

# ELIMINATION OF GERMAN RESOURCES FOR WAR

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## HEARINGS BEFORE A SUBCOMMITTEE OF THE COMMITTEE ON MILITARY AFFAIRS UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

FIRST SESSION

PURSUANT TO

**S. Res. 107**

(78th Congress)

AND

**S. Res. 146**

(79th Congress)

AUTHORIZING A STUDY OF WAR  
MOBILIZATION PROBLEMS

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**PART 1**

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TESTIMONY OF  
**HON. BERNARD M. BARUCH**  
BEFORE THE FULL MILITARY AFFAIRS COMMITTEE

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JUNE 22, 1945

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## LETTER OF TRANSMITTAL

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HON. HARLEY M. KILGORE,  
*Chairman, Subcommittee on War Mobilization,*  
*Washington, D. C.*

DEAR SENATOR KILGORE: I believe that the testimony presented on June 22 before the full Senate Military Affairs Committee by Mr. Bernard Baruch on the subject of the elimination of German resources for war provides an excellent introduction to the detailed hearings on this subject before the Subcommittee on War Mobilization of which you are chairman.

I am accordingly transmitting this testimony to you so that it may appear as part 1 of your series of hearings on this subject.

ELBERT D. THOMAS,  
*Chairman, Committee on Military Affairs.*



# ELIMINATION OF GERMANY'S WAR POTENTIAL

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FRIDAY, JUNE 22, 1945

UNITED STATES SENATE,  
COMMITTEE ON MILITARY AFFAIRS,  
*Washington, D. C.*

The committee met in the caucus room, Senate Office Building, at 10:30 a. m., pursuant to notice, Senator Elbert D. Thomas (chairman) presiding.

Present: Senators Thomas (chairman), Johnson of Colorado, Hill, O'Mahoney, Stewart, Austin, Gurney, and Revercomb; also Senators Guffey, Johnston of South Carolina, White, and Brooks; and Representative White.

The CHAIRMAN. The committee will please be in order.

Mr. Baruch, as we were saying before the hearing started, the period of disintegration has set in. I think I ought to repeat that, to my mind, our troubles are just beginning. The war is a rather simple affair; the peace is very complex. The single objective which we had in the war is now gone, so that definitely the period of disintegration has started.

Our job in Germany is not yet completed. The Nazi armies have been defeated, and the powerful German industrial and economic war machine has been crippled. But the United Nations are still confronted with the great task of dismantling the war machine which supported the Nazi armies as they overran Europe and challenged the freedom of the world.

Bitter experience after World War I has shown us that we must not rest until we have thoroughly and permanently removed Germany's potential for future war. It will require wise policy and conscientious administration to destroy the economic and industrial base for aggression, and to reorganize the economy of Germany on a firm basis for peace. The presence of an Allied army of occupation in Germany is itself testimony that a major task lies ahead.

The Military Affairs Committee of the Senate has a continuing interest in the German settlement as it relates to the military security of our Nation and to world peace. In the Seventy-eighth Congress, and in the present Congress, a subcommittee of the Military Affairs Committee has studied the economic warfare which was waged by Germany for the purpose of rearming itself and disarming its prospective victims. This economic warfare was begun by Germany almost immediately after the Treaty of Versailles.

The subcommittee, under the chairmanship of Senator Kilgore, will begin next week a series of public hearings on Germany's attempts to preserve and strengthen her resources for renewed aggression.

Preliminary to the subcommittee hearings, I have asked Mr. Bernard Baruch to testify on the entire problem of eliminating Germany's economic potential for military aggression. Although Mr. Baruch is appearing as a private citizen, his active participation in our mobilization for both World Wars I and II, his studies of the peace settlements of Versailles and his understanding of their inadequacies, and his present concern with these problems, makes his testimony of unusual interest and value. Mr. Baruch has only recently returned from Europe, where he studied first-hand the devastation wrought by the Nazis and met with Allied leaders on the very problem on which he is testifying this morning.

On behalf of the Senate Military Affairs Committee, I would like to express deep appreciation to Mr. Baruch for his appearance here today.

Mr. Baruch, will you proceed as you wish?

Mr. BARUCH. Thank you very much, Senator.

### STATEMENT OF BERNARD M. BARUCH

Mr. BARUCH. Mr. Chairman and gentlemen of the committee, I am honored by your request to appear before you. Your esteemed chairman, in his letter of invitation, described the objective of this committee's inquiry as "the elimination of Germany's economic potential for military aggression."

No more important question ever will come before you than this one—of how to prevent the revival of Germany's war-making might. It is the heart of the making of the peace; it is the heart of the keeping of the peace.

What is done with Germany holds the key to whether Russia, Britain, and the United States can continue to get along. It will affect profoundly the jobs and livelihoods of everyone, everywhere, for none of the economic problems of the peace can be solved except in the light of German reparations policy and the measures taken to demilitarize Germany's traditional war economy.

Is it possible to control and transform a nation of more than 60,000,000 persons, with an economy as intricate and efficient as that of the Germans?

I believe it can be done. I know it must be done.

### GERMANY'S THIRD TRY

It will not be easy. But if not done, we face the certainty that Germany will make a third try to conquer the world. Five times within the memories of some persons now living the Germans have waged aggressive war—against Denmark in 1864, Austria in 1866, France in 1870, against the world in 1914, and again from 1933 to 1945. This must be made the last German war.

### DEFEATISM UNFOUNDED

By itself, no German settlement can be enough. If this is to be a sure peace, we must be prepared to see the peace through with an international organization to maintain common unity among the

Allies, with a determined preparedness, including universal military training, with an as-long-as-it-takes occupation of Germany, with the judicious use of our great productive power, and a living faith in our democracy strong enough to give the world the moral leadership in progress toward greater freedom and steadily rising living standards that America has stood for since its creation.

The defeatism that prevails in the minds of some is unjustified. At the close of any great war there are always some who despair of the future. It was that way after the last war. We have only to learn the lesson of these two World Wars and work at the peace and we need not fear what the future holds in store for us—a new Cave Age of bomb shelters or prosperity and security for ourselves and our children.

#### BOLD LEADERSHIP NEEDED

The time has come to end piecemeal peacemaking and to write the peace in Europe as an entirety. In this total peacemaking America should move forward with a positive program of bold leadership.

It is important that we think of the condition of the peoples involved in the war. What are the hopes and fears of the people in Russia and England? In the countries completely overrun by the Germans, many have lost faith in government, in themselves—in everything but force. Seared and scorched, they do not know where their next meal is to come from; how they will be able to make a living in the future. Not only physical but great psychological lesions will have to be healed in the peacemaking.

All these people look to the United States as the one great untouched reservoir of productive resources in the entire world. We have no problems of physical reconstruction. Yet, these people must be made to realize, we cannot do all they would ask of us and survive ourselves. They must relearn self-reliance. With wisdom we can use our productive capacity to lead the way for these countries to help themselves so that together we can implement one another's security.

To Russia we can show the means of making herself so strong she need not fear Germany; and this while permitting her to reduce military expenditures, leaving more for lifting the living standards of her heroic people.

#### EXPANDING TRADE FOR BRITAIN

To Britain we can show the way to expanding world markets, steering her away from an economic war that could only be disastrous to her and the world.

To the United Nations we can direct a converted arsenal of democracy to aid in establishing a new peaceful economic equilibrium with increased numbers of jobs and steadily rising standards for all.

#### DON'T OVERPROMISE

We cannot do this by promising more than we can deliver. We can by organizing priorities of production for peace—so that our vast productive capacity is directed to where it will do the greatest good. In return, we need ask only that the terms of the peace square with the American conscience. Which is not to say that we—or anyone else—can have all we want.

## STRATEGY OF PEACEMAKING

Effective handling of this productive power assumes a strategic, positive concept of the peacemaking, knowing what we must have and what we are ready to yield on, where American interests lie and how they can be harmonized with the interests of others. We must not find ourselves thrust into the position of seeming to have no program other than to object to the proposals of others or, by failing to move decisively, to drift into complications. We must realize that unless we are prepared to exercise leadership the peace will be shaped by other forces. A vacuum does not long remain unfilled.

