mill to a continuous strip mill, involving a considerable reduction in labor force. He took forty of the leading hands at the plant over to see a new mill in action; this convinced the men of the necessity of the change over and they had agreed to it provided that the management used its best efforts for its employees during the period of the change over.

The impression Bain and Lever gave was one of considerable willingness to help on the part of the unions when the necessity of any action had been demonstrated to them and when their suspicions that management was trying to put a fast one over on them had been allayed.

Lever stated that his strip mill in Wales was not rolling between 12,000 and 13,000 tons a week. He hoped to get production up to 14,000 tons a week. Lack of steel was the chief bottleneck. This plant was ten years old. He is in the process of building a new mill in which he expects to roll 20,000 tons a week. With regard to steel plates, the United Engineering Co., who provided the machinery for his plant, estimated that he should produce $3\frac{1}{2}$ million boxes. However, he was now getting $4\frac{1}{2}$ million boxes out of this plant - an increase of about 30%. He attributes this to efficient management and organization.

In answer to my inquiry as to the accuracy of the charge levelled against British industry by many American businessmen that it did not like competition but preferred to come to price and production-fixing arrangements, Bain said that so far as he knew that was not true. In fact, he deplored the tendency towards industrywide arrangements of one sort or another which were being fostered under ERP. He felt that this was a very ~~da~~ dangerous tendency. I agreed with him and pointed out that neither Hoffman nor Harriman wanted such a development and would do everything to prevent it.

As to the role of the F.B.I., Bain pointed out that his Federation was a free organization and had no constitutional, legal or corporative powers. As a coordinating agency, however, it was able to discuss with the Government the problems of industry at large with considerable authority. He had been able personally to enlist the support of two-thirds of the Federation members for a dividend-stop policy and to assure the Chancellor of the Exchequer of the willingness of his members to abide by this policy, but there was no signed undertaking on the part of everybody. The existence of such self-discipline he considered one of the most hopeful signs for his country.

Bain thought that there was a strong feeling among the younger generation in Britain against the present Socialist Government; but, when pressed, he admitted that this feeling might stem from the normal "agin' the Government" attitude of the young, the same attitude which had made many of them vote Labour at the elections, and did not necessarily represent a swing towards Conservatism on the part of the young.

Bain pointed out that another sign of the times was the fact that the younger generation was setting up housekeeping much younger due to the fact that the feeling that a man must provide his bride with that scale of living to which she was accustomed had vanished with the war.

At 3 p.m. Rist and I went to the House of Commons for question time. We could hear very little; most of the questions were trifling. As Rist said, it is a curious combination of religious atmosphere and showmanship. It was interrupted by Cripps reading his statement on the bilateral agreement under ECA.

At 4:30 I called on Lew Douglas at the U.S. Embassy. We had a short talk as he is tied up with matters regarding the Berlin crisis. He says the English situation is one of long standing, arising from the deterioration of its trade position due to obsolescence of methods and equipment and too high a burden of social benefits; the war merely accentuated a trend. He thinks that none of the political people on either side really face up to this. At best, it will take England from ten to fifteen years to modernize and, therefore, their only hope of preventing further deterioration is to abandon many of their reforms, reintroduce incentives and work harder. He thinks things will have to get worse and at some stage the English people will wake up to the realities. He feels that Europe cannot achieve a federation until sterling and the franc are strong.

He asked how closely the Bank was working with ERP. I explained that everyone had expressed a desire for us to work together but that, pending the organizational development, it had been difficult to get down to brass tacks. He expressed the strongest opinion that the Bank should be used to the maximum extent for making such loans as were suitable.

He said that he was concerned that the ERP interest rate had apparently been fixed at 3½%; he thought it should be the same as ours. I expressed hearty agreement.

At 7 p.m. I called on the Chancellor of the Exchequer, Sir Stafford Cripps, at the Treasury. He pointed out that England's difficulties arose from the worsening of the terms of trade: i.e., the cost of their imports had risen in excess of the price of their exports. He claimed that production was progressing satisfactorily although he admitted there was a little slowing up particularly in coal. He attributed this to the feeling of uncertainty due to lack of raw materials and general uneasiness over world political problems. He professed to believe that this feeling was temporary.

He stressed the importance of development in the colonies and Dominions, particularly Africa, India and Pakistan. I told him that we were heartily in accord and were discussing African development with the Colonial Office people, but pointed out the difficulties in areas such as India where one was not sure of political stability. I expressed the hope that African development could be carried forward cooperatively with the other colonial powers. He expressed agreement. I inquired about the rights of foreign private capital to participate. He said it would be welcomed but on a minority basis. When I questioned this policy, he said it would be the same as was applied to private English capital. On further questioning, he replied that it was only by keeping state control of these developments that private exploitation could be avoided. I expressed scepticism and pointed out that private capital had operated in the Philippines without exploitation.

I asked whether English costs of production were not unduly high. He disputed this, saying that with the exception of a few nonessentials they were not finding that price was handicapping their exports. As to the modernization of industry, he understood the necessity in many lines but emphasized that improvement in methods was even more important than getting machines. He expressed the belief that English production could be increased by 30% without any new equipment simply by improved methods, greater alertness on the part of management and decreasing the English workman's ingrained fear of unemployment. I inquired by what incentives he proposed to achieve these and he replied, first the incentive of saving England and secondly the opportunity for better wages as a result of increased productivity and trade. I asked whether high taxes were not impairing incentives to management but he denied this. He stressed the incentives of accomplishment with which I agreed but stated that one could not ignore the lure of money.

We discussed competition and he claims that it can be attained under their system. He pointed out their schemes for training and rationalization and for education in industry both for workers and management on the necessity of improving methods and accomplishing technological advances. He claims that the Trades Union leaders agree to this. When I pointed out that the competitive American system of private enterprise had produced outstanding results, he stated that one had to take into account the differences between the American temperament and the English. He says that Englishmen tend to resist change and therefore require pushing by the Government. He claims that his last budget has given definite incentives for increased high production by both workers and management. He also claims that there is more than adequate capital available for modernization and expansion, the problem being foreign exchange to secure raw materials.

He impressed me as an intelligent and realistic, bearing in mind his socialistic convictions. I think he sees some of the basic problems of England although I have grave doubts as to his approach to the solution.

I dined with Rist at Claridge's. He thinks that there is a considerable amount of understanding between the French and other Europeans. There is good hope of increasing understanding between the French and other Europeans and the Americans. He says the basic difficulty is that both America and Russia are so big in relation to the others that it creates a feeling of uncertainty.

At 10:30 a.m. I called on Tom Finletter at the U.S. EMBASSY. He had with him several of his staff who are to handle the Marshall Plan for the British, including Westmore Willcox, Kenneth Boynton, William Burt, and Thomas Wilson.

Finletter pointed out that he had just received indications from Washington to consider the maximum credit worthiness of the various countries, the implication being that loans should be made for more than the minimum of \$1 billion specified in the Act. He expressed concern with which I agreed and stated that I doubted whether either Britain or France could carry the burden of much more dollar debt, and he concurred in this.

He said that it was probable that the interpretation of the Act in Washington would make it impossible to advance money to the Dominions or Colonies for development and inquired whether the Bank could help, for instance, in financing cotton production in India which would decrease Britain's requirements for dollar cotton purchases. I told him that in principle we could but pointed out that, first, we must know how much debt was going to be put on the European countries through ERP before we could determine whether we might make additional loans to them and, secondly, it would be necessary to consider the unstable political situation in India.

I raised the point that the Europeans seemed to be planning to purchase too much equipment in America against buying it in Europe and urged that ERP take a strong stand on this. This brought out a question by one of the group as to whether America would be willing to finance the building up of European production which might compete with America. He said he thought that America had to determine whether she really wanted Europe to recover or expected to continue to subsidize it; furthermore that the maintenance of America's foreign trade on other than a gift basis would depend on a general expansion of all world trade; that Europe could never hope to balance direct exports and imports with America but might balance with out multilaterally.

Finletter stressed the importance of close working relations between his group and the Bank. I explained that we were attempting to do this in Washington and expected to set up some people in Paris. I said that I understood in Paris that the OEEC Organization was going to do a real job of screening. He expressed some scepticism and suggested that his group would want to talk directly to us. I told him that if he would notify me in Washington when anything arose, we would have our Paris man come over and talk to him.

At 11:30 a.m. Rist and I saw Sir Archibald Jamieson, Chairman of Vickers Ltd.. He is a big, solid man with poise and force. He approaches all the problems we discussed on a practical, tangible basis. One must bear in mind that he is a Scotsman.

He told us that Vickers since the end of the war had completely revamped its business from armaments to a great variety of peacetime products, such as merchant ships (he said that they were now building 12 passenger vessels) and a number of products on which he had obtained the manufacturing rights from America, such as the Powers adding machine and American Type Founders printing press. He likes to deal with the moderate-sized American companies. He says that these arrangements have been worked out both by Americans making offers to his company and by his sending people to America to ferret out products.

He says Vickers now has about 75,000 workers scattered in many plants. He regrets that some of his plants, such as shipbuilding, have to be very large as he prefers a medium-sized operation of not over 3000 men. He claims that management loses touch in a big plant.

He has bought many American machines and claims that Vickers is as well equipped and efficient as any plant in the world, particularly where a considerable amount of craftsmanship is required. He admits that no one can compete with America on mass machine production. He says that his men still retain their craftsmanship and on the whole are working well compared with prewar. He stated, however, that the British do not like to work hard and, in his experience, he had never seen them go all out except for a few months after Dunkirk.

He thinks that his company's relations with labor are pretty good. The chief difficulty is the cumbersome machinery to get disputes settled. He said that it takes sometimes six months to carry them up through the various boards. He thinks labor unions have grown too big and cumbersome and too far removed from the men.

As to government restrictions, he says that they slow things up but that his company has finally gotten enough clerks to fill out the forms and know the people in government with whom to deal, so that it is tiresome rather than crippling. He says, however, that the system is exceedingly hard on the smaller companies.

With respect to the F.B.I., he says that it is a useful piece of machinery for the Government but, so far as he is concerned, it is of no value to him, though it may be to some of the smaller companies.

He told us that he was producing at full capacity, selling a large percentage of his production abroad. He says that supply difficulties are less than formerly though he admits that his large amount of export business helps.

I asked him about the nationalization of steel. He told me that his plants would be taken under the Bill which he expected would be pushed through. However, he asserted that, in the end, he did not believe that steel would actually be nationalized.

In reply to my question as to England's future, he says that he sees no hope of her really regaining strength. Her dependence on imported food and raw materials, now that she is stripped bare of foreign investments, is too great a handicap to overcome. He asked me if I could see any light. I told him that along two lines I could see a part answer: one in the greater integration of Europe and the other in the

development of food and raw material sources from the Colonies, particularly Africa. As to the first, he agrees upon its importance but has grave doubts whether traditions and jealousies can be overcome. He thinks that colonial development is important.

As to taxes, he thinks that they are heavy but not crippling on industry. However, personal taxes are draining away all the wealth. I asked whether this meant that management was losing its incentive to work, and he said, no; that people who really wanted to work would work no matter what the circumstances and the others would not work anyway. He claimed that he had always had to work hard for everything he had got and that his company, following the war, had had to root hog or die. He said that this was probably a good thing as it had made them get down to realities.

I lunched with Acheson* at Claridge's, and dictated.

At 3 p.m. I called on Harold Wilson, the President of the Board of Trade. Young told me that he was one of the boy wonders. A university fellow, he had gone into government during the war; he had shown great brilliance and, as President of the Board of Trade, is the youngest minister since Pitt, now being in his early thirties. He is a pretty cocksure fellow.

He spoke of the gains in British production and trade. He lays all the difficulties on factors beyond England's control such as the inability of other countries to buy.

In discussing the importance of inter-European trade, he said that this was hampered by ~~the~~ Clause 9 in the American loan agreement which he claims makes it impossible to buy French handbags without buying American handbags or even without buying Belgian. He said that this was the thing most hampering England's trade with other countries. This was the first time that mention had been made of this matter. I checked with Young who says that he understands that Snyder's interpretation for all practical purposes cleared up the matter. I later talked to Douglas Jay, Cripps' assistant, and he confirms Young's statement. He said that the ghost still remains and Britain would like to have it laid but, insofar as he knows, in practice it is not important.

At 4 p.m. Rist and I saw Sir Sidney Caine, Under Secretary for the Colonies, W. Gorell Barnes and Kenneth Robinson at the Colonial Office. (See Rist's memorandum attached.)

At 5:15 p.m. with Rist I saw the Rt. Hon. A. Creech Jones, Secretary of State for the Colonies, at the Colonial Office. He is a rather hearty, friendly type. He spoke well and freely regarding colonial development. He pointed out not only the importance to English trade but the necessity of carrying out its obligations to improve the condition of the natives. He thinks that the criticism that England in the past has used the Colonies too selfishly is ill founded although he admits that perhaps they have done too little in giving real leadership and direction to the natives. He is convinced that improvement can only come through policies directed from London as strongly as local politics and sentiment will permit though he points out that it is not well understood abroad that the Colonies have a real voice in their own affairs.

He discounts the fact that private capital in the past has exploited native populations and in response to my question says that Colonial Office policy is to permit private enterprise to foreigners on the same basis as Britishers. He claims that he understands the importance of private enterprise and capital in the Colonies and, differing with Cripps, says that he favors its free entry and wide scope. He points out, however, that nationalistic feeling and local prejudices and laws are restricting foreign private capital.

He talked very intelligently on the problems of colonial development, the necessity for public works such as railways, communications and ports as well as control of pests and disease, etc., saying that private capital was reluctant to go in for these things. On many of these matters he feels the necessity of coordination between the various colonial powers.

I should say that he is a fairly reasonable and practical Socialist and not too close a follower of dogma.

Hear arrived in London from Geneva this evening. The results of his visit to the Timber Conference at Geneva are contained in his memorandum to me dated 8 July.

