Oral History Interview
with
MILTON KATZ

United States special representative in Europe with rank of ambassador extraordinary and plenipotentiary, 1950-51; Chief U.S. delegation, Economic Commission for Europe, 1950-51; Chairman, Defense Financial and Economic Committee, North Atlantic Treaty, 1950-51.

Cambridge, Massachusetts
July 25, 1975
by Richard D. McKinzie, Harry S. Truman Library

The Harry S. Truman Library
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NOTICE

This is a transcript of a tape-recorded interview conducted for the Harry S. Truman Library. A draft of this transcript was edited by the interviewee but only minor emendations were made; therefore, the reader should remember that this is essentially a transcript of the spoken, rather than the written, word.

RESTRICTIONS

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MCKINZIE: Ambassador Katz, I understand that you would like to have included in your oral history an offprint of an article which you wrote for the *Foreign Service Journal* on the 20th anniversary of the Marshall plan.

KATZ: I would indeed, and let me explain why. The editors of the *Foreign Service Journal*, in presenting this article along with shorter pieces by Paul Hoffman and Averell Harriman, stated to their readers that they recommended that my article be classified as a work of

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reference and stowed away for quick access. "It will always remain," they said, "a standard treatise on the Marshall plan."

This is relatively short, but I put a great deal of thought into it, because I was anxious to bring out something that has never been adequately understood and is even less understood today than it was before. There is a wide-spread tendency to treat the Marshall plan as part of "the foreign aid program," as if it were just one more piece of the foreign aid program.

I think this is erroneous, because the Marshall plan was a great many additional things. In particular, I want to show how much of the striking success of the Marshall plan can be traced to the way in which the Marshall plan was enacted under the brilliant leadership of President Truman.

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I also want to stress how much of its success is attributable to the rather remarkable organization which it represented and the theory of that organization. These things, in my opinion, are still hardly understood in the State Department or in any of the foreign aid agencies. They think that the relative success of the Marshall plan was due to some special luck or a concatenation of circumstances of the time. I don't think so. I think it was due to the factors I've mentioned as well as the special quality of the personnel from top to bottom who manned the Marshall plan organization when it was in force.

So, let me hand you an offprint of that article. I'll come back to a discussion of some of those features in this oral history.

Well, when you and your colleague first

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wrote to me, and again after you phoned me this time, I did do some thinking about Mr. Truman and his administration, not only in relation to the part of it I saw as a public servant under him, but in relation to my reflections about him in my capacity as an American citizen.

I think of Mr. Truman's administration in two parts: the internal and the external. Internally, it has always seemed to me essential to put Harry Truman's Fair Deal in a historical context that goes back to the regulatory movements -- the movements for control of the American economy -- that have their roots in the 1870s and the 1880s. A little bit more recently than that, it goes back to a series of programs whose very names, I think, are significant in relation to the name Harry Truman chose for his internal program -- the Fair Deal.

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You have Theodore Roosevelt's "Square Deal." That's followed by Woodrow Wilson's "New Freedom." In the course of time, that's followed by Franklin Roosevelt's "New Deal." Then you come to Harry Truman's "Fair Deal." Lyndon Johnson, who in a different way was in that tradition, had "the Great Society." And Jack Kennedy, before Lyndon Johnson, had "the New Frontier."

I think these names have more than a superficial resemblance. They represent the continuation of a trend in American political and social life which begins a decade or two after the Civil War. You will recall that the Granger movement arose in what was then the Middlewest, the Indiana-Ohio area, and that it represented the reaction of angry farmers to the big business of the day, the railroads and the oil companies.

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It's no accident that the Interstate Commerce Act, which became law in 1887, and the Sherman Anti-Trust law, which became law in 1890, became law within three years of one another. To the modern lawyer, they are very different things. To the modern economist, one goes on a theory of enforcing competition and the other goes on a theory of regulating monopoly. If you go back to the time, both were the product of the same political movement. There were two forms of big business in those days, the railroads and the oil companies; they were playing footsy, and a political movement, of which the Granger movement was one illustration, developed in an effort to get control of both.

In 1894, you get the first income tax statute, subsequently held unconstitutional but eventually reinstated by the income tax amendment of 1913. There was a steady push to

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take control, in behalf of American society, of the American economy, while at the same time preserving the structure and the values of private property and private initiative. Remember Woodrow Wilson's great speeches during his first term, the "New Freedom:" "Step by step" -- this is a rough paraphrase -- "we will make America over; step by step we will adjust these great processes to serve the interests of the American people." Roosevelt's "New Deal," Johnson's "Great Society" are expressions of the same approach.

Now, in Wilson's second term he got drawn into foreign policy, set out to "make the world safe for democracy." There is a corresponding foreign policy aspect of Franklin Roosevelt, Harry Truman, Jack Kennedy, Lyndon Johnson. It's interesting to note that the "Square Deal," the

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first of these programs which I've mentioned, was launched in a Republican administration, Theodore Roosevelt's; Republican although a "Bullmoose" Republican; and much of what we're talking about may be taken as having been launched or re-launched at that point. It was in the New Deal that I cut my own eye teeth as a public servant. [Franklin] Roosevelt was my first President, so to speak. The Democratic Party, when Roosevelt ran for office in 1932, consisted, in terms of political force, of two components, the big city machines of the North and the old South. Those were the core of the Party. To that, Roosevelt added the following components: the labor movement, a large part of the farm movement, and something that I can only describe as the intellectual-professional community. In that respect, he was also repeating what Woodrow Wilson had done before in his day. And it was that

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aggregation of the big city machines of the North, the old South, the labor group, the farm group, and the general intellectual group which represented the heart of Roosevelt's New Deal. In that

connection, we must remember that, particularly with reference to his agricultural programs, Roosevelt pulled into his New Deal a great many people who prior to Roosevelt had called themselves Republicans, but who were Republicans out of Theodore Roosevelt's Bullmoose tradition.

Example: Harold Ickes, one of the prominent figures in Roosevelt's administration. Example: Henry Wallace, the head of the agricultural program. Example: Senator [George W.] Norris. Example: Senator La Follette. All of them rallied behind Roosevelt, either as parts of his actual administration or as major supporters in Congress. Much of the spiritual

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and intellectual heart of the first part of the New Deal came from this group who had been described, if you will recall, by Senator George Moses -- who was a very different type of Republican -- as "the sons of the wild jackass." And they proudly called themselves the "sons of the wild jackass," and moved in with Roosevelt. This is a critically important thing to remember when you try to understand Harry Truman's Fair Deal and the whole domestic part of the Truman program.

On the foreign side, Harry Truman, to my mind, is the main architect of the postwar foreign policy of the United States as it has been until the last year or two, when changes are beginning to make themselves felt. From Truman on, there was an approach to foreign policy for a quarter of a century or more -- from 1945, let us say, till it turned with the opposition

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to the Vietnam war -- around which there was a deeply held and durable national consensus, a consensus which served as a platform on which successive Presidents and administrations could freely pivot as they dealt with external situations. It was during the latter part of the Johnson administration that this consensus was shattered.

When that happened, not only Johnson -- who was, I think, more understanding of what had taken place than some of his appointees -- but a large number of the brilliant people who had come into the administration with Kennedy and stayed with Johnson, who had taken this platform for granted as if it were something God-given instead of a product of relatively recent American history which had to be understood and nurtured, looked down and were a little bit

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like the fox or the coyote in Walt Disney cartoons. You know, the coyote is crossing between two mountains on a wire, and at one point he looks down and sees there's no longer any wire. For a little while he stays there in the air in the cartoon, and then he goes down. That's what happened when Mr. Johnson saw he had no longer any platform under him: "I'm not running for re-election." And ever since, there's been discussion about what happened to the consensus.

That consensus and the Truman pattern -- including the cold war, the containment policy, the development of policy after policy designed to inhibit, to curb, or to control the spread of communism and (on the affirmative side) to galvanize, revitalize, strengthen, rebuild, and enable parts of the free world to rebuild themselves -- has been the hallmark of our foreign policy since World War II. It was

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carried on with Eisenhower, with Kennedy, with Johnson. That's the policy of which Harry Truman was the primary architect -- in the Truman Doctrine, in the Greek-Turkish plan, in the Marshall plan, and in NATO.

Now, my own direct experience as a public servant under Truman was on the foreign side, and it was essentially with the Marshall plan and with NATO, in my capacities first as Harriman's Deputy and then the U.S. Special Representative in Europe in charge of the Marshall plan and also as the chairman of the Finance and Economic Committee of NATO. Collaterally, I served concurrently as the U.S. Representative to the Economic Commission for Europe, a part of the United Nations structure. It's of these aspects of Truman's administration that I can speak most intimately and concretely. Part of it is covered by the

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article which I've handed to you.

I got into the Truman administration in '48. I'd been in World War II, I'd come home in '46, I wanted to reestablish myself with my family and in my profession. I had just come to Harvard as a teacher in September '39; by the summer of '40 I was commuting to Washington; by the fall of '41 I had taken leave from Harvard. So, I'd had a very brief career as a teacher, and when I came back to Harvard in January of '46 I came back with the idea of building the next phase of my career here. With this end in view, I was going about my business when Secretary of State George Marshall came to Cambridge in June of '47 and made the famous address which eventually became the underpinning of the Marshall plan. I was in Harvard Yard, under the trees listening to him; I had very little sense of its

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eventual significance, and still less did I have a notion that it was going to make any direct difference in my life. Thereafter, when the process began (which I've described in this article) I got drawn into it.

I refer in this article to the political process in the United States which underpinned the Marshall plan, and I take Dean Acheson's speech of May 8, 1947, in Cleveland, Mississippi, as a pre-beginning that ante-dated the great beginning in Secretary Marshall's Marshall Plan address at Harvard.

I go on to discuss the political process which originated with those addresses, and I point out this:

> Sensitive alike to the need for external action and the need for internal understanding and support, President Truman exhibited the relationship between the mastery of politics and the mastery of high policy at its very best.