To unify all of the many peace problems into one whole, integrated with the Pacific war, all governmental agencies dealing with these matters must be streamlined under a top group acting as a focus of decision for recommendations to the President. I speak of a council because with matters of such profound importance, the many different viewpoints should be examined by the best collective wisdom our Nation can muster.

## NO INTERNATIONAL LOGROLLING

Our peacemaking must rise above any and all questions of partisan politics, above any pressure group or vested interest—whether on the right or left, at home or abroad—above any individual's desires for kudos or headlines.

We must be alert not to slip into the temptations of international logrolling, of handling conferences as if they were mere political conventions, of writing peace agreements as if they were political platforms to mean different things to different men. If the stakes of war are mortal, the stakes of peacemaking are life giving and they require methods and thoughts of heroic stature, worthy of the stakes.

## THE GERMAN PROBLEM

At Yalta an excellent beginning was made by the major powers on the German problem, covering in the main the more immediate measures for Germany's occupation. The need now is to fill in the Yalta agreement in detail and to enlarge it to settle definitely Germany's future.

Is Germany to be occupied in four zones for a certain period of time and then restored as a whole or is the occupation to be the preliminary to a lasting dismemberment into lesser parts? How long is the occupation to last? What kind of Germany do we want to end up with? Will the United Nations ask for reparations which require the rebuilding of destroyed German factories and which compel Germany to work at full tilt, thus again becoming highly industrialized and a menace to the world? Or is German war-making industry to be curtailed and if so what level of industrial capacity can safely be allowed her?

It is not enough to answer "we want an economically weak Germany." This program should be sufficiently specific—industry by industry—so all of the occupying nations know they have agreed to the same thing. It should be put into writing and made public. Until such a program is given common acceptance, the basis for peace in Europe will be lacking.

## WE WANT A SURE PEACE

Any effective approach to the German question, it seems to me, must begin by recognizing one inescapable fact—there is no blinking a thorough overhauling of Germany's economy, for the simple reason that there is no "normalcy" to return to in Germany except that of war making.

Whether one wants to be nice or harsh to Germany makes no difference. War must be displaced as Germany's chief business.

Will the measures taken be thoroughgoing enough to be effective? Will they disarm Germany in a way to bring unity to the great powers? Those are the issues.

I have not thought in terms of a hard or a soft peace. I seek a sure peace.

Therefore I recommend:

*Settle Germany's future*

1. The earliest definite settlement of what is to be done with Germany.

*Break German dominance*

2. Economically, this settlement break once and for all Germany's dominance of Europe. Her war-making potential must be eliminated; many of her plants and factories shifted east and west to friendly countries; all other heavy industry destroyed; the Junkers' estates broken up; her exports and imports strictly controlled; German assets and business organizations all over the world rooted out.

*Priorities for peace*

3. Through priorities for peace to the peoples Germany tried to destroy, to build up the strength of the United Nations in both Europe and overseas while reducing Germany's over-all industrial and technical power. Only when such a new equilibrium is established will it be safe to readmit Germany to the family of nations.

*Full Soviet agreement*

4. That this German settlement be used as a basis for a comprehensive, all-embracing agreement with Russia on the major peace problems. By tackling immediately and forthrightly the question uppermost in the Russian mind—security against Germany—I believe we can arrive at full understanding with the Soviets. If it is not possible, the sooner we know it, the better.

*All agreements public*

5. This agreement with Russia—as well as agreements with other nations—to be in writing and promptly made public in full detail. This has been a people's war. Let it be a people's peace.

*General staff for peace*

6. Tighten our peacemaking machinery here at home to give us the effect of a general staff for peace, charged with drawing up a master plan for the peacemaking so America can exercise the leadership which is her heritage.

*Free look-see in Europe*

7. America's role in dealing with Russia should be one of tolerance and fairness. Cooperation is a two-way street. I would like to see

this simple rule laid down: What we permit the Russians to do, they should permit us to do. There should be a free look-see for all the United Nations throughout Europe.

*More recognition for Russia*

8. The United States should use her offices to persuade those nations who still refuse to recognize Soviet Russia to do so.

*Security above reparations*

9. Reparations should be fixed at the maximum within Germany's capacity to pay, consistent with security and not to undercut living standards by forcing exports. Russia and other countries are entitled to labor reparations, particularly if they will include in their labor battalions the principal war makers—the Nazis, the Gestapo, Junkers, the General Staff, geopolitikers, war industrialists, war financiers—leaving the ordinary peasants and workers.

*Long occupation vital*

10. We must ready ourselves for a long occupation of Germany—as long as it takes for her spiritual and economic rebirth.

*Supreme European council*

11. Create a Supreme European Reconstruction Council to coordinate the many aspects of European reconstruction with the German settlement, reparations, and other problems.

*Positive foreign economic policy*

12. Develop a positive American foreign economic policy bringing tariffs, monetary agreements, foreign credits, cartels, and all other economic matters into a coherent whole which will meet this one decisive test—how to preserve the American free enterprise system in a world drifting to cartelizations of various kinds—to statism—so we can provide jobs for all? Shall we settle the shooting war only to plunge into economic war?

*Raise living standards*

13. Raising human standards all over the world must be a bulwark of postwar economic policy. I would insert into all financial and economic arrangements we make, a denunciation clause giving us the right to terminate any agreement which results in lowering of wages or lengthening of hours—an undercutting of human standards.

*Determined preparedness*

14. Finally, we must see the peace through with speedy ratification of the United Nations Organization and with a determined, enduring program of preparedness, including universal military training, adequate stock piles of strategic war materials, unflagging intensive research, and the many other things indicated by a modernized mobilization plan designed to convert our Nation in quickest order to the conditions of any possible war in the future.

The logistics of war and the potentialities of yet unheard of weapons for destruction are such we must shorten the lag in any future war mobilization or risk defeat.

PEACE A PAINFUL PROCESS

There is no use talking about peace unless you are ready to do what needs to be done to make it—and maintain it. The program I have

outlined will entail many painful adjustments. I cannot see how we can afford to do less.

The cost of two German world wars—an estimated 25,000,000 killed; and millions more left maimed and crippled, homeless and emaciated; the twice-repeated devastation of Europe; the destruction of hundreds of billions of dollars in painfully accumulated wealth; the wastes of four generations whose normal lives have been disrupted by the enemy, with the aftermath of this war still to roll over us and our children—the terrible cost of total war demands that we now resolve to accept no terms but unconditional peace.

After the last war, the victorious Allies acted as if they were determined to forget the plainest lessons of the war. In contrast, the German General Staff set about systematically to remedy the mistakes they had made. As a result, the German war machine for World War II was far more efficient, its mobilization more ruthless, yet better organized. We know how much closer the Germans came to winning; how much greater an effort in lives, time and treasure was required to beat them.

#### RECOVER SECRETED ASSETS

When defeat became certain, many of Germany's Junkers, Nazi leaders, and war industrialists sneaked abroad assets of every type as reserves for that day in the future when they could try it again. German business abroad has traditionally been an instrument of economic and propagandistic war. These assets and organizations should be rooted out and taken over—everywhere. No hocus-pocus. No falling for "dummy" contrivances. If necessary to make sure that these properties really change hands, I would set up a corporation to finance such transfer.

#### FORMULA FOR PRIVATE PROPERTY

Enemy assets in each country should be used to make restitution to nationals of that country for properties lost or damaged in enemy countries. In the United States the value of German properties taken over by Congress would be pooled and from this fund Americans with property in Germany or her satellites would receive restitution. Anything left after these claims are met would be turned into a common pool to pay for necessary German imports, with the balance going as reparations. This will make possible deindustrializing German heavy industry even where American or other foreign-owned plants are involved.

I want this to be a just peace—not one of vengeance. This program does not mean the destruction of the German people. They would have to suffer a comparatively low living standard for a time—but nowhere as low as what they imposed upon enslaved Europe and not much lower than the standards which they themselves assumed to give Hitler and the general staff the stuff to attempt world enslavement.

#### HEAVY COST OF WAR

The immediate, emergency problem of feeding Germany is a most difficult one. Still it should not affect the program here recommended. The heavy industries which need to be removed from Germany produced guns and munitions. Consumer goods industries can be re-

vived to a scale that will meet Germany's own domestic needs. How much food will be available in Germany will depend in great measure on the Germans themselves.