I dictated after breakfast; and, at 11 a.m., called on Evelyn Baring, of Baring Bros., and delivered a box of candy sent by Cliff Folger. He took me up to see Peacock, who carried the conversation. He is a Canadian who has been in England since his younger days and struck me as a clearheaded and wise man.

He is quite impatient with all the government machinery and controls; he believes that England does not realize the basic difficulties of her situation and that things must get worse before there is a frank facing of facts. He, however, expresses strong confidence in the triumph of English character and ability.

We discussed the condition of the textile trade. Peacock told how the largest combination was put together under a trust where his concern was trustee, as worked out with the Bank of England. It was rather interesting to have him admit that he and his other partners did not realize that the trust agreement gave them the responsibility of control in the event things were not going well. In accordance with this provision, they were forced to step into the picture and insist upon a complete reorganization. He said he got the Lancashire owners together and told them they had got to select a new management. Reluctantly they agreed to do this and he claims that this organization has become extremely efficient, has modernized their plants and is first class. He admits the failure on the part of many of the textile people to do the same. He says that many of the ~~iff~~ inefficient plants must be scrapped. He was pretty contemptuous of the Cotton Board, saying that it was just another bunch of interferers, run by men who do not know anything about the business.

As to coal, he said that there was too much centralization and quoted the miners as saying they must have a boss. The miners looked on the trades unions as having the sole purpose of getting them better wages and shorter hours and not ~~for the purpose~~ of disciplining them. He pointed out the anomaly of the Labour Government which is based on the trades unions who thus are faced with the conflict between their responsibility to the men and their responsibility to the Government.

He seems to believe that when conditions get sufficiently bad with unemployment, the English people will turn back towards private enterprise.

At 12 I went with Hoar to see Geoffrey Crowther, of The Economist. He says that the problem is not production but inflation both here and elsewhere. He thinks the deflationary forces are beginning to work but ~~is~~ sceptical whether the Labour Government will stand by its policy when unemployment appears. However, he feels certain that the world will not get back onto a sound basis until there has been a genuine depression. He had been expecting a recession in America in the second half of 1948. He says it does not look like it now but he is still not sure that it may not come.

With regard to the fine crop prospects in the world, he wonders why the markets have not discounted this. He says that he has always found that the market judgment is correct, so he is not hopeful of a decline in agricultural prices this year.

He remarked that Europeans seemed very little interested in what was happening in America. He says, however, that The Economist's notes on America are read with great interest ~~by~~ but admits his readers are a select group and agrees that English and European papers carry

much too little news about the United States. He considers European unity important but admits there is great opposition to England's participating in it partly due to the relations with the Commonwealth and partly due to the distrust of the Continent.

At 1:15 p.m. we all attended a luncheon given by the Chancellor of the Exchequer at the Savoy. Mr. Douglas Jay, Economic Secretary to the Treasury, was our host. The following were also present:

Mr. Lewis Douglas
Lord Catto
Mr. Don C. Bliss
Lt. Col. Sir Eric Crankshaw
Mr. R. M. Makins
Mr. W. L. Hubbard
Sir Henry Wilson Smith
Mr. Thomas K. Finletter
Mr. F. Lee
Mr. C. F. Cobbold
Mr. E. Rowe-Dutton
Mr. G. R. Young
Mr. E. W. Maude
Mr. G. L. F. Bolton
Sir Edward Bridges

Lord Catto told of his experience which includes a long period in India and in America as Vice President of McAndrews and Forbes. When the question was raised by someone about the nationalization of the Bank of England, he said he would tell me later about that, but as regards ~~xxx~~ steel nationalization he is definitely opposed.

At 3 p.m. I went to call on George Wallace, of the Chase Bank, who, at my request, had gathered together a group of American bankers; strangely there was no one from the Guaranty.

They asked me about the Bank's relations with ERP and were particularly interested in the ERP provision permitting the guarantee of exchange values on foreign investments in Europe. I explained my understanding of this. They also wanted to know whether private channels of trade would be used, particularly for the purchase of cotton. I could give them nothing further than what I understand the general American attitude to be -- to encourage this. I suggested that they should establish contacts with Tom Finletter's group to discuss various matters of mutual interest.

This group seemed doubtful whether Labour would not modify its deflationary policy when the shoe begins to pinch. They said that restrictions on building had begun to lead to some unemployment and that these restrictions were immediately ~~lifted~~ loosened.

One of the group who apparently keeps in pretty close touch with politics suggested that at the next election the Liberals should circularize questionnaires to all candidates and throw their support to the individuals who were in accord with their views. He thinks this would be practicable whereas he thinks the Liberals would never actually join with the Conservative Party.

At 4:30 p.m. I called with Hoar at the Foreign Office and had an interview with Ernest Bevin, Secretary of State for Foreign Affairs. Despite the Berlin crisis, he seemed to be in a fairly confident mood. Smiling, he said of course he had his troubles. I asked him about the problem of Germany and he was not very specific. He talked of the arrangements which should be worked out between the various countries, including Germany, for steel production with agreement as to the types which could best be manufactured in each place. I tried to pin him down on the Ruhr but he refused to be drawn.

On the difficulties of trade, he laughed and said that he had stirred up the Americans, as he liked to do every once in a while, with his suggestion about Fort Knox gold. He said that if the Americans would put up a fund of dollars or gold all currency troubles would disappear. I said that it seems that gold refuses to remain banished, and that it might well reappear as the standard. He said, ~~they don't want~~ ^{we don't want} a gold standard. ~~We~~ ^{We} just want the gold; it is merely a question of confidence; and if the people think that gold is available, they stop worrying and don't demand it."

When I told him of the strong sentiment I had found for federation of some sort in Europe, he said political federation was impossible.

I mentioned the importance of balanced budgets and sound fiscal measures if confidence is to be restored. He replied that Britain had balanced her budget, but, of course, the balancing of the budget should not be insisted upon ~~x~~ on a yearly basis but on a five-year basis. I said that this was the theory of the New Deal but it did not work. He admitted that there were political difficulties in making it work.

When I asked him whether his Government would stand by its deflationary policy, he said, "Unquestionably." Before the elections, when he doubted that Labour would win, he had told his party that they must learn to ride the storms and do unpopular things. From English history they would learn that the English people would give their support to any politician who would tell them the unpleasant truth. I don't know whether he had Churchill in mind.

He is a powerful personality and pretty much of a generalizer, and I doubt if he has much of a real grasp of the economic facts.

I dined alone at Claridge's and revised the draft of my broadcast for the BBC.

At 10 a.m. I went to the BBC and transcribed my broadcast.

At 11:30 I held a press conference at the Treasury. City and financial editors had been invited. About thirty turned up and questioned me for an hour. Questions were quite intelligent. However, some of the afternoon papers played up unduly the Yugoslav application and my comments that it was for \$500 million, written on one page. One of the papers also ran my comment that calories are the damndest invention since the telephone.

At 1 p.m. I went to the Bank of England. I had a talk with Catto before the luncheon. He claims that nationalization has made no material difference to his operations. He stated that the only authority that the Governor of the Bank of England has ever had is the right to resign. He stated that new directors have been appointed by the Chancellor of the Exchequer in consultation with him and, to his surprise, the Labour directors appointed have been most valuable. He showed me around the impressive quarters and explained how he conducts the meetings.

We were joined at lunch by Wilson Smith and Wilfrid Eadie, of the Treasury, who were there for the weekly passing of the treasury bills; also Lord Balfour of Burleigh, Chairman of Lloyd's Bank, Cobbold and a few others.

Lord Balfour spoke of the strong position of British banks. He said that they are making good profits. He referred to a conversation he had had with a New York banker who told him of the large amount of term loans carried by American banks at low rates. He had got the impression that American banks had few reserves. I pointed out that they also had very large portfolios of government bonds and expressed the opinion that they were in rather liquid shape. He is quite critical of ~~England's~~ ~~balance of payments~~ Socialism and restrictions in England and expressed pessimism regarding ~~England's~~ ~~balance of payments~~ balance of payments.

In connection with the International Bank, he said that the South African banks, he being a director of one of them, had expressed willingness to purchase our bonds on the next issue. He suggested that this be followed up.

At 3 p.m. I went to the U.S. Embassy to see Tom Finletter. He is disturbed at the policy which seems to be evolving to have a maximum amount of ECA funds advanced in the form of loans rather than grants. He says that probably they are not going to be loans for specific projects but merely an assignment of a certain proportion of the totals to be put on this loan basis.

He gave me a copy of a memorandum covering Wayne Taylor's talk with the British in which he indicates a loan of 30 years, interest not to begin for 7 or 8 years, at a rate of about 3%. He agrees with me that this will probably lead to fuzzy loans which will cause trouble in the future and interfere with the Bank's sound lending policy.

Finletter fears that the interpretation of the Act in Washington will tend to be too narrow and thus prevent using the funds for some of the wider purposes, such as developing the sources of raw materials in the colonies. He believes that his job in Britain will be largely one of interpretation, particularly making it plain that aid will only be available for a limited period. He believes that there is a considerable attitude in England that she deserves to be taken care of because of her sacrifices in the war. He pointed out the necessity of favorable developments before next February when the question of second-year appropriations will arise. In general, he does not believe that the English are yet realizing the seriousness of their situation.

At 4 p.m. I met in company with Young the following members of the Trade Unions at Transport House:

Vincent Tewson, General Secretary of the Trades Union Congress
Mr. Woodcock, Research Secretary of the T.U.C.
Lincoln Evans, General Secretary, Iron & Steel Trades Confederation,
member of T.U.C. General Council
Arthur Deakin, General Secretary, Transport & General Workers Union,
member of T.U.C. GENERAL Council
Andrew Conley, member of T.U.C. General Council, formerly of the
Tailors and Garment Workers Union
T. Williamson, M.P., General Secretary National Union of General
& Municipal Workers, member of T.U.C. General Council

I first raised the question whether controls were slowing down activity. Most of them strongly denied this and claimed that industrialists admitted the need for them. However, one man agreed that they are a delaying factor and have probably gone too far. They all claim they wish to get rid of them as fast as possible.

There was only one of the group who struck me as being bitter and he talked the usual line about the improvement in living conditions of the poor and the abuses under the free enterprise system. They insist that the working people are putting forth their utmost efforts and realize England's crisis. Deakin, head of the Dock Workers, quoted, for instance, the number of letters he had received condemning the unauthorized dock strike which was settled just after we arrived in England. They said such strikes were really insignificant.

On the question of the delays in the machinery for the settlement of industrial strikes, one of them inferred that these delays were deliberate in order to let the disputes wear themselves out. He said that the great difficulty was to get labor to accept unfavorable decisions by the various Boards.

With regard to the possibility of England balancing out her foreign trade, their only answer was to talk about the sturdy qualities and stability of the English people.

When I mentioned Belgium's progress as an example of free enterprise, one could see that it is a sore point and that they rather obviously expect Belgium to get into trouble.

Friday, July 2 (cont.)

P.88

On the problem of freeing trade of restrictions, they agreed in general but I could not get any of them to face up to the solution through European federation. As with most other Englishmen, they have a considerable lack of faith in the continental European.

Most of them spoke critically of communist influence but claimed that it was troublesome rather than dangerous.

My impression is that they are primarily a group of solid Englishmen with very little ideology but with strong memories of unemployment and harsh conditions in the past which they hope to avoid through a form of socialism which will not basically change the traditional English way of doing things.

I met Tom Frazer at the station and went out to Woking. I had a pleasant evening with him and Paddy. The countryside is lovely and they have developed their gardens and flowers most attractively. We heard my broadcast on the BBC program.

Saturday, July 3

I arrived back at Claridge's at about 11:30 a.m., and Sir Jonah Walker-Smith, to whom John Harris had given me a letter of introduction, came in for lunch. He has been in the construction and engineering business and is a barrister. For many years he represented the building employers in wage negotiations. He is a long talker but he struck me as quite shrewd. He says that building labor is producing considerably less than before the war and that the higher wages they are granted and the more concessions that one makes to them the more they demand. He asserted that the endless governmental requirements for clearances are delaying and costly. He believes that conditions will have to get worse to impress the people with the urgency of the situation.

I spent a few hours wandering around. The more I see the more convinced I am that the English are going to continue to go about their business in their own way and that there is not much that anyone can do either to change them or to help them.

At 6:30 p.m. I called on Peggy Douglas at the Embassy. I saw her daughter and Mrs. Perkins who were just back from Wimbledon where Falkenberg had won the tennis championship. They were a bit critical of the unfriendly attitude of the British crowd. She told me that Lew had been working very long hours. I told her that he struck me as being very tired. I commented on the fact that no one seemed really to fear war at present. She disagreed and thinks that they are most fearful. I said, however, that none of them bring up the subject and that Bevin certainly did not appear worried. She expected 3000 people at the 4 July reception on Monday. but she seems to enjoy this entertaining and apparently does it without much effort. She says her daughter is the most useful member of the family in developing good relations with the English

Saturday, July 3 (cont.)

P.89

I dined with Hubert and Myrle Chappell at an attractive little restaurant called The Bellfry, apparently formerly a church, together with the American naval air attache and his wife -- all very pleasant.

Sunday, July 4

I dictated notes all morning.

I had a most pleasant lunch with Lady Gosford, Miss Horatia Seymour and Acheson at Claridge's. After lunch I drove with Miss Seymour and Acheson in the rain to Westminster Abbey; evensong was just about to start so we were unable to see much.

At 4:30 p.m. I took the train with Hoar and Young to Birmingham from Euston Station. I had a long discussion with Young as to the respective merits of private enterprise and socialism. He pointed out one significant factor, namely that practically all the leaders of England in both parties grew to maturity between the wars when the major problem was one of deflation and unemployment. The result is that they are still trying to apply the thinking of that period to the changed conditions of the present.

I was met at Coventry by George and Doris Lainbeer. Thence we went to the Millers' attractive cottage near Warwick. Miller recently had another attack and does not look well. I stopped by the Lainbeers' house which is modern in style and quite attractive. He tells me that the Bird business has gone well and that the integration of the two managements is proceeding satisfactorily. They made considerably larger profits than they had calculated last year. They have continued difficulties with raw materials but they are gradually introducing new lines. George drove me to the Queen's Hotel in Birmingham.