You know, quite different people like George Kennan and Henry Kissinger in different ways have exhibited a feeling that they should be allowed to deal freely with foreign policy and that the domestic process somehow or other should just confine itself to supporting them. George Kennan in time came to appreciate that, as he himself wrote, the heart of U.S. foreign

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policy was what went on inside the United States. But Kissinger still appears to represent a view that the processes of American society and politics are extraneous to U.S. foreign policy and should be kept extraneous, while foreign policy must be the preserve of a President and his Secretary of State or comparable expert adviser.

Harry Truman understood through thought, experience, and instinct how to harmonize the responsibility of the Presidency with the realities of the American policy process. He knew that in the foreign relations of the United States the United States was always not less than one-half of the relationship. He knew that nothing works in American foreign policy unless it rests on a solid underpinning of internal understanding and support; he knew that such an underpinning could be constructed and maintained

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only by the mastery of policy and the mastery of politics.

"Voices were not lacking to compound the difficulty of the 'man in the street' in reaching a 'clear appraisement of the situation.'" All sorts of people attacked Truman. I quote from an attack on him by *Pravda*, an attack on him by Herbert Hoover, and an attack on him by Styles Bridges. But he went at his task in a most remarkable way. He got a committee of the House of Representatives at work; he got a special commission at work; he himself made speeches all over the country; and a process was generated that involved private citizens forming citizens' groups and arranging for systematic and organized discussions all over the country. It is somewhat reminiscent of the William Allen White Committee to Defend America

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by Aiding the Allies, which had taken place before the war.

In the course of that effort, I was drawn in -- making speeches around New England, trying to explain what the situation was and beginning to think, myself, more and more about the Marshall plan. I say here:

> The activity of the Executive Branch and in the Congress...

which I have described in the article

> ...was paralleled by an immense and far-flung process of public discussion throughout the fall, winter, and following spring. Citizens' organizations sprang up to carry the word and argue the case in cities and hamlets. They were assisted, stimulated, or irritated by a flow of speeches from the Executive leadership, the Congressional leadership, and the opposition.

> The many-sided Presidential, Congressional, and citizen activities made the Marshall Plan the President's, the Congress's, and the people's own.

MCKINZIE: Ambassador Katz, where did you receive

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the information which you used in making these speeches? Was there cooperation between the citizens' groups and the State Department?.

KATZ: Much of it was self-generated in a place like Cambridge. But there was a constant relationship with the [Christian A.] Herter Subcommittee in Congress and with the Harriman Commission which had been set up, many of the workmen of which were academic people. There was a flow back and forth all the time.

The article continues:

> When enacted on April 3, 1948, the Marshall Plan became national policy in a full and realistic sense.

To underscore the point, the article continues:

> Career foreign affairs personnel, academic students of foreign affairs, and specialists on foreign affairs in the news media often speak of a Presidential order, a pronouncement of a Secretary of State, or even of an internal document (of the National Security Council, a Secretary of State, an Under Secretary of State, or an Assistant Secretary

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> of State) as if it were 'national policy.' Interdepartmental dissension concerning such a pronouncement, Congressional disaffection, or public outcry tend to be regarded as interferences with 'national policy' rather than as detractions from the assumed authentic quality of the pronouncement. For some purposes and in some situations, such a view of 'national policy' may be factual.

But these are very limited. In other situations and for other purposes, and I would add "usually," I believe such a view of national policy can be maintained only in a very technical formal sense. In contrast:

> The Marshall Plan became national policy in a very different sense. It began with the understanding and support of the Department of State; other departments of the Executive Branch, represented in the interdepartmental committees; the President, not only in an official sense, but the President in a personal sense and the President in a political sense -- it was his commitment; the Congress; civic and community leadership; organized farm groups; organized labor groups; organized industry groups; and the general public. And it was finally incorporated and

> published in a statute, available for all to see, and this whole process of explanation, challenge, and eventual decision was renewed each year in connection with the annual requests for new appropriations.

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The Marshall plan would never have succeeded, would never have circumvented the successive crises that it ran into, without this solid underpinning of real understanding and real support -- never. I can't stress that too much.

MCKINZIE: Ambassador Katz, the Marshall plan had a number of purposes. I'm wondering if you would comment on those purposes which were perhaps understood better than others. One purpose of the Marshall plan was to create standards of life which would make communism unattractive to peoples in Western Europe; another purpose of the Marshall plan was to rebuilt European economies to the point where they could be both suppliers and consumers of American production. Do you believe that both of those major purposes of the Marshall plan were

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equally well understood by...

KATZ: Well, let me put it first as it was before the plan was enacted and then as it was when it was being administered.

We know about George Marshall's speech. That was June '47. Now, in the preceding winter – December-January, if my recollection serves me, and I'm hazy here -- George Marshall, as Secretary of State, was in Moscow. He was accompanied by Chip Bohlen as a staff officer and as an interpreter. Chip Bohlen told me the following story: Marshall had a private interview with [Joseph] Stalin, with Chip there as the American interpreter. As he was leaving, Marshall said to Stalin he was very much concerned about the situation in Europe. Stalin sort of caught him by the elbow, or patted him on the shoulder or whatever, and said to

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him, "Oh, don't you worry about that; we'll take care of it." They said good-by and left.

Chip told me that as they were walking out, Marshall suddenly stopped and turned to him and said, "What do you suppose he meant by that last remark?"

Chip said, "Oh, well, it could mean any one of a number of things."

Marshall replied, "No, I think he meant exactly what he said."

When he got back he summoned various officers of the Department of State, including Acheson, and said, "I want a systematic study made of what goes on in Europe and what can be done to help it."

Now, let me try to explain what the situation of Europe was at the time of the Marshall-Stalin meeting. I was in Europe on V-E Day, in the Navy. Actually, I was assigned to OSS (Office

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of Strategic Services), and I was the Deputy Chief of Secret Intelligence for the OSS. On V-E Day, Europe's organized societal structure consisted of two armies, the Russian armies in the East and the armies under General Eisenhower in the West. I use that phrase advisedly when I say its "organized societal structure." Let me give you some details.

There was no transportation system except the transportation system of the armies. You couldn't go anywhere except on a transportation system run by the armies. There was no monetary system except for money issued by the armies, the scrip and other currencies. There was no banking system except the banking system maintained by the armies. There was no food distribution system. The only organized structure consisted of the armies and the related structures. Yes, there were mayors

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here and mayors there (in little local cities) but Continental Europe as a whole, as an organized society, really hadn't been functioning for some time. This was a vacuum of societal activity. That was the situation in May of 1945.

Marshall's speech was just two years later, in June of '47, and Europe still hadn't really regained its capacity to function as an organized society. I don't speak of England; England, of course, was a functioning entity. I'm speaking of Continental Europe. This was not just the usual kind of economic problem; this was a much profounder problem, and the task that was before the world, or before Europe and its friends, was how do you revive the societal structure and organized life of Europe? As a part of that, how do you revive its economic life?

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How do you enable Europe to function again as a significant political, economic, and cultural force in the world? That was the problem.

MCKINZIE: Ambassador Katz, during the war a number of people had asked themselves those questions, and they had, I think, come up with some tentative answers. Under Secretary of State Will Clayton, for one I believe, expected that the international financial institutions, the IMF [International Monetary Fund] and the IBRD [International Bank for Reconstruction and Development] would do much towards providing the economic assistance that the countries devastated by the war would need; the bilateral loans, of course, were approved in 1945 and 1946. But it didn't quite do it. Would it be safe to say that the extent of devastation had been underestimated? The psychological...

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KATZ: Either the extent of devastation in the full sense -- I mean psychological, social, organizational -- had been underestimated, or the capacity of the Bretton Woods system to function had been overestimated -- either overestimated in terms of its strength or overestimated in terms of the time-table, one or the other. Of course, there had been a vast relief operation under UNRRA [United Nations Relief and Recovery Administration]. All sorts of things had been going on. But the Marshall plan was not just a handout of money; it was an attempt to

create a situation in which the European nations would be enabled to restore themselves as going concerns in the full psychological and political sense.

You know, one is sometimes puzzled by the seeming lack of a sense of history on the part of some distinguished people today. As you know, a spate of current writing discusses

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the economic aspects of foreign policy. The press has recently reported statements attributed to highly placed officials to the effect that until today we had a "two-tier system" in the conduct of our foreign policy. Economic questions were handled by economists, political questions were handled by the political personnel, and the economic questions were subordinated. Although economists dealt with such questions, the real makers of policy hadn't paid much attention to them. The statements as reported go on to explain that a significant change is now taking place. The key feature of this alleged change is that economic questions and political questions are now treated as inseparable.

The distinguished spokesmen -- if correctly reported -- apparently regard this "change" as new and extraordinary. Yet during the Marshall

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plan period, the heart of foreign policy was the integration of economic, political, and psychological factors. The preoccupation of Presidents, Secretaries of State, leaders in Congress and everybody else was, how does one take hold of these forces? This integrated approach had been central in American foreign policy during the entire post-World War II and Marshall plan period.

To return to your question about Will Clayton: he was one of the important figures in the American Government who helped to organize the Marshall plan. Whatever his original views concerning IMF and IBRD may have been, he himself came to recognize that something more was necessary.

In the Marshall plan, it is true we made large sums of money available to Europe that were critical, but we also dealt extensively

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with the internal organization of each government. We dealt also with the relations among the. governments, with intra-European trade, with intra-European payments, with intra-European monetary systems, with exchange rates. And from the beginning to end, we sought to nourish a sensitive and indispensable flower: the resurrection of European leadership.

A central perception of the Marshall plan was the following: Given the differences in condition and size, it was not possible to have free and equal discussion and negotiation between the United States and any single country of Europe -- not even Britain, and certainly not any of the others. The question then was, how do you get these people not only to accept responsibility but to assert themselves, to give free rein to their thinking, to come forward and take a major part in the formulation of policy?

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We felt that this would only work if we met with them as a group at all times. That was why there was the emphasis on the Organization of European Economic Cooperation (OEEC). The OEEC was organized both at the ministerial level and at the official level, and the United States always met with its members as a group. Psychologically they reinforced one another, talked with freedom, and let themselves go with a freedom that probably would have been psychologically impossible for them if we had dealt with each of them only bilaterally. Of course, we saw them bilaterally too, but it was part of a larger process. The aim of the process was to get the Europeans to take responsibility and exercise leadership.