There will be shortages all over the world—even here. With whom shall we share? Who—in justice—should get the highest priorities? The Germans or the peoples they ravaged?

#### UNITED STATES OF EUROPE

Unchaining the German people from a war machine which has consumed an easy one-half of Germany's total substance should ease their adjustment. Eventually, purged and reorganized, and the Europe around her made strong, Germany will be able to take her place with her neighbors.

The new equilibrium of industrial strength in Europe might take the form of a United States of Europe—a United States of Europe in which Germany would be one of several peaceful equals, not the dominating war organizer.

#### PIECEMEAL CONTROLS FAIL

A number of other proposals for less drastic control of Germany has been proposed—as placing her heavy industry under international trusteeship or limiting the control to a few so-called key industries. As temporary aids to the occupation authorities, such proposals have some merit. They fail completely to provide a basis for lasting peace. Only by permanently reducing Germany's over-all war-making potential in relation to Russia, Britain, the rest of Europe and the overseas nations can we know that Germany will be unable to go to war again.

Great care should be used in authorizing the rebuilding of German industries, especially heavy industries. It will be easy to permit many industries to revive on a basis of expediency because of present needs, and later find them reestablished to stay.

The argument is raised that Germany is the industrial giant of Europe and that deindustrializing her to any extent would have disastrous economic effects on the rest of Europe and the whole world. There is no denying that Germany has dominated Europe economically. So she did militarily. Nor is there any denying that this domination has been the ruin of Europe and the world. Where has German economic influence been felt and smiles left to that country's people? In Poland? Rumania? Hungary? Greece? Yugoslavia? Austria? Italy? France? Holland? Belgium? Norway? Denmark? In Germany herself?

#### CAVE AGE VERSUS PROSPERITY

To accept the view that the restoration of German industrial dominance in Europe is inevitable—something we can do nothing about—is to resign ourselves to the return to a new cave age. We might as well begin to put our factories and plants underground.

As a result of controlling Germany, great economic benefits will flow to all of the United Nations. It will open expanded industrial opportunities to them and agricultural and other products which Germany will not use, will be taken up by other countries. Britain,

which, after the war, will be confronted with a grave need for increasing the volume of her exports to pay for food and raw material imports, will fall heir to many former German and Japanese markets. Instead of trading with Germany, the United Nations will have more trade with one another. More jobs and more business will permit the United Nations to pay part of the war's costs out of high wages, increased profits, and greater tax revenues.

For at least five and possibly seven years there will be an enormous over-consuming demand for everything—raw materials, manufactured goods, food, clothing, housing, transportation, machinery, and capital. If the peace soon to be written permits men to look forward to the future with hope, not fear, prosperity of unpredictable length lies before us.

#### ALLAY SOVIET FEARS

How to insure our working with Soviet Russia is a difficult problem, which has been perplexing many people of late. I have tried to ask myself what would I think if I were a Russian?

Uppermost in my mind—if I were a Russian—would be the almost infinite suffering endured from the Germans during the past 30 years. In World War I, western Russia was overrun and looted. In this war Russia was twice ravaged, as the Germans went in and again as the Germans came out. Any nation which has undergone such experiences is bound to be security-conscious to a very high degree.

To illustrate the point, I quote from the introduction to a book I wrote at the close of the last war, *The Making of the Reparations and Economic Sections of the Treaty*:

From wantonly devastated France had not departed the fear and inherent hatred of the enemy who but a few months before had pierced almost to her heart—the traditional enemy who had brought upon her the bitter days of 1870. With the World War already history, the shadow of the Prussians still hung over the Republic. France was fixed in her determination to erect an impregnable wall, economic or geographical, or both against future German invasion. This, in greater or lesser measure was the attitude of the other Allies.

#### WE FAILED THE LEAGUE

If "Russia" were substituted for "France," this quotation would apply equally well to the present situation in Europe. Nor would France's experience after Versailles lessen Russia's concern over her security. At Versailles, France did not obtain her impregnable wall. Instead, she was persuaded to place her reliance on the League of Nations, which we in the United States, who had put it forth, then refused to join. Is it then so surprising to find the Russians shying from placing their first reliance for the security they are determined to gain on peace machinery still untested and whose predecessor failed? Is it so surprising to find Russia insisting on what her officials regard as more realistic security measures?

The occupation of Germany will be difficult enough at best. In the absence of common policy as to the long-range fate of Germany, the Soviets are bound to question Allied moves as dictated by a desire to rebuild Germany into a buffer against Russia. In turn, the western democracies will suspect Russia of seeking to communize Germany. The Germans can be expected to resort to every imaginable trick to

foment discord among the four occupying nations. They will play one nation against the others, one zone against the next, hoping to break the common unity of the Allies, so controls will be permitted to lapse, giving her a chance to recoup, as after Versailles.

#### SUPPORT EISENHOWER

General Eisenhower, in my judgment, is ideal to head our occupation in Germany. His deputy, Lt. Gen. Lucius Clay, is another excellent man, with whose work I am quite familiar. I have every confidence they will handle themselves effectively, with firmness and tact. Recently General Eisenhower described himself as the "executor not policymaker" in Germany. Give him an agreed upon policy. Don't handicap him.

While on the subject of Russia, I would like to add this general observation: I have no fear of the spread of bolshevism in the United States—jobs and higher living standards are the proven antitoxins. I have stressed the importance of lifting wage and hour standards all over the world. It is crucial if only to keep to a minimum the disruptive effects of the inflation already loose in the world. And as living standards within Russia improve, the atmosphere there should lighten, and some practices which strike us unfavorably are likely to disappear. I am mindful of the tremendous changes in our country as we grew from Thirteen Colonies on the Atlantic. When we recall that it was nearly 10 years after the Revolution was won, before our 13 States could agree on a Constitution for ourselves alone, I am not dismayed that more was not done at San Francisco.

#### MUST UNDERSTAND SOVIETS

Relations with the Russians may continue difficult for a time, not only in Europe but on other fronts. Again I point out, we should not be surprised that Soviet suspicions have survived our fighting together against the common enemy. When one reviews recent world history, one finds considerable cause for suspicion between Russia and the western democracies—on both sides. After the Red revolt in 1917, the Tsarist powers made three major attempts to reconquer Russia, efforts largely armed and supplied by the British and French. The deepest significance of the Munich Pact was the exclusion of Russia. It is not that all of Russia's acts were justified but it is important that we understand the Russian point of view.

#### RUSSIA MUST COOPERATE, TOO

On the Russian side there must be equally sincere efforts to understand us. The Russians must appreciate that refusal of Soviet authorities to permit free access to the countries of eastern Europe has a most adverse effect on American public opinion and will jeopardize any program for the reconstruction of these countries. Another cause of suspicion has been a tendency for the Russians to act unilaterally in many countries. Such actions irritate us less because of our interests in those countries than because we feel a moral responsibility to those peoples which we cannot shirk. On our part we must shift our peacemaking machinery into high gear and avoid delays which may prompt unilateral action.

The pledged word kept is the best antidote to suspicion. Above everything else, there must be the most meticulous observance on our part of all our obligations with the Soviets, written or implied, while insisting firmly that they do the same. By doing our homework before going to conferences, agreements can be free of ambiguity.

Before the war, business interests in this country acquired the greatest respect for the manner in which Russia kept all contracts and observed all credit arrangements. Our admiration has been increased by her incomparable military accomplishments during the war. It would be tragic for the Soviet at this point to permit doubts of her motives to mar this splendid record—tragic for both them and us—since it would react against all who want peace.

There are many detailed aspects of German demilitarization and reparations not dealt with here which can be covered in the discussion. The public statements of Messrs. Pawley and Lubin, our reparations commissioners, indicate a clear grasp of the issues. Whether the reparations agreement will have to be ratified by the Senate, I do not know. If so, the Russians and British should be told that now.

#### CONFUSION ABOUT CARTELS

This committee has asked that I discuss cartels. First, as I see it, we should determine just what we mean by a cartel. The Germans employed cartels as an instrument of economic warfare, which was what they did with every aspect of the German economy. Soviet Russia is an example of a completely cartelized state—only one buyer, only one seller—the Government. Within the British Empire, trade preferences or sterling bloc restrictions can accomplish the same effects as cartels; so can import and export quotas, compensatory payments, currency depreciations, wage reductions, or lengthening of hours. The last two are more disintegrating. Cartels are established for the purpose of advantage to those engaged in them but these advantages can be obtained in many different ways.