At 9:15 a.m. Douglas Cranston, Chief Regional Information Officer for Birmingham, called for us at the Hotel and we drove out to the Bird plant at Derit End which we inspected. Quite a lot has been done since my last visit. Our people seem to be working effectively. The labor difficulty is to get a sufficient number of women.

We arrived at the Austin works at Longbridge at 11 a.m. and were received by Mr. L. P. Lord, Managing Director of the Austin Motor Co. and Harriman, his works manager, the latter being only 38 years old. They have apparently recently cleaned out their management and Lord tells me that most of their executives are in their thirties. Lord is a straight speaking, hard bitten executive, formerly manager of the Morris works.

Lord explained the basic difficulty which lies in the fact that British steel, particularly sheets, is inferior to American, being more brittle, thus requiring more stamping and other operations and resulting in larger amounts of reject material.

He is exporting practically all of his output and up till now has had no difficulty in sales. He is just entering the American market. He explained that he had recognized the necessity for a good dealer and service organization before introducing the cars and explained the system he had developed. He says that he has talked to the major American motor manufacturers and told them his plans for selling a moderate number of his economical cars. He tells me that they have been most cooperative.

I was interested in his comment on young Henry Ford whom he has visited in Detroit and who has recently been to his plant. Lord says he started off most promisingly but he fears that he is beginning to loaf on the job. He says he is beginning to have some reservations about Ford's future.

With regard to labor, he makes the point that a working man needs to have his job clearly explained, tools and supervision provided, and requires firm direction. He says he tries to be fair to his people but that he refuses to yield to demands which he considers unreasonable; and when strikes come along, he simply closes down and stands firm until the men come back. He says that many of the shop stewards are trouble-makers, among whom are a considerable number of communists who seem to get to the top in the labor organization. However, he claims that his people handle them without too much trouble.

He is convinced that the only answer to England's problems is more hard work, better products and lower prices. He points out the importance of cutting overhead, particularly through full production. He is convinced that hardships must really bite the working man before he will do better.

We had a quick look through his plant. It is somewhat puzzling. People seem to be working fairly hard and many of the operations looked good. The factory layout looked less tidy and well ordered than the Renault plant, for instance.

The big car called "The Princess" will sell in the U.S. for about \$6000 but is beautifully designed and appointed. I think he is correct in thinking that you can reach a certain American market which wants the prestige of a distinctive car as well as the convenience of the economy of a smaller model. He appears to be thoroughly conversant with American practices and I would think he is a shrewd businessman and merchandiser.

There seemed to be a good spirit in the works and both Lord and Harriman called many of the men by their first names.

On wages Lord's opinion is that the British workman figures out about what he wants to earn and is not interested in making more. He is uncertain how much this would be changed with a greater availability of goods. He thinks that many of the goods he can now buy are shoddy. He emphasized the importance of maintaining the quality of British export goods and says there has been considerable deterioration in many lines.

I had a most pleasant lunch.

After lunch we drove over to Whitton to see the General Electric Co. works there. Mr. J. J. Gracie, the General Manager, received us. I am told he is in his middle forties. He appears to be less aggressive and more intellectual a type. His plant, which is one of several belonging to the Company, makes a wide variety from the heaviest electric generators, transformers, down to radios and other light articles. Gracie says that this range of products is uneconomic. With the tremendous demand for generating equipment he is working to the limit of capacity both for export and the home market. He says that only after three years has he finally got permission to build a new plant for his heavy engineering. The matter finally went to the Prime Minister.

He pointed out that much of their work required the highest skill and care and claims that his craftsmen are working well. He told of difficulties dealing with shop stewards and works councils but says on the whole they have been useful in that they provide a method for the men to air their minor grievances and for management to explain the reasons for such things as delays in material.

He is not unduly critical of the controls or the Labour Government in the face of the difficulties. He apparently participates in many public activities.

He emphasized the possibilities of increasing production and cutting costs through improved methods irrespective of equipment and confirmed Cripps' estimate that British industry in general could produce at least 30% more output with present facilities if it would adopt the best productive methods. He said that he did not believe that improvements in technique, engineering, etc., had spread down from the large companies to the smaller ones during the war as was the case in America. He told of a plan, ~~xxxxxx~~ now under way, to make available to the smaller companies the advice and technicians of the larger. This is just beginning but he is rather hopeful of results and is very interested in this project.

His plant is one of the most crowded I have seen. The result is ~~it~~ there is insufficient space to work and to arrange production. Gracie is quite conscious of this and is a strong believer in time studies and other methods of production improvement but, with a few exceptions, says he has been unable to do much until he gets more space.

Upon our return to Birmingham, I had a short conference with the press, chiefly explaining the Bank and discussing a few general problems.

At 7:45 p.m. we attended the dinner given for us at the Council House by the Lord Mayor and Lady Mayoress, Alderman J.C. Burman and Mrs. Burman. He is a Director of printing and engineering firms. The following were also present:

Mr. Walter Higgs, Higgs Motors, Ltd., former member of Parliament
and President of Birmingham Chamber of Commerce

Mrs. Walter Higgs

Sir Percy Mills, K.B.E., W & T. Avery, Ltd.,

Mr. W. H. Stokes, Chairman, Midland Regional Board for Industry

Mr. T. E. Hurst, District Manager, Lloyd's Bank

Mr. Phil H. Hubbard, American Consul

Prof. Gilbert Walker, Prof. of Economics, Birmingham University

Mr. John Wedgewood, Josiah Wedgewood Ltd., Stoke-on-Trent.

Mr. D. Cranston, Principal Officer, Central Office of Information

Mr. F. C. Minshull, Town Clerk (Birmingham)

Mrs. Minshull

Alderman A. F. Bradbeer, Deputy Mayor, Secretary, Works Council,
Cadbury Bros. Ltd.

Mrs. Bradbeer

Sir Arthur Smout, Director, Imperial Chemical Industries

Mr. W. L. Barrows, Howard Smith, Thompson & Co., Chartered Accountants

Alderman W. E. Wheeldon, Chairman, Finance Committee, Birmingham City
Council, and leader of the Council Labour Party

Mr. J.P. Eames, OBE, City Treasurer

Alderman T.B. Pritchett, M.C., Solicitor and leader of the Council
Unionist Party

Mr. Stephen Burman, M.B.E., Chairman, Midland Regional Teaching
Hospitals Board

Mrs. Burman

Mr. J. Johnstone Gracie, Managing Director, General Electric Co., Ltd.

Sir George Nelson, Chairman, English Electric Co. Ltd.

Major C.R. Dibben, Federation of British Industries.

The Town Hall is an immense building erected during the Victorian era. It is imposing in size and structure but suffers from the taste of the time.

The Lord Mayor is a clean-cut young chap with a handsome wife. He is about the third generation in a business manufacturing automobile accessories, etc. He spoke in guarded terms of the handicaps of the Labour Government ~~after introducing me.~~

After being introduced by the Lord Mayor, I made a short talk covering our European trip and our observations to date in England. I pointed out that no one had been able to answer the basic question of how England could balance her external trade and spoke of the support I had found on the Continent for a reduction of trade barriers in Europe.

Bradbeer, the Deputy Lord Mayor, replied along the lines that the problem was really not England's but America's, bringing up the question of American tariffs, unwillingness to buy, and the high prices of British food and raw material imports.

I answered his rather sharp attack, pointing out what America had already done both in the war and afterwards and that one reason for the high price of food products in America was the amount she had given away to Europe. I also spoke of her productivity under the free enterprise system and questioned whether a socialist state would produce as well. Most of the rest of the guests seemed to be on my side. There were various other talks of a rather high calibre; the general tenor was of full appreciation of America's efforts and a desire for England to stand on her own feet.

Hoar left Snow Hill Station, Birmingham, at 9:10 this morning for Cardiff.

Cranston called for Young and me at 9:15 a.m. and we drove to Darlaston where we visited Messrs. John Garrington & Sons Ltd. Drop Forging Works. We were received by Mr. L.P. Brooks, the Managing Director, and Mr. R.A.R. MacClelland, Director and Commercial Manager. These are both young chaps. Brooks told me that he had started as an office boy in a small foundry and had become manager and had been asked to come to Garrington after the war. His company is owned by a large steel and engineering firm. He told me they have always been considered an unimportant stepchild.

When I asked him what were his major problems, he said that he had none beyond what any businessman might expect. On raw materials, he said that they were using 6000 tons of steel in 1938 and that they were now using 60,000 tons. Despite this growth, he gets his steel. With regard to controls, they had learned how to deal with them but that instead of complaining he goes out personally and buys his supplies.

On labor, he says that he pays 30% above the level of English industry, which are rates comparable to the American, and asserts that he can equal American costs and productivity. He is buying all the American machines he can get and says they are far superior to any others. He has installed some electric furnaces which have proved exceptionally good; so he plans a new foundry of all-electric furnaces and the latest American equipment. He says that it will be as clean as a pin. In order to get permission to do this, he has had to buy what he considers a poor foundry built by the Government during the war.

Although his present plant is old, it seems beautifully laid out and everything is in good order. The men seemed to be working at top speed and the top ones earn up to £20-25 a week. He claims that you can get men to work if you handle them right but points out the necessity of providing them with the proper tools, flow of material and the most alert management. He has a control system to detect within a few seconds delay in any process or breakdown of machine with immediate attention to rectify the trouble. He says his supervisors stand or fall on the comparative record of their production and flow of work.

He had a most interesting board showing all of his orders with their place in the schedule. He notifies all customers weekly of the status of their orders. He is giving the good customers every break and is eliminating the poor ones.

He pointed out his works manager who is about 35 years old, and joined the company as an unskilled laborer. I would think the management and operation of this company would stand up against any company anywhere. Brooks has no use for Boards of Control. He says: "If they will let me alone, I will produce in competition with anyone."

We drove to Barlaston to visit the pottery works of Messrs. J. Wedgwood & Sons. Sir Josiah Wedgwood, the Chairman, was away, but John and his cousin, Tom, both of whom are the sixth generation, had us to lunch along with other executives.

This business runs back to the 17th century, one of the early potteries in the black belt of the Five Towns. Just before the war they completed a modern factory located in beautiful countryside with all electric furnaces. It is as clean as a pin. They have mechanized many of their operations, particularly all utility ware, but are still doing the traditional fine hand work. They are exporting heavily to the Western Hemisphere. They expect to expand their plant.

Mr. George Mould, Chief Regional Officer, Central Office of Information, N.W. Region, joined us at the plant and conducted us to Manchester, where I held a brief press conference.

At 7 p.m. Mould, Young and I dined at the Town Hall as guests of the Lord Mayor, Alderman Miss Mary L. Kingsmill Jones. She is a nice looking gray-haired woman with Irish blood. She has ~~xxxx~~ selected a friend to be her Lady Mayoress. She told me that if a woman is a spinster, as she is, the best thing to do is to go into politics. We discussed women in politics both in Britain and America.

The following were also present at dinner:

Major J. H. Mandleberg, Chairman of the N.W. Regional Board for Industry
Sir Kenneth Lee, Bt., Chairman, Messrs. Tootal, Broadhurst, Lee & Co. Ltd
Mr. R.M. Lee, Chairman of the Calico Printers Association
Councillor T. Nally, Leader of the Labour Party
Alderman Sir Miles Mitchell, Leader of the Liberal Party
Councillor W. Onions, Chairman of the Finance Committee
Alderman Colonel S.P. Dawson, Vice-Chairman, Finance Committee
Alderman Sir William Kay, Former Lord Mayor of Manchester
Mr. J. Lythgoe, City Treasurer
Major C.B. Ormerod, British Information Service in New York
Mr. L.C. Howitt
Mr. J.W. Hill
Mr. Philip B. Dingle, Town Clerk

At the end of dinner, the health of H.M. the King and Duke of Lancaster was proposed. I inquired afterwards who the Duke of Lancaster was and was told that the King was Duke of Lancaster and his health was always drunk as such in Lancashire, "King" being added as a matter of courtesy.

After an introduction by the Lord Mayor, I made a brief talk along the usual lines. Sir Kenneth Lee asked why Belgium had done so well and why the Continental countries believed that England was impeding moves towards European unity. As to the first, I outlined what Silvercrays had said in Washington; and as to the second, I said that it was difficult for England to come down from her former position of power as well as to reconcile her relations with the Commonwealth and the Continent. IN reply to his question as to what England might do to meet this, I said that the solution might be in England's genius for being illogical.

The Town Clerk, Dingle, made an excellent statement disclaiming that he was talking politics. He said that the trouble in England and elsewhere arises from the tendency for modern people to expect someone else to solve their problems and take care of them.

Here again most of the guests who spoke emphasized the necessity for the English to stand on their own feet and not rely on outside aid. They all spoke proudly of English character and courage. One is struck by the apparently good morale, confidence and determination of these Midland~~ers~~ people.

After dinner we had a drink at the Midland Hotel, where we are staying in Manchester, with Sir Kenneth Lee and Major Ormerod, who is attached to the British Information Service in New York. We discussed the lack of knowledge between Americans and Englishmen. They recognize the prevalence of poor reporting on both sides of the Atlantic. Ormerod says he is in constant contact with American editors, attempting to develop more accurate and fuller information and urges that the same thing be done in England by the Americans.

On American politics, they pointed out the general opinion in England that the Republicans are isolationists and high tariff, while the Democrats are the reverse. I pointed out the importance of clearing up this matter and suggested that a visit by Vandenberg would be most helpful.

Upon his arrival in Cardiff, Hoar visited the iron and steel works of Guest, Keen and Baldwins. He was received by Mr. Deakin, the Works Manager, and conducted round the works, which are only ten years old. The blast furnaces, coking ovens and rolling mill were visited and made an excellent impression. The layout and organization are first class and the evident good spirit of the labor force is reflected in excellent teamwork and rhythm. The average age of the workers is considerably younger than that of any of the comparable Continental works we have visited.