On one occasion, I had an opportunity to make the point in a speech. After a meeting with all the ministers at the ministerial level,

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there was a dinner, and the usual complimentary outflow took place after dinner. [Ernest] Bevin made a warm and vivid speech, as did Spaak, Stikker and others. As the last person asked to speak, I addressed myself to the enormous strength of Europe. The perceptions which I hoped to leave with them were that while it was fashionable and to a large degree realistic to measure strength in military and economic terms, more than these factors had to be taken into account in an assessment of strength. The problems we were dealing with here in Europe and elsewhere in the world (because the world was also affected) were enormously difficult and complicated. To cope with them, it was necessary to have a priceless asset -- the ultimate asset, the most important of all assets -- in which Europe was very rich. This asset was the intelligence, the experience and the character of men and women.

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The Europeans were entitled to ask us to bear the brunt of the burden of supplying equipment, or food, or machinery. When it came to ideas, however, we Americans had as much right to turn to them for ideas as they had to turn to us, because no area of the world exceeded the endowment of Europe and the European nations in intelligence, experience, and cultural equipment.

From the Marshall plan structure, there emerged a set of relationships, the importance of which cannot be exaggerated. The relationships between the United States and Europe and the countries of Europe existed at every level. It wasn't just President to Prime Minister; it wasn't just Secretary of State to Foreign Minister; it wasn't just Secretary of Treasury to Finance Minister. From top to bottom, throughout the entire bureaucracy and the entire civil service,

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there were intimate working relationships, and these were supplemented by external relationships among university, professional, industrial, and labor personnel. There was a far-flung network of mutually supporting relationships.

This can be illustrated by a story about the development of the European Payments Union. It was a long and intricate process. At one point after we had made substantial progress, an acute issue developed between the United States and Britain. The attitude in Europe was, "Until this gets straightened out, we can make no further progress."

Sir Stafford Cripps, who was Chancellor of the Exchequer and on these matters represented Britain at the ministerial level (just as Bevin represented Britain at the ministerial level on political matters) handed me a proposal for the reorganization of the

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trade and payments and monetary system of Europe. I was obliged to hand it back to him with a statement that for reasons I need not here explain, the proposal was not discussible. It contemplated creating within Europe a single trading area surrounded by tariffs, with the currencies tied to the pound, which would remain a soft currency. Cripps dug in his heels and a standstill resulted.

One day I was called on by Sir Edumund Hall-Patch, the head of the British delegation at the official level (as distinguished from the political, ministerial level). He was a veteran career officer, originally Treasury and then seconded to the Foreign Office.

If there was ever a British career civil service and foreign service officer of the old school, it was Sir Edmund Hall-Patch -- the way he dressed, the ties he wore, the way he spoke.

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He said in effect: "I want to talk to you at great length and in great detail about what's going on inside my government. I would like, before I start, to have your agreement that you won't report this."

I replied that, as he surely understood, I couldn't possibly give any such commitment. Obviously, until I heard what he had to say, I had to reserve my position on how much I might feel it my duty to report to Washington. Since I couldn't give him any such assurances, he had to proceed on a presumption that I would report it.

"Well," he said, "all right. I'll do it anyway." And he proceeded: Within his government, within the cabinet, there was paralysis owing to a deadlock. Sir Stafford Cripps represented the senior members of the Cabinet; he really would like to adjust to the U.S. position. He

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was blocked by a younger group (whom Sir Edmund Hall-Patch described as the "socialist intelligentsia" of the cabinet). He named the individuals, and identified the leader of the younger group as Hugh Gaitskell. Hugh Gaitskell had been the Minister for Fuel and Power, then the Minister for Economic Affairs. As such, he worked closely with Stafford Cripps, the Chancellor of the Exchequer. Hall-Patch added that there were one or two other leaders, such as Kenneth Younger, but Gaitskell was really the key. Nothing useful could happen until the position of the bloc was altered. The only way to break up the resistance of that bloc was for me to meet Gaitskell and talk with him.

I replied that I'd be very glad to talk with him.

Gaitskell was coming over to Paris. Hall-Patch

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would arrange lunch. Would I lunch with them?

I met Gaitskell at a lunch at Hall-Patch's apartment. Before the lunch, Hall-Patch gave me a rundown on Gaitskell's characteristics. I was prepared for a powerful and rigid man, but I really hadn't foreseen the extent of the distrust he felt toward the United States and ECA. When he began to talk, Gaitskell turned to me and said he wanted to make one thing clear to me at the outset; neither he nor anybody else in Britain was going to submit to having the United States re-impose the gold standard on Britain.

Well, I can assure you that nothing remotely approximating such an intention had ever occurred to anybody that I knew. I looked at him in utter astonishment and realized that he was dead serious. His distrust and misunderstanding

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of us was sufficient so that he really thought he had some such program in mind. There followed a long process of meetings together.

As these meetings went on, we became more and more relaxed with one another. Ultimately we became very close friends and remained close friends until his death. At one point, I had received some intelligence from John Williams, who was a professor of economics, a monetary theorist and practitioner on the Harvard economics faculty, who had served for many years as a senior economic consultant to the Federal Reserve Bank of New York. He knew the Bank of England people very well. He'd come over to Europe as a consultant to us, and he talked all through London with his old friends. He had told me that the Bank of England people and a good part of the professional people in the

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Treasury disagreed with certain of Gaitskell's positions. On one occasion I said to Gaitskell: "You know, Hugh, on this matter your own Treasury people and the Bank people disagree with you."

He said, "Milt, it may well be so, but I want to make something clear. The Treasury isn't going to make this decision, and neither is the Bank; I'm going to make it. We're going to make it in the Cabinet."

Now, there had been a high-level conference in London in connection with the development of NATO, which had been established in '49. Acheson came over and the Secretary of Defense. At that meeting, the disagreement between the U.S.A. and the U.K. over the European Payments Union had been discussed; and the two governments agreed that the whole business would be turned over to a negotiating team. The British Government had

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designated Gaitskell to represent Britain, and the American Government had designated me. In consequence, we had plenary power to settle the problem. We went on and on and on. Eventually we worked out a. solution which became known as the Katz-Gaitskeal agreement.

I want to stress that this wouldn't. have worked out if Hall-Patch, violating the tight pattern of a discreet and conventional traditional civil servant hadn't taken it upon himself to come and talk to me. Such an approach on his part wouldn't have been possible but for the previously established relationships at every level to which I referred.

Now, let me carry it further. The Katz-Gaitskell agreement was signed, and the British joined in helping to bring the European Payments Union to fruition. At that point, the Belgians and the Swiss came out from behind the curtains

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and made it clear they were resisting on an entirely different basis.

Frère, the Governor of the Bank of Belgium, came to see me and explained that the Bank had lots of dollars, which he intended to cultivate and preserve. He would not weaken his position or risk weakening it, in order to help "prodigal countries" through any arrangement requiring extra credit from his bank.

There existed in Washington something called the National Advisory Committee on International Monetary Policy, an interdepartmental group headed by the Treasury. The Treasury personnel were close to Camille Gutt, the managing director of the International Monetary Fund, a Belgian, and an old personal friend of Frère's. Strange stories began to appear in the U.S. press that the U.S. Special Representative in Europe was on a frolic of his own; allegedly, he didn't really

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have the support of the Government in Washington and he wasn't going to be supported; he was taking positions with regard to the European Payments Union that could not be maintained, and more of that kind of thing.

I was called on by Gaitskell; I was called on by [Dirk] Stikker, the Dutch Foreign Minister who was the Chairman of the Council of OEEC; and one or two of the others. They asked, "What about this?"

I replied that I had and would maintain the necessary authority to speak for the United States. They accepted my reply despite the rumors in Washington and we continued to work together. Their willingness to do so reflected their appreciation of the structure of the Marshall plan described in the article which. we have discussed.

The weeks moved on. We were counting

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down. It was already June, and the existing arrangements for intra-European payments were to expire as of June 30, 1950. I knew the Europeans understood that Americans always felt responsible and hated to see things fall apart. Working on that understanding, particular nations that wanted special conditions would remain stubborn to the end. They wouldn't give, convinced that when the Americans saw the old agreements fading out, not being replaced by a new constructive structure, the prospect of impending chaos in trade and payments would be simply intolerable to the Americans. We would feel moved to step in and agree to anything to get a new agreement going. That would be the ploy of the recalcitrant Europeans.

I called Paul Hoffman, and we had a long conversation on the phone. I said in effect: "Paul, here's the pitch. This is the game they're

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playing; through Frère and Gutt they're trying to undermine us in Washington. I want to emphasize two things. First, you're operating under a statute which is the law of the land. Under that statute, I, as the U.S. Special Representative in Europe, and you, as the Administrator, have final legal authority here. No one can overrule you, not even President Truman. President Truman can fire you and replace you, but he can't overrule you. This interdepartmental committee and the Treasury people are merely advisory to the President and you on this matter, that's all. If you stay put, they can do nothing. It's not conceivable to me that Mr. Truman will fire you, even if he lacked confidence in you -- and we both know he has confidence in you. So, if you stay put, you can't be shaken. Now, I want to tell you that if they persist in

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their game and stall the agreement up to and past June 30th, I'm going to do nothing whatever, just let the whole thing collapse."

"Well," he replied, "what will happen if it all collapses?"

I said, "There will be great confusion in the trading markets, but people will have to go on giving credit to one another; they won't be able to stop for a little while. I don't think they'll allow the collapse. I think the shock of the discovery that we're sitting back and saying, "it's up to you" will be so great that they'll come around. But I also want to tell you that if they haven't come around by July 31st, I'm also going to do nothing. I'm going to make them take responsibility. I will not let them fall back on the easy and habitual trick of scaring or pushing the Americans into taking over and doing everything

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for them."

"Well," he said, "that's pretty rough, isn't it?"