Are all cartels bad? Or are there good cartels as well? Is all competition good, no matter how destructive the result? Shall we return to the unrestricted jungle law of tooth and fang? We have legislated for both sides of the argument. We have antitrust laws and we have laws and commissions which seek to restrain competitive practice.

#### SOME COMPETITION BAD

In stabilizing farm practices, our Government, year after year, approves cartel-like practices and I think you gentlemen will agree with me that it is a good thing. I have always felt that in any area where competition becomes so disruptive as to hurt the general good, the Government was duty-bound to correct the worst effects of unbridled competition.

With some raw materials not produced in this country, we may find cartels forcing us to pay higher prices. Should our Government use its influence to see that our manufacturers are not squeezed, particularly where materials vital to our defense are involved? We can protect ourselves somewhat by keeping in reserve our stocks of these strategic materials.

## PATENTS MEAN KNOW-HOW

Foremost in the minds of the committee, I gather, is the relationship between German, other foreign and American manufacturers in the use of patents. In most instances, I think you will find that Americans have improved upon the processes which they obtained through these negotiations. Should the Americans not have bought those patents? If that is the desired policy, it can be put into effect simply by prohibiting the use of those patent processes in America. This would force the things manufactured under those patents to be produced outside of the United States without benefit to our economy or increasing our know-how.

One proposal is that all international business agreements entered into by American firms be registered with the Government, say, the State Department. Any businessman should welcome such a law since it would free him of danger that a business act taken in good faith in one year could be accused against him years later, possibly under changed international conditions.

## REGISTRATION NOT ENOUGH

Will the State Department or any other agency that is set up to handle such registrations know which agreements are in the national economic interest and which are not? Do we have enough of a positive foreign economic policy in this country?

This question goes beyond patent matters. Are American businessmen to be encouraged to invest abroad and to widen their exports and are their interests to be protected by the Government or disregarded? What if we grant Government credits to a country like Soviet Russia? What becomes of little business if it has to face an import and export monopoly of another government? Under the Bretton Woods agreements are loans to be made to countries which may evade the agreements through cartel-like methods?

## ROUNDED POLICY NEEDED

I do not want to seem to leave you in confusion on this matter. What I am trying to get across is that there has been too much discussion of this question without regard to the part it plays in the broader picture of the need for a coherent American foreign economic policy, which we still lack.

Every report from abroad indicates the different nations of the world are becoming more—not less—cartelized—cartelized in many different forms, especially as to foreign trade. How free will the economy of any European country be after this war? What if certain industries in these countries are nationalized? What then becomes their position and how do we adjust ours to it? Suppose a United Nations registration of all cartels were suggested? What would that cover?

## KEEP OUR LEADERSHIP

In conclusion, in making my recommendations, I have sought only to stimulate action so that we will exercise the leadership which is ours. I would not want to see that leadership which we have held for 150 years now lost to others or wasted through disuse.

A vastly better world lies ahead if we use the intelligence and gifts of nature that have been bestowed upon us. We cannot live alone. Be sure of that. Let us then encourage and help those who live with us to live our way, not to copy our way in detail, but to stand with us on the broad base of expanding human dignity and freedom.

The CHAIRMAN. Thank you, Mr. Baruch.

Mr. Baruch, I have prepared a series of questions which I would like to put to you and get your answers, if I may.

This morning's Washington Post carries a statement by Field Marshal Montgomery that the army of occupation would have to remain in Germany from 6 to 10 years. He is quoted as saying:

I don't agree with people who say Germany is down and out. The country is down on its knees and needs watching.

He says there are many young German officers who want a chance to prepare another war. Do your experience and your investigations confirm Field Marshal Montgomery's views?

Mr. BARUCH. They certainly do.

The CHAIRMAN. You believe, then, Germany is actually planning a third world war now?

Mr. BARUCH. I cannot recollect the couplet from Byron which tells of "the patient search and vigil long of him who treasures up a wrong." But war is the German's principal business, and always has been. I have documents here—reports from our military attaché in Germany—going back before the war, quoting the efforts of the German General Staff to prepare for war.

You have got to root them out—lock, stock, and barrel; hair, skin, and bones. You have to do that to the military caste in Germany.

The CHAIRMAN. Thank you. Mr. Baruch, from your knowledge of the development of the Nazi regime, would you consider that men like Krupp and other industrial leaders actively participated in planning the present war of aggression? To what extent would you consider them responsible for the atrocities and other crimes committed by the Nazis?

Mr. BARUCH. The answer is they did it.

The CHAIRMAN. Then there is no doubt—

Mr. BARUCH. There is no doubt whatever, whether they plotted or pulled the pistol, they are both guilty of murder.

The CHAIRMAN. So the war guilt extends to the German industrial leaders?

Mr. BARUCH. They are certainly guilty of carrying out the orders of Hitler. I do not know what punishment should be meted out to them, but they should not be permitted to have those industries again.

To continue the Krupps or any war-making industry of that kind, I do not think, is in the back of anybody's mind, except someone in an insane asylum.

The CHAIRMAN. I mentioned on the floor of the Senate that several German industrial leaders had gone to Spain and were already organizing there—

Mr. BARUCH. I know they will if they can. The thing to do is to root them out, and that is the reason I say German assets and business organizations in foreign countries should be pulled out—uprooted.

Senator O'MAHONEY. Mr. Chairman.

The CHAIRMAN. May I finish here, please? Off the record.  
(Discussion off the record.)

The CHAIRMAN. Do you think, Mr. Baruch, we can dismantle or control the German economic war machine by selective control of certain key industries, as proposed in the Brookings Institution study made by Messrs. Moulton and Marlio?

Mr. BARUCH. I think I answered that in my statement.

The CHAIRMAN. You do not think so?

Mr. BARUCH. It is not sufficient.

The CHAIRMAN. Could you tell the committee more about the reasons why you believe reparations should take the form of labor rather than of the production of finished goods or the payment of money, as was done after World War I?

Mr. BARUCH. If our first object is to have a sure peace that means we have to deindustrialize Germany, and that means we must not let her pay in finished manufactured goods, even in kind, to such an extent that her war potential is restored and maintained. We must also see that her exports are not forced, which would pull us down, undercutting our living standards. Therefore her principal payment will have to be in labor. All the countries seem to want it so, and I would let them have it.

The CHAIRMAN. Mr. Baruch, can we avoid in using labor reparations, labor slavery?

Mr. BARUCH. What do you mean by labor slavery? This was an unconditional surrender. The workers involved in reparations are going to be paid something, I assume, and there will undoubtedly be some kind of arrangement to see they are not treated like the Germans treated their war prisoners and labor.

I do not think anyone has in mind the establishment of slave labor; I do not suppose the United Nations will undertake anything of that kind.

The CHAIRMAN. I do not suppose it, either, and I thank you for saying these persons will be paid and will have good jobs, or at least comparable with the jobs they have had in peacetime.

Mr. BARUCH. Well not "good jobs." They may not be as good as the ones they had before but they will be better than the ones they insisted upon the conquered United Nations having.

If you want to demilitarize Germany, do it, and do it as quickly as you can with decency and humanity. I do not want to see us do anything unjust—or unwise. I think we can do the just and wise thing together.

The CHAIRMAN. Do you believe it necessary to control German research and technological development?

Mr. BARUCH. I certainly do.

The CHAIRMAN. If so, should the control include chemical and physics research in universities, that is, basic science research, as well as industrial laboratories?

Mr. BARUCH. Yes, sir.

The CHAIRMAN. Should German scientific activity be reduced?

Mr. BARUCH. It should be kept under constant watch all of the time.

The CHAIRMAN. And controlled?

Mr. BARUCH. Yes, sir. There lies the greatest possibility of success in any future war.

The CHAIRMAN. As a result of the war experience there appears to be a great deal of interest in having our Government contribute greater support for research, particularly for national defense, health, and medical care, and basic science. Do you believe this is desirable?

Mr. BARUCH. I have never made a statement on any subject when I did not say that. I have said it today. I have never made a statement, on reconversion or in the rubber report, that I did not say something like that.

The CHAIRMAN. We would like to hear you repeat it, Mr. Baruch.