Mr. Deakin said that, to his knowledge, there are only 3 or 4 communists in the whole works: most of the shop stewards are not even members of the Labour Party, but Liberal or Conservative in their political affiliation. Productivity is up compared with prewar. The one handicap at the moment is the poor quality of scrap. Heating is by oil.

Hoar was entertained to lunch by Mr. Deakin and his deputy, Mr. Smith, a young and active man. These two are evidently forceful and competent people and give good leadership. They expressed the view that the controls which affected them in one way or another were not bad in themselves but brought in their train irritating delays and paper work. They said that the nationalization of the industry would be disastrous.

In the afternoon, Hoar^{was} motored to Port Talbot, where the Steel Company of Wales Ltd. have a steel works and are developing a vast new project, including a continuous strip mill on an ~~efficient~~ ^{adjacent} site. Hoar was received by Mr. Young, the Secretary of the Company.

First of all, they visited the reconstruction work being carried out at Port Talbot itself. The dock is being extended to be able to accommodate two ore ships at once, discharging directly onto a storage quay, whence conveyors will transport the ore to the blast furnaces behind. Reconstruction is going on while the Port Talbot works are continuing in production and a very complicated series of operations is necessary to carry it out. The new works, on the Margam site, are immediately alongside the Port Talbot works and stretch for a great distance along what was until recently flat land behind the shore dunes. A vast work of construction is in progress, requiring piles to be driven into the wet sandy subsoil and great concrete foundations to be laid before the superstructure can be erected. The preliminary work of clearance has been done, railway lines are being resited and a good deal of the foundation work is in. Only one building is anywhere near complete: this will be the stripping shop but will initially be used by the construction companies to assemble sections of the building during the course of erection. The works will not begin to produce for about another three years and will take an even longer time before they are in full production. Eventually, when completed, it will be an extremely fine plant, its design being based upon the best American practice.

Afterwards, Hoar visited the limestone quarry owned by the Company, and only a few miles away from the Margam site. This is being developed on modern lines and contains ample reserves for ~~at least~~ ^{great} many years.

Hoar spent the night at the Company's guesthouse "Four Winds" at Porthcawl.

Mr. Mould called for me at 9:30 a.m. at the Midland Hotel, Manchester to take me to the Sunnyside Mills of Messrs. Tootal, Broadhurst, Lee & Co., Ltd. Young, unfortunately did not feel well and was unable to accompany us. We were received by Sir Kenneth Lee and Mr. J. C. Tremayne, Director. The latter apparently runs the works I would say he is in his early forties. He has had naval training. He seems very much on the job.

They showed us beautiful samples of their products, cotton, rayon and wool. The plant is quite old, well laid out and clean. Much of the equipment is 20 to 30 years old. They took us to one section where the most modern ~~American~~ American and British equipment is being installed. It is their plan to reequip completely. They have their own sales organization throughout the world. They seem to be a well-operated company and willing to spend money to increase production and cut costs.

We left Bolton about 11:30 a.m. and drove to Liverpool where I held a short press conference in the Chamber of Commerce Offices. Following this at 12:45 p.m. we were guests of the Executive Committee of the Liverpool Chamber of Commerce. The Chairman was Mr. E.A.G. Caroe, Vice Chairman of the Chamber of Commerce, a grain importer and Consul for Denmark and Iceland. The other guests were:

Lt. Col. P.G.R. Burgford, Secretary of the Chamber of Commerce
 Mr. G. E. Carr, Bank of England
 Arthur D. Dean, Solicitor
 A. Temple Dobell, Timber Importer
 Alderman W.G. Gregson, Chairman-Liverpool Group of ^{General} ~~Export~~ Merchants, Former Lord Mayor
 Sir Henry T. Hancock, Canned Goods Importer
 R.J. Hodges, General Manager, Mersey Docks and Harbour Board
 Frank W. Irving, Warehouseman
 F. ~~Hutz~~ ^{Ruth} Jackson, Shipping and Forwarding Agent
 Harry Jackson, President, Liverpool Bankers Institute (Barclays Bank)
 James McKendrick, General Manager, Martins Bank
 George Mould, C.O.I.
 W.H. Perry, Provision Merchant
 Sir James Dyer Simpson, General Manager, Royal Insurance Co.
 Dan Tobey, Canned Goods Importer
 Colonel Alan C. Tod, Chairman, Royal Insurance Co. of Liverpool
 R.C. de Zouche, Chartered Accountant

After my talk, one of the guests, who is in the Export and Import business, stated the point of view that it was up to America to solve England's problem by providing ~~cheap~~ ^{cheap} food and raw materials and lower tariffs.

Liverpool had some heavy bomb damage.

After lunch, we drove to the Speke Estate, where we were joined by J. P. Phoenix, Liverpool Corporation Information Officer. Here the Dunlop Rubber Co. has taken over a prewar bomber factory about a quarter of a mile long. We were received by Mr. D.B. Collett, the General Works Manager, a young husky Yorkshireman. He took an empty plant and is in the process of re-equipping it at the same time as pushing production. He has 7000 workers, practically none of whom had previous experience in rubber manufacture. They are turning out tires, footwear, golf balls, tennis balls, etc. It is an impressive operation and apparently a very alert management.

The Estate is part of a program of industrial development being promoted by the Corporation of Liverpool which will include communities for the workers and staff. Some very nice houses have already been built.

At 4 p.m. we visited the neighboring plant of the Distillers Supply Co., Ltd., manufacturers of Penicillin. This was built during the war on the process and specifications of Commercial Solvents. The management is quite young. It looks like an excellent plant and they claim that the weekly output is sufficient to treat 50,000 patients, which is four times its originally rated capacity. It seems efficient.

At 5:25 p.m. I left Lime Street Station, Liverpool, and arrived at Claridges shortly before 10 p.m.

Averell Harriman called from Paris and told me that the only space the French Government had been able to offer his staff was a building on which we have an option. He asked whether, if it proves necessary, we would release this. I told him that we would do all that we could to help him and suggested that he and Tyler talk it over.

We reached Tyler on the phone next morning. He said that when he had heard that Harriman's group were interested in the building on which the Bank had an option, he had cabled McCloy for instructions. McCloy had cabled him to close the deal which Tyler had done. I told him that we could see later what could be worked out with Harriman and suggested that we might hold on to three or four rooms.

At 8:15 a.m. Hoar was taken by car to the Ebbw Vale Works of Richard Thomas and Baldwins, where he was received by Mr. Leslie J. Davies, the General Manager and a Director of the Company. He is also, incidentally, a Director of the Steel Company of Wales.

This, also, is a modern works; it was built in 1935-6 and was in full production by 1938. Mr. Davies is a most energetic and determined man and has brought the works into fair shape. The layout and organization are excellent and the rhythm of production noticeably good. Production is far in excess of the originally designed capacity. There is a continuous strip mill and the works also deal with cold rolling and tinplating.

With regard to communism, Mr. Davies told the following interesting story: At the time of the siege of Stalingrad, a Russian delegation visited the works and were received by the men with great enthusiasm. About 12 months ago, another Russian delegation asked to visit the works and the men went to great pains to arrange an interesting program for them, including a dinner (at the Company's expense) to be attended by all the leading trade union officials for miles around. On being told of the program, the Russians said that it was quite unsuitable; that they did not want a cut-and-dried program but to go around on their own and to hold a mass meeting. The men were furious and the senior shop steward washed his hands of the whole affair. Eventually, Mr. Davies had to conduct the Russians round himself and the men ignored them completely. When the mass meeting was held, only four men turned up. For a week or more after this, Pravda and the Russian radio blasted the Ebbw Vale works for its discourtesy and bad morale.

In the evening, Hoar was driven to Newport, Mon., and caught the 6:15 p.m. train back to London.

About 11:30 a.m. I called, with Hoar, on Sir David Maxwell-Fyfe. He is a leading barrister, British Counsel at the Nuremburg Trials, and a Conservative Member of Parliament.

On the political situation, he believes there is a swing away from Labour, including some of the young people. He points out that in Liverpool, which is his constituency, the municipal elections swung heavily Conservative. He says that in recent months he has probably addressed thirty thousand people and senses greater enthusiasm on the part of Conservatives than for many years.

He says that he is trying to lay out a constructive program and I remarked that, as in America during the New Deal, many people who became fed up were still critical of the lack of a positive program on the part of the Republicans. Some of the things he is urging are: increase in agricultural production; reduction of Government expenditures, including the mass of civil servants; and colonial development. He emphasizes the necessity for increased coal production; he claims that ~~an~~ increased costs under nationalization are only in small part due to an increase in wages; he says that there is no possibility of reversing national policy with regard to coal short of five years. He hopes that another solution might be found for steel.

He attended the Hague conference and is a strong believer in European federation. He thinks that Britain can reconcile federation with appropriate relations with the Commonwealth.

At 1 p.m., with Acheson, I lunched at the Hungaria Restaurant with Sir Thomas Spencer, Managing Director of Standard Telephones and Cables Ltd.; Sir Francis Brake, head of IT&T European Operations; Mr. Cook, their European Counsel; Mr. Mott and Mr. McVeagh(?).

Spencer told us that they had not allowed Government regulations to hinder their operations; they had found it necessary in order to keep operating to take action and then get permission afterwards. They were able to get the raw materials they needed by adherence to a policy of self-help. Their costs had gone up about 60% since 1939.

In reply to my question as to how one met the appeal of communism to the young, Spencer said that the Communists got many of their youngsters in the plants by picking out the chaps who liked to talk and giving them the opportunity to do so. He said that his people were trying to beat the communists to the draw and attracting promising young men into other types of activity.

Sir Raymond Streat, of the Cotton Board, joined us at the end of lunch and drove with me down to the City.

At 2:45 p.m. I called on Arthur Guinness, of Guinness Mahon. He agreed on the difficulty of raising capital under present conditions and taxation. He is now the President of the International Chamber of Commerce and is quite active in attempting to remove trade barriers.

At 4:15 p.m. I saw Howard Robertson, an architect and builder whom John Harris had asked me to see. He points out the difficulties of obtaining material and the delays in getting permits. On the other hand, he does not believe that building codes in the cities are unduly obsolete though they are in the rural

areas. Labour is both expensive and not fully productive. He says one has to pay bonuses in order to get any decent output. He feels that his industry is considerably slowed down by Government machinery.

At 5:30 p.m., John Rosa, a Director of the Overseas Food Corp., and Col. Gregoire called on Hoar and me at Claridges. I told of our interest in colonial development. We talked briefly about the groundnut scheme. I pointed out that the Bank would provide dollars only for purchases outside of the sterling area. They admitted that the equipment could probably be obtained in England over the next several years but that they wished to move more rapidly.

At 6 p.m. I saw Sir Stafford Cripps at the Treasury. I told him of my trip to the Midlands and mentioned ~~inxxxxxxxx~~ having seen two or three excellent operations. I said, however, that no one had pointed out how the balance of payments problem was to be solved. He spoke in general terms of greater productivity, reduced costs and hopes of cheaper raw material imports in the future. I thought his point of view was somewhat academic. I said that the preponderance of opinion, outside Government and Labour people, is that the mass of people still do not realize the extraordinary measures which will be required. With regard to his claims that people are being educated, I said I thought he overestimated the farsightedness of most people; that they are neither so wise nor so idealistic as he is.

I asked him why they really wanted to press the nationalization of steel which is admittedly doing well. He says that in order to get the expansion of steel which is required to supply England and the Colonies only the Government can supply the necessary funds; that private investment is unwilling to put up the money; and secondly that in order to carry out the plans there must be central direction and that the question is whether the control should be by the Government or by the Iron and Steel Institute. On the first point, I suggested that perhaps the reluctance of private capital to go into steel springs in part from the threats of nationalization which have hung over ~~itxxxxxxxx~~ the industry for years. He discounts this. On the question of central control, I asked him which countries had the best steel industries: He says the U.S. and Russia. I pointed out that the U.S. developed this industry without any central control and that I could not see the need for it and that I believed that private competition and capital would afford the answer. His reply was that America is a young and growing economy while Britain is old, and therefore the two are not comparable.

I did not feel that Cripps has too deep a conviction about the nationalization of steel but it is obvious that the Labour Party has adopted this line. (It reminds me that at the Birmingham dinner a Labour Member admitted that if there was not a Party promise he would be inclined to sit a while on nationalization.)

I said that it seemed strange to me that countries which turn to American and other help refuse to consider the system which produces it. He said that they had considered it but again emphasized the difference between ^{the} still expanding young American economy and the matured British. I pointed out that this argument had gone on in America throughout the New Deal, but I did not agree that the productivity of private enterprise could not be applied in Britain. He said that Britain is not abandoning private enterprise but merely socializing a few basic industries.

He again tossed off lightly the profit motive, saying that the managers of enterprises are not motivated by the profit incentive since they are not the owners. ~~He quoted a statement from the head of a large steel works, claiming that the latter admitted~~

Thursday, July 8 (cont.)

P.103

The Chancellor claimed that the head of a large steel company had admitted to him that neither his shareholders nor his Directors were capable of selecting his successor and that in view of the national importance of his company only the Chancellor of the Exchequer could properly make the choice.

We parted pleasantly and he again said he hoped to come to Washington for the Governors' meeting.

I returned to Clarges and dined with Brigadier Woodruff. We talked of mutual friends and found ourselves in agreement on many points of domestic and international affairs. I was interested to have him say that it was absurd to deny that when America puts up Marshall Plan money she is not entitled to lay down the conditions under which it is to be spent. He, as an Englishman, would like to see this island a part of the United States.

Friday, July 9

Hoar, Acheson and I left London at 8:47 a.m. and arrived at Southampton at 10:35 a.m. We were met by Hoar's brother-in-law, Arthur Leigh, who helped us through the emigration and customs formalities.

We sailed from England aboard the Queen Elizabeth at 1:15 p.m. After a calm, if sunless, voyage we docked at New York at 1 p.m. on Wednesday, July 14. During the crossing, Hoar and I had discussions with Sir Arthur Salter and Prof. Lionel Robbins on the work of the Advisory Council.

Green House

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
WASHINGTON 6, D. C.