I said, "Yes, ,but I think it's indispensable if the Marshall plan is to go on doing its job. The division of the aid is now an old story; we're in a much more sophisticated and subtle phase of our work."

Paul said, "Can I call you back?"

"Yes."

He called me back the next day and said, "Okay, I'm taking my life in my hands, but I'm going to bet on you."

I said, "Fine, Paul. I'll bet on myself."

I was awfully tired at the time and planning on a holiday at home. My wife and I decided to take a ship home. I had been looking forward to those six days on the ship with my family, when I could just play with the kids and

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be totally relaxed and away from the telephone; it meant a great deal to me.

One night I found myself sleepless. I usually don't have that problem, and I lay there wondering, "What's the matter with me?" It dawned on me what was the matter. We had set our departure date; we were sailing on June 7th on the *Ile de France*. We were getting down towards June 7th, and I was oppressed by an apprehension that we might lose the holiday trip which we wanted so badly. So, I woke up my wife at about 4 o'clock in the morning to explain that I would not be going home with her. She would go alone with the children, and I'd have to come when I could.

Her natural response was: "Why did you wake me up to tell me that?"

I said, "Because I had to break the tension building up in me. To do so, I not only had to

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make this decision but I had to make it final. By telling you, I made it final." Then, we both went back to sleep.

The word got out that we were leaving, because the obvious preparations were being made -- people knew we had engaged passage -- and this began to work on them. On the morning of June 7th, my family took the boat train to Le Havre for the *Ile de France*; this was very, very early in the morning. I joined the continuing negotiations in the offices of the OEEC, but everyone knew that my family had left. I had my own plane, which I had alerted at the airport. I had called my mission chief in London, and he had gotten hold of the American consul at Southampton and had arranged with the consul that when the *Ile de France* reached Southampton, someone at the Southampton airport would be ready to receive me and drive me to

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the ship.

At the OEEC meeting on June 7, I was confronted by the Belgians, the Swiss, and certain other representatives making last ditch resistance. I again emphasized that the European Payments Union was a <u>European</u> endeavor. It was to serve the Europeans. It had to be established by them, if it was to exist at all. We all understood that it could not function unless the ECA put in a basic fund of 300 million dollars, but the fund would not be provided until the Europeans had themselves reached an agreement on a basis that seemed to us sufficiently promising to justify providing this money. If they didn't reach agreement, we would regret it enormously, but we would be constrained to accept their decision.

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By this time everyone knew I was leaving and tensions in the meeting became acute. Finally, the Swiss and Belgians announced their decision to sign. All then signed; and everybody started making flowery complimentary speeches about everybody else. I caught my car, got out to the airport, my plane got me to Southampton, and I caught the ship at Southampton and boarded.

Why do I tell you this story? Because it again illustrates the controlling significance of the Marshall plan structure and relationships.

Even if Gaitskell had loved me like a brother, as a British Minister -- by that time he was Chancellor of the Exchequer -- he could do nothing that he wasn't confident was in the best interest of Britain, and so with Stikker and the French and the others. What they

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thought about me personally was irrelevant. What was relevant was (a) they believed I had the authority to stand firm -- they knew that I had the authority; (b) after two years of intimate relationships, they were satisfied that at a minimum I wouldn't lie to them. When I told them we were standing firm, they knew the structure was such that we could stand firm if we chose.

This brings out two things. One was what I stressed before, the intimacy of the relationship which made these understandings possible. The other was the organization of the Marshall plan, which I have explained in my article. Let me briefly return to that.

When Harriman was the U.S. Special Representative in Europe and I was his Deputy, we had worked out a formula. Legally, you will

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remember that the statute setting up the Marshall plan called for the appointment of an Administrator, but it also called for the appointment of a U.S. Special Representative in Europe. The latter was appointed by the President, with the advice and consent of the Senate; he was not appointed by the Administrator. It was understood that on Marshall plan matters, he would report to the Administrator. As the U.S. Special Representative in Europe, Harriman and I as his successor had three separate cable series: Repto and ToRep, to cover our communications with Hoffman; RepSec and SecRep, to cover our communications with the Secretary of State in regard to NATO matters; and another, covering communication with the Secretary of State in regard to the Economic Commission for Europe -- three

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separate hats.

In the relationship to the Administrator, we arrived at an understanding with Hoffman which prevailed from the beginning to the end. Under this relationship, we were Theater Commander and Hoffman's Washington staff was OP DIV (Operations Division). He was the Commander in Chief, and ECA Washington was his Operations Division. For the first time, and to date still the only time, in American history, there was incorporated into the civil side of the government the theater commander concept. This had the following practical significance. The U.S. Special Representative in Europe could hire personnel right in Europe, and he could fire them in Europe. He could raise their salaries in Europe and he could lower their salaries in

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Europe. He could cut travel orders in Europe as he saw fit; he could move people in Europe. He had his own message center, his own cable series. We established a parallel relationship with our chiefs of mission in the various capitals. My relations with Parkman and Bingham in Paris, with [Thomas K.] Finletter and then [William, Jr.] Batt in London, with [James D.] Zellerbach in Rome, and so on, were the same.

Each chief of mission reported to the U.S. Special Representative but his organization did not report to our organization. Everybody in the Rome office reported to the ECA mission chief in Rome and to him only; everybody in the London office reported to Finletter (later Batt) and to them only; and so on; just as everybody in the OSR reported to me and to me only. There was constant communication between

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the OSR staff and the staffs of the Mission Chiefs; just as there was constant communication between the OSR staff and the Washington staff. But no one in the Economic Division, the Industry Division, the Trade Division, the Labor Division, or the Finance Division in Washington could give orders to anyone in my office. The respective staffs could argue. If the Washington staff officer could not persuade the OSR staff and objected to their position, he could complain to Hoffman. But he couldn't give orders to my people; only I could give orders to my people, Hoffman of course could take disagreements up with me. He could give me orders, and that was the end of the matter; that was the only channel.

Furthermore, in the Theater Commander concept, the Theater Commander, within the

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broad order given him by the statute and by the Administrator, had full discretion to make policy.

MCKINZIE: Whose idea was that?

KATZ: It evolved in discussions among Harriman, me, Hoffman, and Bill Foster; it gradually evolved. I had lived through World War II, and I had the theater commander concept very much in mind. This had ramifications. Here I'm getting ahead of myself, but let me do so. When NATO was set up, Charles Spofford was sent to London as the chief, at the official level, of the American delegation to NATO. He was sent there in the usual way out of the State Department. He talked to me, and we were going to work together closely. He needed a secretary. He had picked one, and was waiting for the

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Department of State to send her. He also wanted a public relations officer. I'll just mention those two illustrations. Well, he told me, "I have nobody here to work with me. I've sent them the names of the people, but they're going through administrative clearances, security clearances, and Lord knows what else. Here I am without a secretary, without a public relations officer, and I can hardly function."

I said, "Who's your secretary?" and he told me. I said, "I'll tell you what; I'll hire her." I hired her, brought her to Paris, sent her to London, paid for the whole thing, and seconded her to him. The man he picked as his public relations officer was Geoffrey Parsons, then the publisher of the old Paris *Herald*. I appointed Parsons to my staff, moved him, with his family and his worldly

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goods, to London; seconded him to Spofford. It was weeks and weeks later before the formal appointment from the Department of State came through.

On another occasion: Ben Moore was working in the Embassy in London -- a good economist. He wanted to go to a meeting in Geneva. He called me up one day and said, "The Ambassador has asked Washington to have my travel orders cut from London to Geneva. The conference is starting tomorrow, and the travel orders are not here."

I said, "Ask the Ambassador if he minds my picking you up on my payroll." The Ambassador called me and said it would be fine. I said, "Okay." I called my people and said, "Put Moore on the payroll and send him to Geneva." The U.S. Special Representative could do this kind of thing. It was an entirely different world from the world of the State Department.

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MCKINZIE: Would it be fair to observe that that system works best in program matters when you have extremely competent people to begin with, that if you didn't have competent people to begin with, or if you had some people who didn't have a sense of initiative, that there might be slacking in that?

KATZ: I think so.

Let me report another incident. There was a meeting in Paris of all the European Ambassadors -- Eastern and Western Europe -- with the Assistant Secretary of State for Europe. The Assistant Secretary was George Perkins, who had previously been chief of the OSR Industry Division. In the course of this meeting, a to-do developed about the U.S. Special Representative's role in Europe. In the view of some of these Ambassadors,

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the U.S. Special Representative was deciding questions which should be left to the State Department.

Julius Holmes, an old career officer, minister counselor in London, was leading the attack. Walter Gifford, who had been chief executive officer of the AT&T, the U.S. Ambassador in London, was present and listened quietly.

After the brouhaha was over, Gifford came to me and offered his apology for Holmes' outburst. New to his post, he explained that he had not understood what was going on. In light of my comments, he had concluded that the OSR position was right.

In response to Holmes and the others, I had replied that I would confine myself to a few points. The first was that if one looked realistically at the relationship between the

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United States and Europe at that time, there were no significant French problems as such, or British problems or German problems or Italian problems as such; every problem with respect to Europe that significantly concerned the United States was a Europe-wide problem. The very fact that the Assistant Secretary of State for Europe was present with all the U.S. Ambassadors in Europe underscored the point. OSR (my office in Europe) was the only American office in Europe in which the organizational arrangements and the lines of authority reflected the operational realities.

My second point related to the sources and meaning of national policy. In their view, national policy on foreign affairs was what somebody in the State Department had determined. In the present situation, however, a statute was involved. When the Congress of the United

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States enacts a policy in a bill, when the President signs that bill, and when it's reaffirmed year after year in annual appropriation statutes in committees with which the policies are all fully discussed and reviewed, that is policy at a level and to a degree which was beyond the typical experience of the typical career officer of the State Department at that time. It is really national policy. The OSR happened to be the office assigned responsibility under this legislation. That was the operational reality.