Mr. BARUCH. I think the educated man, the scientific man, not alone brings new things to us, but he brings us trained minds that can differentiate between good and bad, true and false.

There was something I started to tell you about the development of science along electronic lines. I am not a scientific man, but the idea is now being discussed by intelligent and realistic men, of using electronics to treat the lower grade ores much more efficiently and economically. That would open up tremendous possibilities to our country and to the whole world.

I only mention it because it lies along the line of the discussion.

The CHAIRMAN. I have noticed in the papers reports that individual German plants have already begun to operate. For example, only recently it was reported that the Zeiss optical works had been reopened. Do you think we are running any risks in starting up German industry of this kind before we develop our final policy on the treatment of Germany?

Mr. BARUCH. You will remember I said if we do not have a policy, there will be a vacuum, and something will fall into that vacuum, either the Germans or someone else. We ought to be ready to meet that, and I presume we are. As to any particular industry, I would not want to answer the specific question, but I think the men you have in charge of the occupation are perfectly capable men. I do not know what their policy is, but if it is to keep Germany down, they ought to know how to handle it.

They should watch, industry by industry, if that is what your question involves.

The CHAIRMAN. In the past Germany has imported food from other countries and has exported finished products. Is it your suggestion that this relationship between Germany and the surrounding countries now be reversed?

Mr. BARUCH. I saw a statement, either in 1938 or 1939, by the German food agency—my German is not good enough to remember the full name—in which it was claimed Germany was self-sufficient from the standpoint of food. Whether that is true or not, I do not know. How much of the bread basket is taken away with East Prussia I do not know, but the difficulties in many of these countries are not only a matter of food but other things as well.

For instance, you gentlemen who have been over France, have seen it is like a garden. There is considerable food in France, although some things here and there may be short, but they have no monetary system. A farmer who grows something does not want to take it to Paris because he will only get a piece of paper for his food and the paper isn't much good. What the conditions in Germany are I do not know. I think these problems will always be exaggerated because they

will try to weep us out of all determination to control Germany. I saw it done once before.

The CHAIRMAN. In flying over Germany and France a little while ago it was apparent every farm in both countries had been properly prepared and each farm was full of fine prospective crops. The Germans have a basic advantage. Aside from the money difficulty in France, France is very short of fertilizing materials, while Germany has plenty of them. So as between countries with full farms, one would produce a better crop than the other.

Mr. BARUCH. I think the thing that would affect Germany and the whole situation is what monetary unit, transportation, and communications there will be between the four zones; how free is enterprise to be; how freely can the people produce and move; will they have four customs to go through, or not?

Those questions will have to be answered before you can answer the one you are discussing. If the military authorities set up a system that will permit free intercourse, a monetary system, and a transportation system, their food problem will not be as bad as we think or as has been suggested.

The CHAIRMAN. To what extent do you think the administration of the four separate occupation areas can be carried on independently by the British, French, Russians, and ourselves, and to what extent is unified control in administration needed?

Mr. BARUCH. I thought that question would be asked, so I prepared these notes:

Different sections of Germany might receive markedly different treatment and Germany would have opportunities to play the Allies against each other.

The eastern half of Germany has a food surplus which is needed in the west.

It would be difficult to enforce a rational reparations policy without unified control.

Finally there would be much greater danger of rivalry between the Allies over Germany.

Some raw materials from the Ruhr might have to be moved to Silesia and some Silesian materials be moved elsewhere. You should have a complete flow of men, food, everything, including telephonic and telegraphic communications, between the zones.

I have great confidence in Eisenhower—but there will be frictions and difficulties that the Germans will try to raise between the four occupying countries. It is not going to be an easy job.

The CHAIRMAN. You will remember in the last war we occupied only the Rhineland: we had the British at Cologne, the Americans at Coblenz, and the French at Metz, and the Italians farther down, and it was only a matter of months before the Germans began to weigh one against the other, and it resulted in chaos, rather than the right kind of administration. Can we avoid that this time?

Mr. BARUCH. It is much more necessary to avoid it now than before, because the relationship between the three great powers is the most important thing—England, Russia, and the United States, if they can hang together—and France of course. But the three great powers must hang together.

The CHAIRMAN. There is a much more complex administration because of the two sides, from the east and the west.

MR. BARUCH. That is right.

The CHAIRMAN. Could you expand your statement, "What is done with Germany holds the key to whether Russia, Britain, and the United States can continue to get along"?

MR. BARUCH. It seems so self-evident, as I said a moment ago, and partly answered the question. We have these three great powers. If they cannot get along in Germany, can they get along in anything else? If, in the new task of keeping the enemy down, we cannot get along together, as we did during the war to destroy the enemy, we will never get a lasting peace organization.

What we determine with Germany will affect the economic relations of the rest of the world. I could not say what would happen to loans or tariffs, or monetary relationships, until you determine what effect Germany is going to have upon the rest of the world.

I do not think that during the first 5 or 7 years it will make much difference what you do. There will be a tremendous demand for goods. In most of the countries of the world there isn't going to be much to sell, in my opinion; no large excesses beyond what can be produced to meet that country's own demands. In England they talk a great deal about exports. They will not have much to export. From sources I consider authoritative, I know the British workman has 100 to 300 pounds' savings, more than ever before. He will want to buy something. If this demand is met, where will they get any goods to export? Even if Empire preferences and sterling blocs are kept, we could jump all of the barriers they raise for 5 years.

Canada and Australia and the Dominions, if they want to buy goods, will not wait until the day after tomorrow to buy them from the home country. They will want the goods right away. You know how the people in England need things. You know what people in our country do when they have money and want something.

That is one of the great problems you gentlemen will have to face, supplying soon enough the tremendous demand for goods—which goes into the great question of inflation.

To return to your specific question on the importance of the German problem, if we can settle this policy and gear all of our economies into that, it will keep the relationships between countries sweet. That is so important. I do not mean that we should give way on any great American principles to do that. If something is worth fighting for, we will have to fight, but I do not want to fight; I have seen enough of that.

I would like to see us work out an agreement and I do not see any difference which, with wisdom and tolerance, cannot be worked out.

That is rather long-winded, but it seems to me I covered a good many of these questions in my answers before.

The CHAIRMAN. I thank the members of the committee for letting me proceed.

Senator O'Mahoney?

Senator O'MAHONEY. Thank you, Mr. Chairman.

I was about to say, Mr. Baruch, that first of all I should like to remark that I know of no other private citizen who could have brought so many members of the Senate to one committee meeting as you have done this morning.

Mr. BARUCH. I thank them all for being present.

Senator O'MAHONEY. You have made a very lucid statement, and I think one of the most important statements that have been made.

I was prompted to ask for opportunity to question you when you referred to the Krupp works. Last Sunday, in the New York Times, there was a story to the effect that the Krupp works were already constructing steel structural pieces for bridge work, at the orders of the United States Army. There was a story to the effect that the Ford plant at Cologne is now operating under orders from the American Army to build some 500 trucks. I understand the International Harvester is operating its plants in Germany.

Have you anything to say about that development?

Mr. BARUCH. I referred to that in my statement. We are bound to be attracted by the thought that there is a terrific shortage in the world and we had better get some of these things produced now. Tractors and trucks are needed in Germany, so why not, for 6 months or a year, let them get busy, and that will relieve the pressure over here?

That is a hard argument to overcome. I do not want to see these industries started on any scale because that might lull us to sleep, and we would find these industries reestablished permanently. I have heard the problem discussed in a great many quarters, and I think it is a dangerous procedure to permit them to do that.

Senator O'MAHONEY. Do you mean to recommend that as a permanent policy we should deprive the people of Germany of the opportunity to supply their own needs in these heavy industries?

Mr. BARUCH. If it would build a war machine.

Senator O'MAHONEY. Your real purpose is to prevent the building of a war machine?

Mr. BARUCH. That is my No. 1 proposition. No matter what it may entail—our casualties are already tremendous and we have a terrific war in the Far East on our hands.

Senator O'MAHONEY. The primary purpose is to adopt a policy which will prevent the utilization of heavy industry, of patents and of industrial processes for the purpose of dominating the economic life of the world and to declare a war?

Mr. BARUCH. That is right, sir.