September 16, 1947

Green

Mr. John J. McCloy
Claridges
London, England

Dear Jack:

I left Thursday night to go to Portsmouth, New Hampshire, where I made a talk to the New England Council. There was a fair crowd of bankers and business men and they were quite interested in what we are doing. I think the effort was worthwhile.

On the same program was Walter L. Wright of Princeton who spoke on the Near East problem. I thought he was excellent and appeared to have a real grasp of the fundamentals. I believe that you know him through his work on the Historical Section of the War Department. If you have a favorable opinion to supplement my impression, I think we might well consider consulting with him from time to time on our Near East activities. Please let me know what you think. This ties in with the documents which, as I cabled you today, we received from the Iranian Embassy, and also the prospective talks on Iraq.

I came down to New York and on Monday spoke at Tarrytown on a nationwide hook up in connection with their United Nations Week program. Foster Dulles had spoken on Sunday. I brought out the fact that we are independent from the United Nations but are cooperating with them and explained the basis of our agreement. I described the operations of the Bank as an illustration of an international organization which was really working as a team.

Got back to Washington this morning to find your message regarding Brazil and teletyped you today that we would attempt to work out a method of doing this loan as you suggest.

Had a very satisfactory talk today with Norman Armour. He had Mills and Wright sitting in. As I wired you, the department does not believe it is practical to have the Pan American Union set up a committee which would actually work out suggested debt settlements. The objection is both on the basis that such a committee might be unduly influenced in favor of the debtors and that any Latin American country would be very sensitive about having proposals advanced by other Latin Americans. Armour does think that there would be merit in a Pan American committee making general recommendations pointing out the advantage both to the countries involved of a settlement of their debts and to the Bank of

such settlements as a prerequisite to its loans. I agreed, therefore, that we would not press our first suggestion but would talk to Comargo about the alternative proposal. I emphasized the importance from the standpoint of the Bank of a curing of the defaults, pointing out the financial community's attitude. Both Mills and Wright supported my position and I believe that I got it across to Armour. I then suggested that, if debt settlements are to be arrived at by negotiations between debtor and bondholders committee, it is desirable that the latter be strengthened by the addition of some outstanding men who would carry weight with the financial community. Armour liked this idea and we had quite a discussion about how it could be accomplished. They will consider the matter and talk to me further. It is my thought that a few men of the caliber of George Harrison and perhaps Leffingwell are needed. They would carry weight with the financial community and yet have no direct interest in any of the defaulted bonds.

We are meeting tomorrow on the French situation and in view of Pineo's message today will hope to send you our thinking in the next few days. Hill has had several conversations with Bonesteel and today the latter told him that the Department is convinced of the necessity of giving the French some quick aid. They are exploring the possibilities and expect to put the matter up to the President by the end of this week. They promised to keep us advised. As soon as we reach our own tentative conclusions, I will get in touch with Bob Lovett.

Also on Poland, we hope to get our conclusions in shape within the next week preparatory to discussion with Lovett and Harriman, as we agreed.

In general the publicity has been pretty good on your statements in London, the Annual Report and my talks. Incidentally, I think your BBC broadcast is the best thing that anybody has done about the Bank. Congratulations!

As I wired today, I agree with your position regarding comments on specific loans and regret that my statements to the press conference were distorted in some of the papers. Specifically on Poland, I urged the press fellows neither to say that we had turned down the loan, nor that we were about to make it. They pushed me quite hard and I reiterated that we were in process of studying reports which were being prepared and that there was no definite statement that could be made. My statement that political factors had to be taken into account as they affect the economic position and future of a country was in response to the usual question and quite along the line of what you had previously said. I shall do my best to avoid making any commitments about any loans and of being misquoted, but you know the difficulties. Strange to say, the New York Times was probably the worst offender in distorting what I said.

We are beginning to get the preliminary papers on certain of the aspects of the Marshall Plan and will be regularly meeting to discuss both factual and policy aspects of the various problems. I hope that within the next two or three weeks we will have developed quite a bit of data and tentative suggestions. I have had interesting talks at the

Department of Commerce with Bill Foster and Bissell, Executive Secretary of Harriman's committee, and with Burgess. Their work is progressing and we will be kept fully informed.

Talked to Dunny this morning. Assured him that I was in full agreement that the Bank should take no action to support the market. My own opinion on that was generally reinforced by discussions with the dealers, and with Rouse. Red Wilson had been thinking that this might be desirable at some point if the market continued to slide, but when I explained to him the improbability of keeping out of the press the fact that the Bank was operating in the market, he agreed. I am convinced that we have a continuous job both of publicity and of direct contacts with investors, ~~at~~ a less hectic pace ^{than} in the weeks preceding the issue, but along the same lines. All of the dealers emphasize that when the selling job was stopped the buying interest dried up. Therefore, I merely wished to emphasize that both Gene and Dunny should spend as much time as possible traveling this country both to keep our present holders informed and to interest the many institutions who have not yet got the picture straight.

Your thinking, as developed in London and as explained by Dunny, that we should point out the specific accomplishments of the loans already made is fine. However, I don't see how we can say much about what the French loan has accomplished to date and this is the only one on which there have been any substantial disbursements. We should, however, bear this in mind and get out any publicity whenever the facts justify.

I have just talked to Mrs. McCloy. She says that Johnnie is perfectly okay now and is going to school tomorrow, so there is absolutely no cause for worry. Apparently she is getting settled down satisfactorily and I shall get out to see her promptly. Please tell her to call on me if there is anything I can do. I am very pleased to know that the conference is ending tomorrow. I told Mrs. McCloy and she says she hopes that means that you will get back earlier.

Sincerely,

Bob

MATERIAL FOR MR. GARNER'S TRIP TO EUROPE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

May 20, 1948

Trip of Mr. Garner and Party to Europe

Members of the party:

MR. ROBERT L. GARNER
Vice President

MR. A. S. G. HOAR
Asst. Loan Director

MR. LEONARD B. RIST
Director, Economic Dept.

MR. P. ACHESON

<u>Date</u>		<u>City</u>	<u>Time</u>	<u>Service</u>	<u>Hotel</u>	
Fri. 5/21	Lv.	Washington				
Fri. 5/21	Lv.	New York	8:00 PM - 12:00	SS "Queen Mary"		
Thurs. 5/27	Ar.	Cherbourg				
Thurs. 5/27	Lv.	Paris	6:30 PM	Rail		
Thurs. 5/27	Ar.	Brussels	10:35 PM	(Pullman)		
<u>Spend Friday, Saturday, Sunday and Monday in Belgium</u>						
Mon. 5/31	Lv.	Brussels	4:00 PM	Air		
Mon. 5/31	Ar.	Frankfurt	6:25 PM	(Sabena Airlines)		
<u>Spend Tuesday, Wednesday, Thursday, Friday, Saturday, Sunday and Monday in Germany</u>						
Tues. 6/8	Drive from Dusseldorf to The Hague					
<u>Spend Tuesday, Wednesday, Thursday and Friday in The Netherlands</u>					<u>Vieux Doelen</u>	
Sat. 6/12	Lv.	Amsterdam	10:00 AM	Air		
Sat. 6/12	Ar.	Basle	1:20 PM			
<u>Spend Saturday, Sunday and Monday in Basle</u>					<u>Schweizerhof</u>	
Mon. 6/14	Lv.	Basle	12:00 Noon	Rail		
Mon. 6/14	Ar.	Milan	8:30 PM	(Pullman)		
<u>Spend Tuesday, Wednesday and Thursday in Milan</u>					<u>Continental</u>	
Thurs. 6/17	Lv.	Milan	10:00 PM	Rail		
Fri. 6/18	Ar.	Rome	8:30 AM	(Sleeper)		
<u>Spend Friday, Saturday, Sunday and Monday in Rome</u>					<u>Grand</u>	

<u>Date</u>			<u>City</u>	<u>Time</u>	<u>Service</u>	<u>Hotel</u>
Mon.	6/21	Lv.	Rome	3:00 PM	Air	
Mon.	6/21	Ar.	Paris	7:30 PM	(Air France Flight #191)	

Spend Tuesday, Wednesday, Thursday, Friday,
Saturday, Sunday and Monday in Paris

Mon.	6/28	Lv.	Paris	8:30 PM	Rail	
Tues.	6/29	Ar.	London	9:10 AM	(Sleeper)	

Spend Tuesday, June 29 through Thursday, July 8,
in London

Fri.	7/9	Lv.	Southampton		SS "Queen Elizabeth"	
------	-----	-----	-------------	--	----------------------	--

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

May 18, 1948

FROM: THE SECRETARY

The following are forwarding addresses for Mr.

Garner's party:

May 27-31 c/o Secretary to the Governor
Banque Nationale de Belgique
Brussels, Belgium

June 8-11 c/o International Bank for Reconstruction
and Development
5 Johan van Oldenbarneveldlaan
The Hague, The Netherlands

June 12-14 c/o Secretary to the General Manager
Bank for International Settlements
Basle, Switzerland

June 15-17 c/o Mr. Forte
Banca d'Italia
Sede di Milano
Milan, Italy

June 18-21 c/o Secretary to the Governor
Banca d'Italia
Via Nazionale
Rome, Italy

June 22-28 International Bank for Reconstruction
and Development
77 Avenue des Champs Elysees
Paris, France

June 29-July 9 c/o Secretary to the Governor
The Bank of England
London, E.C.2, England

Distribution

President
Department Heads

BELGIUM

Exchange Rate (official) 43.83 francs = \$ 1 (US)

B E L G I U M

SUBJECT: M. Basyn's Suggestions.

1. Banks, etc.:

National Bank of Belgium - Ansiaux; de Voghel.

Banque d'Bruxelles

Banque de la Société Générale - Bonvoisin (Vice President)

Société Générale - Gaston Blaise (Governor)

2. State Institutions:

Société Nationale d'Crédit - Van de Putte

Société Nationale des Chemins de Fer - de Lory (President)

3. Industry:

Steel mill - Jean Cockerill or Ougrée Marihay

Fabrique Nationale d'Armes at Hersthal, Liege

4. Shipbuilding:

Ateliers de Construction Jean Cockerill

Antwerp Port - (Arrangements can be made for us to be shown around by the people in charge)

Belgium

I expect you will in any case be in contact with M. Frere, the Governor of the National Bank of Belgium, as well as M. de Voghel, who is a Director of the National Bank of Belgium and, of course, a Director of the IBRD. You should, I think, also see, if time allows, the Prime Minister, M. Spaak, the Minister of Finance, M. Eyskens, and M. de Barcy, who is the head of the Commission Bancaire. M. de Barcy will be able to tell you a good deal not only about internal credit conditions in Belgium, but also about the position of Belgian industry, since when companies wish to make an issue, they have to give him full details of their situation.

Mr. Garner, I understand, saw M. de Groote, the Minister of Re-equipment when the latter was in Washington recently. He would be able to arrange visits to textile factories and other industries.

I think you should also see M. Van der Rest, who is the head of the Belgian industrial association. He is in constant contact with all the heads of Belgian industry and would be able to put you in touch with some of them if necessary.

If time allows, it would be well worthwhile to visit the Port of Antwerp, which is an impressive sight. M. de Voghel would be able to arrange this visit.

If you visit any industries, I would suggest that you should go to the Liege basin where the firms which we are going to finance, i.e., Ougree Marihaye, Cockerill and Linalux, are situated. Ougree Marihaye might be the most interesting, especially as they have a chemical works also next-door to their steel works; but I think that all these visits are best arranged on the spot.

I attach a statement summarizing the current position in France and Belgium.

BELGIUM

During the first phase of postwar revival, the Belgian Government's policies had a two-fold objective: to increase production and to protect purchasing power of the Belgian currency. A considerable measure of success has been registered. Although agricultural output and some industrial production are lagging, the major sectors of industry are producing above prewar levels. Even coal output, which has been retarded by a shortage of labor, has almost reached prewar production levels.

The high rate of production and importation has filled shops with consumer goods and the ration list is contracting rapidly. Prices are high, but thus far have had little adverse effect on Belgian prosperity, and the national income exceeds prewar levels. The labor force is greater than before the war, but unemployment is almost entirely of a seasonal character and a shortage of skilled workmen still hampers production in the non-ferrous metals, coal mining and construction industries. Exports have expanded rapidly and in July 1947 reached the prewar ratio of 92 in relation to imports. The Government's monetary policies have raised the franc to a sound position and even if they did not prevent price rises, they did prevent the runaway inflation which threatened the country. In the light of the general record, therefore, it is fair to conclude that the first stage of Belgium's recovery has been completed successfully.

However, because of world scarcities which have permitted Belgium to export at premium prices, she has been able to postpone facing the fact that her level of prices and costs are out of line with the realities of a competitive market. Wholesale prices have risen from $3\frac{1}{2}$ to $4\frac{1}{2}$ times prewar levels and retail prices over $3\frac{1}{2}$ times. Wages, theoretically stabilized, have nevertheless been increased by indirect means and now approximate the level of prices.

Budgetary deficits have been the most important cause of price increases during the postwar period. The 1948 budget remains a transitory budget and still includes a considerable number of expenditures made necessary by the war. However, annual deficits have been declining, and in 1948, the ordinary budget is expected to be in balance.

With costs of production high, wages made rigid by the rising cost of living, and capital equipment old and undermaintained during the war, industrial re-equipment has become imperative. Investment in the public and private sectors is estimated to total BF360 billion (\$8.2 billion) for the ten years, 1948-1957. Of this sum, private investment requirements are estimated at BF206 billion (\$4.7 billion) and public works at BF162 billion (\$3.7 billion). About 90 per cent of the capital goods required can be manufactured in Belgium. Investment and other capital requirements in 1948 will total about BF48 billion (\$1.1 billion): On the other hand, the amount which can be raised in the domestic market is likely to be less than a quarter of this sum.

Attempts by the Government to mobilize the public's cash have not been successful. In order to channel funds from consumption to investment, the Government proposes to increase its own savings by creating a budgetary surplus through the increase of taxation and the removal of costly subsidies. The rise in the cost of living as a result of this program is being counteracted by reductions in other prices and by consumer allocations to lower income groups. In addition, the Government's public works program is to be reduced in order to give priority to industrial re-equipment.