One participant, David Bruce, then the Ambassador to France, who had previously been the chief of the ECA mission to France addressed his brethren to the following effect: He agreed with the State Department grievances, but wanted to remind his colleagues of some facts. Number one, politically, if they tried to fight the

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OSR and ECA, they would lose, because Congress and the President would back the Marshall plan organization and so would public opinion. Number two, they had to recognize that OSR had rather extraordinary personnel who, man for man, were abler than the people available to the Embassies. These were two operational realities. In consequence, he recommended that the Department not fight the OSR.

Apart from Bruce's practical appraisal, I repeat my belief that the concept of OSR was right -- that was why I wrote this article -- right and vital. The notion that the job of restoring Europe could be done through the various Embassies, pulled together by an Assistant Secretary of State in Washington, who himself was just a cog in a big bureaucracy...

MCKINZIE: So, whatever acrimony was generated as

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a result of this arrangement was worth it in terms of results?

KATZ: That's right. Now, actually, OSR took the position that it must support the Embassies whenever it could, in little things as well as big. Let me mention one trivial but governing incident. David Bruce called me up once explaining that his Embassy had six Senators coming, five with their wives, but one with his lady friend. The Embassy had originally sent out a single car for all the women, but none of the wives would ride in the car with the lady friend. The Embassy couldn't have her in one car and the other wives in a different one; it needed a separate car for each lady; and it didn't have enough vehicles. OSR provided the needed cars.

MCKINZIE: Could you talk a little bit about the

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whole problem of integration? Now, you've already alluded to the European Payments Union, and the very idea from the beginning was cast in terms of contributing to the integration of the European economy. But there is a question of, how hard did you push -- how hard could you push -- for European integration, and where in all that lists of priorities did the subject of integration fit?

KATZ: The subject of integration was very interesting and very complex. Let me get the text of the original statute.

First, a brief interlude, I read in the New York *Times*, in 1961, of a "new approach to foreign aid" allegedly generated in the Kennedy administration -- maybe it was '62-'63. This was the notion that the United States would insist on self-help on the part of the

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recipient nations and also on mutual aid. I subsequently spoke to Francis Bator, who had been in the White House with Kennedy, when he returned to Harvard. I reminded him of the incident and asked why the plan was presented in 1962-63 as if it were a new idea. He replied that they considered it to be a new departure. I then called his attention to the following provision of the Economic Cooperation Act of 1948. That was the statute under which we operated.

> Recognizing the intimate economic and other relationships between the United States and the nations of Europe, and recognizing that destruction following the wake of war is not contained by national frontiers, the Congress finds that the existing situation in Europe endangers the establishment of a lasting peace, the general welfare and the national interest of the United States, and the attainment of the objectives of the United Nations.

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> The restoration or maintenance in European countries of principles of individual liberty, free institutions, and genuine independence...rest largely on the establishment of sound economic conditions. The accomplishment of these objectives calls for a plan of European recovery, open to all such nations which cooperate in such plan, based upon a strong production effort, the expansion of foreign trade, the creation and maintenance of internal financial stability, and the development of economic cooperation, including all possible steps to establish and maintain equitable rates of exchange and to bring about the progressive elimination of trade barriers. Mindful of the advantages which the United States has enjoyed to the existence of a large domestic market and no internal trade barriers, and believing that similar advantages can accrue to the countries of Europe, it is declared to be the policy of the people of the United States to encourage these countries through a joint organization to exert sustained common efforts, as set forth in the report of the Committee on European Economic Cooperation...which will speedily achieve that economic cooperation in Europe which is essential for lasting peace and prosperity. It is further declared to be the policy of the people of the United States to sustain and strengthen the principles of individual liberty, free institutions, and genuine independence...It is further declared to be the policy of the United States that these things should be maintained through

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> assistance to those countries of Europe which participate in a joint recovery program <u>based</u> <u>upon</u> <u>self-help</u> <u>and</u> <u>mutual</u> <u>cooperation</u>....[underscoring added]

Now, again:

> It is the purpose of this title to effectuate the policy set forth in Subsection A of this section by furnishing material and financial assistance to the participating countries in such a manner as to aid them <u>through</u> <u>their</u> <u>own</u> <u>individual</u> <u>and</u> <u>concerted</u> <u>efforts</u> to become independent of extraordinary outside assistance within the period of operations under this title, by the steps set forth in the remaining provisions of the statute. [underscoring added.]

I stress "self-help and mutual cooperation" and "individual and concerted efforts."

MCKINZIE: I think the term "integration of economies" is used in some sense...

KATZ: Well, I remember there was a great argument between us and the State Department. They didn't want us to use the word "integration;" they wanted us to use the word "unification,"

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or vice versa.

In answer to your question, in the fall of 1948 or early in '49 Paul Hoffman came for a visit to Europe, and we worked for a long time on a speech that he was to deliver to the Council at the ministerial level of the OEEC. In that he stressed integration of Europe. It was in that connection that there was an exchange of cables between us and the Department of State, asking us to change the words "unification" to "integration" or "integration" to "unification;" I forget just which way that went.

MCKINZIE: That speech that Mr. Hoffman gave was in October of 1949, was it not?

KATZ: '49? I'm not sure.

At any rate, that's when we began moving

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away from the original problem of how to organize a sensible aid program to the larger emphasis on the reorganization and the restructuring of the European economy and European society.

Well, there was the notion of mutual aid, cooperative effort. The preamble referred to the relationship of U.S. economic strength to the absence of internal trade barriers. We began to stress the need for a comparable "integration" in Europe, so that each individual producer, in making his plans for the development of his own plant, could think of the whole European market instead of a market within his country and each European purchaser could buy freely anywhere in Europe.

This was combined with some rather diffuse thinking, on our part and on everybody else's part, about something called the integration

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or the unification of Europe, which actually had its psychological roots elsewhere. It included a notion in some people's minds about a United States of Europe.

As a good many people recognized and pointed out, under conditions of free trade days in Europe, with no trade barriers between European countries, each manufacturer could plan in terms of a Europe-wide market and every purchaser could plan in terms of a Europe-wide source of purchase. The economic objectives of "integration" could be accomplished by the elimination of tariffs and quotas and by a fixed pattern of exchange rates -- or, for that matter freely floating exchange rates, but no exchange controls. Elaborate new organizational paraphernalia were not necessary to accomplish it. It was analyzed and criticism along these lines brought to the surface an element latent in the talk about integration,

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an element not economic but political and psychological, which, in varying degrees and in varying ways was tending toward some kind of unification movement in Europe.

There were a number of manifestations of this element. In time, the most important and the most conspicuous of these manifestations came to be known as the European Economic Community.

It is my recollection that when we first began to talk about the integration of Europe and the European economies, we were thinking primarily economically about the creation of conditions under which the special opportunities and special competitive discipline of mass markets would be available to the European economy. From the beginning, however, this was touched in varying degree, depending on the individual, with another mode of thought of which

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the extreme expression would have been a "United States of Europe." A less extreme expression would be a customs union, a "European Benelux;" such phrases were used.

I recall, for instance, when a group of distinguished European political leaders and officials came to Washington to testify before Congress. They met at a lunch or dinner, with a number of Senators. Senator [Arthur H.] Vandenberg, who played a crucial role in all of this, kept pushing the Europeans about when they were going to take steps to "get together."

As I sensed it, a notion implicit in Senator Vandenberg's question was something which, if he had put it into explicit words, would have emerged somewhat to this effect: "How do we get these fellows off our backs? How do we get them so they can row their own boat? They'll

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never be able to do it unless they get together. They've got to get together in some way. Only when they get together can we get them off our backs.

I remember Cab Lodge's talking about the need for them to unify -- Senator Henry Cabot Lodge. When one of the Europeans talked about Benelux and the extension of the idea of Benelux to a wider European group, Vandenberg exclaimed: "Well, now you're talking." However naive it may have been, it was the feeling.

MCKINZIE: You had a man on your staff in the Policy Board, Shaw Livermore, who, internally at least, took the position that increasing production was more important than creating a larger market, and he agitated in 1949 for an emphasis on productivity. Do you recall any arguments about that?

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KATZ: There were no arguments. Shaw Livermore was at one time the Deputy Chief of the Program Division, and then he became Chief of the Program Division. Everybody agreed on the critical importance of productivity, and we finally set up productivity teams. But other people stressed the need for competition in a mass market as a means to promote productivity. In their view, the opportunities of a mass market were vital incentives to productivity. There considerations helped to reinforce the concept of "integration;" but the concept found its expression primarily in European developments like the Council of Europe and, above all, in the Monnet plan, and in the consistent American support for the Monnet plan and then for its application in the European Coal and Steel Community; then for continuing European developments culminating

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in the Common Market. In the course of these developments, the European Defense Community was proposed but foundered. The French wouldn't buy it. The European Defense Community in a sense re-emerged in, or was rather replaced by, NATO, with the organization of Eisenhower's forces. So the several distinctive elements in "integration" gradually separated themselves out into separate movements.

These references to the varied channels of development impel me to move forward to the point at which the development of NATO began to interact with the development of the Marshall plan and the Marshall plan began taking a new turn. NATO was organized with a Council consisting of the foreign ministers of the participating nations; a Defense Council consisting of the defense ministers of the participating nations; and a Financial and Economic Council -- called actually the Defense Financial and Economic Committee -- consisting of the finance ministers. By a curious process -- a doubly curious process --

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I sat as the American representative on what was actually called the Defense Finance and Economic Committee and served as its Chairman. It was doubly curious in that: First, all of the other members of NATO were represented by finance ministers but the United States was represented at the ministerial level by me as the U.S. Special Representative in Europe.

Second, I took my orders as a NATO participant in the Finance and Economic Committee from the Secretary of State and not from the Secretary of the Treasury. This reflected the internal situation in the United States -- President Truman's views of Acheson and John Snyder. This may be illustrated by a minor but revealing experience.

The International Bank and Monetary Fund had its annual meeting in Paris. Gene Black came over as the President of the Bank. John

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Snyder came over as the senior American representative on the Bank's Board. With him was Andy Overby, of the Treasury and Bill Martin, then Assistant Secretary of the Treasury. At these meetings of the Fund and the Bank, John Snyder met the European finance ministers. The finance ministers had been pressing me to call a meeting of the Finance and Economic Committee of NATO. My instructions from Washington had been, "Stall a meeting; we don't want one at this time." I had accordingly stalled. The finance ministers at the Bank meeting took the opportunity to complain to John Snyder. But John Snyder didn't have the slightest idea what they were talking about; he had never heard of the Finance and Economic Committee of NATO.