Senator O'MAHONEY. May I call attention to page 22 of your statements? After having referred to the registration of cartel agreements, you say this, and I am reading from the top of page 22:

Will the State Department or any other agency that is set up to handle such registrations know which agreements are in the national economic interest and which are not? Do we have enough of a positive foreign economic policy in this country?

Can we adopt a foreign economic policy without having a domestic economic policy?

Mr. BARUCH. Surely not.

Senator O'MAHONEY. Well, are we to—

Mr. BARUCH. Let me say this, which I believe will answer your question.

If we do not control our inflation, it is going to change our economic policy completely, because if our prices soar too high nobody will be able to sell us anything.

Senator O'MAHONEY. Now, I assume from what you say on page 9 in paragraph 12 with respect to the development of a positive foreign economic policy, that it is your belief—I take it from your statement

in paragraph 12 advising us to develop a positive foreign statement policy, your belief is such a policy should be designed "to preserve the American free enterprise system in a world drifting to cartelizations of various kind."

Mr. BARUCH. That is right.

Senator O'MAHONEY. Then, are we to understand that your recommendation here is that if cartel agreements tend to suppress free enterprise, cartel agreements rather than free enterprise should be brought to destruction?

Mr. BARUCH. I am in favor of free enterprise as against the other, surely.

Senator O'MAHONEY. So, any type of economic organization, whether in the United States or abroad, which fences in free enterprise, that being the enterprise of the individual, is unwise from our point of view?

Mr. BARUCH. I wonder if you realize the extent to which the world has become cartelized. Russia is one country, with one buyer and one seller. There is no free enterprise there. We are going to cartelize Germany in the sense that it is going to be controlled; all her exports and imports will be controlled. De Gaulle has announced he is going to nationalize certain industries. There is a great political discussion in England today about nationalizing industry there. I am not talking for or against it. Coal is one industry which may be nationalized and England exports a good deal of coal. I am afraid if they commence to nationalize one or two or three things, that will make them drift into other things.

I certainly favor free enterprise. But as I say in my statement, our system of free enterprise is being encompassed on all sides by world cartels. How are we going to meet that issue?

Senator O'MAHONEY. Do you have in mind that free enterprise cannot endure in the face of either private or Government cartels?

Mr. BARUCH. Unfortunately, we have a few of them ourselves, Senator.

Senator O'MAHONEY. That is what I want to emphasize.

Mr. BARUCH. We have legislated on both sides of this question. I fought very hard for the agricultural program, as some of you gentlemen know. We got pretty well cartelized agriculturally, and we tried to do it internationally. Under the Webb-Pomerene Act, exporters in this country can get together and sell against the rest of the world as one seller.

Take the railroads. When I was a young man, everybody got after the railroads as the great trust. Since they have gone through receiverships, they do not bother them so much. Today we have a Government institution, the Interstate Commerce Commission, run by good men.

The Government, through that agency, makes the rates, and you cannot raise or lower rates without the approval of the ICC. They tell you what kind of service you can give, and you can go there with a complaint and get your service changed if you do not like it. You cannot rip up any tracks without the approval of the ICC; you cannot reorganize your property without its approval. The Government tells you what securities you can sell, at what price, and the manner in which you can sell them. You cannot cut rates.

There is nothing you can do on a railroad that is not supervised or directed by the Government, even on the question of wages. As you know, we have a very excellent arrangement in that regard, the wage matters being handled by the Mediation Board. Yet, with the railroads so much under Government regulation—and I am not reflecting upon the Government—an action is brought against them on the ground of being a trust.

Now comes civilian aviation. The Civil Aeronautics Board decides what companies fly where and under what conditions they operate, their rates, and other things. As you know, aviation is getting to be one of the most important, if not the most important, method of transportation. What rules and regulations is Congress going to make for that so there will not be a kind of no man's land of doubt as to what these companies or businesses can do under an act of Congress?

Excuse me for going off on that tangent.

Senator O'MAHONEY. It is always very interesting and we like to have your tangents.

Mr. Chairman, may I ask one more question? I would like to call Mr. Baruch's attention to page 10 of his statement and his recommendation No. 13, which reads as follows:

I would insert into all financial and economic arrangements we make a denunciation clause giving us the right to terminate any agreement which results in lowering of wages or lengthening of hours—an undercutting of human standards.

I assume you are referring there to wages and hours of American workers.

Mr. BARUCH. Yes, sir.

Senator O'MAHONEY. And when you speak of "economic arrangements," you mean reciprocal trade agreements?

Mr. BARUCH. To all economic and financial agreements. I am not referring to tariffs alone but am pointing my gun at them, too.

Senator O'MAHONEY. So your recommendation on any reciprocal trade agreement which results in the lowering of wages or lengthening of hours of American workmen is that it ought to be subject to denunciation?

Mr. BARUCH. Yes.

Senator O'MAHONEY. I am glad to have you give your answer in the affirmative.

The CHAIRMAN. Senator Hill.

Senator HILL. Not at present.

The CHAIRMAN. Senator Austin?

Senator AUSTIN. Mr. Baruch, I am attracted by something that appears on the first page, "What is done with Germany holds the key to whether Russia, Britain, and the United States can continue to get along."

Assuming that is true, the practical question arises in my mind of how and by what means we are going to arrive at an agreement for the years in which four different parts of Germany are occupied by military troops controlled separately by four different countries. Is it not true that we cannot have a unified policy of the four countries except through the agreement of these military officers; the military government, in other words, of four countries will have to be respon-

sible for whatever arrangement is made to unify the policy over Germany during that time. Is that not true?

Mr. BARUCH. They will have to carry out the policy agreed upon; they do not make the policy.

Senator AUSTIN. Does your emphasis on carrying out mean you envisage an agreement entered into by those countries, and many others, with respect to the economic policy on Germany? That is what I am after, really, and I am trying to see what your plan contemplates. Does it contemplate an agreement made by the diplomatic departments of these several governments and other governments, rather than an agreement among the military powers of those four that are going to occupy it?

Mr. BARUCH. As I understand it, Senator, the policy is made by the governments themselves and then given to Eisenhower and his people to execute. There are two hurdles—one, getting together on a policy and, second, when you have given it to these four men to execute in four different areas. The method and manner of executing that policy is going to be another hurdle.

I do not know whether we can go back and do anything different now, but that leaves the power of veto to one of the four; there must be unanimity.

Senator AUSTIN. Yes; there has to be uniformity of agreement.

Mr. BARUCH. Yes; and we have that in the San Francisco arrangement. It is not going to be easy. It is going to take all of the wisdom and tolerance. I realize we will have to go through something to bring this about. If I were easily discouraged, I might be, but I think we are making progress all of the time. I would rather see some other arrangement, but we might as well see what we can do with what we have, recognizing the difficulties involved, and try to meet them. I would like to meet them right away.

Senator AUSTIN. I gather your view of the matter contemplates the military occupancy of these four parts of Germany as cooperating as an operating agency, and administrative rather than policy making; is that right?

Mr. BARUCH. Yes, sir.

Senator AUSTIN. That is all.

The CHAIRMAN. Senator Gurney?

Senator GURNEY. Thank you, Mr. Chairman.

Mr. Baruch, you mentioned universal military training, and I thank you for that. Certainly you would not have mentioned it if you did not feel it was a necessary insurance in this time of uncertainty.

Mr. BARUCH. Quite right. I did not go into the argument about it because you have heard all of the pros and cons.

Senator GURNEY. That is right. I want to ask you just one or two small questions on that program that you advocate. You have been in Europe for some time and have talked with our Army men and our GI's over there.

There is a great deal of talk here that it should be delayed until our soldiers are back and voting for themselves. What do you think those soldiers and sailors—do you think they regard it as something we should not tackle until they get home?

Mr. BARUCH. I have made up my mind; I do not know what they think about it.

Senator GURNEY. That was my question.

Mr. BARUCH. That is a human or political problem, but I am satisfied if those young men do not feel it now, in a few years they will feel as I do. I have seen two wars. I have seen 25,000,000 people killed, and I do not know how many more made homeless like stray dogs, all over the world, with no place to go and no citizenship. There is no use talking about peace unless you are ready to enforce it.

Had this country been ready, there never would have been a war. That is what I think.

Senator GURNEY. Thank you very much.