While most investments will eventually increase productivity, they are a potent source of inflation during the period of investment. Accordingly, every effort is being made to reduce inflationary pressures. Because of this, the Government is firmly opposed to increasing foreign credits beyond present

limits.

The question of prices and investment are of major importance to Belgium's long-term prosperity but the potential stagnation of Belgian foreign trade is a more urgent problem confronting the country.

On an annual basis, Belgian foreign trade in 1947 shows an improvement over 1946 and 1947. However, on a monthly basis exports, which were increasing steadily until October 1947, have begun to decline. The present level of exports is not particularly disturbing but restrictions by other European countries against Belgian exports indicate further declines are coming.

The inability of Belgium's customers to supply the goods she wants has made it necessary for Belgium to alter the normal structure of her foreign trade, so that she now exports mostly to soft currency areas and buys more from the dollar area than she can sell to it. If currencies were freely convertible, Belgium would have no dollar problem since her trade deficit with the U.S. is covered by a surplus in her trade balance with other countries and her global balance of payments is in approximate balance. On the other hand, she is running a heavy deficit with the dollar zone, estimates at \$320 million for the first nine months of 1947.

Although Belgium's dollar supply is no longer as plentiful as formerly, she is still receiving substantial dollar and gold payments in settlement of balances under payments agreements, the rate of such receipts in the first quarter of 1948 even exceeding the 1947 rate. Belgium has also received dollars from the United States and the International Bank in payment for exports to the Netherlands and Luxembourg, and the Congo continues as an important source of dollars. In consequence of the satisfactory rate of gold and dollar receipts, Belgian gold holdings were reduced by only \$4 million in the first three months of 1948.

An important source of dollars may be opened for Belgium if "off-shore" purchases are made under the European Recovery Program, since Belgium is in position to deliver the goods European countries need. In the meantime, Belgium has received an allocation of \$20 million for the quarter beginning April 1, 1948, and \$295.5 million for the fifteen months beginning on the same date.

The salient features of Belgium's economy today may be summed up as follows:

1. The general economic and financial situation is reassuring and the ground gained in the first phase of post-war recovery is being maintained.
2. However, the fact that imports must now be paid for by exports and not as in previous years through extraordinary receipts, make further expansion dependent on the economic revival of the countries with which Belgium has close commercial ties.
3. Unless the rising level of prices and wages is arrested and reversed, the franc's relationship to other currencies will have to be reconsidered eventually.
4. The domestic money market is unable to finance existing investment programs and foreign assistance will have to be obtained if the existing public and private investment programs are to be carried out without causing inflation.
5. The importance of the European Recovery Program for Belgium lies not only in the fact that direct assistance will provide foreign capital for a portion of the country's investment needs, or that "off-shore" purchases may increase the supply of dollars, but also because it will revive the flow of international trade by aiding Belgium's customers.

BELGIUM - Loan Discussions

In September 1947, the Belgian Government made an informal approach to the Bank for a loan of \$100,000,000 to finance imports of U.S. equipment for various projects. As a result, Mr. Penton paid a visit to Brussels in January 1948 in order to investigate the prevailing economic conditions.

The Belgian request was eventually scaled down and more recent informal discussions were concentrated on the request for \$16.8 million by Societe Nationale de Credit pour l'Industrie (SNCI) to finance projects in the Liege Basin.

The SNCI was established in 1919 under special statutes and is, in effect, operating under the supervision of the Belgian Government. The proceeds of the proposed loan would be re-lent by the SNCI to three Belgian enterprises:

- (1) Societe Anonyme d'Ougree Marihaye -- equipment for a new rolling mill producing steel blooms from large ingots;
- (2) Compagnie des Fers Blancs et Toles a Froid (Ferblatil), a subsidiary of Societe Anonyme John Cockerill -- equipment for a new cold rolling and tinplating plant for producing thin steel sheets;
- (3) Union des Centrales Electriques de Liege-Namur-Luxembourg "U.C.E. - Linalux" -- equipment for a new steel power station.

On March 5, 1948, a fact-finding mission, headed by Mr. Penton, proceeded to Belgium for an on-the-spot evaluation of the Belgian economy and the soundness of the projects. The mission left Belgium on April 7, 1948, and its report is being completed.

At the present moment negotiations with a representative of the SNCI are being actively conducted in Washington.

GERMANY

Mr. A. S. G. Hoar

May 14, 1948

Orvis A. Schmidt

Suggestions Concerning Germany

I. Persons in the American Military Government in Berlin

1. General Lucius Clay
Military Governor
2. Mr. Robert Murphy
Political Adviser to Military Governor
(rank of full Ambassador)
3. Mr. Jack Bennet
Finance Adviser to the Military Governor
(The Office of Finance Adviser includes the following groups:
Foreign Exchange Policy Group
International Finance Policy Group
Central Bank Group
Foreign Exchange Depository Group
Finance Intelligence Group)
4. Mr. Lawrence Wilkinson
Economics Adviser to Military Governor
(The Office of Economics Adviser includes the following groups:
Food and Agriculture Group
Industry Group
Communications Group
Transport Group
Research Control Group
Reports and Statistics Group)
5. Mr. Don D. Humphrey
Deputy to the Economics Adviser
(Acts as policy adviser for the Economics Division)

II. Persons stationed in Frankfurt

1. Mr. Clarence L. Adcock
(Formerly General Adcock who in 1945 served as
Deputy Chief of Staff G-5 in Frankfurt)
U. S. Chairman of Bipartite Zonal Commission
2. Lt. Gen. Sir Gordon Macready
U. K. Chairman of Bipartite Zonal Commission
3. Mr. William John Logan
Chief of the Joint Export Import Agency
(Commonly referred to as JEIA) which has charge of the
international trade of the Bizonal areas.

The Bipartite Commission and JEIA are the two bizonal operations in Frankfurt most likely to interest the party.

III. Suggestions Concerning Visit to the Ruhr

1. The headquarters of the U.S.-U.K. Coal Control Group is located at Dusseldorf (416 Hq C.C.G. (BE) BAOR 4) and the headquarters of the German Coal Administration is in Essen (Deutsche Kohlen Bergbau Lertung)
2. The administrative and operating headquarters of the steel industry are also located in Dusseldorf and Essen respectively.
3. Should time permit and the party desire to drive by car from Frankfurt through the Ruhr and back, the following itinerary is suggested:

Frankfurt to Wiesbaden to Mainz and up the west bank of the Rhine through Coblenz and Bonn to Cologne. Cross over to Leverkusen (site of big J.G.-Farben plant) and up to Dusseldorf and Essen. Return to Frankfurt via Autobahn.

IV. Persons in Washington To Be Seen Prior to Departure

1. Mr. William Draper
Under Secretary of Army
(Prior to his appointment as Under Secretary of Army, General Draper was head of the Economic Division in Germany and Economics Adviser to the Military Governor)
2. General Charles F. Saltzman
Assistant Secretary of State in charge of Occupied Areas

NETHERLANDS

N-E-T-H-E-R-L-A-N-D-S

Exchange Rate (official) 2.65 guilders = \$ 1 (US)

1. It is suggested that Mr. Garner, Mr. Hoar and Mr. Rist might want to see the following persons:

Central Bank - President, Mr. Holtrop
Professor S. Posthuma

Ministry of Finance - Minister, Mr. Liefstink (Right Wing of Labour Party)
Treasurer General, Dr. Treep

Director General of Foreign Exchange, Mr. de Block

Ministry of Overseas Territories - Minister, Mr. Jonkman

Ministry of Economic Affairs - Minister, Mr. Van der Brink (Roman Catholic)

Ministry of Shipping - Minister, Mr. Hein Vos (Labour)

Central Planning Bureau - Professor Tinbergen ✓

Reconstruction Bank - Mr. J. F. Posthuma ✓

Amsterdamsche Bank - Managing Director, Professor Verrijn Stuart ✓

Rotterdamsche Bank - Managing Director, Mr. H. L. Woltersom

Twentsche Bank - Managing Director, Mr. van Leeuwen ✓

Netherlands Trading Society - Mr. Albarda, Director ✓
former Secretary General of the Department of Finance

Dr. Steenberghe (Catholic Party) - 1, Carnegie Laan, The Hague

Philips Works (Electrical appliances, radios,)- President, Mr. Otten
largest single exporting industry Financial Director,
Mr. de Vries

2. Current Position of the Netherlands

Production: Industrial production as of recent months has fluctuated around prewar levels but labour productivity is low because of raw material supply shortages and outworn machinery. Agricultural production is recovering well from the drought of last summer which caused a reduction in the production of milk and cheese and the slaughter of nearly 10% of cattle stock.

Prices and Wages: Cost of living has been kept at relatively low levels due to rigid price and wage controls but this policy necessitates ever-increasing food subsidies as world prices rise and which now account for one-third of the 1948 budget deficit.

Budget: This question of food subsidies added to the constant drain of funds necessitated by the maintenance of armed forces in the Netherlands East Indies underscores one of the chief problems of the Netherlands Government at present, namely, the difficulty of achieving a balanced budget. Out of total budgetary expenditures of almost five billion guilders in 1947, the deficit was in excess of two billion guilders. The deficit for 1948 is estimated at $1\frac{1}{2}$ billion guilders.

Present Volume of Exports is about one-half that of prewar years due to great need of investment at home and sharply increased population. Exports to European countries have recovered satisfactorily but exports to hard currency countries are below reasonable expectations.

Balance of Payments: Of the adverse balance of trade in 1947, (1.63 billion guilders) over 75% was with the dollar area (1.24 billion guilders). This underscores the two continuing problems of the Netherlands postwar economy, namely,

- (1) the drastic reduction in German trade which is further complicated by the necessity for settlement in dollars, and
- (2) the elimination of the triangular trade between U.S.A., N.E.I., and the Netherlands which provided the Netherlands with the necessary dollars to pay for imports from the U.S.A.

The Dollar Shortage before the passage of E.R.P. had become very acute. Imports from the U.S. were drastically curtailed at the beginning of 1948. Since voluntary liquidation was too slow, securities have been recently requisitioned and in the last month some of the monetary reserves of gold held in New York have been pledged against an advance in dollars from the Federal Reserve Bank.

The official rate of exchange is 2.65285 guilders per U.S. dollar or 37.6953 U.S. cents per guilder.

3. The I.B.R.D.'s \$195 million 25-year loan:

The categories of goods financed and the amounts withdrawn are set out below: (in millions of \$)

	<u>Old Items</u>		
	<u>Total</u>	<u>Disbursed</u>	<u>In hand</u>
Raw materials	18.6	18.1	.5
Ships	33	33	-
Equipment	28.4	12.2	16.2
	<u>80.0</u>	<u>63.3</u>	<u>16.7</u>
	<u>New Items</u>		
	<u>Total</u>	<u>Disbursed</u>	<u>In hand and to come</u>
Raw materials	71.4	62.8	8.6
Ships	12.0	10.6	1.4
Equipment	31.6	16.0	15.6
	<u>115.0</u>	<u>89.4</u>	<u>25.6</u>

Most of the raw materials and equipment financed was disbursed to small producers. The main industrial beneficiary was the Philips Works at Eindhoven. Under the equipment category a considerable amount of spare parts for repair of aeroplanes was supplied to K.L.M and under the raw materials category a certain amount of timber and cement was purchased by the IJmuiden Steel Works for the construction of workers' dwellings. Two of the main beneficiaries for ships were the United Netherland Navigation Co. and the Nederland Line.

4. A \$12 million 10-year loan is being negotiated with four Dutch Shipping Companies. These are: Holland America Line, United Netherland Navigation Co., Rotterdam Lloyd and Nederland Line.
5. Problems which have arisen in connection with the administration of the Netherlands Loan and the manner in which they have been resolved, are as follows:

(a) Extension of the Closing Date: In February Dr. Holtrop requested an extension of the Closing Date from March 31 to June 30 for "new" items and until April 15 for "old" items. The Bank agreed to the extension of the Closing Date until June 30 for "new" items and until 30 April for "old" items. Recently Dr. Soutendijk asked for an extension of the Closing Date for "old" items until June 30 but this was refused. However, it is understood that by giving the Netherlands a few days grace, sufficient documents have now been received by the Treasurer's Office to document the total amount of "old" items, namely, \$80 million.

(b) Advance against "old" items: In February an advance against "old" items was agreed to by the I.B.R.D. The Dutch withdrew \$10 million on

February 25, \$10 million on March 3, and \$7 million on March 22. Sufficient "old" documents have now been received to document the total of the advances made of \$27 million.

(c) Change in Categories: On March 15 the Bank agreed to make changes in the sub-categories of goods, the chief of which were a decrease of \$5 million in each of the sub-categories lumber and coal and an increase of \$5 million in each of the categories non-ferrous metals and feeding grains.

(d) Swiss Franc Agreement: An agreement has practically been completed with the Netherlands by which the Bank will make available a loan of 17 million Swiss francs in exchange for a cancellation of an equivalent amount of dollars (about \$4 million) from the \$195 million loan.

(e) Gold Pledge Loan: The Nederlandsche Bank obtained a loan of \$10 million from the Federal Reserve Bank of New York against a pledge of gold. The I.B.R.D. was concerned that as required under terms of Article 7 (1) of the Loan Agreement, the Netherlands Government did not first seek the Bank's consent. However, the I.B.R.D. did give its consent after explanation had been received and agreed to a pledge of an additional amount of gold against a second loan of \$20 million.

SWITZERLAND

S-W-I-T-Z-E-R-L-A-N-D

Exchange Rate (official) 4.28 francs = \$ 1 (US)

ITALY

I-T-A-L-Y

Exchange Rate (official) 573 lira = \$ 1 (US)

ITALY

1. Arrive Milan 11:55 PM Monday 14th June. Car will meet us at station. Accommodation arranged, probably at Continental Hotel. Office suite will be provided for us by Banca d'Italia.
2. Tuesday (15th) and Thursday (17th) to be occupied with interviews in and around Milan itself.