The upshot was a visit to me by Bill Martin, who asked for an explanation.

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I explained the structure of NATO and the functions of the Finance and Economic Committee. Martin asked whether the American member of that committee ought not be the Secretary of the Treasury.

I acknowledged that such a designation would be consistent with the European pattern. Martin wanted to know why it wasn't arranged. I replied that John Snyder would have to get the answer from President Truman.

Now, enter President Eisenhower, then General Eisenhower, in his capacity as the Commander in Chief of SHAPE. Eisenhower arrived in Paris to take over his new command. He called on me very early; we had a number of meetings, and we became friends. One day he commented on his concern to build a central SHAPE headquarters in which all of the officers would live together as one group. If he had his

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way he would put them in all one uniform. Short of that, he wanted them all living together interchangeably in one place. Eisenhower insisted that this had been agreed to. He had been told that since the headquarters was in France, it was the duty of the French Government to build the headquarters. But the French Government hadn't done a thing. The French Minister of Defense, Jules Moch, had explained to Eisenhower that he was blocked by the French Finance Minister, who wouldn't allot Moch any money to build the headquarters. Moch had advised Eisenhower that maybe I as the U.S. Special Representative in Europe, could move the French Finance Minister to allot the funds. The General asked if I could do anything about it.

I said, "Let me try."

Well, I saw Petsch, the French Finance

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Minister, and asked him why he didn't build the headquarters out of counterpart funds.

Let me pause to explain counterpart funds. When we made a grant available to the French for any purpose, the dollars would be converted into francs for internal use. We gave them dollars; they set aside a corresponding amount in francs; they used the dollars to buy the materials they needed. The set aside French francs were divided into two parts; 95 percent were retained by the French Government for them to spend internally for their own purposes and 5 percent were allotted to the United States Government to be used by the United States Government to meet expenditures of its own in France for its own administrative purposes -- buildings or whatever it might be, or payment of French personnel. The 95 percent was subject to the ECA's supervision, in the sense that the

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French had to submit to OSR a plan each year for the disposition of the counterpart funds and we had to approve it. (There was a similar practice in each country.) So what I was in effect saying to Petsch was: "Why don't you allocate part of your counterpart francs to building this?"

He said to me in effect: "It's not in my interest to do so. I need these counterpart funds for other things which are more important to the economy of France. I can't spare the money."

Well, we had several meetings with no result. I finally suggested to Eisenhower that he go ahead and start building. If I couldn't get Petsch to finance the structure, I would finance it out of my 5 percent money. But I made clear to the General that such an expenditure of the "5 percent funds," reserved for

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American needs, for a combined NATO purpose, would be beyond my statutory authority. Therefore, it would be necessary for me to report the expenditure to the President and Congress and to ask Congress to ratify it. I wanted Ike's agreement that if I were to do this, he would come back to Washington with me and we'd testify together. He agreed.

I saw Petsch again, and he said in effect: "Look my Defense Minister's after me. It's getting very unpleasant. Why don't you give me the money, some extra dollars, and then I'll have extra counterpart funds and I'll be able to pay for this. Or," he said, "why don't you use your own 5 percent money to pay for it?"

I replied in effect: "All right, Mr. Petsch, I'll do it, but let me tell you something which I want you to understand. If I do

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spend my own money, I would have to go back and explain to Congress. Here I want you to envisage what would take place when I appear before a committee of Congress. They will ask me, 'Who is supposed to build this?' and I will reply, 'General Eisenhower tells me the French Government undertook to do it.'"

"They will ask me, 'Who paid for it?'"

"I will say, 'I did.'"

"They will ask me, 'How much did it cost?'"

"I will say, 'Five, ten, fifteen million dollars;' whatever the figure is."

"They will say, 'Why didn't the French do it?'"

"And I will say, 'The French Finance Minister told me he couldn't afford it.'"

"Then they will ask me, 'How much aid have you given the French Government up to now?'"

"I will say, 'One billion, one hundred

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million dollars."

"They will say to me, 'You gave them one billion, one hundred million, and they couldn't afford seven, eight, or fifteen million dollars for this? You had to do that?"

Petsch interjected that he got my point. He wound up paying for it, and I didn't have to use the counterpart funds.

This was one illustration of a close working relationship between OSR and SHAPE. There were many others. I may mention two.

One: there was a set of files on military matters which was very highly classified under a special code name. These files were of such a character that Eisenhower didn't want anybody to have access to them who wasn't an American. Therefore, he didn't want the files out at SHAPE headquarters. In consequence, the files were set up in my office, with a file control

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system under which no one had access to them without my personal signature.

Two: we established a committee, called the European Coordinating Committee. It consisted initially of Lew Douglas, as the Ambassador to Britain (subsequently replaced by Chuck Spofford, when Spofford came over to head up the NATO council at the official (non-ministerial level) on the political-State Department side; General Tom Handy on the military side; and me as OSR on the economic side. We wanted Ike, in his American capacity, to be a part of this committee. Ike had two headquarters, an American and a combined. As I've already mentioned the commander of the American forces in Europe, General Handy, was appointed to our committee. In addition, a general named Courtlandt Schuyler, who was Eisenhower's senior supply or production officer, was appointed to represent Eisenhower in

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his purely American capacity. As a tool for this European Coordinating Committee, we had two cable indicators. The indicator, "ECC to ___________" meant a cable representing the personal judgment of Spofford, Eisenhower, and Katz. The other indicator meant a staff communication coming from our respective staff officers. This idea was picked up and evolved later into a concept of a "country team." In each of the countries of NATO there was a country team consisting of the U.S. Ambassador, and the ECA minister, and the military attache". They were coordinated by the European Coordinating Committee.

What happened when time came for action? There was no problem on the part of ECA because every economic minister, every mission chief was under the direction of OSR. There was no problem on the military side, because they were all under the orders of the American

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command. But there were problems on the State Department side, because no line of authority ran from Spofford to the several U.S. Ambassadors. So, everything had to go back to Washington on the State Department side and go through the usual State Department procedures. We would send a communication, with the external indicator ECC to ISAC (the name for a Washington interdepartmental coordinating group). The indicator made clear that this was a communication from the top command itself. When we received no response, I would inquire of Hoffman or his successor as Administrator, William C. Foster. The reply typically would be that

ECA took prompt action, and the Defense Department took prompt action, but in the State Department the message was tracking through the bureaus and staffs and hadn't even reached the Secretary. The operation bogged down because

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of the inability of the Department of State to adjust itself to a theater operation. They simply would not give anyone in the theater that kind of authority. It was not in their departmental structure. To the Defense Department, it was part of an established pattern and by this time, the U.S. Special Representative in Europe and his office (OSR) were a civilian theater command.

Early in 1951, certain problems associated with NATO and with the SHAPE command of General Eisenhower loomed large. The United States was anxious to have the European governments accept responsibility for rearming themselves but a number of them appeared reluctant to do this because of the economic strain.

Because I was in a dual position as the

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Chief of the Marshall plan in Europe and as the Chairman of the Finance and Economic Committee of NATO, I became involved. The nature of my involvement may be illustrated by an incident arising from the position of the Netherlands. Dirk Stikker, a marvelous man, had been -- and I guess at this time still was -- the chairman of the Council of Ministers of NATO. He had become the Prime Minister of the Netherlands, superseding his earlier status as Foreign Minister in which capacity he had originally been the Netherlands participant in NATO. As the Prime Minister, he encountered severe resistance to expenditures by his government for NATO rearmament.

OSR (ECA) had adopted and adhered to a policy of a terminal date for Marshall aid, a policy we regarded as no less critical than self-help and mutual aid. From the very beginning of the

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Marshall plan we had emphasized that it would end no later than June 30, 1952. With this in view, the plans for aid contemplated gradually declining allocations as we approached the terminal date. By the third year, it was clear to the OEEC nations that we meant it, because we were tapering off. We considered the terminal target date crucial because it was the only meaningful way to make real the concept of self-help and mutual aid. Our consistent posture was that the reconstruction of Europe was primarily the job of the Europeans. What was the relationship of the Marshall plan aid to the Europeans' own undertaking to revive their economies? It was this: For the Europeans to reconstruct their economies and do all of the things that were necessary in four years would have imposed strains that would be politically impossible

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and administratively impracticable. The essential function of the Marshall aid was to make it politically and administratively possible for the Europeans to do in four years what otherwise couldn't possibly be done in so short a period. But it was basically their job and they had to do it.

That was one reason why the terminal date was crucial. There was also a second reason. The limited time span was necessary for our thinking. We were purporting to plan, we were purporting to look ahead, we were purporting to make arrangements in the allocation of resources to deal with very large problems. It is possible for the human mind to make a plan for a defined period of time. It is not possible really to plan with respect to an indefinite future. Indeed, there is a question whether planning is possible even

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for a defined period if the defined period is too long. In our case, we had not only a four year plan, but such a plan supplemented at the beginning of each year with adjustments to bring it up to date and to make it progressively more realistic.

MCKINZIE: Of course, the situation changed a great deal in the last two years with the advent of the Korean war.

KATZ: Thereby hangs a tale. In early '50 the Korean war had come on. It led to an increasing emphasis on the military phase. In this emphasis, we sought to accelerate rearmament by the Europeans. In doing so, in my judgment, we made a tactical blunder. We overlooked a lesson taught by the Marshall plan. In launching the Marshall plan, we began by assessing the problem. We communicated our assessment to the Europeans and asked them to

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review their position to see how far they agreed with our assessment. Their review took place in the meetings of the Committee of European Economic Cooperation organized on the initiative of Ernest Bevin in 1947-48. In the degree to which they were in accord with our assessment, they committed themselves to a policy. This signified a commitment of all of their resources, not merely their monetary resources, but their resources of leadership, political resources, political commitments, and bureaucratic resources. In the concept of the Marshall plan, to the extent that their resources fell short, the United States through ECA made up the difference.