Mr. BARUCH. We have to have adequate force. As soon as America goes into organization with the rest of the world and says, "We are going to carry this through and have the means"—no conversation—I have seen conversation twice, and it is no good. We have to be ready for action, and that is what I am talking about.

I want to prevent these GI's and sailor boys having to do it all over again, with infinitely greater suffering to them and civilians. I have seen four generations, whose lives have been disrupted, and whether you want to consult them or not, I would not want to change my mind.

Senator GURNEY. I would still be interested in whether you had any observations on the thoughts of the soldiers you contacted overseas.

Mr. BARUCH. My general impression from contact with these boys is that they want to fix it so it will not happen again.

Senator GURNEY. From your long experience and general good powers of observation, what do you think will happen to our educational system in this country provided we take boys between high school and college and give them 1 year's training? The direct question I want your thought on is, Will more go to college or will fewer, after 1 year's training?

Mr. BARUCH. Your question, if I heard it correctly, is what will happen to the youth of the country if we take a year out of their lives to train them?

Senator GURNEY. Yes.

Mr. BARUCH. I think it would be a darn good thing. I would like to have had it myself. Of course, that is easy for me to say at 74.

It might take a year out of their lives, but I think education is more than something in the head; it is mental and physical discipline. The boys and girls who have to fight to get their education must undergo mental and physical discipline, and they are the ones who generally make good.

I do not think it will do them any harm, but that they will get great gain, a credit instead of a debit.

Senator GURNEY. Do you think because of taking 1 year universal military training a greater or lesser number will go to college?

Mr. BARUCH. A greater or lesser number go to college?

Senator GURNEY. That is right. Will it stop them from going on with their college education?

Mr. BARUCH. I should not think so. It should not make any difference. You have got to decide whether you are going to stop wars or not. I am over here on this side—to stop wars—and there is the other side. It is not going to be a cakewalk or a honeymoon. This is tough self-control we have to enter into. We have to make up our minds whether we will institute something here that will prevent war or keep people from warring with us. That is the first thing to decide.

There are bound to be a lot of unpleasant things about it.

Senator GURNEY. Thank you.

The CHAIRMAN. Senator Johnson?

Senator JOHNSON of Colorado. Mr. Baruch, I want to congratulate you upon being the author of a document that is timely and thought-provoking. Of course, you do not expect all of us to agree with everything you say, and I most heartily disagree with some of your conclusions but, of course, that is my American privilege.

I will not go into them, but I want to refer briefly to the observation made by Senator Austin from page 1, "What is done to Germany holds the key to whether Russia, Britain, and the United States can continue to get along."

The fact we have divided Germany into zones with four different policies, probably indicates a weakness in the very heart of the United Nations, as I see it. What do you think about that?

Mr. BARUCH. As I replied to Senator Austin, there are several hurdles to be overcome. The first is getting a policy, and the second is the manner and method of carrying it out. It is going to be difficult. No doubt about it, but I do not see any other way out of it.

We have to try, unless you say we are going it alone. You have to make up your mind whether we are going to have peace with the rest of the world.

Senator JOHNSON of Colorado. But the fact we have divided Germany into four zones with four different policies, does that not indicate the United Nations cannot get along and the only way they could make agreement as to the disposition of Germany was to divide it into separate direction and policy?

Mr. BARUCH. No; I do not say that.

Senator JOHNSON of Colorado. No; but I did.

Mr. BARUCH. It is a fait accompli I am facing. I would have preferred to see it under one command, but it has been decided otherwise, and I am trying to face conditions as I see them and not as I would like to have them.

Senator JOHNSON of Colorado. I understand that very well and I think your position is sound, and I am in agreement except my conclusion is the fact we divided up the problem shows we have not a perfect set-up from the United Nations point of view.

The next observation I have, I am heartily in agreement with your No. 1 purpose, which you have said is to demilitarize Germany and keep her from making war again.

Mr. BARUCH. Until she has had a rebirth.

Senator JOHNSON of Colorado. I think with that objective, all right-thinking people must join you. But all through your testimony today I have noted you have a No. 2 purpose, which seems to be grounded in a fear of Germany's industry, science, thrift, and ability to work hard. You seem to want to get away from the competition that Germany might give. I am somewhat disappointed in your No. 2 objective.

Mr. BARUCH. What did you say my No. 2 objective is?

Senator JOHNSON of Colorado. It seems to be grounded, as I say, in fear of German industry, German competition in industry, in science, in thrift, and all of those things.

Mr. BARUCH. I will be glad to answer. German industry is a war industry, and I have document after document which will show that the general staff regarded Germany's economy as a war economy,

how all of its diplomacy and all of its business and other activities were geared to the war machine. There is indubitable evidence of that over the years that have gone by.

I do not want to discourage the thrift and hard work and all of that kind of thing—

Senator JOHNSON of Colorado. Or the science?

Mr. BARUCH. I do not want to discourage German thrift and science and hard work, but I do want to keep these things from being geared to a war machine again, just as the Japs have tied their people, like a lot of peons, to their war machine.

Senator JOHNSON of Colorado. I am in complete agreement with that objective, but it seems to me you go far beyond her potentialities as a war-making country.

Mr. BARUCH. That may be possible, but I do not think so. I think you will find several times in my statement I have said, "Until Germany has a rebirth." I would not trust her until there is a rebirth. You just cannot take that chance. I have seen it twice and so have you, Senator.

Senator JOHNSON of Colorado. Are you going to help in that rebirth or hinder it?

Mr. BARUCH. What is that?

Senator JOHNSON of Colorado. Are you going to be helpful toward that rebirth or hinder it?

Mr. BARUCH. I do not think it will hinder it. I think as soon as Germany shows any inclination toward conversion or gets religion, I think it will be observable to everybody, and I think the American people, and also the English, will be the first ones to change their viewpoints. I saw it change pretty fast the last time.

Senator JOHNSON of Colorado. On page 8 in paragraph 7, you say, "there should be a free look-see for all the United Nations throughout Europe." Just what do you mean by that? Do you mean the United States should have an observation agency all through Europe, including Russia, and know what is going on everywhere?

Mr. BARUCH. Let us be very frank about it. I mean Americans should be permitted to go into Poland, Bulgaria, and all of the other countries that have been occupied by our associates in the war.

Senator JOHNSON of Colorado. I am glad you mean that, and I hope we may make it one of our key objectives.

Mr. BARUCH. If we allow the Russians in here to have a look-see, I want the same right. I do not want to pry into anyone's political methods; I want to keep my nose out of their politics, but I think it should be a 50-50 proposition.

Senator JOHNSON of Colorado. That would be good for us and would be good for them.

Mr. BARUCH. I did not hear you.

Senator JOHNSON of Colorado. It would be mutually beneficial?

Mr. BARUCH. Certainly, sir.

Senator JOHNSON of Colorado. On page 19 you say, in the second paragraph:

By doing our homework before going to conferences, agreements can be free of ambiguity.

What do you mean by "our homework"?

Mr. BARUCH. I want to be frank with you. There seems to be a good deal of doubt as to what took place in regard to Poland, and I

do not know whether it was because our full homework was not done before the agreement was signed. Again, the Bulgarians wanted to surrender to us, but we were not ready. I am not blaming anybody because we had a terrific job. But when the Bulgarians wanted to surrender to us, we were not ready and while we were arguing about it, or getting ready, the Russians moved in.

Senator JOHNSON of Colorado. What is the "homework"?

Mr. BARUCH. I mean study and preparation—preparing for problems that will come up at any conference. I did a lot of homework for this before I came here.

Senator JOHNSON of Colorado. That is all, Mr. Chairman.

The CHAIRMAN. Senator Guffey?

Senator GUFFEY. In the last World War, No. 1, I had the pleasure of serving on Mr. Baruch's war service committee, and from that experience I know how careful he is in investigation, and when he makes a recommendation, I have to disagree with my friend from Colorado, and thoroughly approve all of them.

Mr. BARUCH. Thank you, sir.

The CHAIRMAN. Senator Revercomb?

Senator REVERCOMB. Mr. Baruch, you have spoken interestingly here of Russia. I ask you, do you believe Russia will expand her European domain beyond the boundaries she had prior to this war?

Mr. BARUCH. I did not quite get that, Senator.

Senator REVERCOMB. Do you believe Russia will expand her physical domain in Europe?