Suggestions

Sig. Vittorio Forte, Manager	Banca d'Italia (Central Bank)
Sig. Mattioli, Managing Director	Banca Commerciale Italiana
Sig. Giannino Stringher, Managing Director	Credito Italiano
Sig. Constantino T. Bracciani, Managing Director (Executive Director IRI)	Banca d'Roma
	(These are the three banks of "national interest", i.e. controlling interest in them is held by IRI and their operation is subject to government direction).
Sig. Alvino, Managing Director	Banca d'America & d'Italia (one of the largest wholly owned private banks)
Sig. Alberto Pirelli	Pirelli (largest producer of rubber products)
Sig. Marinotti	Enia Viscom (largest producer of rayon and related products. Owned largely by British interests)
Sig. Paine, Administrative Delegate	Montecatini
Sig. Norandi " "	(it dominates the field of chemicals and synthetics)
Sig. Falck	Falck Steel Works (the only steel works not controlled by IRI)
Sig. Glesse	Cotoni Pi Gio Glesse (textiles)

3. On Wednesday (16th) the group might split into two parties:

One visiting Turin

Sig. Valletta, Chairman of the Board	Fiat (leading automotive and plane manufacturer, controlling a great part of its own raw material supply, including a steel mill)
--------------------------------------	--

The other Banca

Ansaldo Steel plant and shipyards (Ansaldo is controlled by IRI and is Italy's largest shipbuilder)

Harbor

4. Leave Milan by night train (9:15 PM) on Thursday, 17th June.
5. Arrive Rome, 8:10 ^{AM} ~~PM~~, Friday, 18th June. Car will meet us at station. Accommodations reserved at Grand Hotel. Office suite will be provided for us by Banca d'Italia.
6. The Acting Governor of the Banca d'Italia (Donato Menichella) will be at the BIS Meeting in Rome and will have a tentative list of engagements for the party in Rome.
7. It is planned that we spend Friday, Saturday, Sunday, and Monday (18th to 21st June) in Rome and the neighborhood.
8. It has been suggested that, apart from courtesy calls, we should see:

Sig. Luigi Einaudi, President

formerly Minister of the Budget,
senator and Governor of the IRI

Sig. Alcide de Gasperi, Prime Minister

Minister of the Treasury
or
Minister of Finance

Foreign Minister

Sig. Grassi, Chief of the Economic Dept. of the Foreign Office

Ga. Ivan Matteo Lombardo

Right Wing Socialist M.P.
former Under Secretary of Industry,
President of newly formed handicrafts
corporation which has received Exim-
bank loan.

Ga. Ugo La Malfa

Republican MP, former Minister of
Communications

Sig. Roberto Tremelloni

Right Wing Socialist M.P.
former Minister of Industry and Commerce

Sig. Giglianti, President of IRI

Mobiliare Italiano (IMI) IMI is principally a lending agency and does not as a rule acquire an equity interest in the firms it assists. The Eximbank has used IMI as its disbursing agency for the \$100,000,000 loan of 1946.

Sig. Campilli

Christian Democrat M.P., former Minister
of Finance, Chief of Permanent Commission
for ERP.

Sig. Marchesano, Director General of
ISTITUTO per la Ricostruzione
Industriale (IRI)

IRI and IRI are counterparts of the
American EPC. IRI has a controlling
interest in many Italian industrial
firms and in the three largest Italian
banks. It virtually dominates the
steel and shipbuilding industries.

Sig. Giustiniano, Administrative
Delegate of E.R.R.E.I.

E.R.R.E.I. is the largest producer of
electric power.

Sig. Foscolo, Banca di Roma

Administrative Delegate

Prof. Francesco Giordani

Alternate Executive Director, IERS

9. Rembert has suggested we should visit the hydro-electric projects at Terni (60 miles from Rome) and, if possible, steel mill and irrigation projects at Naples (135 miles from Rome). Possibly the group might split to enable a visit to be made to enable a visit to be made to Terni, but it would not seem possible to be able to include Naples.
10. Leave Rome by air 3:00 PM on Monday 21st June by Air France.

Italian Foreign Exchange System

1. Several changes in the Italian foreign exchange rate and system have taken place since 1945. The official rate of 100 lire per U.S. dollar, established by the Allies upon the landing in Sicily in July, 1943, was de facto discontinued on January 4, 1946. On this date the effective rate for all trade transactions was made 225 lire per dollar by the requirement that importers buying foreign exchange pay a surcharge of 125 per cent of the official rate, the proceeds of the surcharge to be used to pay a premium of 125 per cent to exporters for foreign exchange which they were required to sell to the Bank of Italy. Shortly thereafter the premium rate of 225 lire per dollar was extended to practically all other (i.e. non-trade) transactions and became in effect the official rate of exchange.
2. On March 26, 1946, the requirement that all export proceeds be surrendered to the Bank of Italy at the 225 rate was changed to a requirement that 50 per cent be surrendered at this rate, leaving 50 per cent at the disposal of the exporter to be used within a specified time for his own authorized imports or sold to a licensed importer in the "free" market. Although some foreign exchange was made available to private importers at the official rate, most private importers, subject to licensing requirements, thereafter obtained their foreign exchange in the "free" market.
3. On August 1, 1947, the premium of 125 per cent on the official rate was abolished, and the official rate was formally changed from 100 to 350 lire per U.S. dollar. Exporters of most products were still required to sell 50% of their foreign exchange at the official rate and permitted to sell the balance in the "free" market; however, exporters of certain commodities (e.g. silk, handicrafts, etc.) were in effect given a bonus, permitting them to sell ~~an~~ increased percentages of foreign exchange proceeds in the "free" market.
4. The system was changed again on November 27, 1947, when the arrangement presently in effect was adopted. The chief characteristics of this system are as follows:
 - (a) As hitherto, three rates of exchange are officially sanctioned, viz. the official rate, the "free" market rate, and the "average" rate.
 - (b) The official rate prevailing during any month is the average of rates prevailing in the "free" market during the previous month (except that any rates not falling between 350 and 650 lire per dollar are excluded in calculating the average).
 - (c) The "free" market rate is determined in the "free" market.
 - (d) The "average" rate is the average of the official rate for the month and the daily rate in the "free" market.
 - (e) Exporters and persons transferring funds to Italy obtain the "average" rate by virtue of the requirement that they sell 50% of the foreign exchange to the Bank of Italy at the official rate and the balance in the "free" market. Most importers obtain their foreign exchange at the "free" rate.

5. Rates prevailing in Italy since the liberation were the following:

	<u>Official</u>	<u>"Free"</u>	<u>Average</u>	<u>Black Market</u>
1944	100	-	-	251 ^{1/}
1945	100	-	-	345
1946	225	507 ^{2/}	366 ^{2/}	437
1947	225 ^{3/}	672	485	656
1948 Jan.	576	573	574	592
Feb.	573	573	573	615
Mar.	573	574	574	-

- ^{1/} December
- ^{2/} May - December
- ^{3/} Through July

ITALY

General

1. Italy has a population of nearly 47 million. It is poor in resources being deficient in coal, petroleum, iron ore and other important minerals. Although industrialized to a high degree, it is still principally an agricultural nation, about 50% of the Italian labor force being engaged in agriculture as against 35% for industry. Nevertheless it must import a substantial part of its food, particularly of wheat.
2. There are great regional differences in Italy. Sicily and most of the area South of Rome was slow in participating in the industrial revolution due, in large part, to the foreign misrule which it endured until 80 years ago. Its population is backward, comparatively unproductive, chiefly agricultural in its pursuits, and in many provinces a high degree of absentee ownership and an antiquated system of working the land make for low production and extreme poverty. There are few natural resources and this section is extremely arid. The North, on the other hand, is very progressive, being comparable to Switzerland in its industrial and agricultural development. Although deficient in many resources, it has adequate rainfall and hydroelectric potential.

Principal Short-Term Problems

3. Italy's short-term problems are nearly all the direct result of the war. One is the repair of the physical damage done by the fighting. During the war, the Italian transportation system was completely disrupted; the merchant marine was destroyed virtually down to the last ship; two out of every five dwelling units were either damaged or destroyed; 30% of steel capacity was destroyed and stocks of raw materials were exhausted. Great progress has been made in reconstruction in the last three years. About 50% of the damage to railroads has been repaired and traffic capacity has increased from 30% at the end of the war to about 80% at present. Important ports and harbors have been cleared. The index of industrial production has increased from 15% of prewar in July 1945 to about 80%. However, much still remains to be done and this need forms the basis for many of the social and financial pressures on the Italian Government.
4. A second great problem, which ERP is designed to alleviate in Italy, as well as in other European countries, is that of financing the acquisition of food and raw materials sufficient to keep the economy going and to permit it to build up an exportable surplus with which to finance its needs. Gifts and credits by the United States, UNRRA, Argentina, and Canada served to meet the worst needs of the country in 1946 and 1947, but need for further assistance of this nature will probably continue, according to the Italian presentation made to CEEC at Paris in July, until at least 1952.

5. A third major problem is inflation. During the war increased note issue coupled with lack of production raised the price level about thirty times. After the peace and establishment of an Italian Government, the rise was slowed but, until recently, not halted entirely. Lack of raw materials and damage to productive facilities limited production while government expenditures, due to reconstruction demands and social expenditures (subsidies, relief, etc.) far outran tax receipts.
6. A fourth major problem is unemployment which has always been chronic in Italy but which is now aggravated due to the delay in resuming full industrial activity. Reliable data on unemployment are lacking but estimates range between two and three million workers. Italy is the only European country suffering from large-scale unemployment today.

Principal Long-Term Problems

7. Italy's principal long-term problem is how to support a large and growing population on the meager resources afforded by the Italian Peninsula. In the past this has been accomplished chiefly by selling Italian labor abroad in the form of manufactured articles, and by immigrant remittances and net earnings on tourists, and shipping.
8. Unless a means is found to permit large-scale Italian emigration, Italy's chief hope for resuming its pre-war standard of living lies in expanding exports. Its competitive position in world markets is not particularly strong, however. Italian textiles, which now amount to more than 50% of total exports and which before the war amounted to nearly 30%, are now facing what may soon be a glutted world market. Germany, which before the war was Italy's best customer, particularly for the important fruit and vegetable crop, and which was the principal source of Italy's imports of coal, timber, and many manufactured products, will be a long time in assuming its former position in Italian trade.
9. Other important problems are the improvement of economic and social status of the South; and the lessening of class antagonisms which are particularly acute due to Communist propaganda and the uneven economic effect of the war.

Prices

10. Since September 1947 there has been a gradual drop in prices, particularly at the wholesale level.
11. One important reason for this is the increased supply of goods. Industrial production is now at about 80% of 1938, and about 40% higher than 1946. Agricultural production in 1947 was about 78% of 1938 and about equal to 1946. Supplies of imported coal and wheat have been coming in at about 70% and 15% higher respectively than 1946. A government subsidized program for the manufacture of low-cost textiles; and good olive oil, sugar, and rice crops have served to depress prices of items which are particularly important in the cost of living.

12. A second reason is the fact that the government is covering a greater proportion of its expenditures by taxation. In 1947-48 total expenditures will be about 1.2 billion lire of which 800 billion lire or about 66% will be tax revenue. In 1946-47, only about 35% of the government's expenditures were covered in this fashion.
13. A third reason for the price fall, are the regulations imposed in September severely restricting the extension of bank credit. This has caused a certain disgorging of inventories and has reduced effective purchasing power. While the restrictions have been effective in helping to check the rise of prices, it is contended that they have also served to curtail the volume of production.

Balance of Payments

14. In 1947 imports, largely of foodstuffs, coal, and petroleum, were equivalent to \$1.6 billion while exports were about \$750 million. Of the resulting balance of trade deficit of \$850 million:

- \$282 million was covered by free supplies from UNRRA and the United States;
- \$138 million by Italian capital abroad repatriated in the form of goods;
- \$ 57 million by net earnings from immigrants' remittances, freights and tourist traffic;
- \$120 million by credits from the United States Treasury in return for lire and supplies furnished to the American Forces in Italy; and
- \$250 million from the Argentine loan and the use of gold and dollar reserves.

In 1948 the bulk of the prospective deficit is expected to be covered by the ERP which has tentatively allocated \$750 million to Italy for the first year of the program. On May 15, 1948 the ECA announced the allocation to Italy of \$140 million in grants and \$25 million of possible loans for the three months period April-June 1948.

15. As a result of changes in foreign exchange regulations last November, the official price of the lira now corresponds very closely to the free market price. The regulations have increased the availability of foreign exchange to the government and have improved the competitive position of Italian exporters.
16. Total Italian foreign debt, exclusive of reparations, is about \$740 million. Settlements have been agreed to for about 75% of this amount and negotiations are underway covering the remainder. Reparations totaling \$360 million are due to Yugoslavia, Soviet Russia, Greece, Ethiopia and Albania beginning in September 1949 and spread over a period of five years thereafter.

Loan Negotiations to Date

On August 27, 1947, the Italian Government requested the International Bank to extend to Italy an interim line of credit of \$250 million. A fact-finding mission of the Bank visited Italy during the autumn of 1947 and, on the basis of its findings, concluded that there were in the Italian Government's program for reconstruction and development a number of individual projects meriting further consideration as possible bases for a loan from the Bank, contingent upon the outcome of the ERP.

A letter to this effect was sent on February 6, 1948, but Mr. Garner to Mr. Donato Menichella, Director General of the Bank of Italy (the Italian Government's representative in connection with the loan). After indicating the general types of projects falling within the Italian Government's program which appeared most interesting to the Bank, the letter suggested that the Italian Government select a group of individual projects falling within designated categories and assemble the detailed information necessary for the appraisal of the projects by the Bank. The letter also indicated that the Bank would be prepared to send representatives to Italy for the purpose of consulting in the selection and analysis of such projects in order that a prompt decision might be reached in the light of developments concerning the ERP. In a letter of reply of March 18, 1948, Mr. Menichella requested that representatives be sent to Italy for this purpose, and a mission consisting of Messrs. Stephens, Svoboda and Remberg departed for Italy about the middle of April. Present plans call for the mission to return on or towards the end of May.