As a result, I think, of the excitement generated by Korea and the fact that many new people were coming in who hadn't had the experience of the early Marshall plan and NATO,

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the United States followed a very different pattern in regard to rearmament. We decided on a scale of armament. We did not seek a European analysis designed to reach an independent European appraisal. Instead, we estimated the scale of European rearmament which we deemed appropriate and then offered them large sums of money to help them rearm. Since there was no independent European conviction of need arrived at by their own analytical processes, we had recurrent misunderstandings and difficulties.

This brings me back to Dirk Stikker. He called me up late at night. He came to my apartment at about 11 p.m., and we stayed talking until about 2 or 3 a.m. He was facing great resistance at home. He insisted that he needed 50 or 60 million more dollars, or else he could not organize a new division the Dutch were supposed

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to organize. For lack of such extra money, he said his ministry would fall; parliament would dissolve; his party would lose power; and who knows what would then happen to the Dutch commitments in NATO. That was his message.

We talked for a long time, in a deeply moving conversation. He and I had worked together very closely. We remained close friends for years after; until the day of his death, we used to visit one another. I was very fond of him and admired him greatly. Finally I said to him in effect: "Dirk, will you let me say something to you? It would be horribly rude, except between close friends, but I think you and I have arrived at a relationship where I can risk it. Are you saying to me, 'How much will the U.S.A. give the Dutch Government in order for the Dutch to make an effort to

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survive?' Are you saying that the Dutch will refuse to make an effort to survive unless we pay you to survive?"

In the exchange which followed, I tried to clarify what appeared to be the fundamental issues. If the Dutch really believed in NATO, if they really believed in their need to arm, to defend themselves, then the armament program to be undertaken by them was not a favor to the United States. It was to be undertaken for their own survival. If this were not their belief, how useful would a grant of additional Marshall aid really be toward NATO defense needs? Let's turn it around. Suppose the ECA did not give the additional money. Stikker would then foresee a severe political fight. He would face an ordeal in the Dutch Parliament. Suppose that we should lose. He would then dissolve Parliament and go to the Dutch electorate. There he would

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face perhaps another tremendous fight. Suppose that after a year of such political turbulence, the political decision in Holland were to go ahead. The Dutch would then have really made up their minds and we would know where we were. Suppose that the Dutch political decision should be adverse. We all would also then know where we stood. In my opinion, this would save time in the long run. Otherwise, we would face endless bickering, foot-dragging, mutual recriminations, a recurrent illusion of progress dissolving in recurrent disillusion.

In my opinion, this is a significant part of the explanation for many of the NATO difficulties that arose later. They had never been obliged to face the issues. Subsequently, we encountered recurrent disagreements about the assessment. In the view of the Europeans and as they argued, "There was no threat."

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At least, no threat sufficient to require a greater effort. We had thought we were saving time by freely pushing military aid. But as it turned out, we weren't saving time.

Now, let me refer to two communications which I sent at about this time or shortly thereafter. I sent the first "Eyes Only" to the Secretary of State, and to the Administrator of ECA. In it, I analyzed where I believed we were, expressed an opinion that we had arrived at a point where it was in the interest of our policy and its execution for us progressively to offer less and less and to demand more and more. I didn't regard this or intend it as a hard-bitten proposition. I regarded it as vital and timely for the reasons involved in my discussion with Dirk Stikker.

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The other communication resulted from a series of visits back and forth between Paris and Washington in which I finally obtained agreement in Washington that I would start dismantling the Marshall plan organization in Europe in the spring of 1951. It was my belief that we had accomplished our job. We had expended 12 billion dollars rather than the original estimate of 17. Basically, however, the European economies and societies were again functioning. Other forces were now coming into play, especially military factors. I believed it imperative for us to recognize that the Marshall plan had finished its job and should terminate.

Some in Washington insisted that the organization should be retained and reoriented to new jobs that had to be done. I disagreed.

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Our organization and personnel had been organized and brought together to do a job which had been done. Our success was due in large part to the special fitness of our personnel and organization to the particular job. I thought we should go through the same process; ask ourselves what is the new job; ask ourselves where responsibility should lie; reach our new policies; devise a new organization appropriate to the new policies; and find the personnel appropriate to the new policies and to the new organization.

In such a fresh process, a number of the Marshall plan personnel might turn out to be equally suitable and enthusiastic for the new job. But there must be an objective and rigorous selection. It was risky to let it go through inertia. The best of the Marshall plan personnel had come into the program for

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a term of years. When the work was over, the best -- or most of the best -- would go home. They had other things to do. Unless there was an objective and rigorous new selection and new stimulation our government risked being left essentially with those people who couldn't get another job, who had no place to go. If OSR were carried on by inertia, the cream and the top milk would go, and our government would be left with the remainder. This was another aspect of the terminal date problem and the problem of a realistic assessment. In my opinion it was another case where the superficially short way would lose time; where the seemingly long way to do it would be the only efficient way which would save time and money.

I finally won the day on paper. I received agreement; and we embarked on a liquidation plan. We started working out time tables, the

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rates at which we would reduce personnel and plans for what we would have left. But one day I got a cable from Washington saying, "Stop!" Then I got phone calls from Bill Poster, then the

ECA Administrator, and Averell Harriman, who was then in the White House, saying, "The President has changed his mind. We've decided that we don't want to dismantle; we decided we want to turn it around to other purposes."

I said, "All right, if that the Boss' decision, that's the Boss' decision." I came home.

MCKINZIE: You don't know what influenced that decision?

KATZ: I think -- well, I don't have any hard evidence as a basis for thinking, so I'm guessing. I'm guessing it was the usual

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story: it's hard to fire people, it's hard to liquidate. It's easier to say, "Well, we've got something going, let's use it." In the aftermath, the Marshall plan organization which had been, I believe, an unusually able and committed group turned into just one more group.

MCKINZIE: You had, almost at the same time with those activities, the difficult job of changing the country programs to reflect what someone had to say were the defense requirements of those countries, which must have been a rather agonizing task for people.

KATZ: And the first step of which was to get the countries to agree that they had defense requirements, which was not done.

MCKINZIE: That's why it must have been so agonizing.

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KATZ: After I came home, and at Paul Hoffman's request, I joined the top command of the Ford Foundation. Hoffman, shortly thereafter, became deeply involved in the effort to get Eisenhower nominated for the Presidency.

We used to get letters from then General Eisenhower during this period. In one such letter he expressed growing concern about the attitude of the European countries. In his view, they didn't really recognize the peril they were in, and they didn't really want to make the effort needed to cope with it. They seemed to want the United States to do everything for them. Eisenhower was beginning to wonder whether we'd gone at the problem in the right way. This seemed to me to confirm my earlier analysis. We were coming into a new world; we should have thought it through freshly and we didn't.

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MCKINZIE: There were some domestic problems with some kinds of Marshall plan work, particularly after defense support, I think it was called, was integrated into the program of the Marshall plan. There was a program called "offshore procurement," and in some file someplace I seem to recall having seen Italian desire to produce aircraft engines or some such a desire on the part of Senator Vandenberg to see that stopped, because to produce aircraft engines in Italy would debilitate Martin, or whoever, in the United States to some degree. Were those kinds of questions large and important questions to you?

KATZ: Very early the offshore procurement program was developed as a supplemental way of helping Europe. To the extent that we, whether buying for Marshall plan purposes or buying for other

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purposes, could buy from European sources, we would be putting dollars into Europe over and above the Marshall plan dollars. To that extent we would be helping the Europeans to revive their economy in a variety of respects. To that extent we would be doing something which, at a later stage, could have been described in the words of Senator [Robert A.] Taft, "trade, not aid."

Now, when the dollar gap was enormous, when Europe was prostrate and our economy was stretched out tight, that was a plausible and agreeable idea to everybody. But as time went on, as it became a question of weapons, as we became concerned about a rebuilding of our own armament industry, as it became a question of uniform weaponry for the European NATO forces so that they could function with the

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American armies in a single military command, all sorts of countervailing forces set in. And with Europeans anxious to manufacture weapons as a means of reviving employment and getting dollars, the Americans became less and less interested in that kind of offshore procurement. So, it became a very complicated question which was part of the transition into the new political-military set of problems.

You have referred to the views of the so-called "revisionists" concerning the period. The revisionists' descriptions of some of those years are, to my mind, bizarre to the point where an attempt to appraise them must be made not in terms of reporting or of history, but in terms of a psychological analysis of the revisionists. The real question is, what is going on in their minds, what do they represent? They seem to me to have no relationship

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to the facts. They themselves represent a phenomenon which has to be understood. I don't believe it can be understood in terms of the facts that occurred. It can only be understood in terms of them and their backgrounds. Perhaps they have to be explained in much the same way that one has to explain the unrest which overtook the American universities in 1969, '70, '71. The "revisionist" movement may be a part of those phenomena, part of that rebellion against authority, against accepted views and accepted positions. I have sat with young revisionists and I've heard their version of what took place. It seemed pointless to me to try to argue the facts with them. It would lead to no more than assertion and counter-assertion. Insofar as they discussed events through which I had lived and of which I was a part, I could only

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tell them that I didn't recognize any relationship between what they were saying and what I lived through. Possibly they believed that I had been psychologically so programmed that I was unable to understand what was happening around me.

MCKINZIE: One of the mysteries -- it's not a revisionist mystery; it's just that I don't think a lot has been said about it -- has been the function of the "three wise men" idea that worked out the NATO arrangement. Were you concerned with that at all?

KATZ: You mean the original wise men division of the aid or the later NATO things?

MCKINZIE: The NATO things. There is also the question of the division of the aid which I would like to ask about.

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KATZ: Well, let me go back to that early division of the aid, because that, again, is so different from the usual aid program. I have told you that we recognized from the beginning that a vital part of our job was the psychological and political restoration of Europe. From the beginning, we recognized this meant a restoration of self-respect, pride, and responsibility. Therefore, from the beginning, we insisted that they must take responsibility, and we undertook to deal with them as a group so they could get psychological reinforcement from one another.