Mr. BARUCH. I would want to if I were a Russian. If I were a Russian I would want to get every impregnable wall or semi-impregnable wall to protect myself. I would do what she is trying to do—to have all along her border countries under Russian influence.

Mind you, I am not advocating that, I am trying to answer your question of what I believe the Russians want to do. Do not forget that Russia has long had a desire to get to warm-water ports. Maybe she will make some demand about Kiel. I do not know what is in her mind because I have not seen any Russians since the war.

They may want to get to the Mediterranean and undoubtedly are casting eyes toward the Persian Gulf and watching interestedly proceedings on the Chinese and Japanese fronts.

That is what I meant in my statement by "other fronts" in which they were interested.

Senator REVERCOMB. I am thinking particularly of the small, independent countries, Lithuania, Latvia, Estonia, who were innocent victims of this war. Do you think that any American can give the stamp of approval to any such plan, when we are trying to settle the whole postwar problem on a basis of fairness and justice for the weak as well as the strong?

Mr. BARUCH. I did not quite get the question. Do you mean we cannot approve of anything that does not meet with the conscience of America? That is one reason why we should have a look-see, the right to go into all of Europe. We have a responsibility we cannot shirk. How far we want to go on any specific issue is another question. In some instances we may decide there is nothing we can do about it. When we come to what I consider the vital political, spiritual, and human side of American interests, when those are affected, I would say, "Stop right here."

While I do not want to fight, I am not much for appeasement.

However, I do not think you will have to do much. I am not in the know; I am not in the look-see, but I do know it is important to get along with these people and we should do everything we can to do it.

Senator REVERCOMB. But there is a limit beyond which we should not go.

Mr. BARUCH. Not too much——

Senator REVERCOMB. That is right.

You have made a statement with which I heartily agree, that peace will be kept in the world only by the three great powers. In my opinion we will only have peace as long as the three strong-arm powers get along together.

Mr. BARUCH. Unless we have all I have talked about in the way of preparedness nobody will pay any attention to us. The world has been amazed by our great military machinery. On the same day that Von Rundstedt hit us on the western front we landed in the Philippines thousands of miles away—two full-scale tremendous operations, with all the logistics involved, going on at the same time. Besides that, we are scattered all over the globe. No country's achievement is comparable to what this country has done. All we have to do is let them know we are ready and nobody is going to tackle this country with the power that they have seen.

That is the price we must pay not only for peace but freedom. If we have that, when we say something they will know we mean it.

I do not know whether I have answered your question or not.

Senator REVERCOMB. I agree with the view expressed.

Now, coming back to the question of getting along, you do not mean to say we should surrender our views of what is just and right in order to get along with any nation in the world?

Mr. BARUCH. I did not quite get that. I would do anything to get along except to give up our vital human rights. I would let everyone know we would go just so far and no farther, and as long as you have this tremendous power back of you, this tremendous know-how—not an armed camp—they will respect what you say. These great nations are going to move as fast and as far as they can and it is up to us to see they do not affect our vital interests.

I do not want to force any war, but you have to look out and see that no one surrounds us and is able to make war against us at will.

Senator REVERCOMB. Our desire to get along with the powers of the world does not require we give up our own views of what is right in the treatment of smaller nations, does it?

Mr. BARUCH. You say we should not give up our future——

Senator REVERCOMB. Not give up our views on the rights of the smaller nations in order to appease any power in the world.

Mr. BARUCH. No. I do not think we should give up on high principles to appease anybody, and we have shown that. All we have to do is to be ready, and when we say something it will mean something.

Senator REVERCOMB. Thank you.

The CHAIRMAN. Senator Johnston.

Senator JOHNSTON. I have enjoyed very much what you have had to say here today, Mr. Baruch. Having lived in Germany for about 6 months in the Army of Occupation after the last World War, when we in the Army of Occupation did nothing, as I see it, to try to

prevent or keep another war from coming, and at this time, as I see it, our Nation is going to be watched more than any other nation in the world, the attitude we take toward Germany and toward the other nations of the world to prevent another war, the attitude we take in the formation of some kind of an organization to try to prevent another war, is a great duty upon the backs of Americans today.

Having been a soldier in the last World War, the question has come up, What would be the attitude of the soldier boy if we should go ahead and act while he is away; what do you think would be the attitude of the soldier toward preventing war, to keep from having another war?

Mr. BARUCH. What would be what?

Senator JOHNSTON. What do you think would be the attitude of the soldier when the people back home are trying to do something to prevent another war; do you think they would ask us to do something or sit idly by and wait?

Mr. BARUCH. I think they would want us to do something.

Senator JOHNSTON. Now, in regard to universal training, what percent of the young men go to college? Do you have the statistics?

Mr. BARUCH. What percentage do what?

Senator JOHNSTON. What percent of the young men of America have attended college in the past? It is very low, is it not, as they reach 21?

Mr. BARUCH. Do you mean how many enter?

Senator JOHNSTON. Yes.

Mr. BARUCH. I could not answer that.

The CHAIRMAN. There are about 900,000 young men, not counting women, who turn 18 every year, and there are about 1,000,000 students in the United States of collegiate grade.

Senator JOHNSTON. Could something be worked out, in your opinion, Mr. Baruch, to permit the young men who desire to go to college to take such training in college, something like the ROTC?

Mr. BARUCH. We are talking about universal military service. I believe in it and I believe in it from my own experience. A wise man like General Marshall, who has elements of greatness about him, and Eisenhower, who is not only a soldier but a statesman, both believe in it. I believe in universal military service. When we get ready to stand up for our rights, we want to be ready.

Of course, it will inconvenience a lot of people. You cannot eat your pie and have it at the same time. There are a lot of things you do not like to do. There will be a lot of unpleasant things which will have to be swallowed if we are to have peace.

Senator JOHNSTON. So you think if we have a strong trained Army the other nations will hesitate before they begin a war?

Mr. BARUCH. I want universal military training so that everybody will have the physical and mental training and knowledge of the use of arms.

The CHAIRMAN. Senator White, did you have a question?

Mr. WHITE. I would like to ask a question.

Speaking of the future of Germany in solving the problems of Germany's place in the world's trade and business, what is your idea of what the Germans will use for money?

Mr. BARUCH. Did you ask what will they use for money?

Mr. WHITE. What will they use for money in establishing their place in the world? They are going to be a factor; they are efficient and industrious, and I am wondering in the light of past experience, what the Germans will use for money, domestically or internationally.

Mr. BARUCH. I do not think they will have much chance for a good many years, until they have shown a rebirth and ability to live in peace with their neighbors. When that is done I am quite sure there will be no difficulty in their getting credit. Certainly after the last war they got it in great quantity.

Mr. WHITE. Will we rehabilitate German credit as a means of doing business with them?

Mr. BARUCH. I do not want to build up their machinery now; I do not want to do business with them now. I do not think they should be permitted to produce beyond what they need for their own necessities. I want to break their war machine once and for all. I want to keep them from exporting and waging economic war as well as military war. Germany and Japan have cut down the living standards in this and other countries by excessive governmental subsidies on exports.

Mr. WHITE. Do you think permanent peace lies in the direction of subduing and keeping these people from doing business and participating in world trade?

Mr. BARUCH. Until war is displaced as their chief business, certainly, if you want to keep out of war. If our first object is to keep them from having another war machine, you have to do what needs to be done. You cannot let them revive industrially and become a war-like nation again.

I have made my choice. This is the Second World War I have seen, and I do not want to see a third one. In my opinion you cannot industrialize Germany and keep her from being a war agency.

Mr. WHITE. Thank you.

The CHAIRMAN. Senator Hill?

Senator HILL. I find myself so much in accord with what Mr. Baruch has said that, although there are many questions we might ask. I shall not ask any questions at this time. I have been listening to Mr. Baruch too many years for Mr. Baruch and me to admit. He always comes with an able and informative challenging statement, but I do not think, Mr. Baruch, you have ever come with a finer or more important or more statesmanlike statement than you have brought here this morning. I think you have made a very magnificent contribution to the tremendous problem that challenges the Congress and the American people at this hour.

Mr. BARUCH. Thank you very much.

The CHAIRMAN. Thank you, Mr. Baruch.

The hearing will stand in recess.

(Whereupon, at 12:25 p. m., the committee adjourned.)