The fields on which the Italian Government is concentrating in developing projects for the Bank's consideration are:

1. Electric power;
2. Reconstruction of Merchant Marine;
3. Reconstruction and development of agriculture;
4. Reconstruction of the iron and steel industry.

Proposals were also made with reference to the railways and to building and public works but these are now in abeyance.

FRANCE

FOREIGN EXCHANGE RATES

FRANCE (French Franc)

Currency Units Per
U.S. Dollar

Official parity 214.392

Official selling rate 214.71

This rate applies to importers of absolutely essential commodities such as wheat and coal

Fluctuates Around

*Free selling rate 305.00

This rate applies to importers of non-essential commodities and to tourists

Fluctuates Around

*"Export" rate 260.00

This rate is a mean between the official and the free rates since exporters are authorized to sell 50% of dollar proceeds in the market at the free rate and the other 50% to the French monetary authorities at the official rate.

BELGIUM (Belgian Franc)

Par value 43.8275

Official selling rate 43.96

*These two rates are restricted to transactions in U.S. dollars, escudos and gold.

TO: Mr. A. S. G. Hoar

May 17, 1948

FROM : J. H. Penton

SUBJECT: European Trip: France and Belgium

France

I suggest that these people should be contacted also:

M. Leon Jouhaux	Force Ouvriere (at Conseil Economique)
M. Monick	Governor, Banque de France
M. Bolgert	Banque de France
M. Georges Villiers	Head of the Association Patronale

The office in Paris knows M. Villiers and he can suggest and arrange visits to French industries.

If you have time, it might also be interesting for one of you to visit Mr. Ronald Fraser, who is the Commercial Minister at the British Embassy. He has been there since 1945 and has a good knowledge of industrial and commercial conditions in the country. He would also be able to bring you together with several interesting people.

Mr. McCloy last year visited the Genissiat Dam on the Rhone. I have not seen it myself, but I understand that it is a striking example of what the French are able to do in the sphere of hydroelectric development. M. Villiers could arrange a trip up there if you wanted it.

You might also find it worthwhile to contact M. Moreau-Erret, who is the Director of the Credit Lyonnais and formerly Secretary-General of the Ministry of Finance. As you may remember, he showed interest in the idea of the Bank's placing a dollar loan on the French market rather along the lines of the one which is under consideration for Belgium. He would also be able to tell you a good deal about banking and industrial conditions, as well as Government policy, seen from the outside (this is important in France).

FRANCE

In the political field it is generally believed that the present Government will retain power, although only precariously, for some time to come; the two principal opposition parties, DeGaullists and Communists, will not vote together against the Government. Efforts have been made to obtain the cooperation of the DeGaullists with the Government particularly by Pleven, and Schuman has indicated a willingness to consider widening the basis of the Government. General DeGaulle has, however, turned a deaf ear to the proposal.

Though it is barely possible that they may be postponed, it is probable that elections throughout the country for the Conseil Generaux will be held in October followed by elections of the Conseil de la Republique. If the RPF shows about the same strength in the Conseil Generaux elections as it did in the municipal elections last year, it would not be possible for Schuman to resist pressure for a general election, which would be held in the spring of 1949. The strength of the present Government in the Conseil Generaux elections, however, depends largely on the extent to which economic recovery continues.

Internal economic conditions in France give grounds for optimism. Industrial production is now some 10% above the 1938 level. Agricultural production, which was a dark spot in the 1947 economic picture, shows every prospect of strong recovery. Production of bread grains is expected to be twice as large this year as last year and, although the administration will proceed cautiously, rations will soon be increased. It is possible that, about July 1, the bread ration will be raised from the present 200 grams a day to as much as 350 grams daily.

Although prices have now reached some 15 to 18 times prewar levels, the rise in prices appears to have been arrested during the past two months and some slight decreases have been recorded in certain sectors of the

economy. A favorable feature of the situation is the widespread impression that, at present prices, costs and production levels some price reductions could be made out of profit margins.

A primary requirement for stabilizing prices is the prevention of any important wage increases, but this is a major unresolved issue at the present moment. There is considerable pressure for increased wages, with both the CGT (Communist dominated) and the Force Ouvriere (Jouhaux led - non-Communist) requesting increases. Lack of union and private means to finance a long strike, and increased awareness of the basic economic causes of low wages, make it unlikely that strike action for higher wages will be taken. The basic pressure of the unions is turning towards demands for lower prices, not higher wages which is a hopeful sign. The Conseil Economique recommended in the middle of April that wages be unfrozen and left to collective bargaining if prices did not decline further by the end of April, but the Conseil, although an official body, may only recommend and the Government does not intend to adopt this recommendation in the immediate future.

The price of wheat in France will be fixed on July 1 for the coming year. If this price can be set at roughly the present level with only a very slight increase, at the same time as bread rations are increased, the psychological effect on confidence in the franc will be considerable.

Another important stabilizing factor is the fact that, in the first half of 1948, the budget and Treasury position will be favorable, largely because of the special tax levy and the requirement for pre-payment of income taxes. The Treasury position is not resulting in any outflow of cash during the first half of 1948 partly because of the local currency proceeds derived from the sales of interim-aid supplies and partly because subscriptions to Treasury bills have recently exceeded current maturities. Budget deficits for the second half of 1948 seem certain and a guess has been made that it

they will reach 100 billion francs. This need not have appreciable inflationary consequences if part of the local currency of the counterpart of ERP assistance remains blocked or is used for debt retirement and if general credit controls are maintained.

Many factors - interruption of production due to strikes, need for increased military preparedness, or a bad harvest - could lead to a resumption of the rise in prices. On the whole, however, the possibilities of stabilization are ~~bright~~ fair

It is on the external side that France faces its most serious problem. The allocation of \$375 million of ERP assistance to France in the first three months of operation still leaves a deficit with the dollar area of some \$10-20 million monthly. Although \$75 million of ERP aid is in the form of loans, this is mainly raw materials. Scarcely any equipment imports will be financed, and since these are required to modernize the French productive machine so that it can compete in world markets, permanent recovery will inevitable be postponed unless the dollars are obtained through other channels.

Although French external financial difficulties are at present confined to the dollar area it seems likely that, by mid-summer, trade with the sterling area will also run into difficulties since French sterling holdings will be exhausted by that date.

Although it is too early to see clearly the effects of the devaluation of the franc on French export trade, it seems that exports to the dollar area have increased about 15% in value. Export prices have not fallen appreciably; in many cases the principal effect seems to have been the prevention of further increases in French export prices to levels pricing them out of world markets.

Turning to long-run prospects, it seems likely that the French balance of payments with the non-dollar area may eventually be brought into balance. On the other hand, even assuming the recovery of dollar revenues from tourism, it is difficult to see how French current accounts with the dollar area can be balanced. As ultimate permanent recovery depends upon substantial imports of capital equipment from the dollar area the only possibility of French permanent recovery appears to be through continued dollar investment in France and its colonies, or the restoration of convertibility of currencies to make possible the utilization of any French surplus in non-dollar areas to cover the dollar deficit.

FRANCE - Loan Policy

There are two major questions of policy presently affecting the Bank's attitude toward extension of further credit to France.

(a) Negative Pledge Clause

The French refused to include the covenants relating to negative pledge, prior consultation and furnishing of information in the Credit National guarantee agreement. Minister of Finance Schuman did, however, state in a letter to the President, dated May 9, 1947, that "The French Government has never consented to mortgage or pledge any of its resources whatsoever as a guarantee of its external debt. . . . The French Government intends to remain faithful to this policy."

The question has arisen whether the Bank should insist on the inclusion of the negative pledge clause in future loan agreements with France.

(b) France's status in the IMF

France is at present ineligible to use the resources of the International Monetary Fund and the question has therefore arisen whether this should also render France ineligible to obtain Bank loans.

gold pledge - \$85 B - NY Federal

FRANCE - Loan to Credit National

On May 9, 1947, a loan of \$250,000,000 bearing 3½% interest and 1% commission was extended for a period of 30 years (with amortization commencing after five years) to Credit National pour Faciliter la Reparation des Dommages Causes par la Guerre. The loan was guaranteed by the Republic of France. Proceeds were to be applied to the payment of the cost of purchasing and importing goods to be used exclusively for productive purposes in the carrying out of the program for reconstruction and development of the productive facilities and resources of France.

Disbursement of funds from the Loan Account was completed during February 1948. Goods purchased with the proceeds of the loan are listed below under fourteen headings. The fifteenth heading covers freights paid for goods carried in foreign ships.

	(Value in \$,000)
1. Coal	63,000
2. Petroleum products	29,011
3. Non-ferrous metals	20,000
4. Cotton	28,000
5. Steel products	25,004
6. Ships from U.S.	10,392
7. Ships from Canada	5,327
8. Barges, tugs, scows from Canada	1,563
9. Steel mill (Societe des Hauts Fourneaux, Forges et Acieries de Denain et d'Anzin and Societe Anonyme des Forges et Acieries du Nord et de l'Est a Montataire)	10,797
10. Locomotives from Canada	1,807
11. Planes (Air France) and plane engines	5,934
12. Parts for manufacture of railway cars	1,315
13. Modernization of Renault Works	1,744
14. Various equipment	8,645
15. Freight	<u>40,000</u>
	252,539

The excess of \$2,539,000 above the loan of \$250,000,000 represents ineligible items and expenditures disapproved as in excess of the value of certain categories. The amount which has been actually disbursed is, of course, only \$250,000,000.

FRANCE - Informal loan discussions

(a) Active

April 23, 1948 - Mr. Valensi, Financial Counselor, French Embassy, and Mr. Peter, Director of Economic Affairs for the French Colonies, together with M. Garreaux-Dombasle of Mines de Bor and M. Coste of Le Nickel, visited the Bank for informal discussions of projected loan applications for the purpose of French colonial development. Three projects were discussed: (a) iron ore production at Conakry, French Guinea, for which \$6,000,000 was required; (b) nickel refining facilities in New Caledonia requiring \$3,000,000; (c) mechanized equipment for oilseed production in Senegal requiring \$6,000,000.

Questionnaires regarding these projects have been drawn up by the Bank and submitted to the parties concerned through the Office of the French Overseas Territories, New York. Replies are awaited.

(b) Inactive

February 24, 1948 - Mr. Maurice Boyer, Honorary Director of Banque de Paris et de Pays-Bas, approached the Bank concerning the possibility of a loan of very short duration in the amount of \$600,000 to \$800,000 to the Portuguese subsidiary of a French oil company for expansion of distributing facilities. New York banks were very interested in lending this amount for a period up to one year but the company preferred a longer term loan.

Since the project is located in Portugal and the Articles of Agreement of the Bank seem to require that

loans be made only to finance projects in member countries and that all loans be guaranteed by a member, its central bank or some comparable agency, it was decided that the Bank could not give further consideration to the financing of this project.

March 5, 1948

- Mr. Guy H. Montmartin of New York approached the Bank on behalf of a French firm regarding a loan of \$150,000 for the purchase of machinery for an asbestos mill at Chateau Queyras H.A., France. Mr. Montmartin was informed that it would be necessary, before the Bank could consider the project, for the French Government to approach the Bank on behalf of the company with a representation that the project is of primary importance to the Government and that its service in foreign exchange will have priority equal to or above the service of any other Government loan obligation.

March 17, 1948

- Mr. Ernest Angell of the New York law firm of Spence, Hotchkiss and Duryee made very preliminary and tentative inquiries, without giving details of the projects, regarding a large long-term plan and a short-term plan both relating to French Morocco. He was interested in the possibility of a loan to finance the latter, which would require \$11,000,000 worth of goods to be imported primarily from the United States and the Western Hemisphere. The loan could be repaid by the end of 1949. Mr. Angell stated that the repayment would be guaranteed by the State

Bank of Morocco. Mr. Angell was advised that it would be necessary for the French Government to sponsor this project and guarantee any loan. It would also be necessary to show that the project could not be financed on reasonable terms through private financial institutions.

April 28, 1948 - Mr. Maurice Heurteux, President Director General, Societe Exportation Materiel Hispano-Suiza, discussed the possibility of obtaining a Bank loan of some \$1.2 to \$1.3 million to purchase machine tools for the production of Hercules Diesel motors in France. Mr. Heurteux stated that the company had already obtained a "pretty solid" commitment from a Swiss bank to lend the \$1.2 million for five years at 5%.

In view of the nature of the project, the Bank's uncertain policy regarding French loans in general, and the fact that alternative financing was probably available, Mr. Heurteux was informed that there was no prospect of the Bank being able to finance the project at this time. It was suggested that, if the company would like to have the Bank give further attention to the matter, it should approach the French Government to determine whether it would be prepared to sponsor the project and guarantee any loan.

C
O
P
Y

MEMORANDUM

On 26 April I was asked to lunch by M. Bellin of the Banque Nationale Francaise pour le Commerce Exterieur, M. LeNorcy of the Banque de France and M. Fitzhenri also of the Banque Nationale were also present.

M. Bellin said that he had just returned from Washington where he had had conversations with Mr. Garner. He had explained to Mr. Garner that he was anxious to obtain small dollar credits for moderate sized French firms whose productions would be capable of raising French foreign exchange earnings. He emphasized that in many cases it might be possible to retain a portion of the earnings of these firms in the U.S. in order to provide for service and amortization which would be fairly small, from about one to ten million dollars. He thought that this could perhaps be done through bankers loans guaranteed by the International Bank.

He added that he had also talked to Mr. Martin of the Export-Import Bank through whom he was also anxious to obtain loans. He did not mention the name of any particular company for whom he intended to act, but said that if he were successful in obtaining an arrangement of this kind it was not his intention that the Banque Nationale pour le Commerce Exterieur should have any monopoly, but that all French banks would be entitled to participate on behalf of their clients.

JMPenton

John M. Penton

U-N-I-T-E-D K-I-N-G-D-O-M

Exchange Rate (official) 1 pound = \$ 4.03 (US)