Now, there would be available for the distribution of aid, in the year '48-'49 or '49-'50, as the case may be, a sum of "X" billion dollars. Each country was asked to state its needs and its requirements, and as was to be expected the aggregate of their

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separately stated needs and requirements greatly exceeded the "x" billion dollars. Therefore, there had to be an allocation. From the beginning, to accomplish the purposes I've already mentioned, and to accomplish the additional purpose of not putting ourselves in a position where we would create resentments which would destroy the entire operation, we insisted that the OEEC Council, at the official and ministerial levels, must recommend to us a division of the aid. We said, "Here is the aggregate of stated demands, here is the aggregate of money; we want your recommendation as a group as to how it should be divided up."

All during that time, our staff people were in close touch with them, so there was a role played, but they were in charge. During

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that stage, I did not -- and Harriman, before me, did not -- talk to them. Staff people did, yes, on the staff basis; but I refused to talk to them until they had a recommendation to make.

Now, to give you the operational story before I come back to the human story again. The operational story would be each year -- and they got better and better at it with experience -- they'd come back and say, "We have agreed with respect to 3.9 of the "x" billion but we can't agree on the remainder." That would lead to a phase two, intensified insistence that they must reach an agreement. It would finally get to the point where there would be some residual things which they couldn't agree on and on which they would come to us privately and say, "Really, the time has come for you to settle the tempest." That's the

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point at which Harriman or I moved in and said, "Very well, it will be this way," having already been pretty well sure that they were then ready to take it. And having the intimacy of relationship that we've talked about, that I illustrated by the incident with Sir Edmund Hall-Patch, we would reach a stage where we would get intimate private advice from an official: "If you decide this figure, my government will take it, although it's impossible for me to say so."

MCKINZIE: Yes, of course. Though neither you nor Ambassador Harriman had any contact with the OEEC during this phase of it, at the staff level did they mention dollar amounts?

KATZ: Oh yes, all the time. You know, the Norwegians and French would come to our staff: "Listen, this is our disagreement -- what do you think?"

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Our man might reply: "I don't know, but how about trying it this way?" Our people never purported to decide at this stage. Theirs was simply a participation in the discussion and arguments about the underlying data.

Now, as an illustration of that point -- I haven't forgotten the three wise men -- I'll come back to it -- the Norwegians had a program of severe internal austerity and a rigorous investment program associated with the severe internal austerity. From their point of view, the French and the Italians were excessively consumer-oriented and loose.

Now, the French would come into the OEEC meetings and say, "We need this much." The Norwegians would say to them, "What do you mean you need that much? You need that much because you've shown a dollar deficit based on a set of assumptions about how you're

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allocating your resources. But you're allocating your resources in an extremely self-indulgent way. If you'd allocate your resources the way we do, you wouldn't have anything like that dollar deficit and you wouldn't need that much money." This involved really heated disagreements between the austerity-minded people -- such as the Norwegians and British -- and the others. And the ECA people could help on a staff basis by saying to the French, "How did you arrive at this figure? Why do you need to import all of this? Do you really need all of this other?" At this stage, can't you let some things stay down for awhile while you build up things that are more important?" And so on.

Now, in the first division of the aid, when the officials of the OEEC turned it over to the ministers and they had night and day conferences, they reached an impasse when they

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wanted us to take over. Instead of taking over, we suggested that they agree on three among themselves in whom they had confidence, who were not themselves involved personally and whose countries were not heavily involved in the residual intractable issues, to try to come up with a suggested division of the aid. The selection was made and the three individuals were known as the three wise men. In due course, the three wise men might report to us, in effect: "We think it's reached a point where if you would tell them that they had better accept such and

such a division, they'll accept it." Or they might themselves engineer the necessary acceptance. The procedure was designed to maintain the collectivity of the effort and emphasize their responsibility.

MCKINZIE: In case of the NATO it was, though, an American, a Britisher, and a Frenchman.

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KATZ: Well, but you see, in the OEEC we were giving aid which they were dividing among themselves. In the case of NATO, we were an actual member of the operation who was trying to allocate the burden of armed defense, both in the armament and the personnel sense. So, we were one of the participants at that stage.

MCKINZIE: Since you came in at a period of time when it was an economic development program, more or less, pure and simple, were you personally disappointed by the necessity of refocusing the program to defense support?

KATZ: In a personal sense, no. I was a believer in NATO. I also believed that the unavoidable and continuous interpenetration between economic and security factors worked both ways. For instance, let's take an investment program or a training program. Suppose that a

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manufacturer is working with the group of investors on a plan to rebuild the nation's railroads or automobile manufacturing plants, or to develop a new industry which would take five years to establish.

A great deal of money is required to bring this about, and a long training program for young men and women must be undertaken. On the part of the young men and women, it would mean signing up for three or four years of training.

Supposing, at the time when these plans are in contemplation, there should arise a threat that Russian armies might shortly move in. How much planning or training would any of these people do? Who would put money into anything? Not only were the economic factors vital to a military or political effort, but a sense of political security and military

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security was necessary for investment and training and planning for the economic future.

Therefore, I did not, as some people did, regard NATO as a diversion from the Marshall plan objectives. I regarded it as a recognition that one of the requirements for achieving the Marshall plan objective of restoring the economies, political independence and cultural vitality of a self-sustaining and self-regenerating Europe was a sense of military security. Looked at properly, these were mutually supporting and, indeed, mutually indispensable efforts. Not only was the economic a necessary underpinning of the other, the other was necessary for continuing economic progress.

MCKINZIE: Your own point is that the system was not arranged such or that the aid was not structured such that the Europeans themselves

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arrived at this conclusion before the aid...

KATZ: My own complaint was that in setting up NATO they forgot the lessons of the Marshall plan. They should have gone at it the same way; I don't know why they couldn't have, even after Korea. They should have said to the Europeans, "This is our interpretation of what has happened in Korea. This is our interpretation of what it signifies in Europe. Therefore, we conclude that the following acceleration of the earlier NATO time table is indispensable. Will you review it and reach your own conclusions? If your conclusions coincide with ours, if you are prepared to back up your conclusions with a real commitment of your own -- a real commitment, again, of your political leadership and your personnel, as well as of your money and

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investments -- and if you're short, count on us to make up the difference." That's the way we should have done it. I believe it would have been far better. We would have learned much earlier whether and how they disagreed with our assessment; we would have learned much earlier what we had to do differently.

Again, let me call your attention to a speech made by Kissinger not so long ago in which he is reported to have said, "I want countries to know that if they don't want us to be there economically or militarily, we'll go home. I don't want any country to think that they are doing us a favor by letting us take over part of the burden of defense of their countries with military bases. If they don't think they need to do it, we won't do it for them." As far as I

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was concerned, Kissinger was gradually getting around to something that seems to me should have been our position since 1949.

MCKINZIE: Ambassador Katz, could you say something about your understanding of Germany in all of this and your relationship with the military government of Germany? That was an unusual situation.

KATZ: A very complicated one. There was a separate German program, as you know, growing out of our military occupation, our participation in the four-power command, and all of the intricate problems related to that. There also was a separate economic program for Germany which the High Commissioner and the military officers were involved in. From an early time, this raised an intricate problem of interrelationship. It was resolved formally in the following

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way, that the U.S. High Commissioner for Germany was designated the chief of the ECA mission to Germany (originally, in the so-called bizone, he was the representative of the bizone). De facto, the man he called his economic minister took over the operational responsibilities as chief of the ECA mission. In that way, we tried to reconcile that part of the planning for the

economy of Germany which grew out of the military occupation, or the four-power occupation, with the Marshall plan's conception of Germany as a part of Europe. At first, it was confused and muddled and full of tensions, because it got involved in bureaucratic questions. Put quite bluntly, Paul Hoffman said, "I'm the boss," and General [Lucius D.] Clay said, "I'm the boss," and there was the question of how to resolve it. But by the time [John J.] McCloy

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came along and by the time Jean Cattier became McCloy's chief economic man, it got smooth. In my day, Cattier was McCloy's economic minister, and he was my de facto chief of the economic mission; he was an extremely talented and experienced man. Our relations were warm -- my personal relations with both McCloy and Cattier happened to be warm -- and I would say that the bureaucratic tensions disappeared at that point. It then became a question of dealing with problems which were difficult just because there was a German program, there was a Marshall plan, and the reconciliation sometimes took some work. The next stage came when the OEEC accepted a German representative. From that point on, I think, progressively, Germany's position regarding the OEEC tended to become more and more like that of any other nation.

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When we were talking about intra-European trade and intra-European payments, it all began to fall into place at that point.

MCKINZIE: Well then, at the end of the military period, that is, General Clay's military governorship...

KATZ: It got smoother and smoother.

MCKINZIE: But in a gradual way as these organizational matters began to...

KATZ: That's right. Clay, in a sense, was liquidating World War II, you know, and the consequences of that. He was right. Also, he had these special problems with the airlift and all that kind of thing. You know Clay, perhaps; I know him well. I had worked with him in the War Production Board. He is an extremely able and intelligent man, most intelligent and

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most able, and a fiery man who sometimes seemed to run an emotional temperature of 104, but at all times an enormously devoted and effective public servant.

MCKINZIE: But he did, of course, think that Germany got too little in the first allocation and came back complaining.

KATZ: That's right. Also, he couldn't see any relationship between ECA and his responsibilities as military governor in which he as military governor was not relatively in command. But this is wholly understandable, and it gradually worked itself out.

MCKINZIE: And not divisive to the point to have impaired the potential of the...

KATZ: Not at all. The fact that it got progressively better and better as we came to understand more

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and more clearly where we were was evidence of that. The other thing was that the original bizone relationship was itself a very confused one. As the organization of the American participation in Germany became clearer, it became easier to fit it into the Marshall plan. But, you remember, at the beginning there weren't just the Americans and the Germans, you had the British and the French in bizone, and it was all a complex business.

MGKINZIE: Ambassador Katz, we thank you for your perceptive comments and for putting this into perspective.

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